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EVALUATION OF WEST BANK/GAZA

COOPERATIVE SECTOR PROJECTS

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## EXECUTIVE SUMMARY

This report provides an evaluation of the A.I.D.-funded assistance to the "cooperative sector" in the West Bank and Gaza and, in particular, the performance of two private voluntary organizations (PVOs) in the implementation of programs in the cooperative sector.

The two PVOs, ACDI and ANERA are by far, the A.I.D.-funded PVOs that provide the greatest dollar amount of assistance to Palestinian cooperatives. ACDI operates through its Cooperative Development Project (CDP), Grant No. ANE -0159-G-SS-6020-00, which began in 1985. Total project funding was estimated at $9,186,759. The completion date was August 31, 1992. ANERA began A.I.D.-funded operations in the WB/G in 1975 and is currently implementing the Development Assistance IV project under Grant No. ANE -0159-G-SS-9048-00. The project began in FY 89, the project completion date is September 29, 1994, and the life of project funding is $14,293,000.

There are four other A.I.D.-funded PVOs including Catholic Relief Services and Save the Children Federation which give some support to cooperatives but not for the general goal of strengthening the cooperative sector.

Both ACDI and ANERA estimate that there are 32,000 member families benefitting directly from cooperatives and that cooperatives affect approximately 30,000 non-member families. By multiplying 62,000 by a factor of six (the approximate size of a family in the WB/G), the PVOs, say that cooperatives serve approximately 372,000 Palestinians, about 20 percent of their total population in WB/G. By comparison, cooperatives around the world are not generally universal and affect anywhere from 5 to 30 percent of a nation's population.

The Devres Team found considerable controversy surrounding the notion of a "cooperative sector." It is a complex concept that can refer exclusively to "registered" cooperatives or more broadly to both "registered" and "popular" cooperatives, depending upon who you ask. The narrower concept is applied by CDP and ANERA. Recent history shows that the sector comprised up to 750 cooperatives, including 381 which were registered before 1967. In 1991, Shehadeh estimated that there were approximately 353 agricultural cooperatives in the West Bank and 48 in Gaza. Both ACDI and ANERA say that only about 250 "registered" cooperatives are "active" and, hence, this is the main population of cooperatives targeted for their assistance.

The idea of "popular" cooperatives derives from the fact that it is difficult to register cooperatives under Israeli occupation. Proponents of the broader notion of cooperatives suggest that groups and collectives which follow "principles of cooperation" should be considered cooperatives. Organizations like UAWC, PARC, Save the Children Federation and others work with "popular" cooperatives. Adding to the interest in "popular" cooperatives is the fact that many such broadly defined groups are registered as "charitable societies" which gives them legal status in the eyes of the Israelis.

The Devres Team believes that an important problem facing CDP and ANERA is the "cooperative sector" itself. There is a need to establish a well-defined cohesive arena for the "cooperative sector." There is also a problem in getting cooperatives to act like "true" cooperatives in terms of the norms established worldwide by organizations such as the United Nations which work with cooperatives.

The Devres Team finds that "cooperative strengthening," "human resource development" and "institutional development" are needed in the WB/G; that progress towards these goals will make beneficial contributions to Palestinians. The Devres report identifies many reasons for pursuing these goals but, most importantly, points out that there is a growing "cooperative movement" of Palestinians within the WB/G that is stimulating more people towards establishing basic principles of democracy and institutions of cooperation. In short, the climate is favorable for working with cooperative institutions.

The Devres Team concludes that the two PVOs should receive continued A.I.D. assistance to improve their operations but that their activities need to be qualified and clarified with A.I.D. The Devres Team also found that the PVOs are "reacting" to A.I.D. instead of working with A.I.D. in terms of their missions and specific activities. The PVOs want to have more discretionary power to implement their activities.

The Devres Team finds that the PVOs still need to focus more on the particular goals of "cooperative strengthening," "institutional development" and "human resource development." The PVOs need to improve their management information systems and they need to develop assurances that their projects are cost-effective. The PVOs need to concentrate attention on cooperatives that can serve as models and pilots for other cooperatives and they need to find more effective ways for diffusing the knowledge and experience gained from the cooperatives they serve.

Devres believes that the "project performance indicators" (PPIs) in the monitoring information system need to be reconsidered, changed, and/or clarified. A related problem is the absence of an A.I.D. office in the field. Consequently there is difficulty facing the PVOs which must also communicate via their Washington, D.C. offices.

The Devres Team believes that CDP and ANERA can respond to the challenges. They have "name recognition" and fairly good reputations throughout WB/G. The staffs of the PVOs are well-qualified and experienced in working with cooperatives, private entrepreneurs and CIVAD. The PVOs are recognized authorities in cooperative sector development.

In an attempt to address these issues and shortcomings, the Devres Team sets forth a number of recommendations. These recommendations are underlined in the body of this report and are summarized here in the same order as found within.

A. With Regard to the Cooperative Sector

The recommendations of the Devres Team are as follows:

- that the PVOs attempt to integrate the scope of cooperatives that serve overlapping farmers in a given area. This attempt should be made when it can be determined that a greater savings can be realized through economies of scale and through improved efficiency in management with a multi-purpose cooperative structure. Such efforts will necessitate upgrading managerial capabilities and competence with specialized skills for each new service.

- that steps be taken wherever possible to combine the activities of some of the smaller cooperatives serving farmers, thereby increasing the potential profitability and thus the probable success rate of these organizations.

- that attention be focused towards helping cooperatives to augment production, processing, storage facilities, in order to market excess supplies of agricultural commodities when profitable to do so. Cooperatives enjoy economies of size that are not possible for independent small producers of WB/G.

- that every effort be made by ANERA and CDP to encourage and facilitate the development of the regional structures by creating centralized or federated cooperatives. A "centralized" cooperative has one central office, one Board of Directors, and one general manager who supervises the entire operation which may be conducted through several or many branch offices. a "federated" cooperative is actually a cooperative of cooperatives. The members of a federated cooperative are local cooperatives, operated by local managers appointed by and responsible to local Board of Directors. The locals are autonomous but depend in varying degree on the federation for a variety of services, i.e., advertising, handling market contracts, maintenance of standards, farm equipment, other inputs, educational programs, etc. Local, centralized, and federated cooperatives can be equally democratic. There may be members "mixed" in all three types at the same time.

- o that CDP and ANERA work jointly to establish equity financing systems for each of the cooperatives served, that these systems be incorporated into the bylaws of cooperatives and used as criteria for further loans and grants. A cooperative that makes no attempt to build its own capital and equity is a cooperative which does not support its future sustainability.

- o that future Regional Cooperative Organizations maintain up-to-date industry averages, showing significant trends reflected by the financial statements of primary cooperative organizations in their respective areas. These meaningful comparisons can help to point up ways to improve the effectiveness of the organization. Increased use of manager workshops and special short courses for managers and bookkeepers can also speed up this process of education and development.

- o for cooperatives that have had difficulty, and in which the PVOs have already invested money, that future planning for their needs not only involve the management and the Board of Directors but also the general members. Members need to be kept better informed of progress on new projects by the Boards with the assistance of CDP and ANERA.

- o that "cooperative education" activities within cooperatives be enhanced. That CDP and ANERA continue to provide cooperatives with educational materials and encourage cooperatives to generate funds for educating youth, community leaders, and potential members about cooperation. The duty to educate constantly is a basic feature and special obligation of cooperatives.

- o that a crucial step towards targeting model or pilot cooperatives should be a workshop between the two PVOs, in which they identify those cooperatives which need attention and which can produce reliable results with PVO activities. CDP and ANERA may want to commission papers from "outsiders" like PARC, UAWC, OPOP, to advance suggestions for working with informal crops as well. PVOs should agree on the needs and criteria that must be recognized in order to turn "targeted" cooperatives into viable farmers cooperatives. Working together, CDP and ANERA should then meet with the Board of Directors of each of those cooperatives and discuss steps that need to be taken to turn them around. They should reach an understanding with each Board as to the part members must play in the project. Members should have an understanding of the plans proposed to strengthen their cooperative, and be able to discuss what the problems are and what the needs are to put the cooperative back on track.

- that if additional financial assistance is required, for facilities or operating capital, it should be in the form of both grants and loans, rather than entirely grants. Support should also be extended with conditions which would permit the PVOs to maintain management oversight and the cooperation of the Board of Directors in directing and carrying out of the plan which is adopted.

- that before a loan or grant is arranged, the PVOs with the cooperative management must concur on market conditions with a keen understanding of what cooperatives can or cannot do. PVOs should not waste time or money on a cooperative project when markets already perform reasonably well. If it is proven that a cooperative can potentially generate net benefits to farmers, then the PVOs should conduct a feasibility study and design a plan, showing whether sufficient membership, business volume, and equity capital can be obtained to realize these benefits.

- that the PVOs respond to cooperative requests by conducting "basic needs assessment" analysis. Such methods are currently used by the Save the Children Federation in WB/G and have proven valuable in many countries of the world. These can form the basis for structuring the cooperative and for prioritizing the most critical needs of the cooperative.

- that the PVOs continue conducting "management audits" and "feasibility studies" to determine the degree to which cooperatives are able to manage their own affairs and have economically feasible activities.

- that the PVOs discuss, improve upon and develop the "tenets" listed herein for establishing "true" cooperatives in the "cooperative sector." CDP's Resource Center should play an active role in providing reference material for such discussions.

- that the cooperative leaders in WB/G begin, as soon as possible, to study favorable cooperative tax laws from other countries, and that discussion groups be formed, when permitted, to provide knowledgeable input to future cooperative legislation.

B. With Regard to CDP Performance

The recommendations of the Devres Team are as follows:

- o that CDP conduct a follow-up study with current and potential users to see what AMIS offers cooperative members and to determine if it has helped improve marketing and participants' income.

- o that CDP and the Hebron Union begin plans for developing the self-sufficiency of the Union. There should be a study to estimate the actual costs and returns from the Union's services as well as an estimate of the membership needed to support the Union, i.e., how many members and hook-ups and how much electricity should be sold to achieve financial break-even? Furthermore, since the Israeli's are able to sell electricity at very competitive rates, what is the Union's potential market share of electricity?

- o that CDP move ahead with its plans to employ an Electric Management Advisor and a Technical Advisor to assist the Union and its affiliates and to address the concern with "sustainability."

- o that the CDP and Hebron Union address the questions raised about the revolving loan program; especially the one about the loans which are not repaid and the future of the credit program if the Union shuts down. CDP should make it clear that the loan program is not a program of grants for village cooperatives.

- o that CDP conduct or contract a follow-up study of the Beit Lahia (Gaza) export project. That the study retrace the steps taken from the first idea to export alone to the ultimate outcome at the end of the market period. The study should be undertaken to identify lessons and needs for further marketing. This study is particularly urgent as Beit Lahia opens its doors to its packing shed and cold storage facilities which portend more marketing potential. The study should also form part of CDP's Resource Center and should be provided as an example of what can go wrong in international markets despite all the advance planning and preparation.

- o that CDP and the Beit Jala (WB) cooperative prepare another "market," and "feasibility" study to market Beit Jala soap. Devres' idea is to have a study that looks at the competition, both in soap production and in terms of soap sold in stores, and to determine if there is a suitable market niche for Beit Jala's product. The study should include a "consumer preference" test by surveying consumers and checking which soap they prefer. Such a test could be done by distributing samples and asking people to try the soap and compare it to their regular brand. And the study should include a basic analysis of costs and returns, factoring in replacement costs for capital equipment.

- that CDP concentrate its attention on "cooperative strengthening" and to teaching and disseminating information on cooperative principles. This focus is applicable to the wide variety of cooperatives, even though it may not deal with specific issues of agricultural machinery, computers, etc.

- that CDP also focus in terms of its particular strengths in its human resources. That is, Devres recommends that CDP concentrate its problem solving in those areas for which it has the best talent and back-up support from ACDI for technical assistance (TA). It may be that the best TA is in electrical cooperatives and/or marketing. For now, Devres would prefer to leave that decision to ACDI/CDP.

- that the PVO's apply a similar definition for Technical Assistant as that which is commonly used by A.I.D. programs. Namely, Technical Assistants or "experts," are persons hired to perform special (perhaps unforeseen) project-specific jobs whose level of expertise enhances project staff and their capabilities.

- that CDP implement a better planning system for its TAs to ensure they get timely TA which focuses on the key issues (e.g. is sheep farming and wool export a priority?) (This recommendation is based on the Devres Team's analysis of TA activities.)

- that the PVOs establish a data base of locally available TA resources, both of individuals and institutions, which have been used and are proven acceptable. This information should be shared. Both PVOs, but especially CDP because of its extensive training programs, should make a concerted effort to build up a resources data bank, even in cooperation with other WB/G development programs.

- that CDP seriously explore the advantages of off-loading its off-the-shelf computer courses and possibly others into local institutions and thereby free-up their relatively scarce staff resources for other activities. Such "off-loading" will suggest staff and policy changes within CDP which may require Technical Assistance.

- that CDP train core (model or target) co-op personnel to train their own co-op members. Provide TA support to the trainers until they can

- that CDP train core (model or target) co-op personnel to train their own co-op members. Provide TA support to the trainers until they can perform well solo and then assist the trainers in lining up training activities with other nearby co-ops, perhaps for a modest fee. This type of program has a replication or ripple effect which can help CDP institutionalize some of its training efforts in a modest way.

## C. With Regard to ANERA Performance

The recommendations of the Devres Team are as follows:

- that ANERA begin to systematically set up information collecting procedures on its activities with the mobile vet clinics in order to be able to present meaningful information which will show what results are being achieved in improving human and animal health and, specifically, if there is a positive impact to control or reduce brucellosis. Such information could have importance throughout the Middle East.

- that this grafting project be continued, if not increased. There is a pilot project for producing grape juice being considered in the same area, but it would seem that protecting the ability of the region to produce healthy plants and grapes, thus ensuring future production potential, would be more important at this time than launching a pilot effort to produce juice from periodic excess productions of grapes.

## D. With Regard to PVO Coordination

The recommendations of the Devres Team are as follows:

- that CDP and ANERA continue to operate in accord with their joint statement entitled "Palestinian Cooperatives: A Development Strategy," February, 1992 (provided in this report's Annex G).

- that CDP and ANERA maintain more accurate records of all purchases made via its grants including not only on the quantity and price of items purchased by cooperatives but also the brand name and source of origin of the machinery, equipment, etc.

- that a more equitable representation of women in technical roles within CDP and ANERA be adopted. Professional women in key positions can and should serve as spokespersons for CDP and ANERA and hence serve as role models for other women.

- that more educational, outreach, programs to attract women into cooperatives be adopted. But Devres cautions that gender based cooperatives for women's sake alone are not sufficient *raison d'etre* for organizing women. Cooperatives must be inclusive, not exclusive of men and women.

- that field reporting from technical staff become standard operating procedure if it is not already. Once CDP develops a system for obtaining and consolidating information from field reports on a monthly basis, then those same reports can help provide activity profiles on the technical sections which, in turn, would become meat on the bones of regular staff activity review meetings. The end result of the process and the system would be for the staff and Chief of Party (COP) to make a decision on what to do with tractor #2 and to plan how to set up a field-oriented advice-giving system to improve on fuel economy. Thus there would be a system for field commentary on problems, successes, and recommendations that results in systematic follow-up and decision making. In addition, it would ensure that the field personnel's reporting be made use of, thereby underlining to the field personnel the very importance of their work.

- that ANERA and CDP review the March 1988 agreement and up-date its stipulations regarding the coordination between them needed to improve the revolving loan fund program to the cooperative sector.

E. <u>With Regard to PVO Monitoring</u>

The recommendations of the Devres Team are as follows:

- that A.I.D become more directly involved in the coordination among PVOs with regard to cooperative sector projects. USAID is needed to monitor and to effectively assist in the determination of needed coordination.

- that USAID/Washington proceed quickly with an A.I.D. replacement in the Jerusalem office and that the next person assigned to the post become more familiar, first hand, with the in-field and local operations of the PVOs. While it may be appropriate also to have an A.I.D. Officer for Gaza, the Devres Team does not believe a replacement for the Gaza Embassy Officer is needed as urgently as in Jerusalem.

- that the next A.I.D. persons be prepared to work directly with the PVOs in handling problems or complaints regarding their activities. That the

- o that the next A.I.D. persons be prepared to work directly with the PVOs in handling problems or complaints regarding their activities. That the replacements have working knowledge of Arabic, although the other selection criteria are more important at this time.

F. <u>With Regard to Future Activities</u>

The recommendations of the Devres Team are as follows:

- o that CDP and ANERA work concertedly towards the establishment of at least nine cooperative successes. Five years may be sufficient for this goal, provided there are no major exogenous setbacks in the political economy. At least 25 percent of CDP and ANERA inputs should be devoted to strengthening a subset of cooperatives. The successes can be shown in terms of the following:

  -- Cooperatives which adhere to the basic principles of cooperation spelled out in section II.

  -- Cooperatives with members who invest back into their cooperative and understand the principle aims of cooperation.

  -- Cooperatives which sustain revolving credit programs and build member equity and pay regular dividends based on "patronage."

  -- Cooperatives which support educational programs of members and youth, which contribute to an understanding of cooperatives within their communities.

  -- Cooperatives which are economically competitive in the market place and on the basis of charging members the full cost (usually market prices) for services and inputs and requiring that outputs be sold at market prices. Cooperatives must be convinced that business profits can have more lasting returns to members if reinvested in the cooperatives.

- o that the staffs of CDP and ANERA confer to plan for the future with select cooperatives. The conference goals should be to define and clarify the goals and targets of the "cooperative sector." Secondary goals should include the following:

  -- Agreeing to a set of "principles of cooperation" that all cooperatives will follow;

- -- Agreeing to coordination and enhanced communication with regard to cooperative sector activities;

- -- Agreeing to target certain cooperatives to serve as models and leaders in the cooperative sectors; and

- -- Agreeing to contribute certain PVO resources to sustain the above.

o that USAID participate in and underwrite the costs needed to hold a conference of CDP and ANERA and to assist with the development of a management information system aimed at strengthening cooperatives via the PVOs.

o that CDP and ANERA continue their efforts towards reaching more cooperatives within the cooperative movement but that the additional activities be based on "needs assessments," "feasibility and market studies." As a guesstimate, Devres believes that about 75 percent of the time and money allocated to CDP and ANERA should be devoted accordingly.

ACKNOWLEDGMENTS

Devres would like to express sincere gratitude to the many persons who gave their time, experience and knowledge in carrying out the evaluation of the West Bank/Gaza Cooperative Sector Projects. The Evaluation Team acknowledges the contribution made by Nuhad Hanna Joudeh (our interpreter) and Gary R. Redman (AID/Washington Office) who accompanied us on our numerous field trips and alerted us to important questions and perceptions about WB/G.

The team is grateful also for the cooperation and assistance of the staff of both CDP and ANERA and the Regional Directors, Chairmen, Managers, and Board Members of the Cooperatives we visited.

Devres has appreciated the opportunity to carry out this challenging assignment for A.I.D. which goes to the heart of a complex set of issues confronting cooperatives in the West Bank and Gaza. Certainly the CDP and ANERA have important and essential roles in strengthening cooperatives and the well-being of their Palestinian members. Devres is pleased with the open receptions and frankness expressed during the study period from July 18 through August 10, 1992, and hopes that recipients and donors alike will work together to assure that the actions recommended will be considered seriously and acted upon without delay.

## LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ACDI | Agricultural Cooperative Development International, Washington, D.C. |
| ADCC | Arab Development and Credit Company |
| A.I.D. | Agency for International Development |
| AMIDEAST | American Mideast Education and Training Services |
| ANERA | American Near East Refugee Aid |
| BCRD | Bethlehem Committee for Rehabilitation and Development |
| BODF | Board of Directors |
| CARE | Cooperative for American Relief Everywhere |
| CDF | Cooperative Development Foundation |
| CDP | Cooperative Development Project (ACDF) |
| CIVAD | Civil Administration (Israeli Military Authority) |
| ConGen | Consulate General |
| CRC | Cooperative Resources Committee |
| CRS | Catholic Relief Services |
| CUNA | Credit Union National Association |
| Dunam | Unit of measurement indicating area of land (4 dunum = 1 acre) |
| EEC | European Economic Community |
| ECON | Economic |
| EOPS | End of Project Status |
| FC | Follow-up Committee |
| GOI | Government of Israel |
| GOJ | Government of Jordan |
| Intifada | Palestinian uprising or "shaking off" |
| IDF | Israeli Defense Forces |
| IVO | International Voluntary Organization |
| JC | Joint Committee |
| JCI | Jordan Cooperative Institute |
| JCO | Jordan Cooperative Organization |
| JD | Jordan Dinar ($1 = 0.68JD) |
| MCC | Mennonite Central Committee |

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|---|---|
| MG | Military Government |
| MIS | Management Information System |
| NCBA | National Cooperative Business Association |
| NGO | Non-profit Governmental Organization |
| NIS | New Israel Shekel ($1 = 2.45 NIS) |
| NRECA | National Rural Electric Cooperative Association |
| OCDC | Overseas Cooperative Development Committee |
| OJT | On-the job training |
| OPOP | Our Production is Our Pride (from Bir Zeit University) |
| OT | Occupied Territories (West Bank and Gaza) |
| PARC | The Palestinian Agricultural Relief Committee |
| P&L | Profit and loss |
| POL/ECON | Political/Economic |
| PVO | Private Voluntary Organization |
| SCF | Save the Children Federation |
| SOW | Scope of Work |
| SWC | Sureef Women's Cooperative |
| T | Training |
| TA | Technical Assistance |
| UAW | Union of Agricultural Workers Committee |
| USAID | U.S. Agency for International Development |
| VAT | Value Added Tax |
| Village | Place with population below 5,000 people |
| VOCA | Volunteers in Overseas Cooperative Assistance |
| WB-WB/G | West Bank - West Bank/Gaza |
| WBWG | West Bank Working Group |
| WOCCU | World Council of Credit Unions |

# I. INTRODUCTION AND BACKGROUND

This report contains an evaluation of U.S.A.I.D.-funded assistance to the cooperative sector in the West Bank (WB) and Gaza (G) and an assessment of the performance of two Private Voluntary Organizations (PVOs), ACDI and ANERA, in the implementation of programs in the cooperative sector. Since both PVOs assisted the same and similar cooperatives, the report begins with an overview of the cooperative sector that pertains to these organizations. But since the PVOs had different A.I.D. contracts and objectives, the report also provides separate evaluations of each PVO's performance.

An agricultural economist/team leader, a cooperative management specialist, a human resources development specialist and a Palestinian with expertise in development planning and administration prepared this report. The team also employed a Palestinian woman with considerable experience with women's cooperatives who also served as an interpreter. Both ACDI and ANERA have been evaluated a number of times. ACDI's evaluations have been mostly in-house with consultants hired to assess its programs in training, credit, marketing, and rural electrification. ANERA was recently audited by Price Waterhouse and evaluated by TvT Associates, although the TvT evaluation was not completed at the time of Devres' consultancy. There were also A.I.D evaluations pending of the credit programs in WB/G by Cheryl Larsen and of the project evaluations and information support needed by A.I.D.'s intermediaries to implement the West Bank/Gaza Development Program. The later evaluation for a "Management Information System" (MIS) is contracted to Atlantic Resources Corporation.

The Devres Teams' evaluation of the Cooperative Sector is the second of its kind. The last evaluation of this sector was conducted late 1988 and submitted by TvT Associates on January 13, 1989. This evaluation was made available to the Devres Team.

Since that evaluation, U.S.A.I.D. assistance to the "cooperative sector" has increased with augmented grants to ACDI and ANERA. The Palestinian situation has also changed with a gradual amelioration of conditions centered on Intifada ("uprising") and the cancellation of Jordan's WB/G Development Program in July 1988. U.S.A.I.D.'s strategy has not changed significantly since the TvT evaluation of 1989 and many of the activities then are still supported to date.

## A. A.I.D. Program and Strategy

The U.S. Agency for International Developments' program to WB/G was initiated in FY 1975 and has been implemented mainly through grants to Private Voluntary Organizations (PVOs). Since 1975 over $100 million has been obligated through FY 1992, for a wide range of activities designed to improve the standard of living of the Palestinian people and to demonstrate the concern of the American people. In FY 1992, A.I.D.'s level of support was about $12 million.

A.I.D. is presently funding six PVOs:

- o Agricultural Cooperative Development International (ACDI);
- o American Near East Refugee Aid (ANERA);
- o America-Mideast Education and Training Services (AMIDEAST);
- o Catholic Relief Services (CRS);
- o Save the Children Federation/Community Development Foundation (SCF); and
- o Society for the CARE of Handicapped Children (SCHC), and indigenous PVO in Gaza.

A.I.D. is working on a revised strategy for its developmental programs in the West Bank and Gaza. The Devres Team favors an A.I.D. strategy which continues assistance to the Cooperative Sector in WB/G. Cooperatives are viewed by Devres as important links between small private enterprises, domestic consumers and international markets. As expressed by almost all the persons we interviewed, Palestinian cooperatives are vital institutions for incorporating independent low income Palestinians into viable economic activities and for teaching democratic principles of governance. They are necessary for building and maintaining infrastructure for Palestinians in the absence of an autonomous public sector.

The ACDI/CDP-ANERA joint statement of coordination (see "Palestinian Cooperatives: A Development Strategy," February 1992) defined cooperatives as follows:

> A cooperative is a democratic business, owned and controlled by its users-members. Co-ops are driven by the need to serve their members, rather than make profits for investors. That is not to say co-ops need not be efficient and profitable; indeed they must. But commitment to members' long-term economic interest outweighs the importance of quick returns and bottom lines. Co-ops allow many people to participate in private enterprises who might not otherwise do so. Where there are many small producers, co-ops provide services and economies of scale that fit their needs, and thus draw them into the market economy.

The Devres Team concurs with this statement. It is the basis for cooperation around the world. But, as we have also learned, many cooperatives in the WB/G regions are still far from being effective service institutions and economically sound. They still need strengthening and sound business practices to enhance their roles. Some cooperatives are not prepared adequately to handle large projects for processing and marketing nor large revolving credit schemes provided for their development. They need technical assistance, training and financial support but not necessarily grants. The Devres Team also found questionable "white elephants" in a few places and projects which are not cost effective. But as we will show below, many of these problems can be corrected, making AID funds to the "cooperative sector" both cost effective and developmental in terms of AID's goals.

B. The Changing Context

1. Israeli occupation and outcomes

Palestinian farmers share many problems in common with small farmers throughout the world. But unlike most, Palestinian farmers also face the hardship of having lived under military occupation for decades. Punitive economic sanctions and military orders have deprived Palestinians of a normal economic life. In the West Bank and Gaza, farmers are dependent upon Israeli-made farm inputs such as fertilizer, livestock feed, breeding animals, fertilized eggs for hatcheries and poultry production, improved high yielding varieties of seed, etc. CIVAD is the ultimate military authority for allowing Palestinians to have these inputs. And through CIVAD, Israelis exert additional control over the use of farm equipment, land, water resources, electric power and buildings.

During the time our team was in the West Bank, for example, a bulldozer purchased under the ANERA program for a Ramallah cooperative was impounded by Israeli troops because it was plowing a farmer's field "too close" to an Israeli settlement. Through ANERA's intervention, the Israeli's released the bulldozer one week later. The Israelis also decide, for example, what size transformers an electric cooperative can purchase based on the number of village members and do not allow for commercial demand or future expansion. As demand increases the cooperative must repeat their applications for transformers and it takes about two years. Transformers must be purchased from and installed by Israelis for which they exact a fee [cited in Trip Report by Leland Voth, USAID/NE/DR/PI, April-May, 1992].

Without CIVAD approval farmers cannot meet in groups larger than 100 persons. Permission requires a detailed list of names and places. Such requirements hamper cooperative meetings of the General Assembly which can number up to 2,000 cooperative members. In addition, each cooperative and each cooperative member must be officially registered at the Ministry of Labor of CIVAD to have legal rights and tax exemptions. Getting registered officially takes time and according to Adnan Obeidat of ANERA, more than 80 applications have been with Israeli authorities for registration. Some applications for housing cooperatives have not been approved after 5 years with Israelis. In September 1987, the Agricultural Cooperative Union of Nablus was registered after 3 years. Moreover, members express concern over the way their names are used by CIVAD. And CIVAD does not provide any facts back to the Palestinians regarding numbers and size of their cooperative. Consequently, cooperatives are not open "freely" to people who want to belong and they are hampered by CIVAD by any number of "technicalities."

The conditions following the Palestinian uprising in December 1987 (Intifada) against the Israeli occupation, and repressive Israeli counter measures, have prompted greater emergency relief as well as development financial aid to the Palestinian people from Arab, American, and other international sources. The cancellation of Jordanian Development Assistance in 1988 as well as the end of free trade between Jordan and the West Bank (referred to as "disengagement") was fortunately responded to by some other foreign assistance. Primary international sources of other assistance include Palestinian Joint Committee funds, European Economic Community, UNDP and the U.S. Agency for International Development.

It should be noted that Jordan still plays a prominent role in West Bank's political and economic areas. Also, the involvement of other organizations has stimulated a favorable response from many Palestinians who believe that economic development programs can help. The response is evident in the formation of WB/G financial intermediaries and more non-governmental organizations (NGO) among Palestinians than ever before. As a sign of change, the Devres Team was impressed with the way that Palestinians devoted their discussions to business issues and not the so-called "lament" of Israeli occupation.

2. A master plan

On November 15, 1988, the Palestine National Council (PNC) announced the Declaration of Palestinian Independence, an act endorsed by over 100 members of the United Nations and the focal point of discussions. In July 1992, discussions between the new Israeli government under Prime Minister Rabin and the Bush administration raised Palestinian hopes for more autonomy. These discussions may have favored the Devres Team as people remain optimistic during our visits.

In 1992, "Master Planning Guidelines" for the State of Palestine, were prepared by the Palestine Studies Project of the Center for Engineering and Planning, Ramallah, and funded with partial support from ANERA and other PVO's. The "Guidelines" set forth a plan of action consistent with the national aspirations and priorities of the Palestinian people. Without repeating the Plan's details here, it provides general profiles of the major socio-economic sectors and broad suggestions for a future development strategy. The major sectors include land, population, water resources, agriculture, industry, tourism, housing, transportation and communications, public relations, health and education. The "cooperative sector" is not an explicit part of the "Guidelines," but cooperatives are viewed as a means of abetting all the major sectors. Furthermore, the "agricultural sector" and the related sectors for land and water all have key roles in the Master Plan. These sectors contain most of the cooperatives of WB/G.

3. The agricultural economy

According to the "Master Planning Guidelines," agriculture has traditionally been the most important source of income and employment in the Palestinian economy. The "Guidelines" indicates that between 1980 and 1985 the average value of annual agricultural production was estimated at around US $250 million, accounting for about one fourth of the GDP.

Agricultural production and economic opportunities are somewhat different between the West Bank and Gaza. Basic differences are evident in Table I-1 which shows the agricultural production of both regions. In the West Bank, most of the cultivated area is rainfed (not irrigated). Due to highly variable rainfall, the rainfed agricultural production suffers from sharp annual fluctuations. The most valuable products of agriculture are olives, grapes, melons, figs, plums, and a variety of vegetables. But in Gaza, over half of the cultivated area is irrigated. There is even a unique system of farming near the coast-line in which the sandy soil is dug out (by front-load tractors) and the bottom soil is moist for cropping. The Gaza Strip, however, suffers from salt water intrusion which makes it difficult and expensive to farm the same land year-after-year without major improvements and efforts at land reclamation. The Gaza is a highly productive region nonetheless for fruits (almonds, strawberries, and citrus), and vegetables (tomatoes and potatoes).

**Table I-1: Total West Bank and Gaza Agricultural Production in Tons**
(average for 1987-1989)

| Product | West Bank | Gaza | Total |
|---|---|---|---|
| Potato | 18,000 | 20,000 | 38,000 |
| Onion | 20,000 | 500 | 20,500 |
| Cabbage | 3,700 | 6,000 | 9,700 |
| Cauliflower | 9,000 | 7,000 | 16,000 |
| Tomato | 60,000 | 28,000 | 88,000 |
| Cucumber | 30,000 | 19,000 | 49,000 |
| Aubergine | 18,000 | 6,000 | 24,000 |
| Hot Pepper | 7,000 | 1,500 | 8,500 |
| Others | 25,000 | 20,000 | 45,000 |
| VEG. TOTAL | 190,000 | 108,000 | 298,700 |
| | | | |
| Water Melon | 40,000 | 1,000 | 41,000 |
| Melons | 10,000 | 400 | 10,400 |
| Strawberries | | 600 | 600 |
| Guava | 2,000 | 9,000 | 11,000 |
| Plum | 15,000 | | 15,000 |
| Grapes | 40,000 | 3,500 | 43,500 |
| Banana | 16,000 | | 16,000 |
| Figs | 12,000 | 300 | 12,300 |
| SUB-TOTAL | 135,000 | 14,800 | 149,800 |
| | | | |
| Citrus | 75,000 | 150,000 | 225,000 |
| Olive Oil | 22,000 | 750 | 22,750 |
| Honey | 160 | 120 | 280 |
| | | | |
| GRAND TOTAL | 422,860 | 273,670 | 696,530 |

Source: Jericho Marketing Cooperative, West Bank

Livestock has recently played an increasingly important role in the West Bank, especially as a result of the conditions created by the Intifada and the popular and political campaigns to reduce dependence on Israel and increase national food production. During 1987-89 the average contribution of livestock accounted for about 46 percent of the total local agricultural production of the West Bank. Of this, meat, mainly from sheep, poultry and cattle, contributed about 25 percent and eggs about 3 percent. In the Gaza Strip, livestock contributed about 29 percent of total local agricultural production. Of this, meat, including fish, contributed about 14 percent, milk about 6 percent and eggs about 9 percent.

Because of these differences in agriculture of WB/G, the nature and types of farmer cooperatives also differ. Both areas, however, need help in land reclamation. Both need help in marketing, processing and cold storage. But each area needs a different form of technical assistance and training which affect the roles of ANERA and CDP.

There are other differences to note between the West Bank and Gaza. The West Bank is the size of an average U.S. county, covering 1.4 million acres, or 2,200 square miles. It stretches about 170 kilometers, one fourth the area of Israel and has altitudes ranging from 3,000 feet in the central mountains to 690 feet below sea level along the Dead Sea. The Gaza Strip is 45 kilometers long and 8 kilometers wide and runs parallel to the Mediterranean. The land is flat and uniform. The population of the two territories was estimated in 1987 to be 1.7 million, of which the West Bank had 1,068,000 residents and Gaza 633,000. Thus, the population density is much higher in Gaza than in the West Bank. The size of population by region and the population's density affect the number and types of cooperatives as well. Consequently, there are more diverse cooperatives in the WB and fewer cooperatives in Gaza.

The West Bank agricultural sector was severely affected by the 1990-91 Gulf crisis in three ways. One, the loss of remittances from Palestinians who were expelled from Kuwait, estimated at over $100 million; two, the added burden of 5,000 Palestinians who returned to the West Bank and; three, a month-long Israeli curfew that caused enforced abandonment of extensive croplands, resulting in huge production losses. During late 1991, adverse cold weather and heavy rains and snow in the northern parts of the West Bank destroyed many crops and ruined prime land. Heavy rains also flooded many dunums in the Gaza Strip. Altogether, it will take some time to restore land and income levels to their former levels. The "cooperative sector" will not be a panacea for such problems, but can facilitate change in many ways.

4. WB/G institutional needs

Both the WB/G need institutional strengthening. There are no "public," governmental institutions which can provide small farmers with technical assistance and training. Cooperatives have vital roles to play in providing services.

Agricultural extension services are provided by a number of popular organizations and committees including technical assistants of the cooperative sector. But, in general, the West Bank and Gaza have no concerted plan or organization to provide farmers with an adequate level of coverage. Cooperatives are needed to fill such needs.

Agricultural education, training and research are inadequate in WB/G at this time. Of the six universities operating in the West Bank and Gaza, only Al-Najah National University in Nablus offers a course on agricultural services within the Faculty of Sciences with an admission capacity of only 40 students. Hebron University, though financially weak, has only recently been granted permission to establish a Faculty of Agriculture. At the intermediate level, three public agricultural education institutions offer theoretical and practical secondary and post-secondary instruction and teacher training.

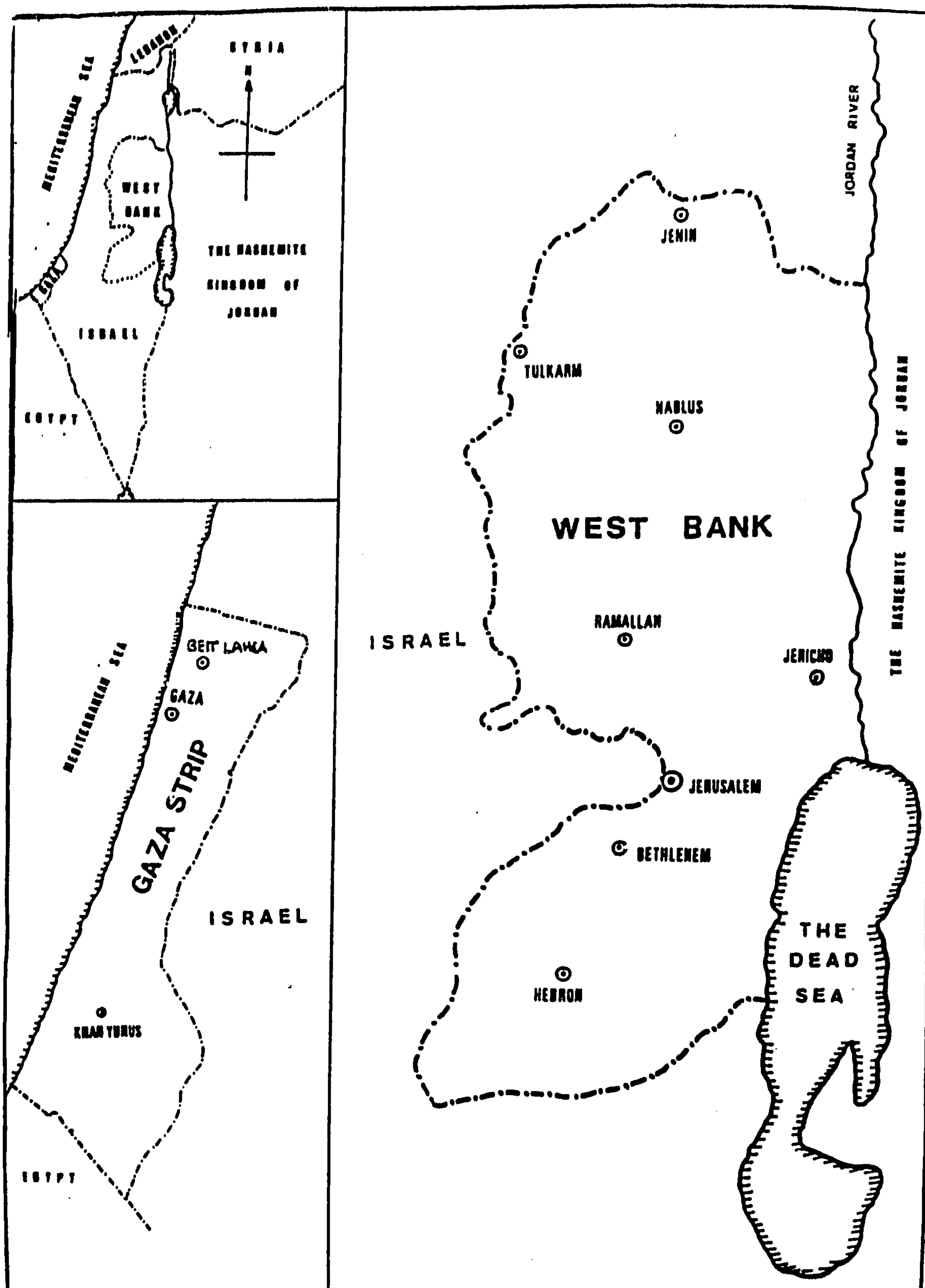
Until 1987, agricultural cooperatives were essentially the main source of agricultural credit. Informal sources such as commission agents and suppliers of agricultural inputs provided seasonal and short-term financing to farmers. During the past five years, increasing credit facilities became available to individual farmer producers as well as productive and marketing agricultural cooperatives through resolving credit programs established by organizations such as the Arab Development and Credit Company (ADCC), the Economic Development Group (EDG), the Technical Development Corporation and ANERA.

C. Devres' Scope of Work and Procedure

Annex A contains the scope of work and will not be repeated here. Annex C contains more detail on the procedures and methodology employed by Devres to gather information. The Team began its work in Jerusalem on July 17 and departed from there on August 11, 1992. Its first meetings included briefings with the A.I.D. Officer and the Consular General in Jerusalem and the Economic Officer from the Embassy in Tel-Aviv and representatives of ACDI/CDP and ANERA. The Team developed a plan and selected 17 cooperatives for in-depth study and site visits. The selection included all nine cooperatives worked in by ACDI/CDP for "targeted" activities (see Table I-1). The same cooperatives are also beneficiaries of ANERA. Another eight cooperatives were selected to widen the range of coverage and to provide Devres with a more random choice of cooperatives. The additional eight were also selected because it was possible to meet with their managers and Boards at predetermined times in the Devres schedule. They included cooperatives in Al-Nassarin, Jericho, Nablus and villages near Ramallah and Tulkarem. The map below (Figure 1) shows the distribution of sites. Field trips and interviews began on July 22 and ended on August 5, 1992. Although some communities were on strike on three occasions in honor of Intifada and/or in response to the deaths of Palestinians, we were still able to conduct our surveys with good attendance of 4 to 10 cooperative members at each site we visited. We found also a very frank audience of respondents at each of the cooperatives. None harbored on the Israeli occupation and all got right down to business about their cooperatives.

Table I-2 is illustrative of the Devres scope of work. The range of activities covered by CDP and ANERA is immense. Hence the tasks of our assignment were equally difficult. To handle the chores, the Devres Team made a division of labor in terms of questions and responsibilities. But it should be noted that each site was visited by every member of the Devres Team. In addition, the Devres Team functioned independently of staff of the PVO organizations except for one site visit we attended with Abnan Obeidat, a General Assembly meeting of the Marketing Cooperative of Kufur Ni'meh near Ramallah.

Figure 1. Sites Visited by Devres Team



## Table I-2.: Cooperatives Surveyed by Devres Team

| Name | Cooperative/Union* Type | Approx. Membership** | PVO Support*** ANERA | CDP |
|---|---|---|---|---|
| **WEST BANK** | | | | |
| 1. Beit Jala* | Olive Press/Soap | 785 | B, C, T | TA, Tr, MA, WP |
| 2. Jenin* | Marketing (Vegetables) | 567 | B, C, TBldg-cold storage | TA, Tr, MA,MP-Marketing |
| 3. Soureef (Women)* | Handicrafts | 353 | C | Tr, MA, WP, ToT |
| 4. Tulkarem* | Livestock | 45 | T, C, MD, F | Tr, MIS, MA, WP |
| 5. Ramallah Union*(20 co-ops) | Olive Press | 6,800 | B, C, OBldg-Oil Canning | Tr, MA, WP |
| 6. Jericho | Marketing | 1,700 | B, C, T, Water TankBldg-cold storage | TA-marketingTr-Mechanics |
| 7. Hebron Union*(6 co-ops) | Electrical System | 2,727 | C, T, Cr, E | TA-Mgt, MA, WPTr-Mechanics |
| 8. Al-Nassaria | Livestock | 60 | T, C, MDBldg-dairy | TATr-computer |
| 9. Ramallah (Forming Livestock Union) | Poultry | 168 | T, CBldg-feed mill | TA-consultantsTr-computer |
| 10. Hebron | Marketing (grapes) | 750 | B, T, C, G(Phylloxera Pest-Control) | TA-Info. marketing |
| 11. Nablus Ag. Union | MarketingMIS Center | 700 | B, T, C | TA-MISTr-computer |
| 12. Kufr Ni'meh | Agriculture/Poultry | 95 | T, C | Tr-Marketing |
| 13. Saier/Hebron | Electric | 850 | T, E | Tr-mechanics |
| 14. Tulkarem | Marketing | 480 | T | Tr-mechanics |
| | | **GAZA STRIP** | | |
| 15. Beit Lahia* | Marketing | 448 | B, C, T, Cr-GBldg-cold storage | TA-Int'l mkts.MA, WPTr-computer |
| 16. Gaza* | Livestock | 160 | Vet mobile unitCr-livestock | (New) |
| 17. Khan Younis* | Agriculture | 456 | C, G, Cr-GT-"Front-end loader" | (New), MA |

*CDP Targeted Cooperative
** Membership numbers provided by CDP and/or ANERA
*** PVO support indicates partial listing of A.I.D. funded activities which were surveyed

**Key:**

B=Bulldozer
Bldg=Building
C=Computer
Cr=Credit Program
E=Electric generator
F=Feed mill
G=Greenhouse
MA=Management Audit
MD=Micro-dairy
MISW=Management Information System
O=Olive press
S=Soap manufacturing equipment
T=Tractor
TA=Technical Assistance
TOT=Training of Trainers
Tr=Training
WP=Work Plan

## II. THE COOPERATIVE SECTOR

The Devres Team found considerable controversy surrounding the notion of a "cooperative sector." Depending on who you ask, there are for some clear-cut "cooperatives" in Palestine and for others, there are no well-defined cooperatives in WB/G. Since cooperative strengthening is a primary goal for both ACDI/CDP and ANERA, we considered it imperative to describe the nature of the so-called "cooperative sector" in WB/G and to identify the needs for strengthening cooperatives. As we focused on this part of our report, we realized that an important problem facing the PVOs in the WB/G was the "cooperative sector" itself and not necessarily the internal problems and management systems of the PVOs themselves. Granted, the PVOs have shortcomings, but Devres observed that if the PVOs focused on addressing the complexity and needs of the cooperative movement first, they would be in better positions to clarify their own roles, actions, responsibilities and delivery systems. By fostering "true" cooperatives as recommended below, Devres believes that the PVOs' own roles would become more focused and developmental.

### A. Overview

The "Cooperative Sector" is a complex concept that means different things to different people and groups in WB/G. In both the West Bank and Gaza there is no common acceptance of the term. For some, the "cooperative sector" comprises only "formal" or "registered" cooperatives. "Formal Cooperatives" refer to those registered with CIVAD and can have histories of being registered under former occupations of Jordan, Egypt or Britain. For others, "popular" cooperatives stand for the ideal concept.

"Popular" cooperatives are numerous and varied. They run the gamut from small "collectives" of producers and/or consumers, to groups of people who join "cooperatively" for some common economic, social or political cause. Many "popular" cooperatives are registered with CIVAD as "charitable societies." Included in this rubric are "charitable societies" organized by PARC (The Palestinian Agricultural Relief Committee), UAWC (the Union of Agricultural Workers Committee), OPOP of Bir Zeit University ("Our Production is Our Pride") and others of Save the Children Federation.

Because some "charitable societies" say they adhere to cooperative principles, they also refer to themselves as true cooperatives for Palestinians. In fact, representatives of PARC, UAWC and OPOP challenge the activities of ANERA and CDP by saying that the registered cooperatives are not inclusive of many Palestinians. In particular, it was mentioned at both PARC and UAWC that registered cooperatives work from the top-down, from Israeli approval to certain groups of people who represent "old" line, traditional farmers. In other words, critics say that the "registered" cooperatives are not organized at the grass roots level first and that they are not inclusive of the most needy farmers and people organized for self-help.

The Devres Team believes that the notion of a "cooperative sector" is better served by another concept, i.e., "cooperative movement." That is, if the term "movement" were incorporated into A.I.D. plans, it would avoid the use of a stagnant term ("sector") and provide instead a term which encompasses phases and progressions of cooperative formations. Such dynamics would infer an historical and evolutionary progression of different types of cooperatives. To appreciate "movement," we review some of the history of cooperatives in the WB/G.

The Palestinian "cooperative movement" was established in the West Bank and Gaza Strip during the British Mandate period in the 1920s. The cooperatives at that time were then registered according to the Cooperative Law of 1933 which is still valid, although it has been modified several times by the prevailing authority of the time.

After 1948 and the establishment of the State of Israel, the West Bank became part of Jordan and the cooperatives followed the Jordanian laws and became part of the Jordanian Cooperative Organization (JCO). Gaza came under Egyptian authority in 1948 and the Palestinian cooperative movement of Gaza became a part of the Egyptian cooperative movement.

After 1967, with the Israeli occupation of WB/G, the Palestinian cooperatives were required to register and operate according to the Jordanian Cooperative Law and the Israeli Cooperative Law. Since then, the Israeli military government has imposed a lot of limitations and restrictions on the Palestinian cooperative movement and it has been very difficult to register any new cooperatives.

1. <u>"Registered" cooperatives</u>

According to Shedadeh, in 1991, there was a total of 749 registered cooperatives in the WB, 379 were registered before 1967, the rest (367) having been established thereafter (see Table II.1). Shehadeh (1991) estimated that before 1967 there were 175 agricultural cooperatives, which included 900 members. This number was increased to a total of 353 agricultural co-ops in 1991. Poultry, marketing, livestock, mechanization, and olive press cooperatives are the most prevalent in agriculture.

**Table II-1: Registered Cooperatives in the West Bank until 1991**

| Type of Cooperative | Pre 1967 | Post 1967 | Total |
|---|---|---|---|
| **A. Agricultural** | | | |
| Credit & Saving Co-ops | 141 | 1 | 142 |
| Mkting & Ag. Machinery | 13 | 93 | 106 |
| Livestock & Poultry | 4 | 59 | 63 |
| Olive Press | 8 | 22 | 30 |
| Olive Press Union | 0 | 1 | 1 |
| Agriculture Union | 0 | 1 | 1 |
| Multi-purpose | 9 | 1 | 10 |
| **Sub-total** | **175** | **178** | **353** |
| **B. Non-Agricultural** | | | |
| Drinking Water | 0 | 8 | 8 |
| Housing | 7 | 33 | 40 |
| Worker | 6 | 8 | 14 |
| Transportation | 8 | 1 | 9 |
| Bakeries | 3 | 0 | 3 |
| Consumer | 4 | 16 | 20 |
| Mutual Benefit | 2 | 8 | 10 |
| Credit & Savings | 6 | 16 | 22 |
| Construction | 2 | 0 | 2 |
| Higher Education | 1 | 1 | 2 |
| Electrification | 2 | 26 | 28 |
| Electrification Union | 0 | 1 | 1 |
| **Sub-total** | **41** | **118** | **159** |
| **C. School Cafeteria** | 163 | 71 | 234 |
| **TOTAL** | **379** | **367** | **746** |

Source: Cooperative Development in the West Bank, as cited in O. Shehadeh, Development & Cooperatives in the Occupied Territories, 1991, p. 38.

The cooperatives in the Gaza Strip (shown in Table II.2) are fewer and limited due to different factors which influenced the cooperative movement either under the Egyptian authority or the Israeli occupation. There are 48 "registered" cooperatives in total. Some are active and the majority are not active. Indeed, there are only eight which are recognized today as either "active" or with the greatest potential for activation (see Table II-2). These cooperatives are divided between agriculture, marketing, livestock, and consumer cooperatives. Six of these eight co-ops were registered after 1967.

**Table II-2: Registered Cooperatives in the Gaza Strip**

| Name of the Cooperative | Type | Location | Estab. Date | No. of Members | Comments |
|---|---|---|---|---|---|
| Khan Younis | Ag | Khan Younis | 1943 | 260 | Reactivated in 1985 |
| Citrus Marketing | Mkt | Gaza | 1973 | 120 | Reactivating |
| Deir al-Balah | Mkt | Deir al-Balah | 1973 | 500 | Reactivating |
| Gaza Livestock | Livestock | Gaza | 1973 | 90 | Reactivated in 1989 |
| Fishing | Fish | Gaza | 1973 | 24 | Reactivating |
| Beit Lahia | Mkt | Beit Lahia | 1977 | 235 | Active since 1977 |
| Qara' Social Development | Social Dev. | Qara' | 1980 | 80 | Reactivating |
| Consumer | Cons. | Gaza | 1958 | 7,000 | Reactivating |

Source: Cooperative Development in the West Bank, as cited in O. Shehadeh, Development & Cooperatives in the Occupied Territories, 1991, p. 35.

2. "Popular" cooperatives

During the Intifada, the demand for the establishment of more co-ops increased. However, among the 100 applications filed for new cooperatives during this period only eighteen were approved by CIVAD. Due to the registration requirement, many "popular" cooperatives were established without the approval of the military authority by different women's and agricultural grassroots organizations. These new or "popular cooperatives" were based on the belief that co-ops and collective projects can be real vehicles for development and can play an active role in building the Palestinian infrastructure, especially under occupation. Some were eventually registered as "charitable societies."

"Popular cooperatives" are said to differ from the formal or registered cooperatives, especially in terms of their type of leadership and goals. The leadership of popular cooperatives is reportedly younger and more educated, individuals who are described as promoting social and cultural development, and empowerment.

### 3. Current climate for cooperatives

Devres believes the "registered" cooperatives are passing into a new era in terms of their membership and goals. Their membership has expanded also to include younger members and women. We were told that there are more frequent democratic elections are taking place and new boards of directors are being elected with new social interests and objectives. Also, as observed by Devres, today's cooperatives show an eagerness to respond to community needs and developmental priorities. Indeed, the trend of the cooperative movement seems to be a strong interest in community-based development as well as the traditional economic goals of raising member's incomes.

These changes in the "cooperative movement" towards a growing level of participation and an enlightened interest in cooperatives can be attributed to a number of factors. According to persons interviewed, the factors include the following:

- The Intifada and its impact on the whole community, especially in the area of democratization. This brought more people together for collective action.

- The disengagement in administrative and legal relations between Jordan and Palestine in 1988. This had the effect of diminishing the political loyalty of the formal cooperative figures to the Jordanian regime.

- The declaration of the State of Palestine which took place during the Palestinian National Council (PNC) Conference in Algeria in 1988. The Conference proceedings were translated into a well-spring of support for grass-roots cooperation, both "popular" and "registered."

- The growing emphasis on the need to establish a genuine local infrastructure (professionalism over parochialism) and to engage in collective economic activities for self-determination. This transferred much thinking to economic (versus political) development.

- The emergence of a "women's agenda" during the Intifada which obliged all cooperatives to incorporate women to a larger extent and which brought new members (mostly younger) to participate in cooperatives.

- o The work of USAID-funded PVOs which has provided economic and educational incentives for people to join cooperatives.

## B. The Need for Cooperative Development

Due to these changes, cooperatives may be able to play more active roles in economic development, especially in the absence of an autonomous government and in light of the growing needs in rural areas.

The Devres Team concurs with ANERA and CDP on the need for continued cooperative development assistance. Assistance is needed in a number of areas as indicated below. In general, we believe that cooperatives should be supported to abet their unique economic and political circumstances. They are tax exempt for economic activities and they are capable of joining large numbers of people of different means collectively for democratic decision-making.

Realistically, Devres believes that the "cooperative movement" will be limited in its outreach as are most cooperatives world-wide. According to CDP and ANERA there are roughly 250 active WB/G cooperatives representing about 32,000 families and serving an estimated 30,000 additional non-member families. Using an average of 6 persons per family, then only about 20 percent of the WB/G population is currently and tangibly affected by cooperatives. Of the 1.7 million people in WB/G, we believe that up to 25 percent could be served by effective cooperatives. But cooperatives throughout the world have limited participation. People who join voluntarily have unique attributes and incentives to work in groups. Cooperatives require individual commitment and they are not cost free. Membership usually calls for contributions of time, the purchase of shares and an acceptance of a limited equity from membership. Hence, we should not expect a movement for all people. Many people do not share the same interests in cooperation.

Nonetheless, the number of participants can be increased in WB/G. CDP and ANERA have much more to do in terms of strengthening cooperatives. But more importantly, the economic and educational dimensions of cooperatives must also be improved to improve the well-being of Palestinians.

If cooperatives are strengthened, Devres believes that they can be more vital for supplementing the non-cooperative enterprises of the WB/G. Successful business cooperatives can generate additional business for the private sector and fill gaps otherwise not adequately met in the market: e.g., olive oil pressing for small volume producers, agricultural machinery services for farmers with small plots of land, piloting of promising new technologies, credit for farmers with little or no collateral and marketing of produce where and when transport and storage facilities are beyond the means of individual producers.

C. What Development Assistance Should Cover

In general, the Devres Team found a consensus among respondents that cooperatives in WB/G need development assistance in these areas:

- Capital financing to cover costs of vital infrastructure (land reclamation, marketing facilities and input supplies);

- Human resource development for leaders and managers of village and regional cooperatives;

- Institution building to improve market mechanisms for the delivery of farm inputs, credit and agribusiness products;

- Continued efforts to encourage better and more supportive government policies and to loosen controls exercised by the CIVAD over cooperative membership, economic activities and growth; and

- Training and technical assistance to improve the operations of cooperative enterprise activities.

The Devres Team also considers the following specific areas as critical for strengthening the "cooperative movement" in WB/G.

- Data-gathering, or statistical data collection to strengthen the ability of cooperatives to monitor their situation and to provide the members with the basis for sound decision-making.

- Research and studies, especially sectoral surveys, empirical research, marketing research, needs assessments, and more thorough feasibility studies. Such studies foster the importance of cooperative education and teach members how to plan and prepare for the long run. Such studies identify winning and losing situations and abet corrective actions in plans.

- Steady improvements in the areas of local marketing, export-know-how, agribusiness, cooperative assistance for developing feed mills, micro-dairy products, olive oil presses, extractive juices, etc. Some technical assistance is still important in these areas because Palestinians have few developed systems and experiences to operate in a modern (international) economy.

- Managerial and administrative training, especially in the areas of finance management, marketing management, and public administration. Such training never ends and continues as cooperatives tackle bigger and more complex economic conditions.

- Institutional training, empowering the leaders of cooperatives through planning, product design, evaluation, and legal aid. Such training helps cooperatives to deal with legal, economic and technical requirements as they deal with changes in the size, structure and day to day operations of their co-ops.

- Infrastructure such as electricity, water, sewage systems, road, land reclamation, etc. Basic, micro-infrastructure is needed until a public sector is developed to handle such social goods and externalities.

- Financial aid to the extent it builds "infant" cooperatives into mature, self-sustaining, viable cooperatives. Improved management should be aimed to help co-ops in resource acquisition and product development through enhanced technology.

## D. PVOs and Their Critics in the Cooperative Sector

ACDI/CDP and ANERA cover many items needed for strengthening cooperatives of WB/G. Specific areas are described in part III of this report. However, both PVOs have been criticized by different factions of Palestinians, mostly academic and entrepreneurial groups. Here we address some of these criticisms.

Of particular note is the perception among some non-cooperative groups that since ANERA and CDP work exclusively with registered cooperatives which have roots to Jordan and CIVAD authorities, they are serving too much of a special interest group of farmers. Critics like those of PARC and UAWC believe that these cooperatives are destined to fail at any rate. According to their argument, "registered" cooperatives operate with a "grant mentality." That is, they are organizations which expect to receive subsidized support for their activities as they have in the past under former authorities. Opponents argue that registered cooperatives only organize for grants, that these co-ops do not develop the responsibility for becoming self-sustaining and developmental. Believers of this "grant-mentality" character of cooperatives stress that it is very hard to change traditional cooperatives and that the PVOs are not working to change their "mentality" or focus on grants.

Critics of ANERA and CDP also say that the "registered" cooperatives supported by ANERA and CDP are undermining private, independent entrepreneurs. Opponents point to several examples whereby cooperatives use their grants in "unfair" ways. One example is the Tulkarem Cooperative with a micro-dairy. The plant and equipment of this dairy cooperative were provided by a grant from ANERA. The Tulkarem dairy produces milk and a soft white cheese and sells them below cost on the market. The prices are below cost, because they do not include the cost of capital equipment acquired through grants. The Devres Team has confirmed that this charge is true, which goes against a basic tenet of cooperative operations.

Additional criticisms of the PVOs are summarized as follows:

- Some Palestinians view American aid as having little to do with development and more to do with serving the aims of U.S. foreign policy. They see American policy as being biased toward Israel, and some believe that the U.S. money spent in WB/G is intended to pacify the people rather than bringing about real development.

- There is a lack of coordination between PVOs and other Palestinian NGOs working with popular cooperatives. If not coordination, at least the PVOs should consider more open recognition of the role that "popular" cooperatives play in WB/G.

- Some people believe that the administration costs are very high at PVOs and that too much of the budget is directed toward the costs of high salaries, cars, reports, consultants, travel, etc. rather than to direct project expenditure.

- Some Palestinians are sensitive about the decision-making process, which they believe should take into account indigenous conditions, needs and concerns to a greater extent. Some suggest that the directors of PVOs should be Palestinian, especially types who can contextualize their programs.

- Some people believe that the limited focus of the PVOs in working exclusively with formal cooperatives and certain municipalities weakens their credibility with the wider Palestinian community.

- Some critics say that lack of planning, faulty implementation, minimal follow-up and extension, and weak monitoring and evaluation programs of the PVOs have prevented many of the goals from being reached. Several critics note the Ein Sinia and Deir Sharaf olive oil filling factories which purchased equipment in 1982 and the fact they have not operated until this year. The Beit Jala soap manufacturing factory is also criticized as a "white elephant."

E. Recommendations for Reducing Criticism

To avoid such criticism, the Devres Team was advised in its interviews that PVOs should do the following:

- o Widen the range of cooperatives and develop coordination between the PVOs and NGOs. Also, avoid giving grants without a careful plan with members.

- o Provide all cooperative members (formal and "popular") with a "real" cooperative education, teaching the basic principles and responsibilities of members.

- o Consult with all cooperative members (in addition to the Board members) regarding financial plans or development projects and base funding of projects on real needs assessment. In effect, use a "participatory basic needs" strategy with cooperatives.

- o Help more cooperatives to conduct feasibility studies, sectoral research and needs assessments and to help develop the skills of cooperative members.

- o Pressure the military government to give more licenses and to register more cooperatives and allow these cooperatives to expand their projects or programs through a more open membership policy.

- o Pressure the military government to reduce the tax pressures on these cooperatives. An example of the problem is the Ramallah Poultry Cooperative which was fined by CIVAD for selling and buying from non-cooperative members at favored prices. Such sales, say Israelis, are not tax free and thus the co-op should pay a fine for not collecting the value added taxes. The Ramallah co-op says the Israeli fine is excessive and very difficult to clear with CIVAD.

Although the Devres Team concurs with this list, the Team also believes that the PVOs should not develop reactive responses. Instead, the Devres Team strongly urges a more cohesive goal of having the PVOs adhere more professionally to establishing principles of cooperation. In short, the Devres Team urges the PVOs' immediate and clear-cut attention to "cooperative strengthening," "institutional development," and "human resources development."

## F. Recommended Actions for West Bank/Gaza Cooperatives and PVOs

The Devres Team recognizes that the so-called "principles of cooperation" are referred too frequently and with considerable ardor, but seldom is their significance seriously questioned or understood. However, the Team believes emphatically that adherence to cooperative principles serves as the de facto (not de jure) definition of what a cooperative is and how it differs from other forms of business organization. As such, the principles once established, understood and practiced, will serve as the basis for strengthening institutions and improving the sustainability of the cooperative movement. We also realize that despite the fervor with which specific principles are advanced, cooperative practices often appear to be influenced as much by individual self-interests, economic considerations, and statutory restrictions. Yet any discussion of the changes cooperatives must make in order to remain viable "competitive" businesses must focus on the principles cooperatives use to define themselves.

In what follows, we give particular attention to the cooperative features and principles that impressed us during our field survey as well as the principles that have positively guided mainstream cooperatives world-wide. Devres notes that the PVOs already adhere too many of the points raised below. But, we devote considerable attention to these principles because we believe that they must also be understood by USAID and interested parties in planning for the future role and needs of the "cooperative sector" in WB/G. [For additional reading on this topic see Royer article (1992) in Annex F].

### 1. Foster multipurpose cooperative organizations

The Devres Team noticed that most of the cooperatives of WB/G were single function, or at best no more than two or three simple functions. Also we saw in many communities that there are several cooperative organizations serving the same people. Many of these organizations were started to facilitate the particular project for which the community wanted to obtain outside funding, usually in the form of a grant.

We noted some misunderstanding on the part of cooperative people about whether the cooperative was limited in its purposes, or functions. It happens that most of them limited themselves at the time they registered, by stating only one or two functions in their application. The problem is that cooperatives need broad and popular support from members. Members who belong to various groups find themselves spread too thin to support a cooperative. If a cooperative were multi-dimensional, it can develop more concerted and less competitive strategies for change.

Devres recommends that the PVOs attempt to broaden and integrate the scope of cooperatives that serve overlapping farmers in a given area. This attempt should be made when it can be determined that a greater savings can be realized through economies of scale and through improved efficiency in management with a multi-purpose cooperative structure. Such efforts will necessitate upgrading managerial capabilities and competence with specialized skills for each new service.

Devres recommends that steps be taken wherever possible to combine the activities of some of the smaller cooperatives serving farmers, thereby increasing the potential profitability and thus the probable success rate of these organizations.

2. Focus on improved market potential through further processing of agricultural products

Although local consumption has taken a substantial percentage of the farm products grown in West Bank and Gaza, there remains the need to export much of the production of farmers in these areas.

Two important factors can affect the price that the farmer ultimately receives for his or her product.

- The time the product goes to the market. If there is a glut at market time, the farmer may be selling at the lowest price possible. But if she/he can develop an orderly marketing system, through adequate storage, freezing, cooling, or other packaging, and more exact planning through the use of grower contracts, the market can become much more flexible for him/her, plus in many cases, she/he has added value and reduced the cost of freight in the process.

- Further processing of products such as packing houses, packaging, freezing, canning, and other preparations which add value to the product and reduce the freight costs, can serve to increase the total income accruing to the farmer.

Devres recommends focused attention towards helping cooperatives to augment production, processing, storage facilities, in order to market excess supplies of agricultural commodities when profitable to do so. Cooperatives enjoy economies of size that are not possible for independent small producers of WB/G.

3. Strengthen regional organizations by networking

Some attempts have already been made to start viable, regional cooperative structures called "unions." Examples include the unions of Nablus (Agricultural), Hebron (Electrical) and Ramallah (Olive Press and Canning). These have been designed to collectively market the member cooperative's products, or to provide other services needed by the member cooperative organizations such as market information. This may be the first concrete step towards independence that the cooperatives in the occupied territories have taken. It can insure the survival of many of the cooperatives when outside support is no longer available. In countries where cooperatives have become successful, the regional cooperatives have assumed most of the burden of training, coordination of services, such as financing, insurance, and auditing for member cooperatives, and their members, many of these needs are now being satisfied by outside donor organizations.

The value of the model (Pilot) cooperatives successes may well depend on dissemination of methods and practices of these successful organizations to other cooperative organizations. This process of dissemination will depend, to a large degree, on the leadership afforded by a strong Regional Cooperative's staff. Such a regional system can enhance the diffusion of "successes" to more cooperatives in the WB/G.

Devres recommends that every effort be made by ANERA and CDP to encourage and facilitate the development of the regional structures by creating centralized or federated cooperatives. A "centralized" cooperative has one central office, one Board of Directors, and one general manager who supervises the entire operation which may be conducted through several or many branch offices. A "federated" cooperative is actually a cooperative of cooperatives. The members of a federated cooperative are local cooperatives, operated by local managers appointed by and responsible to local Board of Directors. The locals are autonomous but depend in varying degree on the federation for a variety of services, i.e., advertising, handling market contracts, maintenance of standards, farm equipment, other inputs, educational programs, etc. Local, centralized, and federated cooperatives can be equally democratic. There may be members "mixed" in all three types at the same time.

The PVOs should also train persons within these structures who will be counterparts for each of their technical staff persons who cannot extend their services to all primary cooperative organizations. In short, Devres recommends that many of the management support services now provided by the PVOs need to be provided by the Regional Cooperative Organizations such as the unions currently being developed.

4. Build members' ownership equity in cooperatives

Cooperatives can play an important role in the economic growth and development of the agricultural sector of the West Bank and Gaza. This may happen, however, only if the cooperatives are successful and become a recognized factor in the farming community. The cooperatives can become successful and build this kind of reputation only if the members have the desire to do so and are willing to participate in the process. An important part of this process is the ownership of the cooperative's assets. Through the members' equity, the member also becomes a very important player in this process. Moreover, fundamental to equity formation are the principles of "service at cost and limited returns to equity capital." Cooperatives are not organized to earn profits in the manner of other firms. Instead, they are required to charge prices equal to costs or refund any surplus of revenues over costs to members in proportion to patronage. Rewarding equity capital is consistent with the principles of cooperation. No principle prohibits payment of dividends on equity capital. The principles only restrict cooperatives from paying unlimited returns to equity capital as a means of preserving the essential nature of the cooperative association. In general, a return to equity capital should be limited to a "fair" or competitive rate. To determine fairness, it should be clearly understood that capital (e.g. loans and grants from ANERA and/or CDP) does not become the claimant to the net proceeds of the organization, for if it did, then the interests of the investors (or grantors) would be paramount to those of the member-patrons. It would furthermore imply that the major responsibility for success (or failure) was the capital investment rather than the patronage of the members. Consequently, in order that member-patrons may obtain the major benefits of cooperative action (and, in turn, strengthen the economic base of the cooperative), "fair" and "limited" returns for the use of capital, equity formation, and other agents of production are essential.

Many kinds of equity building schemes are being used successfully, and according to the type of operations a cooperative has, it should plan and build the equity ownership accordingly. A good equity program will put the ownership, and also the control in the hands of active members of the cooperative. It should also have the ability to redeem the equity of a member who is deceased or is no longer able to use the facilities of the cooperative.

Devres recommends that CDP and ANERA work jointly to establish equity financing systems for each of the cooperatives served, that these systems be incorporated into the bylaws of cooperatives and used as criteria for further loans and grants. A cooperative that makes no attempt to build its own capital and equity is a cooperative which does not support its future sustainability.

5. Improve management capability of cooperatives

Progress has already been made in management support and training, however, there remain many tools not yet in use by present managers in the West Bank and Gaza. Among these are the accounting tools being used by managers in many successful cooperative organizations. We note, with approval, that CDP has begun assisting its client organizations to develop capability to prepare reliable monthly financial statements for their management and board of directors. This should be followed with the preparation of comparative analysis of operating amounts and percentages.

Devres recommends that future Regional Cooperative Organizations maintain up-to-date industry averages, showing significant trends reflected by the financial statements of primary cooperative organizations in their respective areas. These meaningful comparisons can help to point up ways to improve the effectiveness of the organization. Increased use of manager workshops and special short courses for managers and bookkeepers can also speed up this process of education and development.

6. Improve membership understanding of cooperation

Lack of membership understanding at present has been the source of much difficulty in getting good participation by the members in the development and the financial well-being of the cooperatives (including the ability to develop fair pricing policies). The presentation of the financial report at the General Assembly is a good opportunity to further educate the members. If savings is realized during the year, the explanation of the method of distribution, and the effect on the member's ownership can be of interest to each member and enhance his or her understanding of the whole picture.

Devres recommends for cooperatives that have had difficulty, and in which the PVOs have already invested money, that future planning for their needs not only involve the management and the Board of Directors but also the general members. Members need to be kept better informed of progress on new projects by the Boards with the assistance of CDP and ANERA.

Devres recommends the enhancement of "cooperative education" activities within cooperatives. That CDP and ANERA continue to provide cooperatives with educational materials and encourage cooperatives to generate funds for educating youth, community leaders, and potential members about cooperation. The duty to educate constantly is a basic feature and special obligation of cooperatives.

7. Have PVOs focus on cooperatives in which they have already invested

In our interview with Dr. Ibrahim Daqaq, of the Arab Thought Forum, he pointed out that "Even failing cooperatives need help, replacing failed institutions with new institutions is not the answer – we cannot continue to replace." He cited the emergence of non-formal cooperatives due to failure of formal cooperatives.

In some cases, formal cooperatives have failed to adhere to cooperative principles and practices for lack of good business management. Lack of planning is evident in some cooperatives, and failure to identify the overall needs of their farming community, have led to poor operating results. In some failed cooperatives, the donor organizations have already invested substantial funds. CDP and ANERA should now focus on those organizations that can be saved and coordinate their efforts to re-establish those cooperatives with sound financial and organizational plans. (Example given in Sections V and VI.)

Devres recommends that a crucial step towards targeting model or pilot cooperatives should be a workshop between the two PVOs, in which they identify those cooperatives which need attention and which can produce reliable results with PVO activities. CDP and ANERA may want to commission papers from "outsiders" like PARC, UAWC, OPOP, to advance suggestions for working with informal crops as well. PVOs should agree on the needs and criteria that must be recognized in order to turn "targeted" cooperatives into viable farmers cooperatives. Working together, CDP and ANERA should then meet with the Board of Directors of each of those cooperatives and discuss steps that need to be taken to turn them around. They should reach an understanding with each Board as to the part members must play in the project. Members should have an understanding of the plans proposed to strengthen their cooperative, and be able to discuss what the problems are and what the needs are to put the cooperative back on track.

Devres recommends that if additional financial assistance is required, for facilities or operating capital, it should be in the form of both grants and loans, rather than entirely grants. Support should also be extended with conditions which would permit the PVOs to maintain management oversight and the cooperation of the Board of Directors in directing and carrying out of the plan which is adopted.

Devres recommends that before a loan or grant is arranged, the PVOs with the cooperative management must concur on market conditions with a keen understanding of what cooperatives can or cannot do. PVOs should not waste time or money on a cooperative project when markets already perform reasonably well. If it is proven that a cooperative can potentially generate net benefits to farmers, then the PVOs should conduct a feasibility study and design a plan, showing whether sufficient membership, business volume, and equity capital can be obtained to realize these benefits.

The loan amount(s) can be focused on variable cost items for operations. The grant amounts can be aimed at fundamental infrastructure that public entities would normally provide in other countries. This action in some cases would require that the PVO help select the general manager, through which it would be able to follow the operation closely. Such selection need not be intrusive, but one of assisting the cooperative to prepare the job description and to identify skilled persons. Loan repayments, in turn, will be based upon calculated rates of return and programmed to commence once the net returns from a project are expected to turn positive, certainly after the initial start-up of the project.

8. Address the need for structural improvements

This leads to what is one of the most serious issues of the WB/Gaza Cooperative Movement, the problem of structure. The issue here is how cooperatives can best be organized to serve the needs of members (who must eventually pay for any system, efficient or inefficient). Generally any cooperative structure should be based on two fundamental considerations:

- Does it serve the needs of and allow for ultimate control by the member-owners of the cooperatives?

- Is it a viable system economically?

The objective is to devise a structure that is flexible, responsive to the needs of the members, and economically viable. Thus any decision on a facility for the needs of the members must proceed from this point: Economic realities must take precedence over parochial, territorial matters.

Ideally, a cooperative develops through the initiative of its member owners. To the extent that these member-owners control their organization they tend to be interested and involved in its well-being. If the enterprise is supported and controlled by those outside the system, the member-owners have a reduced role and, therefore, reduced interest and responsibility.

The WB/Gaza cooperative system has been promoted and assisted by several outside agencies sincerely interested in its growth and the contribution they may make to agriculture and rural community development. These agencies include several donor organizations. It may well be that the urge to promote rapid growth took precedence over the importance of member ownership and member responsibility. Although heavy inputs of financial assistance by outside agencies initially gave the cooperatives a competitive advantage, it also permitted less efficient operations than would be required to promote an un-subsidized, private enterprise.

Devres recommends that the PVOs respond to cooperative requests by conducting "basic needs assessment" analysis. Such methods are currently used by the Save the Children Federation in WB/G and have proven valuable in many countries of the world. These can form the basis for structuring the cooperative and for prioritizing the most critical needs of the cooperative.

Devres recommends that the PVOs continue conducting "management audits" and "feasibility studies" to determine the degree to which cooperatives are able to manage their own affairs and have economically feasible activities.

9. Lead cooperatives to achieve basic tenets:

   a. Operates as a business organization, following basic cooperative principles:

      o Providing goods and services to its members – at prevailing market prices;

      o Directed by a Board of Directors elected annually by the members in democratic General Assemblies, in which each member has one vote;

      o Offers all members the opportunity to vote on policies, approve financial statements, and approve plans designed by the Board of Directors;

      o Distributes its annual savings in the form of patronage dividends to its members, as patrons, in proportion to the business done with or for those patrons;

      o Can become self sustaining through the investments by its member-patrons of portions of their savings, or through per-unit retains, withheld from the proceeds of products marketed for them.

   b. Is capable of continuing as a viable cooperative organization which can impact the agricultural community, become a part of a cooperative network, which will continue to serve members when outside donor assistance is no longer available or desired.

Devres recommends that the PVOs discuss, improve upon and develop the "tenets" listed above for establishing "true" cooperatives in the "cooperative sector." CDP's Resource Center should play an active role in providing reference material for such discussions.

10. Rewrite future cooperative laws

At present, the "Formal" cooperative organizations in West Bank are operating under a Jordanian law, which is modified by Israeli law to accommodate control by Israel of registration by membership and by the organization. The "Formal" cooperative organizations in Gaza are operating under Egyptian law, which has also been modified by Israeli law to accommodate control by Israel of registration by membership and by the organization.

At present, the development of the cooperatives in the occupied territories has been restricted, due to the requirements of registration. The tax treatment of these organizations appears to be uneven, and has resulted in a number of cases in which the organizations have been reluctant to generate savings for the members for fear of tax penalties.

If the present peace talks lead to autonomy in West Bank/Gaza, and the Palestinians are allowed to legislate their own laws, one of the first tasks facing the cooperative leaders will be the drafting of legislation for a new Cooperative Code. It is important that the cooperatives be given laws which will permit a favorable "climate for doing business" in which the cooperative and its members are taxed fairly with respect to the savings of the cooperative; in which the cooperative is permitted to grow, and to expand its area of operations and its functions freely, without restrictions as to boundaries, or as to size or number of members.

Devres recommends that the cooperative leaders in WB/G begin, as soon as possible, to study favorable cooperative tax laws from other countries, and that discussion groups be formed, when permitted, to provide knowledgeable input to future cooperative legislation.

## G. Assistance Provided to Cooperatives by Other Donors

Until 1967 the only existing external aid consisted of grants from the Jordanian Cooperative Bank which belongs to the JCO. The total amount of funds of this bank amounted to 491,000 J.D. until 1967. Sixty-eight percent of these funds were directed to agricultural cooperatives with the rest going to other types of cooperatives.

From 1967 until the mid-80s JCO continued providing loans to cooperatives in addition to the Jordanian-Palestinian Joint Committee which provided the largest amount of its funds to the agricultural sector through cooperatives.

In 1975 the cooperative bank allocated 10,000 J.D. to establish a revolving fund program to the Tarqumia Olive Oil Press Cooperative for a period of ten years.

In addition to this assistance, some cooperatives were able to obtain funds from other PVOs and IVOs in the occupied territories. These institutions include:

- o The International Lutheran Union;
- o The Jordanian Housing Bank;
- o The Canadian Mennonite Society;
- o Save the Children Federation;
- o Catholic Relief Services;
- o United Nations Development Programme; and
- o United Nations Relief & Works Agency.

While the actual amount of aid is not known, the following examples will provide an illustration of the type of assistance that is being offered.

UNDP is considered the main donor to cooperatives after ANERA. It has funded some agricultural cooperatives, such as Beit Lahia in Gaza to which it contributed $300,000 for an export facility engaged in grading, wrapping, packaging, etc. Additionally, they are interested in building another marketing facility for Gaza fishing cooperatives, and they demonstrated a readiness to fund $1.5 million from a total of $2.5 million to establish a juice factory in Gaza for the Citrus Marketing Cooperative. They also intend to support a Grape Cooperative in Hebron with $750,000 to produce juice.

The UN is interested in helping eradicate brucellosis, a program in which ANERA has been involved for several years. The total fundings needs are substantial. The UN also is interested in extending the network of micro-dairies to minimize the risk of brucellosis to humans, as well as to produce cheese and pasteurized milk to provide additional income to farmers. The UN is aware also that with the continued reduction of pastures for sheep and goats, pen feeding will be necessary with a change in the breed used. Another area in which the UN shows an interest compatible with ANERA's is marketing.

Export marketing is an activity in which the EC and the French and Dutch Embassies are active. EC has a budget for $12,000,000 for West Bank/Gaza. The EC has a technical assistant who supports marketing. Another EC technical assistant checks Jordan Valley exports at the port of arrival to identify any problems and to check quality.

In the West Bank, the Sureef (or Sarif) Women's Cooperative (SWC) has the help of Ms. Ruln K'Hamash, UNDP quilt project coordinator, and Mr. Kelly Miller, UNDP quilt making trainer (formerly the Save the Children Executive Director in WB/G). Sureef members have received modern, heavy duty sewing machines and several weeks of training from UNDP. The UNDP and CDP are planning a joint marketing study for SWC.

These institutions face problems similar to those of ANERA. For example, there have been cases of mismanagement of funds, bureaucratic bottle-necks, and a lack of monitoring and evaluation. The general results were reported to us in terms of frustration and disappointment.

## H. Additional Issues Pertaining to PVOs in the Cooperative Sector

The Devres scope of work included other questions about the cooperative sector which we answer here.

### 1. Selection criteria in working with cooperatives

Lance Matteson, ANERA's Representative, has prepared a document which establishes the legal requirements for ANERA and CDP assisted cooperatives. This is found in Annex G. Our summary is as follows:

The bases of PVO selection are:

- o The cooperative should be registered;
- o The economic potential and viability of the co-op;
- o An honest and capable board of directors; and

- o Its area work should be in WB/G exclusively.

2. Changes in the criteria of selection

The criteria should be changed in the following ways:

- o It should not be required that the selected co-op be registered according to the Jordanian Cooperative Law. It might be registered as a non-profit "charitable" organization but working according to the cooperative laws.

- o To work with the co-ops whose Board of Directors (BODs) are progressive, freely-elected and professional. The BODs should be willing to conduct "needs assessments" before designing projects and applying for funds.

- o To work with women's co-ops and worker co-ops such as collective, grass-roots organizations.

- o To work with co-ops which can identify their needs and priorities themselves and not have to depend on PVOs to do it for them.

3. Project selection and design

In some cases, Palestinians have had a limited role in project selection and design. For example, at the Beit Lahia Cooperative, ANERA supported the establishment of a cold storage facility with the sum of $500,000. This facility can keep cool 480 tons of potatoes but this amount is not sufficient to cover local production. Moreover, the amount is not enough to cover the completion of the storage facility.

It seems that ANERA had a certain amount of money in its budget for a particular purpose but the funding was not adequate and despite this fact the project was undertaken anyway.

In the case of CDP, in 1988 CDP conducted an in-depth training needs assessment of approximately 200 co-ops, using the "Cooperative Classification System" which was discussed in the Leo Pastore internal evaluation of CDP in 1987. This evaluation utilized a questionnaire, computer coded, which allowed CDP to analyze information, discuss it with the individual co-ops, and design the 1989-92 training program which is presented in the annex of this report. CDP utilized this survey as their baseline study for training.

Palestinians were directly involved in this baseline study. However, the resulting training programs delivered during 1989-92 did not actually obey a well-designed program in sync with clearly defined program objectives. It was a program which evolved over the years 1989-92. It was also a program which was continually adjusted to changing possibilities and realities over the period. CDP's thinking at the time was that "the co-ops have never had any training before. CDP training programs will equalize to some extent the existing disparity of technical and managerial capabilities among the co-ops. With general technical and managerial bases in place, CDP will later design a training program designed to support and ensure the success of future, target-specific technical assistance to the co-ops."

Overall, this baseline study was the grounds on which CDP decided to move from being a purely training program to one which now delivers technical TA to the co-ops as well as loans.

## III. PVO PERFORMANCE: BASIC QUESTIONS

ACDI and ANERA are, by far, the A.I.D.-funded PVOs that provide the greatest dollar amount of assistance to Palestinian cooperatives. The program status of each PVO is summarized in semi-annual reports, the most recent of which is the July 1992 report of ACDI. These reports include updates of Project Performance Indicators (PPIs). The PPIs are the product of joint A.I.D.-PVO consultations in 1989-90 which are specified in a report by Diane S. Ponasik (USAID/ANE/DP/E) entitled "Program Performance Indicators and Monitoring Information for A.I.D.-funded PVO Programs in the West Bank and Gaza," February 20, 1990.

According to Ponasik, PPIs provide quantitative information on the progress a program is making toward achieving its overall objectives. They also serve as important tools for monitoring projects. In WB/G, PVOs worked with the Ponasik report to identify overarching program objectives and to revamp logframes and "end-of-project-status" (EOPS) indicators. Each PVO also generated a list of indicators issuing from its projects which would track progress toward meeting the objectives. Data collection and sources were also identified and a matrix was introduced on which the data could be reported in the semi-annual progress reports covering: (1) April 1-September 30 (due November 1) and October 1 to March 31 (due May 1).

Annex B is a copy of the Ponasik (1990) report which details the PPIs and Monitoring Information expected of ACDI and ANERA. Despite the considerable attention that A.I.D. put into preparing these measures, and after examining the semi-annual reports submitted at required intervals, the Devres Team was disappointed by this monitoring instrument. Both the PPIs and reports are inadequate gauges of PVO performance. This conclusion is reached after a careful review of materials provided in Jerusalem by both ANERA and ACDI/CDP. The conclusion is based upon Devres' consideration of a number of issues as explained below. But the one over-arching problem with the PPIs is their absence of clear and consistent indicators concerning "cooperative strengthening" and "institutional development." As recommended in Part II, Devres suggests that the best basis for judgment and measurement of "cooperative sector" assistance should be the degree to which cooperatives become self-sustaining organizations which improve the well-being of Palestinians (see section II.E.9). A related problem with the PPIs is the absence of uniform terminology for the indicators. That is, it is difficult to compare the PPIs for CDP and ANERA even though they may use the same term.

To assess PVO performance in general, the Devres Team reviewed semi-annual reports and sought answers to the following questions of both ACDI and ANERA staff:

- Does a logframe exist and is the proposed logframe sound?

- What were the planned versus actual purposes?

- What were the planned versus actual objectives? If the objectives are not as planned, why?

- What were the planned versus actual inputs and, if different from planned, why? How did this affect the planned outputs?

- What were the planned versus actual outputs? If outputs are not as planned, why and how has this affected planned objectives? How do outputs accomplished relate to the purpose/objectives of the grants? In what areas have project outputs exceeded the original objectives? In which areas have performance been weakest, i.e., objectives not been met?

- What general factors (e.g. design, management, sociopolitical conditions, environmental conditions) have contributed to satisfactory or unsatisfactory performance? What has been done to overcome difficulties?

(It should be noted that sections IV, V and VI of this report go into additional assessment of PVO performance than presented here.)

The answers to these questions are summarized separately for ACDI and ANERA. In reporting our findings, we begin with a general statement of the A.I.D.-funded goals and purposes with the PVOs. Next we answer the questions concerning the existence and soundness of their logframes and in the remaining part of the review we present anecdotal findings and our analysis of PVO performance.

In answering the last question about the "general factors" that have contributed to satisfactory or unsatisfactory performance, the Devres Team decided to use anecdotal examples of particular PVO projects. Thus, this report examines PVO performance according to their experiences with some cooperatives.

## A. ACDI Performance

### 1. A.I.D. funded goals and mission statementt

The Cooperative Development Project (CDP), ANE-0159-G-SS-6020-00, began in 1985. Life of project funding was $9,186,759 with a completion date of August 31, 1992. A follow-on project currently is being reviewed by A.I.D. This evaluation is timely as the results will be significant for a three-year follow-on project.

As the implementing organization for the Overseas Cooperative Development Committee (OCDC), ACDI leads the effort by the U.S. cooperative movement to assist in the development of Palestinian cooperatives serving agricultural, housing, electric power and other needs. Through provision of short and long-term technical advisors, equipment, training, and credit, ACDI seeks to improve rural cooperative infrastructure, productivity, and access to credit. The National Rural Electric Cooperative Association (NRECA), the National Cooperative Business Association (NCBA) and Volunteers in Overseas Cooperative Assistance (VOCA) have participated as active partners in CDP's technical assistance (TA) and training (T).

The overall goal of the CDP is to improve and expand cooperative services, thereby increasing the income and well-being of members of Palestinian cooperatives. A CDP Mission Statement, reported in the May 1, 1992 report states that:

> CDP is a responsive development organization whose mission is to empower institutions which show promise of operating with sound business practices. Guided by principles of cooperation, CDP focuses on the delivery of quality management and technical skills training and comprehensive human resource development.

In order to perform its Mission, CDP offers a two-pronged approach. Its main approach consists of offering a variety of technical assistance and training to a open number of eligible ("registered") cooperatives. Technical assistance (TA) includes an assessment of needs, the development of work plans, setting targets and creating an overall strategy for the cooperative. TA may lead to assistance in writing proposals for other organizations to consider. Training focuses on cooperative management, with courses in accounting, marketing, computers, staff and membership relations, and specialized training for village electric cooperatives. Some of CDP's training is diffused by its bimonthly newsletter "Cooperative Horizons" and by Technical bulletins such as the most recent example: "Plowing Machinery," "Processing of Cream, Butter and Ghee" and "Cooling Facilities for Fresh Fruits and Vegetables."

CDP's second approach focuses on building the institutional capacity of certain WB/G "targeted" cooperatives. To implement this approach, CDP focuses on a select group of cooperatives which includes the cooperatives listed in Table III.1.

In particular, CDP's strategy is to work with this nucleus of cooperatives to strengthen their management and operations and to use their favorable experiences for other WB/G cooperatives to replicate.

As of April 1992, CDP established work plans and memorandum of understanding with these "Targeted Cooperatives": Sureef Women's Cooperative, Beit Jala Olive Press Cooperative, Beit Lahia Strawberry Cooperative (Gaza) and Tulkarem Livestock Cooperative.

2. Answers to basic questions concerning ACDI/CDP performance

ACDI/CDP admits they have not been using a formal logframe. The logframe has been confusing. Hence, ACDI/CDP has recently gone through two internal evaluations with a specialist (Richard Marrash) in monitoring and evaluation systems. CDP's staff is currently setting up the mechanisms and planning tools with which to systematically set down logframes for their overall workplans and by section.

Though CDP has been reactive to A.I.D. in this area, the indications are that they are attempting to install serious management planning practices.

Instead of the logframe, CDP has a stated training plan for "future years." They have outlined the lists of courses and their frequency, including participatory training events. However, it is not evident that the plan obeys any specific determination of needs which differ from those which CDP's 1988 study divulged. The courses list looks very similar to those courses which have been delivered between 1989-92.

According to the Ponasik report (1989), CDP has three purpose-level objectives for which indicators have been established:

- Purpose One: CDP's first purpose is to strengthen WB/G co-op enterprises' capability to operate as effective and efficient businesses, providing services to member-owner.

| Objectives | Indicators |
|---|---|
| a. Cooperative revenue covers costs of operation | % of total operating costs covered by revenue |
| b. Self sufficiency of each co-op income-generating activity (model co-ops only) | % of each service's total costs covered by revenue generated (model co-ops) |

| | |
|---|---|
| c. Increased use of co-op services by community (model co-ops only) | Number of new members (disaggregated by gender) |

- o Purpose Two: To improve co-op ability to market agricultural products

| Objectives | Indicators |
|---|---|
| a. Increase in agricultural products sold by co-ops in domestic market (including dairy) | Value and Metric tons sold domestically by model and core co-ops (including livestock and dairy) |
| b. Increase in agricultural products exported by co-ops | Value and tonnage exported by model and core co-ops (and market value) |

- o Purpose Three: To improve access to credit and improve co-op-based credit programs

| Objectives | Indicators |
|---|---|
| a. Increased access of products sold by co-ops in domestic market (including dairy) | No. of loans received by core and model co-ops. Value of loans received by model and core co-ops. % of loans delinquent by 3 months or more (principal past due/total principal outstanding) |

Ponasik's report also lists several Output Level Indicators for ACDI/CDP which cover the following:

- o Training: Number and types of courses and impacts;
- o Credit and Grant Program: Loans and grants given;

## Table III-1: Cooperatives Targeted by CDP

| Name | Cooperative/Union Type | Approx. Membership* | PVO Support** |
|---|---|---|---|
| | **WEST BANK** | | |
| 1. Beit Jala* | Olive Press/Soap | 785 | TA, Tr, MA, WP |
| 2. Jenin* | Marketing (Vegetables) | 567 | TA, Tr, MA,MP-Marketing |
| 3. Soureef (Women)* | Handicrafts | 353 | Tr, MA, WP, TOT |
| 4. Tulkarem* | Livestock | 45 | Tr, MIS, MA, WP |
| 5. Ramallah Union*(20 co-ops) | Olive Press | 6,800 | Tr, MA, WP |
| 6. Hebron Union*(6 co-ops) | Electrical System | 2,727 | TA-Mgt, MA, WP, Tr-Mechanics, E |
| | **GAZA STRIP** | | |
| 7. Beit Lahia* | Marketing | 448 | TA-Int'l mkts. MA, WP, G Tr-computer |
| 8. Gaza* | Livestock | 160 | (New) |
| 9. Khan Younis* | Agriculture | 456 | (New), MA |

* Membership numbers provided by CDP and/or ANERA
** PVO support indicates partial listing of A.I.D. funded activities which were surveyed

### Key:

B=Bulldozer
Bldg=Building
C=Computer
Cr=Credit Program
E=Electric generator
G=Greenhouse
MA=Management Audit
MD=Micro-dairy
MISW=Management Information System
O=Olive press
S=Soap manufacturing equipment
TA=Technical Assistance
TOT=Training of Trainers
Tr=Training
WP=Work Plan

- o Village Electricity: Level of service and sales of electricity; and

- o Institutional Training: Number trained in accounting, financial planning, cooperative principles, etc.

The Devres Team found it difficult to relate CDP's data for "Output Level Indicators" and "Inputs" to the purpose level objectives for which indicators have been established. A related difficulty is that CDP's technical staff have confused "inputs" with "outputs" and vice-versa. We also found that some individual logical frameworks are not dated and consequently it is difficult to judge the rate at which CDP responds to its plans.

The main shortcoming with the above PPIs are that they are quantitative measures without a sense of quality of input and output. Some of the indicators do not relate to the purposes of ACDI/CDP, nor to the Mission Statement. Nonetheless, we have identified some other problems in CDP's performance in WB/G.

3. Anecdotal examples of CDP performance

CDP's work with nine "targeted cooperatives" has been a questionable success. There apear to be more problems than replicable benefits for diffusion to other cooperatives of WB/G. [See Table I.2 for a list of the cooperatives.] To understand this situation, we review these examples:

a. Agricultural Marketing Information System (AMIS)

A part of CDP's focused approach consists of installing a Market Information System in the Agricultural Cooperative Union of Nablus which would be linked with other "model" cooperatives to provide daily information on prices, supplies and demands at select markets, in order to help farmers to get the best price for their produce.

While conceptually nice and apparently needed, the project is off to a slow start. Only a handful of cooperatives are linked to the system. It is costing CDP at this time and there do not appear to be plans to assure the sustainability of this project when CDP support ends. This project needs attention in three areas: (1) a determination of the current and potential users of the system, (2) an estimate of the revenue and resources needed to maintain the system and (3) an analysis of the effectiveness of the system, e.g. do participants save money and get better prices in the market place?

Devres recommends that CDP conduct a follow-up study with current and potential users to see what AMIS offers cooperative members and to determine if it has helped improve marketing and participants' income.

b. Union of Electric Cooperatives

Another part of CDPs focused approach involves the Union of Village Electric Cooperatives in Hebron wherein the organization has agreed to act as the contact for CDP's Village Electric Cooperative Loan Program. Tarqumia Village Electric Cooperative was selected as the model cooperative to concentrate initial effort. Consequently, the first application for a loan under this program was received by CDP and the Union from Tarqumia Village Electric Cooperative. It was approved by CDP's Loan Committee in early 1991 and authorized by CIVAD in the amount of U.S. $118,920. This loan had a grant component in the amount of U.S. $57,694.

The Electric Union has provided many services. It has purchased equipment and fuel for generators at reduced rates (although the Union learned from quality tests that the Israeli's sold them inferior fuel) and has laid plans with 5 operating cooperatives to upgrade electrical services.

CDP's revolving loan funds for electrical cooperatives totals $435,000. Hebron's cash in its revolving loan fund has increased by $4,549 from repayments. The funds available for new loans and grants as of July 1992 were $367,454.

The Devres Team was very impressed by the professional abilities and capabilities of the Union's staff which includes two engineers employed by CDP. There appears to be reserved potential with this activity. A lot will depend upon its ability to address several concerns.

A key concern we have is with the sustainability of this project. This is not Devres' concern alone. In January 1992, Phil Brown and Bard Jackson of CDP sent a memo (through Jack Edmondson, CDP Director) to Suzanne Olds (USAID Representative in Jerusalem) which highlighted the following issues:

1. "The Union no longer has the membership foundation to be a viable self-supporting organization, nor is it likely that this will develop in the near future,"

2. Having placed the revolving fund in the Union has complicated the role of the staff greatly [i.e. they must wear many hats], and

3. The Program's "benefits are often unappreciated by the Palestinians due to a basic difference between CDP objectives and the cooperatives' objectives.

CDP pays for two engineers to work with the Union, one serves as the manager. CDP also pays for rented space, automobile and computer equipment. How will this level of support continue after CDP's funds end? Will the Union be in a position to maintain this set-up with its own funds?

The Hebron's revolving credit program is also a concern. What will happen with the loans if the Union ceases to exist? Will the funds return to CDP? Will the loans be written off? Will the member cooperatives keep these funds?

Devres recommends that CDP and the Hebron Union begin plans for developing the self-sufficiency of the Union. There should be a study to estimate the actual costs and returns from the Union's services as well as an estimate of the membership needed to support the Union, i.e., how many members and hook-ups and how much electricity should be sold to achieve financial break-even? Furthermore, since the Israeli's are able to sell electricity at very competitive rates, what is the Union's potential market share of electricity?

Devres recommends that CDP move ahead with its plans to employ an Electric Management Advisor and a Technical Advisor to assist the Union and its affiliates and to address the concern with "sustainability."

Devres recommends that the CDP and Union address the questions raised about the revolving loan program; especially the one about the loans which are not repaid and the future of the credit program if the Union shuts down. CDP should make it clear that loan program is not a program of grants for village cooperatives.

c. Beit Lahia Strawberry Cooperative

CDP devoted considerable technical assistance, training and money to the Beit Lahia Strawberry Cooperative. This cooperative produced and exported vegetables and strawberries via an Israeli firm and was producing well with green houses and a nursery. CDP's TA consisted of the preparation of a feasibility study to determine if strawberries and tomatoes could be marketed in Europe (via air freight) with a profitable return and advice in the export process. Beit Lahia representatives went to Europe to study the import process and TA went to Beit Lahia to develop a management audit, workplan and budget process. CDP training provided Beit Lahia members with information on computers, marketing processed fresh vegetables and accounting software. Moreover CDP gave a grant to Beit Lahia in the amount of U.S. $18,750 for the purpose of providing partial guaranty of a loan received by the cooperative from the Arab Development and Credit Company (ADCC). The ADCC loan was used to finance Beit Lahia's exports to London. [It should be noted that a similar package of inputs went from CDP to the Jericho Marketing Cooperative so that it could market exports of aubergine and peppers in Europe.]

Although all the pieces for an effective marketing scheme appeared to be in place, the project still failed to develop a good export program. In essence, the Beit Lahia cooperative lost $33,000 worth of exports. Thanks to CDP's guarantee of close to $20,000 the cooperatives' members didn't lose everything, only about $14,000.

Devres realizes the inherent risks of agricultural marketing in Gaza. Many things can go wrong with new ventures into international markets. But Devres is concerned about two dimensions of the project. One, why did Beit Lahia venture alone after having previous export success with the Israeli firm Agroexco? Two, what has been learned from this project? Nearly a year has gone by and no formal report or study has been prepared by the cooperative nor CDP. Devres believes there are valuable lessons, if anything, in this fiasco.

Devres recommends that CDP conduct or contract a follow-up study of the Beit Lahia export project. That the study retrace the steps taken from the first idea to export alone to the ultimate outcome at the end of the market period. The study should be undertaken to identify lessons and needs for further marketing. This study is particularly urgent as Beit Lahia opens its doors to its packing shed and cold storage facilities which portend more marketing potential. The study should also form part of CDP's Resource Center and should be provided as an example of what can go wrong in international markets despite all the advance planning and preparation.

d. Beit Jala Olive Press Cooperative

After lengthy negotiations, and a feasibility study, CDP provided TA from a German expert, training and a financial package of about U.S. $35,000 to the Beit Jala Olive Press Cooperative in order to help the cooperative to produce soap. (All the details are contained in Annex H). Seven years before ANERA helped Beit Jala purchase soap making and processing equipment with the ability to use olive oil residues. The plant sat idle and was not used until CDP revived the cooperative's use of its equipment. Devres Team saw first hand nice looking soap produced at the factory.

Devres is concerned, however, that the cooperative does not have a marketing plan. Also, the cooperative may even be making the wrong kind of soap because its soap requires imported components like wax and perfumes. There isn't even a label or a wrapping machine for the soap.

Devres recommends that CDP and the Beit Jala cooperative prepare another "market," and "feasibility" study to market Beit Jala soap. Devres' idea is to have a study that looks at the competition, both in soap production and in terms of soap sold in stores, and to determine if there is a suitable market niche for Beit Jala's product. The study should include a "consumer preference" test by surveying consumers and checking which soap they prefer. Such a test could be done by distributing samples and asking people to try the soap and compare it to their regular brand. And the study should include a basic analysis of costs and returns, factoring in replacement costs for capital equipment.

4. Summation of ACDI/CDP performance

CDP's performance is difficult to gauge from a strict analysis of its bi-annual reports and PPIs. There is limited use of logical frameworks and the apparent reason has to do with the confusing language of PPIs. It is difficult to discern inputs, outputs and project purposes let alone relate these measures to "cooperative strengthening," "institutional development" and "human resource development." CDP's work with cooperatives has been well received and mostly satisfactory. CDP's strengths pertain to its commitment to develop feasibility studies, work plans and strategies for cooperatives to use the equipment supplied by ANERA. But CDP has also had difficulty with some cooperatives which have lost money. The different cases above highlight this point.

CDP also has a large variety of cooperatives to attend to and the variety spreads the talents of CDP staff into many different directions. For example, CDP's staff addresses problems with electrical cooperatives, dairy cooperatives, olive press cooperatives, etc.

Devres recommends that CDP concentrate its attention on "cooperative strengthening" and to teaching and disseminating information on cooperative principles. This focus is applicable to the wide variety of cooperatives, even though it may not deal with specific issues of agricultural machinery, computers, etc.

Devres recommends that CDP also focus in terms of its particular strengths in its human resources. That is, Devres recommends that CDP concentrate its problem solving in those areas for which it has the best talent and back-up support from ACDI for technical assistance (TA). It may be that the best TA is in electrical cooperatives and/or marketing. For now, Devres would prefer to leave that decision to ACDI/CDP.

## B. ANERA Performance

### 1. A.I.D.-funded goals and mission statement

ANERA was one of the first PVOs to work in WB/G under A.I.D. funding. ANERA operations in WB/G began in 1975. ANERA has received a number of grants from A.I.D. totaling about $3 million. ANERA refers to its A.I.D.-funding as follows:

| | | |
|---|---|---|
| A.I.D. I projects | 1975 to 1978 | $3,307,000 |
| A.I.D. II projects | 1979 | $2,099,550 |
| A.I.D. III projects | 1980 | $11,389,815 |
| A.I.D. IV projects | 1989 | $14,293,000 |

ANERA currently is implementing the Development Assistance Grant IV Project under Grant No. ANE-0159-G-SS-9048-00. The project began in FY 89, the project completion date is September 29, 1994, and the life of project funding is $14,293,000. As of July 1, 1992, approximately $8 million of A.I.D IV funds had not been spent. Development Assistance IV activities related to cooperatives focus on agriculture (marketing, processing, irrigation, machinery, land reclamation, disease and pest control, livestock, and dairy) and credit with some assistance to handicraft and health cooperatives. ANERA interventions are oriented towards capital projects (equipment and infrastructure).

More should be said of ANERA's previous A.I.D. grant referred to as Development Assistance III (NEB-0162-A-00-4012-00). Beginning August 28, 1980 and ending August 28, 1990, this grant set some of the groundwork for A.I.D. IV. The purpose of A.I.D. III was more general: to improve and expand selected agricultural, economic and educational institutions and organizations which provide services to West Bank and Gaza residents. The main reason for referring to A.I.D. III is that some of the "white elephants" visited by Devres had their start during this earlier period. And as indicated below, some of ANERA's problems in its performance and image can be attributed to its activities under A.I.D. III.

Table III-2 provides a list of A.I.D. III and A.I.D. IV projects divided by sub-sectors. The asterisks (*) before each cooperative identify beneficiaries of A.I.D. III. ANERA's mission is to strengthen Palestinian institutions and organizations such as cooperatives, municipal, charitable, health and educational institutions. To carry out this mission ANERA provides financial and technical support to these institutions.

ANERA's method of operation is spelled-out in its ANERA FIELD OFFICE MANUAL, a 35 page report dated September 5, 1991. According to the manual, ANERA's mission is as follows:

> ANERA's role as a private voluntary organization is to facilitate the development process... Here the priority is given to projects generating "value-added." And hence the strict limitation to institution-based projects and exclusion of individual grantees. We also assist with urgent social services projects in such areas as health, revenue generation, education, training, rehabilitation, and women-in-development. ANERA's operational purpose is to facilitate realistic, solid development projects proposed by Palestinians and based on Palestinian institutions.

ANERA controls its disbursements by using a Palestinian independent public accountant to verify that the subgrantee has support for these disbursements. A problem identified by the Price Waterhouse Audit (May 29, 1992) points out that subgrantees are not afforded the same value-added-tax (VAT) exemptions that ANERA has and, as a result, VAT paid by the subgrantees is lost. Moreover, in some cases, ANERA has also paid value-added taxes and customs duties of subgrantees. The issue is complex and affects every A.I.D. supported organization operating in the West Bank and Gaza. A.I.D. normally would have worked out refund arrangements with the host country and included them within a bilateral agreement. But Israeli policies toward work in West Bank and Gaza slow all direct purchases with delays. Thus, the payments by ANERA may need exception under the terms of the A.I.D. agreement. Another problem we identified was the purchase of non-American made products. Small tractors (40-50 hp) and olive presses are mostly Italian and electrical generators are mostly Swedish and English, for example. But Price Waterhouse's report did not challenge these purchases. ANERA says that the non-American made items were purchased before its phase IV project.

# Table III-2: ANERA List of Cooperative Projects Divided by Sub-Sectors
## Primarily AID IV and AID III (July 1, 1992)

| No./Name of Cooperative | Area | Type of Project | Contribution A.I.D./ANERA |
|---|---|---|---|
| | **I. AGRICULTURE** | | |
| **A. Ag-Production** | | | |
| *1. Ramallah Poultry Coop. I | Ramallah | Feed Plant (Pellitizer) | $200,000 |
| *2. Turkumia Olive Press Coop. I | Hebron | Full Automatic Olive Press | 150,000 |
| *3. Hebron Marketing Coop. I | Hebron | Phylloxera Pest-Control Project and Nursery | 400,000 |
| | | | $750,000 |
| **B. Ag-Machinery** | | | |
| **1. Tractor and Implements** | | | |
| **WEST BANK** | | | |
| 1. Auja Ag. Coop. I | Jericho | 1 Tractor & implements | $ 60,000 |
| 2. Beit-Illu Ag. Coop. | Ramallah | 1 Tractor & implements | 35,000 |
| 3. Deir Ghassaneh Coop. | Ramallah | 1 Tractor & implements | 35,000 |
| 4. Dura Livestock Coop. | Hebron | 1 Tractor & implements | 35,000 |
| 5. Kufr El Labad Coop. | Tulkarem | 1 Tractor & implements | 35,000 |
| 6. Kufr Nihmeh Ag. Coop. | Ramallah | 1 Tractor & implements | 35,000 |
| 7. Majd Il Ba'a Ag. Coop. | Hebron | 1 Tractor & implements | 35,000 |
| 8. Saida Allar Ag. Coop. | Tulkarem | 1 Tractor & implements | 35,000 |
| 9. Salam Ag. Coop. | Hebron | 1 Tractor & implements | 32,000 |
| 10. Salfit Ag. Coop. | Tulkarem | 2 Tractors & implements | 70,000 |
| 11. Sammu' Ag. Coop. | Hebron | 1 Tractor & implements | 35,000 |
| 12. Sanur Ag. Coop. | Jenin | 1 Tractor & implements | 35,000 |
| 13. Taffuh Ag. Coop. | Hebron | 1 Tractor & implements | 35,000 |
| 14. Toubas Ag. Coop. | Jenin | 1 Tractor & implements | 35,000 |
| 15. Zababdeh Ag. Coop. | Jenin | 1 Tractor & implements | 35,000 |
| 16. Azzun Land Reclamation Coop. | Qalqilya | 4 Tractors & implements | 175,000 |
| *17. Hebron Marketing Coop. | Hebron | 1 Tractor & implements | 35,000 |
| *18. Tulkarem Marketing Coop. | Tulkarem | 3 Tractors & implements | 125,000 |
| *19. Silwad Ag. Coop. | Ramallah | 1 Tractor & implements | 35,000 |
| *20. El-Jeep Ag. Coop. | Ramallah | 1 Tractor & implements | 35,000 |
| | | | $987,000 |
| **GAZA** | | | |
| 21. El Ahlieh Ag. Coop. | Rafah | 1 Tractor & implements | $ 25,000 |
| 22. Beit-Hanoun Ag. Coop. | Beit-Hanoun | 1 Tractor & implements | 25,000 |
| 23. El-Najah Almond Coop. | Rafah | 1 Tractor & implements | 25,000 |
| | | | $ 75,000 |
| **2. Heavy Ag. Machinery/Bulldozers For Land Reclamation** | | | |
| *1. Tarkumia Olive Press Coop. | Hebron | 2 Bulldozers | $ 320,000 |
| *2. Beit Jala Olive Press Coop. | Bethlehem | 1 Bulldozer | 180,000 |
| *3. Ramallah Marketing Coop. I | Ramallah | 1 Bulldozer | 180,000 |
| *4. Nablus Marketing Coop. | Nablus | 1 Bulldozer | 120,000 |
| *5. Jenin Marketing Coop. | Jenin | 2 Heavy Tractors | 150,000 |
| *6. Jericho Marketing Coop. | Jericho | 1 Heavy Tractor | 60,000 |
| *7. Khan Younis Ag. Coop. | Gaza | 1 Front Loader | 125,000 |
| | | | $1,135,000 |
| **C. Agricultural Credit (Loan Revolving Funds)** | | | |
| 1. Ramallah Marketing I | Ramallah | Credit | $ 250,000 |
| 2. Hebron Marketing | Hebron | Credit | 150,000 |
| 3. Nablus (new) | Nablus | Credit | 100,000 |
| 4. Qalqilia Marketing (new) | Qalqilia | Credit | 100,000 |
| 5. Beit Lahia Coop. I | Gaza | Credit | 250,000 |
| 6. Khan Younis Coop. I | Gaza | Credit | 150,000 |
| | | | $1,000,000 |
| **D. Livestock and Dairy Sector** | | | |
| **1. Micro-Dairies** | | | |
| *1. Nassaria Livestock Coop. | Nablus I | Micro Dairy Plant | $100,000 |
| *2. Jenin Livestock Coop. | Jenin | Micro Dairy Plant | 100,000 |
| *3. Tulkarem Livestock Coop. | Tulkarem I | Micro Dairy Plant | 80,000 |
| *4. Beit Nuba Livestock Coop. | Ramallah I | Micro Dairy Plant | 150,000 |
| *5. S. Sharqia Livestock | Jerusalem | Micro Dairy Plant | 100,000 |
| | | | $530,000 |

| | | | | |
|---|---|---|---|---|
| | **2. Veterinary Services** | | | |
| | *1. Jericho Livestock Coop. I | Jericho | Mobile Clinic | $ 60,000 |
| | 2. Al Nahda Livestock Coop. | Jerusalem | Static Clinic | 50,000 |
| | 3. Gaza Livestock Coop. I | Gaza | Mobile Clinic | 27,000 |
| | | | | $137,000 |
| **E.** | **Marketing** | | | |
| | *1. Jericho Marketing I | Jericho | Packing and Grading | $150,000 |
| | 2. Ag. Coop Union I | Nablus | Ag. Info. Center | 70,000 |
| | 3. Beit Lahia Coop. I | Gaza | Cold Storage | 500,000 |
| | | | | $720,000 |
| **F.** | **Irrigation** | | | |
| | *1. Nazaleh Sh. Ag. Coop. I | Tulkarem | Reservoir | $180,000 |
| | 2. Zbeidat/Jericho Coop. | Jericho | Reservoir | 70,000 |
| | 3. Marj Na'jeh/Jericho Coop. | Jericho | Pumps | 25,000 |
| | 4. Bardalla/Jericho Coop. I | Jericho | Reservoir | 65,000 |
| | 5. Ras El Fara' Nablus Mktng I | Nablus | Rehabilitation | 10,000 |
| | | | | $350,000 |
| | | **II. Women's Productive Cooperatives** | | |
| *1. | Qalandia Women Coop.(Non-A.I.D) | Ramallah | Clothing Factory | $10,000 |
| | | | | $10,000 |
| | | **III. Health Cooperatives** | | |
| 1. | Beit Sahour Health Coop. | Bethlehem | Bethlehem Clinic I | $35,000 |
| | | | | $35,000 |

* AID III
I = "Innovative," unique project, developed by ANERA. Considered by ANERA to be relatively more successful activity.

The ANERA staff visits the sites where projects have been requested and obtains information to develop proposals and design implementation plans. During the implementation phase, ANERA helps with the institutions operations. ANERA traditionally plans for a third year involvement with each project after operation starts. During the three year phase, institutions submit reports to ANERA and ANERA makes informal visits and/or phone contacts.

During the period September 30, 1991 through February 24, 1992, ANERA's actual use of funds (versus planned) were distributed as follows:

| Activity | AID IV Planned ($000) | Actual ($000) | ANERA Activities Remaining Balance ($000) |
|---|---|---|---|
| Rural Agriculture | 1,760 | 726 | 1,034 |
| Rural Credit | 1,477 | 542 | 935 |
| Urban Economic | 2,166 | 1,117 | 1,049 |
| Social | 1,927 | 1,926 | 1 |
| TA/Training | 187 | 133 | 54 |
| Total | 7,517 | 4,444 | 3,073 |

## 2. Answers to Questions Concerning ANERA Performance

ANERA's grant objectives are categorized into three types of development activities:

- o Cooperatives: institution building and strengthen farmers cooperatives;

- o Municipalities: institution building, human resource development, and generation of economic benefits; and

- o Non-Government Organizations: institution building and human resource development. The "inputs" of most of ANERA's projects consist of the introduction of "new technology packages." Inputs such as bulldozers, farm tractors, farm equipment, micro-dairies, mobile veterinarian clinic, slaughterhouses, revolving loan credit, marketing facilities, and a market new network based on computers and faxes, are the technologies being used to achieve these purposes:

  -- Improve farmers' access to credit;

  -- Improve farmers' access to production inputs;

  -- Upgrade the agricultural marketing system;

  -- Expand land area under cultivation; and

  -- Assist members in adoption of new technological packages.

ANERA's PPIs, designed by Ponasik, are specified as follows for the "cooperative sector":

- o Agriculture Purpose: To assist WB/G agricultural cooperatives to deliver effective and efficient technical services to their rural communities.

| Objectives | Indicators |
|---|---|
| To lower unit costs of production of beneficiaries through use of appropriate technologies | unit production costs lowered by ____% (specific key crops) production costs lowered by $_____ (on key crops) no. of farmers with reduced production costs |
| To increase farmer | no. of farmers exporting through |

| | |
|---|---|
| income thru export marketing of agricultural crops | ANERA supported co-ops net increase in crop unit prices due to exports (difference between local price and co-op price) of specific key crops |
| To reduce income loss caused by phylloxera | dunams planted with phylloxera resistant stockgross income saved/dunam<br><br>total gross income saved total beneficiaries (farm families) |
| To increase local pasteurized milk production | volume of pasteurized milk per year value of pasteurized milk ($) |
| To strengthen capabilities of rural cooperatives and banks to provide well managed lending services to farmers and other business. | total annual volume of loans made $_____ repayment rate (weighted average). |

o <u>Institution Building</u>: To strengthen WB/G coop enterprises' capability to operate as effective and efficient businesses, providing services to member-owners.

| <u>Objectives</u> | <u>Indicators</u> |
|---|---|
| a) Cooperative revenue covers costs of operations | % of total operating costs covered by revenue |
| b) Self sufficiency of each co-op income-generating activity (model co-ops only) | % of each service's total costs covered by revenue generated (model co-ops) |
| c) Increased use of co-op services by community (model co-ops only) | Number of new members (disaggregated by gender) using each service (model |

- <u>Marketing and Income Development</u>: To improve co-op ability to market agricultural products.

| | |
|---|---|
| a) Increase in agricultural products sold by co-ops in domestic market (including livestock and dairy) | Value and Metric tons sold domestically by model and core co-ops (including livestock and dairy) |
| b) Increase in agricultural products exported by co-ops | Value and tonnage exported by model and core co-ops (and market value) |

ANERA's "cooperative projects" are grouped into the following:

- water and irrigation;
- agriculture and marketing;
- agriculture credit;
- olive oil;
- livestock;
- farm mechanization; and
- phylloxera (grape improvement).

ANERA says they have a logframe, but it is more of a workplan than a logframe. What they do have, however, is a "logframe-like" reporting form (see ANERA's summary report on A.I.D. IV-END March 1992). This report states goals, purposes, inputs, and outputs, impacted beneficiaries, as well as status of expenditures. However, this form is confusing. It misuses words and shows confusion of what a project is, what the difference between an input and an activity are. This kind of form and expression of goals, purposes, etc. make it difficult to know if the ANERA purposes, objectives, inputs and outputs have been altered in any way over the period of 1/89 to present and if they are on target for the remainder of the project time.

For an illustrative example, the Devres Team examined Project 23 with ANERA staff as reported in its "Summary Report on A.I.D. IV: Sub-Projects," (dated June 15, 1992). In the report we find the following:

- o <u>Project 23:</u> Jericho Agricultural Marketing Cooperative;
- o <u>Goal:</u> "Create a modern marketing system";
- o <u>Purpose:</u> "Farmer income increased, using marketing sheds and equipments. Institutional development";
- o <u>Inputs:</u> "Funds, technical assistance for building export marketing infrastructure, knowledge & contracts in the cooperative";
- o <u>Outputs:</u> "Completed packing shed"; and
- o <u>A.I.D. Funds</u> - Expended:Unexpended: $106,000:$179,000.

In the total project sense of the word, the first question is, if the completed packing shed will constitute the creation of a modern marketing SYSTEM?

The verifiable indicators for this goal, as they appear in the individual Logical Framework state: "volume of sorted and graded produce sold in domestic and export markets in EEC and Jordan." This at least shows an attempt at defining "system" and that there is the assumption that if produce is being sold at a certain level of volume, there must be a "system" in place.

A second question revolves around "institutional development." It is unclear what a packing shed has to do with institutional development. If there are concrete activities in this Project #23 which are designed to make the agricultural co-op capable of running the packing shed and all related activities in an independent and self-sustainable manner, according to sound co-op and economically viable principles, then those activities should appear someplace and should clearly show what part of the $285,000 A.I.D. funds will go for "institutional development."

Again, the individual Logistical Framework helps understand how "institutionalization" will work. The EOPS (output in ANERA terms) will be a functioning shed, fully equipped and fully connected up to municipal services of water, electricity, telephone and sewage and endowed with trained managers and 6 trained personnel to operate it.

The ANERA June 15th report shows that, while $285,000 is dedicated to TA and training, there is only money dedicated to technical assistance and nothing for training. Thus, the report and the way in which the budgetary items are listed understate the completeness of the project planners.

The same summary report states that technical assistance is in "building export marketing infrastructure, knowledge, and contacts in the cooperative." According to ANERA's use of the word "infrastructure"can have two different meanings: one, "institutional structures and processes" and two, a "building, a structure, or even machinery." Further confusion arises when adding the "building of knowledge and contacts in the cooperative." It is not clear what this means.

In this particular case, the individual Logical Framework does not throw any light on these questions.

Other examples like this can be found throughout the report ANERA produced. While the individual activity logframes are well done, they need to include flow charts and it would be preferable to describe activities, deliverables and EOPS rather than inputs and outputs. The narrative reports developed by ANERA also need to clarify for the reader the gaps of information in the summary logframes.

An understandable part of the problem is the wide-range of activities covered by ANERA. The A.I.D./ANERA Grant IV is multipurpose including the support to rural and urban economic development projects and the establishment of a new revolving loan fund to provide production credit for agricultural cooperative members as well as to support cooperative, municipal and indigenous NGO development. If ANERA had a more scaled down set of purposes and goal expectations, then the corresponding indicators could be more uniformly reported.

3. Anecdotal Examples of ANERA Performance

The Devres Team found a considerable set of inputs and outputs developed through ANERA grants. For the most part, Devres also concurs with teh achievements listed in ANNEX I of this report. The majority are positive contributors to the goals of cooperative strengthening, institution building and human resource development. Indeed, the list on Table III-2 is also impressive and indicative of considerable effort by ANERA staff to provide development assistance to a wide range of cooperatives and rural communities. Particularly impressive to Devres was the support ANERA gave to these cooperatives we visited: Ramallah Poultry, Hebron Marketing, Jericho Marketing, Beit Lahia, and Gaza Livestock. (Summaries of achievements are provided in Table III-3.)

**Table III-3: ANERA's Positive Accomplishments***

| Cooperative Name (Type) | Satisfactory Achievements |
|---|---|
| 1. Ramallah Poultry Co-op (Slaughterhouse and Feed Mill) | Impressive Board of Directors, Economically successful with feed mill and poultry operations, serving many poultry producers |
| 2. Hebron Marketing (Nursery and Grape Marketing) | Improving grape production and generating surpluses. Facing plant disease with semi-effective strategy of phylloxera pest control. |
| 3. Jericho Marketing (Marketing Fruits and Vegetables) | Effective use of equipment for land reclamation. |
| 4. Beit Lahia Agriculture (Marketing Fruits and Vegetables) | Effective use of equipment for land reclamation, revolving credit system in place with loans being repaid at good rate, Impressive Board and manager who have extended work with green-houses through farmers loans. |
| 5. Gaza Livestock Mobile Clinic (Livestock Production) | Veterinary mobile clinic servicing wide range of problems with both large and small animals. Effective campaign underway to reduce brucellosis. Experienced ANERA veterinarians guiding project. |

*This list is partial and includes only those surveyed by Devres.

With regard to the Gaza Livestock Mobile clinic we found that ANERA's technical consultant and veterinaries are performing well, from the technical point of view. They are making their rounds. They are tracking their level of effort. They are keeping assiduous records on all their work and the results. However, in the March and May summary reports the activity is poorly reported, it is not connected in any way to the brucellosis eradication study done earlier, there is no way for the reader to realize that this is one part of several inter-linked activities for improving on public and animal health in West Bank and Gaza, those interconnected activities being in slaughterhouses and micro dairies, and so forth. Such poor reporting understates ANERA's performance.

Having found several bright spots in ANERA's extensive work with cooperatives, we must also add that their record of activities includes a few "white elephants" which stand out very clearly as big problems. Some of the problems are also found within cooperatives that impressed us. There is no contradiction here, merely an assetion that ANERA sometimes had both good and poor activities within the same cooperative. Here we discuss three we visited.

a. Beit Jala Olive Oil Press Cooperative

At the Olive Oil Press at Beit Jala, a Work Plan was approved for Soap Factory equipment (See Annex H). The equipment was installed, but has been idle for over six years, due to a change of manager two years after the operation began. Total cost of the factory was $420,000. ANERA/A.I.D.'s contribution was $120,000, and the Jordanian-Palestinian Joint Committee contributed the remaining amount.

The soap factory operated partially for two years after its completion in the mid-eighties. In 1985, the operation was stopped because the manager who was trained and had the knowledge of the soap cooking formula, opened his own business and abandoned the operation of the factory. Since 1985, ANERA has invested large amounts of time and effort to reactivate the factory through more than 50 meetings with cooperative.

Although ANERA has put much time, money, and effort into the problem, it has been unable to move Beit Jala to a solution. Although the manager's change caused some delay in meeting with, and addressing some alternatives to the board of directors, much of the fault of the long delay must rest with poor anticipation of possible problems at the outset, and failure to have a well-conceived implementation plan in place before the equipment was installed. Devres believes that an effective system of project monitoring would have led to earlier corrections and/or termination of the project.

A similar problem developed at the same cooperative with respect to a bulldozer which has not been utilized by the cooperative. The previous board of Beit Jala Olive Press Cooperative acquired the bulldozer with $160,000 of assistance from ANERA in 1989. All indications were of a high demand in the operation of a fully-automatic olive press, the cooperative's board was slow in implementing the very land-reclamation project they had requested. Operations started in 1990, but the number of hours of actual working was insufficient to make it a profitable operation.

At the interview with Devres, the Board stated that the mistake was that of ANERA, and that the bulldozer was too large to be efficient for their operation. ANERA had, in fact, met repeatedly (4-5 times) with two different boards to activate the project, overcoming some difficulties but not succeeding in resolving the problem. After many attempts, an official letter from ANERA was sent to the cooperative in July 1992 asking for the return of the bulldozer to ANERA, and its transfer to the Ramallah Agricultural Marketing Cooperative in accordance with the grant agreement.

The Beit Jala soap project can be summed up as a "white elephant." At several other cooperatives visited by Devres, the persons we interviewed would say things like: Why don't we get support like Beit Jala, we're better organized as a cooperative and we don't get from ANERA what Beit Jala did! Why does Beit Jala have a soap factory it never uses? We can certainly put it to good use here. These observations point out how one failure can tarnish the ANERA image. But the complaints also demonstrate that ANERA should have made more effective responses for such difficulties. Its plans could include a clause in future agreements with cooperatives stating that "the cooperative is responsible to ANERA for the outcome of its projects with ANERA and in the event the cooperative fails to abide by the agreement, ANERA has the irrevocable right to transfer the goods provided in the ANERA award to the cooperative." We should note that ANERA has a similar statement, but its management has taken to much time to serve notice on cooperatives which are non-compliant.

b. Micro-Dairies at Tulkarem and Al-Nassaria

At two sites visited by Devres, the micro dairy equipment which was financed by ANERA was not being utilized efficiently. The Tulkarem cooperatives' manager complained that the unit was smaller than they thought they had ordered, and at Al-Nassarin a cooperative board member complained that the culture room was not properly insulated and they could not use that room for libanan and yoghurt. ANERA has documented that the equipment is proper according to feasibility studies made and discussed with the board of directors. That the problem rests with the cooperatives who failed to be satisfied with being part of a pilot project "system" for micro-dairies.

This problem was discussed at length at a UN Food and Agriculture conference in Rome in November, 1991. An FAO article supplied by Dr. W. Tarazi of ANERA notes that "A solution to the problem could become easier through further development of a network of micro-dairy plants (capacity 500-2,000 litres) for milk processing at village level. A few such plants have already been put in place with international support, but their total number is inadequate, the siting has not always been well chosen, and their organization sometimes is unsatisfactory. The mission feels that this work should be supported by FAO, (Food and Agriculture Organization) with the aim of ensuring a well-organized network, covering the needs of small farmers throughout the territories."

These complaints indicate the need for a better follow up system, with better understanding with the cooperative board of directors and management from the beginning of the project until it is operating effectively. After such a long period, it is likely that blame can be fixed, but the cost to the cooperative and the community and to the donor organizations for lost time and other related costs will still be lost.

c. Beit Lahia Marketing

The feasibility study for the Beit Lahia Agricultural Marketing Cooperative Cold Storage Facility indicates that members will benefit through increased value of produce marketed through the cooperative, with a total possible benefit of $518,600. This, from a capital investment of $830,000, should justify the retention of substantial savings by cooperative for future growth and expansion. However, ANERA's feasibility study provided for only a modest savings of $64,231 for the cooperative each year. This would translate into only a 7.7% return on the investment, provided the cooperative retains the entire net savings each year. When related to that part of the cooperative's operations, Devres figures that it is not likely that there will be any assurance of sustainability on the part of the cooperative organization. Given, that the increased capacity for storage of the member's produce is admittedly below recognized needs at this point, it could be expected that demand for additional capital for increasing this capacity will be in the immediate future for the cooperative.

The lack of consideration for adequate profit margins in the feasibility study can be a severe detriment to the viability of the cooperative's ability to sustain future operations and growth. Such a system is contrary to sound business procedures and will leave the cooperative dependent upon outside funding for capital to meet current demands or for any future growth.

Nonetheless, ANERA has moved ahead with almost a $600,000 investment in a cold storage facility for this cooperative. It may be too early to predict what will happen with this investment. But ANERA should move quickly to identify ways of generating more revenue from its grant.

## C. Conclusions and Recommendations Concerning Performance

An interesting comparison between the CDP and ANERA activities is that CDP is activity-generated while ANERA has activities which are disbursement-generated. It is the evaluator's appreciation that ANERA has adopted an overall satisfactory method for planning. They are doing "all the right things." Their individual files on each project activity show evidence of a feasibility study, agreements with the co-ops concerning the monies and the activities, etc. CDP is also working with a larger number of cooperatives and providing important TA and T. But there are inefficiencies in performance as noted below.

- Confusion prevails at both CDP and ANERA regarding the use and definitions of the terms "goal," "objective," "purposes," "inputs," and "outputs." In the case of ANERA, which started years ago, there is a complex set of projects some of which are "piggy-backed" within cooperatives. But the variety of co-ops and projects also creates a confusing array of needs and suitable responses. The lists of inputs and outputs vary as well.

- Devres finds the need for AID to clarify and reach an accord with the PVOs regarding indicators for the different sectors and circumstances. There is a need to simplify the goals--we suggest basically "cooperative strengthening," "institutional development" (inclusive of ANERA's infrastructure) and "economic sustainability." All projects should aim towards these goals and the indicators should be basic and objectively verifiable, i.e., each indicator should measure what is important, and be in terms of cost effectiveness.

- Devres believes that the collection and reporting of information should continue with more than reported facts. Brief "qualitative" narratives should accompany each update of a project and should state what is needed to achieve project completion and the general goals. The narrative should briefly list the obstacles and the input needed to overcome them.

- The PPI system is useful to a degree. It forces the PVO to collect information and to think about quantitative dimensions of projects. The PPIs help AID keep somewhat informed of developments and progress of the PVO projects. However, some indicators are not proper for cooperative sector monitoring. The use of "Total gross revenue" or "total units handled" in the case of a cooperative organization would not truly reflect success or failure of the operations. An indicator needs to be devised to reflect the real accomplishments of the organization, such as "increase in net savings," or "increase in rate of patronage dividends paid," or "increase in percent of members' equity to total assets."

- o Devres found some studies of market analysis and profit margins in the planning for new facilities and marketing schemes for cooperatives. But Devres found the need for consistent attention to those areas when designing projects with cooperatives. Both PVOs must enhance their management systems by developing their capacities for evaluating their activities.

- o Devres notes that a true cooperative should provide competition in the market place but not to undercut competitors with their subsidized advantage. In this regard, Devres repeats a point made in Part II, that the problem of a cooperative "not recognizing the need for adequate profit margins to meet future capital demands for marketing facilities and working capital to keep pace with future growth often is the cause for complaints by the private sector, when the cooperative organization is paying higher prices, or selling inputs and services cheaper because the capital value of the grant has not been taken into account." Devres reinforces the cooperative principle by emphasizing that there is no fair competition when a cooperative gives its members a so-called "advance patronage dividend in-kind." Such a payment is a subsidy and is not equivalent to a cash dividend later on, as argued by ANERA.

## IV. EVALUATION OF SPECIFIC PROJECT INPUTS

Training, technical assistance and commodity procurement/construction constitute the major elements in the activities of ANERA and CDP combined. Based on our review of cooperatives, we have evaluative comments on three major sets of project inputs.

Set one includes project inputs of "short and long-term technical assistance." On this topic, we clarify the meaning of "technical assistance." Set two includes project inputs for "training," in which both CDP and ANERA are particularly active. Set three covers "commodity procurement and construction."

### A. Short and Long-Term Technical Assistance

Both CDP and ANERA tend to misuse the term "technical assistance." ANERA, for example, is prone to say that any individual, that is, permanent ANERA staff, temporary part-time and full-time local consultants, Palestinians holding co-op management positions but on PVO-provided salary, etc., are all providing "technical assistance" to the co-ops. The ACDI/CDP interpretation of TA case is discussed in a separate report, but the point of mentioning ANERA here is to illustrate that even among different PVO's there is not necessarily agreement on what TA means. CDP calls Marash's internal consultancy, for example, "technical assistance," whereas it is really staff development and would not come out of a TA budget.

Devres will use the definition commonly used by A.I.D. programs. It is similarly recommended that the PVO's apply a similar definition, as follows:

Technical Assistants or "experts," are persons hired to perform special (perhaps unforeseen) project-specific jobs whose level of expertise enhances project staff and their capabilities. Because an activity leader often does not know what the requirements for technical expertise might be at the time they set up a project, a specific budget is therefore set aside which is then used on an as-needed or planned basis to satisfy the activitie's requirement for special needs, studies, etc. Such activities are often performed by outside (i.e. foreign) Technical Assistants in order to support defined needs of a higher nature than the staff can provide locally.

1. CDP's technical assistance program: 1987-present

a. Non-local TA

In this context, then, we discuss the type of TA utilized by CDP since 1987 and, to the degree possible, what its impact has been. To understand the data provided by CDP, Devres visited 17 cooperatives where both ANERA and CDP have programs. All nine CDP target co-ops were visited. Remembering that the co-ops have an even more loose definition of TA than the PVO's, Devres noted that the "smile test" produced generally positive comments by the co-ops concerning CDP's TA. This general praise, however, meant everything from regular CDP staff interventions to training and locally-hired consultants. Nonetheless, the smile test showed that at least CDP's interventions with the co-ops was positive. But the smile test is excluded from the evaluation of CDP's TA work since 1989.

CDP provided Devres with TA documents on four TA assignments between 1989-92. It was not possible for Devres to judge the complete value of the four TA assignments because the documentation was given on the eve of the teams' departure and it was not possible to ask specific questions related to the documents. In addition:

- o Not all documents were provided for each assignment.
- o No final report was apparently available on one assignment.
- o CDP's scope of work for three assignments were missing.
- o No consultants' resumes or CV's were provided.
- o There was no logframe of planned TA, so Devres could not evaluate TA time on the job nor delays CDP's efficient use of TAs.
- o There was no budget figure available for Devres to judge if CDP was fully or partially utilizing their TA resources.

All four consultancies were provided CDP through their subcontract with VOCA. CDP informed Devres that all their TA assignments end with training sessions with the concerned co-ops and farmers. The final reports are translated into Arabic and distributed to the interested and relevant co-ops. Recommendations constitute the bases on which CDP formulates their requests for future TA.

Table IV-1. <u>TA Provided by VOCA: 1989-92</u>

| Focus | Dates | Consultant |
|---|---|---|
| 1. Dairy co-ops | March-April 1989 | Ernest Winings |
| 2. Farmer-to-Farmer | May-June 1989 | Garland E. Benton |
| 3. Women in Dev. | July-October 1990 | Linda Oldham |
| 4. Livestock co-ops | June-July 1991 | Judson Mason |
| 5. Post Harvest Exports | December 1991 | Harlan Pratt |

Table IV-1 lists the names and focus of the four technical assistants. The Devres Team read the reports of all five and found the Winings, Oldham and Mason reports to be the most comprehensive. They responded to several questions about the co-ops they observed and left the most recommendations. Devres was not impressed by the other reports and is left wondering why Pratt was brought to WB/G. As noted by Pratt: "The proposed 'Scope of Work' was detailed, but almost none of the proposed work was accomplished, because no export efforts were being made nor were any further efforts contemplated at this time." (p. 1 of Pratt's letter to Jack Edmondson).

Moreover, the consultancy of Benton (VOCA) involved more time with Israeli cooperatives than with cooperatives of WB/G. Overall, Benton made two "recommendations."

(1) CDP may have need for a sheep farmer volunteer who is qualified to demonstrate sheep shearing and shearing machine maintenance as well as blade sharpening.

(2) A good dry-land grain farmer as a volunteer could provide a lot of leadership.

In particular, there were few recommendations made by Pratt and Benton of value.

With regard to CDP's benefits from this TA, we have the following observations:

- o CDP seems to have a spotty record on their TA activities. Based on Devres' review above, <u>Devres recommends</u> that CDP implement a better planning system for their TAs to ensure they get timely TA which focuses on the key issues (e.g. is sheep farming and wool export a priority?)

- o Judging from the numbers of recommendations made by Winings, Oldham and Mason, there is a gap between getting the recommendations and acting on them. This suggests that CDP lacks the means with which to follow up on targeted recommendations. Devres believes that CDP's lack of utilization of the consultants' feedback and recommendations is due to their needed monitoring, follow up, reporting, and analysis work in-house. TA work needs to be plugged into the management information system (MIS).

- o Since there were no financial records available, it was not possible to know the cost-benefit of these consultancies. However, because they were low-cost items through the VOCA, one could at least conclude that they were not costly in pure terms.

b. Local sources of TA

CDP did not inform Devres how much TA money CDP expended during 1989-92, relative to the total allowable.

With regard to local sources of TA, CDP training advisor says that on-going training and TOT efforts with co-op personnel have left in place the following local technical training resources: 12 trainers in finance, 2 in MIS/Ag. Engineering, 25 agricultural co-op managers to train in management, especially in co-op principals. CDP also adds the following.

In addition, it is estimated that 25 trainers used by CDP for their courses can now train without CDP support. Some 5 horticultural specialists in Gaza are thought to be able to be trainers.

Arab Development Society (ADS)-Jericho can provide dairy and agricultural machinery training. ADS has been used by CDP and ANERA.

Applied Research Institute (ARI)-Jerusalem and Turbo can provide computer training but ARI may have to develop co-op specific applications.

Au Nujah and Hebron Polytechs can provide maintenance-type training and could possibly form a joint interest in training for PVO programs.

At the high school (vocational school) level, Aron/Gaza could provide some training services.

Hebron University was not considered to be a viable provider of training, since their laboratory facilities, human resources, and doubtful curriculum would not be up to the quality required by the PVOs.

Neither ANERA nor CDP are actively engaged in sourcing institutions and local entities which could take over their training requirements. This is particularly true for tech training. Locally available Palestinian talent for most TA needs, both on the technical and the management sides of TA needs, are generally thought to be better than in most development program areas. ANERA and CDP have both utilized Palestinian talent available locally.

Devres recommends that the PVOs establish a data base of locally available TA resources, both of individuals and institutions, which have been used and are proven acceptable. This information should be shared. Both PVOs, but especially CDP because of their extensive training programs, should make a concerted effort to build up a resources data bank, even in cooperation with other WB/G development programs.

Devres recommends that CDP seriously explore the advantages of off-loading their off-the-shelf computer courses and possibly others into local institutions and thereby free-up their relatively scarce staff resources for other activities. Such "off-loading" will suggest staff and policy changes within CDP which may require Technical Assistance.

The Pastore 1989 report recommended CDP's developing a Training of Teacher (TOT) activity. Devres believes this is still a valid recommendation and would carry it a step farther. Devres recommends that CDP train core (model or target) co-op personnel to train their own co-op members. Provide TA support to the trainers until they can perform well solo and then assist the trainers in lining up training activities with other nearby co-ops, perhaps for a modest fee. This type of program has a replication or ripple effect which can help CDP institutionalize some of their training efforts in a modest way.

2. ANERA's technical assistance program: 1990-present

ANERA publishes a "project balance sheet" showing they have a budget of $285,000 for "TA/Training," of which they have spent $180,545.16 since January 1990 to July 1992. Most of the 113 activities listed do not conform to the accepted USAID or "development project" definition for TA.

However, as a record for understanding what exactly is happening, the listing poses a few problems. For example, the Summary Report shows that this $285,000 is for "only TA," not for training. It would seem, therefore, that "training" should be removed from the balance sheet heading.

However, this also poses a problem. A look at the ANERA Cumulative Project Output Data" report of May 1992, in which ANERA reports on the August 1991-August 1992 indicators for TA/training, show that ANERA increased their level of effort in TRAINING from 1 project-specific training activity to 44 since August 1991, with a consequent increase of 35 to 646 trainees over the same period of time. Altogether, ANERA indicates it has trained half as many persons as CDP since CDP began training in 1989, even though ANERA's activities are not as focused on training.

Leaving aside the ambiguities of the training question and focusing on TA only, ANERA's May 1992 report shows that their TA effort has gone from 10 to 35 short-term consultancies between August 1991-August 1992, or from 2,500 to 41,500 person/hours in the same time. (Devres questions the value of reporting TA person/hours, since consultancies are designed to provide targeted results, not expend person/hours. Perhaps a more useful indicator would be numbers of recommendations received and acted on, or something similar.)

Since ANERA does not have a TA plan which projects their TA activities or how many person/months will be utilized during this 1990-92 on-going project phase, it was not possible for Devres to judge the efficiency with which ANERA is utilizing planned TA, be the TA according to their definition or to the USAID definition. There are only the budgetary figures presented above which show ANERA have expended about two-thirds of their TA budget to date.

It should be noted that this Balance Sheet of TA/training lists TA expenditures which are separate and distinct from the "consultancies" which are within the organization of ANERA and which are paid out of a separate budget area.

a. <u>Non-local TA</u>

ANERA provided Devres with two reports of two foreign consultants (ANERA calls them "foreign experts") whose contributions ANERA said were particularly important for the agricultural sector. A list assembled by TvT and provided in the TvT draft report show other non-local TA working for ANERA. But, they are not reflected on the Balance Sheet, which is a local budget.

The two technical assistance assignments which ANERA showed Devres are: 1) The Grape Phylloxera Project: August 23-September 12, 1989, Dr. Lloyd Lider and 2) Controlling Brucellosis: July 15-August 15, 1989, Dr. Margaret Meyer. The contributions of their TA have been very effective for agricultural development and are worth reviewing here.

Dr. Meyer's TA on Brucellosis

The scope of work (SOW) for the brucellosis study was clear and resulted in the consultancy presenting various statistics on the incidence of brucellosis in West Bank and Gaza, the most important of which were that "it is clear that brucellosis has reached epidemic proportions in the human population and a steady enzootic prevalence in animals of 5-10."

Dr. Margaret Meyer of the University of California, Davis advised ANERA to note if the current vaccination programs were pushing the prevalence of brucellosis down. In the event that they were, the consultant recommended initiating the eradication phase of a control and eradication campaign. It was also advised that slaughter house construction be continued and increased, that milk pasteurization and traditional cheese boiling be continued and expanded, and that people be educated concerning the disease. The consultant provided advice on how to set up a pilot project and a recommendation of expanding the pilot program to all West Bank and Gaza after the pilot program proved effective.

Dr. Meyer's report was brief and to the point. ANERA used it to get the mobile vet clinics up and going and as the basis on which they have decided to put up $1 million for six micro dairies. The cover narrative to the Summary Report also states there are five slaughterhouse projects ongoing, one now operational, two with "institutional" problems, one in nascent stages, and one near completion. The slaughterhouses also fit into the scheme of controlling brucellosis.

With regard to the TA of Dr. Meyer, it can be seen that her recommendations were useful, pertinent, and instrumental in establishing a number of funded ANERA projects. However, ANERA does not do a good job of letting this be known. Their summary report mentions eradication of zoonotic diseases as one of the mobile vet clinic's purposes and states similar purposes for the slaughterhouses. The micro dairies also have improved public hygiene as one of the goals of the projects. The slaughterhouse activities mention improving public hygiene. But it is hard to detect the continuum of ANERA project activities which, in their final joint results, should help to control, if not lower, if not perhaps eradicate, brucellosis in West Bank and Gaza.

Curiously, also, this aspect of ANERA's work was never made apparent by the people in the field, by the ANERA personnel themselves, or in the ANERA reports. If one is patient enough to go through all the individual TA documents on the mobile vet clinics, as Devres did, then it can be "discovered" that the mobile vet work proposed is very clearly linked to the 1989 consultancy on brucellosis and that it forms part of a larger effort to reduce disease among both humans and animals.

So, in the case of this particular consultancy, Devres concludes that it was timely, pertinent, and fully useful not only to the co-op sector, but also to the public and agricultural sectors of West Bank and Gaza overall.

Devres recommends that ANERA begin to systematically set up information collecting procedures on its activities with the mobile vet clinics in order to be able to present meaningful information which will show what results are being achieved in improving human and animal health and, specifically, if there is a positive impact to control or reduce brucellosis. Such information could have importance throughout the Middle East.

### Dr. Lider's Grape Phylloxera Consultancy

This consultancy was preceded by another one on the same topic in January 1986. It is evident that the two consultants agreed on their primary findings. The consultancies resulted in ANERA funding a nursery program in Hebron which has been, according to people visited in Hebron, one of the number one success stories of ANERA.

As a result of this non-local TA, ANERA supported a three-year effort to have 400,000 grafted seedlings and a nursery which is producing a new, resistant strain of plant. Hebron estimates that their nursery laboratory success rate is around 70% compared to the average laboratory success rate of 40-50%.

The TA also pointed out that this type of project needs to be for the very long haul. Experts say that such a project requires about ten years so that the original efforts not regress, and estimate that some 300,000 plantings over the next ten years would be required. The urgency of continuing the ANERA project is underscored by the Hebron people's statements that since 1985 the number of diseased dunams has grown from 100 to 7,000.

In summary, it is evident that the ANERA TA for this activity was extremely effective. It is producing ongoing results. The automatic grafting machine brought in to support the effort has been producing a very high rate of successful grafts.

Devres recommends continuing, if not increasing, this grafting project. There is a pilot project for producing grape juice being considered in the same area, but it would seem that protecting the ability of the region to produce healthy plants and grapes, thus ensuring future production potential, would be more important at this time than launching a pilot effort to produce juice from periodic excess productions of grapes.

b. Other ANERA local consulting activities

Since ANERA's local TA budget is large and there has been a substantial amount already spent in this area, Devres randomly selected three listings on the Project Balance Sheet in order to see how ANERA is utilizing their local TA and what its benefits seem to be. ANERA gave the complete consultants' files and Devres studied the procedures ANERA used to employ local consultants for local technical assistance needs. In all cases, ANERA had a need expressed by the client, followed by a needs assessment and even feasibility studies where indicated. There were formal agreements between the recipients of the TA. The consultants regularly filled out reports for both ANERA and the client. In the cases of extension, of which there were several, there was substantiation of continued need for the consultancy. In the three cases looked at, the consultants provided recommendations which were able to be followed up on by the client and by ANERA.

All in all, the indications are that ANERA is using their local technical assistants and their foreign technical assistance effectively and is getting good results from the consultants they hire, both foreign and local.

B. Training by CDF and ANERA

1. CDP's training activitiess

Training has been a major activity of CDP. Because of its relative importance in CDP's performance, Devres evaluated training activities in four ways:

- o We examined CDP's computer files of training;
- o We examined CDP's responses to Leo Pastore's recommendations of his 1987 assessment of training needs;
- o We examined CDP's training strategy and work with cooperatives; and

- o We examined CDP's course materials of courses in cooperative management, of "training of trainers" (TOT), technical training in machinery and computers, and human resource development.

The details of our analysis are presented in our companion report entitled: "ACDI: Evaluation of the Cooperative Development Project (CDP)" (September 1, 1992). There are about 15 pages of analysis, especially about CDP's specific training activities covering: Training of Trainers (TOT), training in Agricultural Machinery (AM), training in Computers and Related Accounting/Management Systems and training in Cooperative Principles, Boards of Directors and Management.

Devres found that CDP needs to set-up and carry out a clear, feasible, step-by-step strategy for institutionalization training programs. This recommendation is referred to frequently in the suggestions of the Devres report on ACDI. However, it is such an obvious ingredient for training for development, and it is so conspicuously missing from the CDP activities, that it needs to be singled out and insisted on separately.

In the first place, ACDI and USAID should both insist absolutely that CDP come up with a convincing approach to institutionalizing training programs. This is not as easy as it sounds. ACDI/CDP will have to come down off the buzz-word aspects of "institutionalization of training" and sharply define what it will mean for CDP and the co-op sector. For example, one common way to institutionalize training is to get training off-loaded into locally capable institutions. There seems to be no consensus on the numbers and types of viable training entities who could take over (either totally or in increments) or assist in taking over, CDP training programs. This needs to be well studied.

A second point which has been mentioned is the aspect of self-sustained training activities which can be carried out by technically qualified individuals who have also become trained trainers. This also is a loaded program which is no panacea. It requires a careful planning phase, not just a little financial investment, and assiduous follow up assistance by CDP to ensure its effectiveness. Serious TOT can give excellent results, however, and can bring a program around to "proving" sustainability on the ground, since if there is no significant talent flight of skilled people who are trained to train in their skill areas, then a program can demonstrate that those skilled individuals, qualified to train are actually providing on-going training and on-site services to the client. A nice, replicated program, as long as it is done with a full commitment to follow up and support to those trainers who will be walking slowly before they fly solo.

2. ANERA's training activities

ANERA has carried-out training in line with its Technical Assistance and in response to the short-term needs of its cooperative beneficiaries. ANERA does not have a training budget for the cooperative sector activities and hence its training has been done at times with its own ANERA staff.

ANERA's training/TA has been connected to the specific activity of changes recommended, as the cases of TA for grape and livestock production indicated above.

ANERA is addressing training today with more reliance on CDP.

Devres recommends that CDP and ANERA continue to operate in accord with their joint statement entitled "Palestinian Cooperatives: A Development Strategy," February, 1992 (provided in this report's Annex G).

C. Commodity Procurement and Construction

CDP has not engaged in major construction with cooperatives. CDP has purchased computers and supplies for cooperatives, in particular with regard to the Electric Cooperative Union in Hebron.

ANERA's role in "institutional development" has been via grants to cooperatives to purchase plant and equipment as needed to improve the income and production of cooperative members.

ANERA insists emphatically that they conform to all the rules and regulations for bidding and purchasing equipment. They also point out that these grants are for the cooperatives to work with and that ANERA's role is advisory with regard to purchases. There has been a formal complaint from a local IBM dealer suggesting that ANERA has not conformed to the "buy America" policy. ANERA has been cleared of the charge and also points out that the computer equipment purchased (as questioned by the IBM dealer) is made up of significant U.S. parts.

An audit and evaluation by Price Waterhouse (February 1992) did not question ANERA's policy for commodity procurement. In fact, the Price Waterhouse report acknowledged ANERA's role as positive and effective in helping cooperatives to import items through the CIVAD system.

Devres recommends that ANERA maintain more accurate records of all purchases made via its grants including not only on the quantity and price of items purchased by cooperatives but also the brand name and source of origin of the machinery, equipment, etc.

## V. PROJECT IMPACT: EXPANDING THE ROLE AND STRENGTHENING THE CAPABILITIES OF COOPERATIVES

The Devres Team conducted a close review of 17 cooperatives as indicated in the previous sections of this report. In part II, in particular, we focused on the problems and specific needs of the "cooperative sector" and listed several recommendations for strengthening cooperatives. In Part III we assessed the satisfactory and unsatisfactory performance of the PVOs in working with these cooperatives.

In this section, we provide a general assessment of project impact. This assessment consists of our responses to USAID's 14 questions about its assistance to WB/G.

Although the philosophy guiding A.I.D.'s funding of cooperatives calls for economic development that is cost-effective, equitable and, overall, of benefit to the WB/G Palestinians, determining such outcomes requires more research and information than available to Devres. A major problem for Devres has been the total absence of benchmark data and information germane to specific projects. In short, we have no basis for comparison over time. Another problem is the lack of adequate reports and/or research on the "cooperative sector." Hence, our answers are cursory, impressionistic and subject to qualification. The net result of this section, however, shows that the "cooperative sector" is a relatively neglected area of study.

### A. Four Questions About A.I.D. Assistance

Has assistance to cooperatives contributed to or resulted in the intended improvements; e.g. new activities, increased production, greater volume of goods processed or marketed, expanded membership, increased levels of lending and repayments? Has the internal management of the cooperative improved; e.g., improved accounting, financial or management information systems developed, increase in number of elections held, or other improvements made? If not, why not? Has assistance helped to prevent deterioration in these areas in view of the Intifada and other developments?

Probably the most dramatic demonstration of a successful project performance by both ANERA and CDP is the feed mill operation at Ramallah. The cooperative has grown and improved its ability to serve the livestock farmers in the area as the result of the projects completed. The cooperative appears to be operating according to true cooperative principles and the members and the community have benefitted from the development of the cooperative and its infrastructure. The growth has been orderly, and the cooperative has planned well for its expansion, step by step. It is well that this was chosen as one of the nine pilot cooperatives to be monitored, developed, and to some day serve as a model for the development process.

Annex I contains an informative summary of ANERA's accomplishments. In addition, Devres has prepared a comparison evaluation of ACDI/CDPs' activities within which are recognized achievements. Here, we concentrate on outstanding improvements associated with USAID's assistance.

Agricultural improvements are evident everywhere we went. Land reclamation is on-going and most tractors and bulldozers are operational. Micro-dairies are producing and selling milk products, veterinary mobile clinics are attacking animal health problems and credit is going towards intended uses (especially for green-houses in Gaza) (See Obeidat report in Annex I).

Improvements in other areas of the cooperative sector are significant, especially with regard to the democratization process through annual elections, expansion of membership, the quality of the board of directors, and the type of services provided to members. For example, the Jericho Marketing Coop, which consists of 1,800 members, held elections recently.

Concerning management activities, there are some cooperatives whose improvements have been considerable, such as an electrification co-op union in the Hebron area, the Beit Lahia co-op in Gaza, and a poultry co-op in Ramallah, all of which benefitted from CDP and ANERA assistance. In the case of the electrification co-op union, CDP has employed two technicians--an electrical and a mechanical engineer--to help maintain generators and an electrical network. In the cases of Beit Lahia and other cooperatives, a computer is available to maintain all financial records, and this has helped in keeping track of financial and managerial information.

Concerning new activities undertaken by CDP, we noticed that a new marketing system is being applied to assist co-ops called the Agricultural Marketing Information System (AMIS). This network enables farmers to learn about the prices in various areas of the west bank to determine where they will sell their produce on any given day. This system benefits the farmers by allowing them to sell at the highest possible prices while at the same time avoiding market shortages and overstocks based on the past experiences of poor coordination and lack of information. During Devres time in the field, CDP was negotiating the possible transfer of AMIS to the Agriculture Cooperative Union based in Nablus. The system is also connected to a network in Jordan which allows Palestinians the opportunity to make important decisions about what they will export.

During our visits to some of the projects, we noticed that there has been a remarkable level of production, especially in the Jericho area and Gaza area where two active cooperatives are based. These co-ops are employing new technologies in agriculture, such as specialized greenhouses. The current problem with these cooperatives is how to market the increased production.

The deterioration of the economic situation in the occupied territories has been intensified during the Intifada and especially after the Gulf War with the virtual termination of remittances from the Gulf and the return of Palestinians who are now unemployed. Another factor has been the vast reduction of Palestinian laborers allowed to work in Israel, having dropped from 120,000 prior to the war to about 40,000 today.

A.I.D. assistance will help in minimizing the deterioration of the economic situation. But with the prospect of an autonomous government on the horizon, much more is needed to build the infrastructure of the Palestinian economy. The assistance provided thus far prepared some Palestinians for the tasks of building and operating the infrastructure for the self-government interim period and possibly thereafter.

B. Three Questions on Viability and Sustainability

What is the likely viability of assisted cooperatives after A.I.D. support is terminated? What actions have been taken to assure economic sustainability; e.g. user fees paid to recover costs? What actions are needed to promote viability?

"Viability" is usually defined as the condition or state of a project that will permit it to live and develop under normal circumstances. "Sustainability" is usually defined as the ability to keep a project going on in life, i.e. supplied with its basic necessities and strengthened over time. With these definitions in mind, there is little reason to doubt that A.I.D. assisted cooperatives will survive after A.I.D. support is terminated. The likelihood of their continuing is relatively good.

We cited relatively strong cooperatives already in existence. They have benefitted from A.I.D.'s support and have built their institutions with basic capital and equipment. The Ramallah Poultry/Slaughterhouse/Feed Mill Cooperative is an example already described. Devres does not doubt the resilience and resourcefulness of its members who survived nearly two decades of good and bad times. Devres believes that this cooperative would have accomplished much on its own (eventually) without foreign assistance; but acknowledges that it would have taken longer for the cooperative to reach its current size without A.I.D. support. In essence, we view A.I.D. assistance in this particular case as vital for strengthening, steering and speeding up the process of this cooperatives development in the West Bank.

There are some details to consider with regard to cooperative viability. Our team noted a significant lack of consideration for adequate profit margins in the planning for new facilities for cooperatives. Our report recommends important steps that must be taken to assure the cooperative's ability to sustain future operations and growth and our report argues for adherence to the principles of cooperation.

Regardless of such observations, we must also note that viability and sustainability are determined by numerous factors beyond the control of the cooperatives and the PVOs. We have, for example, already commented on the economic viability of the Beit Lahia venture in independent marketing of fresh produce to Europe. The cooperatives' feasibility study by Aown Shawa of CDP showed that the project would be profitable. It was not profitable, however, because several assumptions regarding timing of market, processing, and shipping were wrong. In essence real market conditions were different and so, the scheduled shipment failed, i.e. factors outside Beit Lahia's control.

Devres found that several cooperatives are economically sustainable in the long run. But the actions required to develop cooperatives as such are many.

Devres believes that the following steps are being taken to ensure sustainability:

- Managerial training is being provided to prepare cooperative members with needed skills to administer and operate cooperatives.

- Technical assistance is being provided by technical staff hired by CDP and ANERA to serve at some of the cooperatives. Moreover, a computer has been provided to almost all of the cooperatives working with ANERA and CDP to monitor and track finances.

- Pilot cooperatives are being established which have potential but require time to see whether the model works. One positive outcome of these pilot projects has been the establishment of capable boards of directors.

- Training is being provided in cooperative development to expose members to the principles and fundamentals of cooperative work.

- Fees are being charged for services to cover cooperative costs but these fees are at lower than market rates in most cooperatives.

- Shares for members are being increased at least in one case where they went from 5 J.D. to 30 J.D. The increase raises funds from members to undertake new projects. Funds have been increased also by expanding membership at the cooperatives.

- The Agricultural Marketing Information Committee (AMIC) is being established by CDP at the Agricultural Cooperative Union in Nablus to improve market knowledge and sales for all of the cooperatives. It is too early to evaluate this project but it does have an important role to play in the agricultural sector.

Section II of this report also shows that the potential for success lies in the "cooperative sector" itself. That is, the real investments required for strengthening cooperatives need not be A.I.D.'s investments alone. Cooperatives also will have to invest in themselves.

## C. Three Questions About Cooperatives' Competitiveness

Does assistance provided to cooperatives negatively affect or disrupt market competition? Are there any problems with private companies and farmer-owner enterprises (cooperatives) operating side-by-side, competing in the same areas? If so what criteria could be used to avoid this problem?

A true cooperative should provide competition, not negatively, but in support of the small farmer, to enable him or her to compete on the same level as large private businesses. Nonetheless, cooperatives with subsidies do not have the same costs of production as other firms without subsidies. A subsidy or grant to a cooperative gives it an economic advantage on the market, allowing the cooperative to undercut and drive out competitors. But the unfair advantage is eliminated for cooperatives if the subsidies (grants) end and if cooperatives must replace buildings and equipment at full market cost on their own. Unfair competition is eliminated also if the cooperatives follow the principles of cooperation and especially the one tenet of buying and selling always at market cost.

The Devres Team interviewed a private dairy farmer from Nablus who has a college degree from Iowa State in animal husbandry. He said he was concerned about competition from a nearby micro-dairy when it first began producing milk products. But he said he wasn't concerned for long because the cooperative's micro-dairy couldn't produce the quality of yoghurt and white cheese preferred by consumers. Ironically, the dairy farmer joined the cooperative of "competition," became its Secretary and now believes that cooperatives of small producers can help to develop Palestine.

Others of the private sector and the head of EDG, stated to Devres that cooperatives were not competitive. In fact, they suggested that cooperatives would not succeed because they were not skilled as yet. More plausible explanations for the general uncompetitiveness of cooperatives include the following:

- o Most of the work of cooperatives is focused in the agricultural sector and it is not an area where the private sector has invested. Only in the area of agricultural machinery is there a problem. Due to the low fees charged by co-ops (approximately $20/hour) for the bull-dozer while the private sector charges $30/hour, the private sector in some areas, such as Khan Yunis, was forced to lower its prices. In other areas we noticed that they charged the same prices, such as in Nablus.

- o The high demand for some products such as the animal feed means that there is a sufficient market to sustain both private sector and cooperative production centers.

- o The weakness of some co-ops in the field of productive projects such as the micro-dairy activities may not really produce any kind of competition at all.

Devres believes that the best way to avoid unfair competition rests on two principles: one, make sure that the cooperatives abide by the true tenets of cooperation and two, use the PVO subsidy in areas where the private sector is not or can not provide the good or service needed by the population.

D. <u>Four Questions About Most Effective Areas of Assistance</u>

In what sectors or sub-sectors have the PVOs and A.I.D. assistance been most effective? Least effective? What factors contributed to these results and what can be done to generate greater economic benefits in areas where performance has been weak? How can effective assistance be replicated in new areas?

Cooperatives in which infrastructure has been provided for marketing and storing of agricultural products have been most effective among the projects we were able to observe. Immediate benefits were usually generated in the form of higher returns to farmers for products that were able to move to markets. Least effective were those projects that represented collective worker cooperatives, since the number of beneficiaries were limited, and the impact on the community was limited to only the increased income of those few individuals.

The ability to generate greater income and employment in an area depends upon market conditions of supply (of resources) for production and the demand for final products. Resource supply can be enhanced by increased productivity usually attributed to human resource development, technological change and increased productivity of resources. Cooperatives can be effective in human resource development and by introducing cost saving means of production. Cooperatives can enhance market demand in two major ways. By marketing improvements and by increasing the effective demand of consumers.

Effective assistance can be replicated by successful cooperatives and by leaders in the field of cooperation. Cooperatives can provide the institutional base from which more people can learn by participation. To replicate successes, the infrastructure for the cooperative sector would have to be strengthened. Devres' recommendations concerning CDP and ANERA are designed to strengthen the cooperative sector so that more models and leaders are produced and the outcomes are diffused to a greater audience.

## VI. PROJECT IMPACT BENEFICIARIES

Two additional sets of questions pertain to "the beneficiaries" of A.I.D. assistance via the PVOs. Here we address each set separately.

### A. Regarding Quantitative Improvements

Has the assistance of the PVOs resulted in or is it likely to produce quantitative economic or social benefits or services for cooperative members, users of cooperative services and others directly affected by the projects? E.g., increased net revenue per member, increased member satisfaction with services, increased farm production, employment generation, business expansion?

In time, those cooperatives that are able to survive and grow to meet their own increased capital demands, will benefit through the system that enables them to increase their individual economic strength in relation to the size of their cooperative.

There could be greater potential for obtaining economic improvements or social benefits as the result of combined PVO activities. However, as in the case of brucellosis control efforts, where there is a series of activities centered around micro dairies, slaughterhouses, and mobile vet clinics, there needs also to be an awareness built up among the PVO's themselves as well as within the co-ops. In this way, the activity directors themselves become more informed as to the overall strategy and to the importance of their individual activities, since they can relate them to the big picture. When there is such awareness generated, the project personnel appreciate the need for collecting the necessary information for analysis. Awareness helps sustain such data collection activities over the long term. With continuous data coming in, the project personnel can make adjustments and modifications to project activities as required, thus ensuring that they eventually produce the social and economic benefits which their greater purposes state they are designed to do, at least in the long term.

At the moment, however, the PVOs should be very circumspect in delivering USAID project goals and purpose statements along these lines of socio-economic benefits unless the PVOs themselves are prepared to come up with the means to get in and measure and report on the results and impacts. The PVOs need to educate USAID in the distinctions there are between co-ops and other types of development projects, so that when the PVOs come down to the wire with their statements that a goal is to increase farm production by 10% and thereby improve family income, they should be well prepared with existing benchmark figures which show the actual situation in a reasonably reliable fashion, and then, be prepared to do the ongoing monitoring and evaluating to show that their goals are being attained.

With the present lack of good in-house management systems in both PVOs, it is doubtful that the PVOs can produce reliable, measurable indicators to show these kinds of benefits being derived from their programs. It would seem advisable, therefore, to do one or two things at this time:

- o Tighten-up the management and the division of responsibilities of the two PVOs (obligatory in both cases); PLUS set up good, reliable management information systems of project planning, implementation, monitoring, evaluation, follow up, analysis, and reporting (obligatory in both PVOs); PLUS begin a dedicated effort to attain the goals as they are described in the logframes (especially that of ANERA);

- o Do the revampings suggested above and/or simultaneously conduct an annual co-op sector needs assessments to get up-to-date information with which to design new workplans. With good needs assessments, the workplans will contain more realistically stated goals and activity objectives. In turn, the EOPS will be more rationally described and the activities will actually have a change to attain them. The indicators will be less likely to elude detection or reporting in the end.

In both cases, there would need to be an accommodation with USAID as to what co-op development activities should present as EOPS. There apparently needs to be a re-education process from within the PVOs and outward to USAID so that co-op sector development activities are not described like traditional agricultural sector development programs, with central planning capabilities and so forth. Then, with this difference in hand, the goals and objectives of producing, if you like, co-ops which operate on a self-sustained basis of sound co-op principles would become the overall purpose of the projects. Then the PVOs can plan activities which commit to goals and objectives whose activities are well focused and whose EOPS can be reasonable and measured within that context.

B. Regarding the Distribution of Benefits

Have the benefits of A.I.D. assistance to cooperatives been equitably distributed through the membership of the cooperative? Have women participated in a benefitted from the projects equitably? What can be done to improve the distribution of benefits and the participation of women? Are more special projects targeting women needed?

Equitable distribution of benefits are initially distributed in the manner reflected in the feasibility study. The savings or losses generated by the cooperative have not been recognized in the normal manner in most cooperatives observed by the team.

Women's cooperative organizations have begun to attract women members, who have extra time due to the shortage of tillable land for the family farm. Most women's organizations are workers cooperatives, and the participation by women is generally as laborers. An example is the Sureef Women's Cooperative. The team attended one livestock cooperative general assembly in which one woman was elected to the board of directors of the cooperative. Women are participating in general cooperatives but their representation is low.

Devres recommends more equitable representation of women in technical roles within CDP and ANERA. Professional women in key positions an and should serve as spokespersons for CDP and ANERA and hence serve as role models for other women.

Devres recommends having more educational, outreach, programs to attract women into cooperatives. But Devres cautions that gender based cooperatives for women's sake alone are not sufficient *raison d'etre* for organizing women. Cooperatives must be inclusive, not exclusive of men and women.

# VII. MANAGEMENT

Are the planning and project implementation procedures followed by ANERA and ACDI generally adequate and sound? Do the PVO staffs visit project sites frequently and stay informed of implementation progress or problems? Are project information systems developed to track implementation progress and alert managers to implementation problems? Do the reporting procedures and evaluation activities of the PVOs reflect adequate supervision and management of project activities? What improvements could be made? What data collection and/or reporting changes should be made to inform A.I.D. of project implementation status and development results?

To answer these questions we discuss separately the management systems of CDP and ANERA.

## A. ACDI/CDP Management and Operations

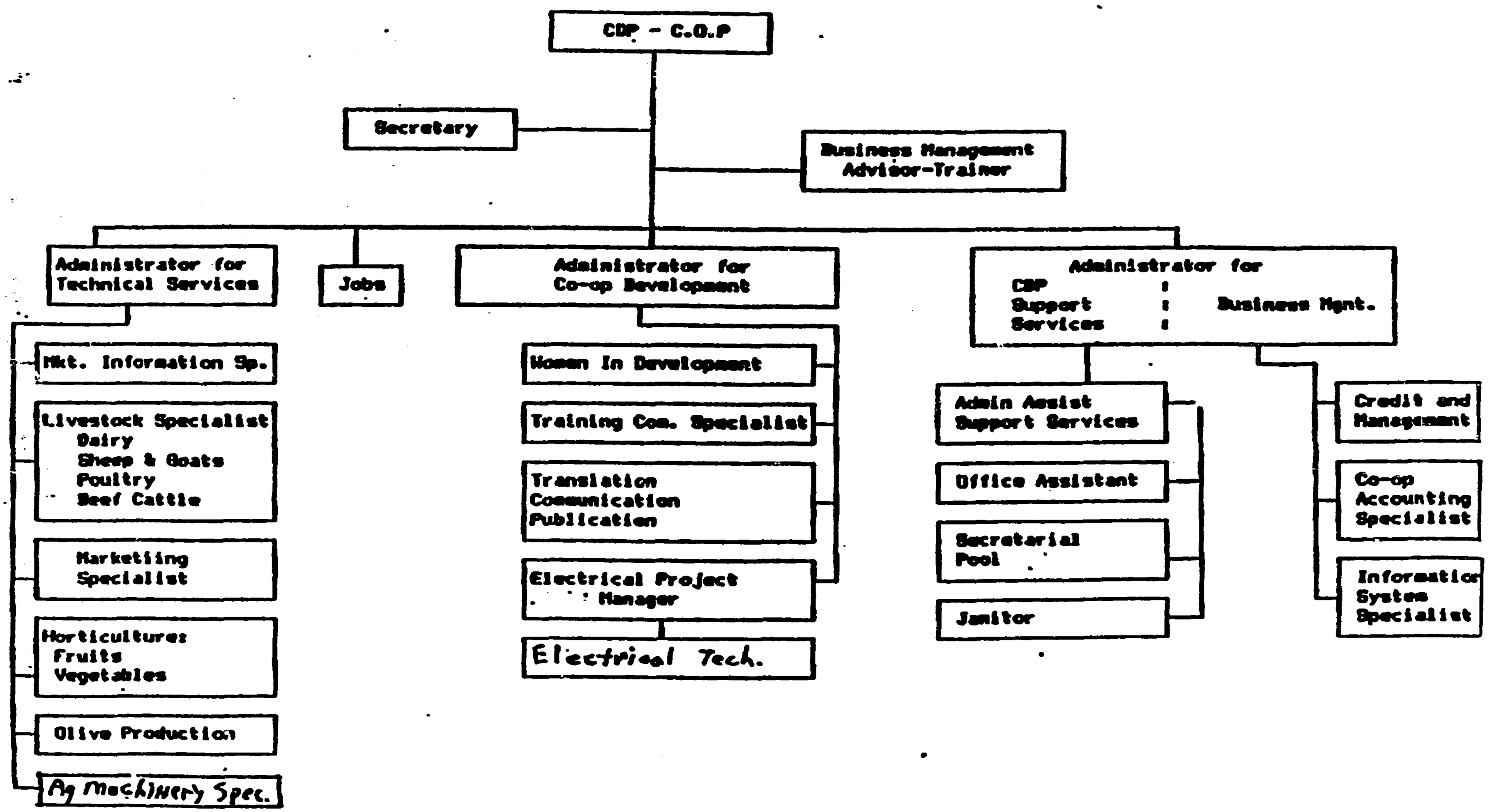
The new Chief of Party (Thomas Laquey) has recently restructured the CDP office as shown in the Organigram (Figure 2). This restructuring is a first attempt to solve a previous problem of confused reporting and communication lines. It is an attempt to provide a sense of operating unity within CDP. The structure is simple and defines the organization in the logical key elements of technical services, training, co-op development, and administration. It is a sufficiently sound organigram. Certainly, it is a vast improvement over the previous one.

Devres cautions that the reorganization of the structure will depend on the quality of the personnel assigned to the "little boxes." It will be only as effective as the management style and the efficiency and the technical and professional effectiveness of the employees. There are some improvements to be made in these areas.

Because of the new organization, CDP will need to review and change its planning and project implementation procedures. As reported in Devres' companion report, entitle, "ACDI: Evolution of the Cooperative Development Project (CDP)" (September 1, 1992), the CDP needs to improve its training data base and other monitoring devices. CDP needs more than a computer person; CDP needs a systems person to help design and create the monitoring, control, and reporting tools as well as systems. Moreover, CDP needs to examine how the level of project responsibility is spread among the staff. CDP has no summarized monthly or quarterly reports on the activities of the technical staff. Therefore, it is not possible to derive an adequate assessment of staff visits to project sites or time spent within the central office on particular projects.

Date: 7.09.92

COOPERATIVE DEVELOPMENT PROJECT
ORGANIZATION CHART
WB/G



The technical staff do produce individual reports on their activities and on their sections, but these are summary reports of work done not of time spent in places. At least, "agricultural machinery" (AM) section does. Devres reviewed a report by the AM section on Jenin Co-op. The report carries useful information on the types and specifications of co-op farm equipment, what the equipment and implements are used for, what kinds of land preparation the equipment is performing, the staff availability in the co-op (drivers, manager, etc.), how the co-op prices their rental of equipment, the annual costs of the equipment (accounting for hours worked, maintenance, revenue, etc.), an analysis of each machine's utilization,the obstacles encountered by the co-op, and basic recommendations.

The quality of the report is good. It was thorough and contains much of the necessary information for analyzing cost effectiveness of the agricultural machinery in the co-op. The recommendations seemed pertinent: "Make a schedule for ploughing land to ensure fuel economy. Announce how this is achieved and make promotions to the co-op staff. Sell tractor #2 because of the high cost of its maintenance."

Devres recommends that field reporting from technical staff become standard operating procedure if it is not already. Once CDP develops a system for obtaining and consolidating information from field reports on a monthly basis, then those same reports can help provide activity profiles on the technical sections which, in turn, would become meat on the bones of regular staff activity review meetings. The end result of the process and the system would be for the staff and Chief of Party (COP) to make a decision on what to do with tractor #2 and to plan how to set up a field-oriented advice-giving system to improve on fuel economy. Thus there would be a system for field commentary on problems, successes, and recommendations that results in systematic follow-up and decision making. In addition, it would ensure that the field personnel's reporting be made use of, thereby underlining to the field personnel the very importance of their work.

This regular reporting, plus a system of time sheet tracking of technical staff's time in the field, can all combine to keep CDP informed, effective, and with good management tools with which to make timely and informed decisions.

These and other types of reports provide a reason for staff to meet together. At this time, the CDP management staff meets with the Chief of Party (COP) on a semi-regular basis. There are no regularly planned staff meetings with the technical and administrative sections. Devres' understanding is that the staff feel that there is no regular agenda, therefore there are no regular meetings. If CDP generated regular reporting systems, and if they began to utilize annual logframes with monthly activity listings, these could perhaps provide CDP with the framework or agenda around which to hold regular meetings. In brief, one reason for creating and using management monitoring, evaluation, and reporting systems, aside from the fact that they are necessary for measuring impact, determining effectiveness of effort, etc., is the fact that they also provide a useful forum in which staff come together and communicate effectively about the work the program is accomplishing (or not).

B. ANERA Management and Operations

ANERA's method of operation is spelled-out in the ANERA FIELD OFFICE MANUAL, a 35 page report dated September 5, 1991. In it, the report details personnel policies, office administrative procedures, office physical management (e.g., leases and ANERA properties), programming policies, ANERA project criteria, project implementation (e.g., commitment policy, project files, basic data on projects), project finance, evaluation, and technical support.

ANERA's organization provides a visual key as to the way it is managed. The staff include the following:

- Lance Matteson, ANERA Representative;
- Ibrahim Matar, Deputy Representative;
- Adnan Obeidat, Cooperative staff member;
- Mazen Dabbagh, Credit/finance staff member;
- Wahib Tarazi, Veterinarian/dairy staff member;
- Kamal Khreisheh, Agriculture staff member;
- Ahmad Annab, Public health staff member;
- Mohammad Sbeih, Irrigation staff member;
- Ghada Rabah, Education/training staff member;
- Mazen As'ad, Marketing and income generation staff member; and
- Administrative support staff of five members.

The Gaza office has the following staff:

- Isam Shawwa, ANERA Gaza Strip Consultant;
- Salem El Huwati, Cooperative Consultant;
- An administrative support staff of three members; and
- Another staff member with a civil engineering technical background and experience in project management will be hired for the Gaza office.

Consultants retained are:

- o Agricultural machinery - Walid Ala'din;
- o Computers - Wafa Dajani;
- o Engineering - Center for Engineering and Planning, Ramallah;
- o Auditor - Khaddar & Co. (East Jerusalem); and
- o Attorney - Various

ANERA's style of management and operation is described as a team approach, involving candid, technical inputs and ideas on all projects. ANERA also prefers to operate as consultants when dealing with the various institutions it helps. Most help is in the development, implementation, and evolution of the subgrant projects. But ANERA also serves as ombudsman in clearing projects with CIVAD.

ANERA's policy is to work closely with cooperative Boards and managers and not with private individuals. With a staff of specialists in the fields of law, economics, marketing, credit management, education, veterinary medicine, cooperatives, soil conservation management and engineering, ANERA is well equipped to consult its institutions in the development and management of programs. Moreover, ANERA provides support to indigenous non-profit institutions through direct cash transfers. ANERA periodically advances funds to subgrantees for the purchase of goods and services. Disbursements are made under their name, as opposed to ANERA's.

ANERA's staff appears to be very active in the field as they are always called on by cooperatives for project support. Institutions which want assistance from ANERA submit a proposal. These proposals are logged by the administrative assistant of ANERA who gives a brief overview on each proposal at a monthly staff meeting for this purpose. Those who pass the established ANERA criteria are assigned to the staff member involved in that area. Visits are made to the institution to obtain additional needed information to write a project proposal. At this stage ANERA staff make several trips to the field in order to dialogue with Board members, manager and cooperative members. Afterwards, the proposal is revised by the ANERA Representative, Deputy Representative, and the staff member involved. If all agree, it is sent to ANERA, Washington, DC, for approval by the ANERA Program Committee. If the committee approves, it is ready for the implementation phase.

According to ANERA's office manual, each project must be visited 2 to 12 times and the cooperatives are likewise expected to visit the ANERA office 2 to 5 times each. Devres can vouch for such visits to ANERA because the

Devres Team saw cooperative members from the field visit the Jerusalem office on several different days.

ANERA maintains formal relations with the involved institution for 3 years after the start of the operation phase. The ANERA staff member makes periodic visits and the institution sends ANERA periodic reports. The phase of identification, planning, implementation are all important activities to transfer skills and knowledge that can improve the capabilities of individuals leading to institution building.

After 18 years in WB/G, ANERA has developed an excellent staff and capable management system. Its evaluation system, however, needs more attention. The Devres report has already discussed the cases of "white elephants" which are disturbing for both ANERA and A.I.D. There are problems with the PPIs and logical frameworks which also need correction. But Devres finds fault too with the A.I.D. reporting requirements and monitoring which we address below.

## VIII. COORDINATION AMONG PVOs AND A.I.D.

All A.I.D.-funded PVOs in W/G have a meeting every month, coordinated by the A.I.D. unit within Consul Generals Office in Jerusalem. The meetings were initiated and well attended during the tenure of A.I.D. Project Officer Suzanne Olds. Since her departure in July 1992, Devres was told that meetings have continued on a regular, monthly basis as before.

Independently of the above, Devres found the following forms of coordination:

- o ANERA coordinates with CDP in line with their "Joint Development Strategy" (Refer to Annex G). Accordingly, CDP and ANERA have:

  - -- A shared vision and philosophy;
  - -- Similar goals with regard to human resources, training and technical assistance, credit, feasibility studies, legal aid and dealings with CIVAD;
  - -- They target the same cooperatives for the most part, including cooperatives for olive presses, dairy and livestock, village electrification, housing and handicrafts;
  - -- They have agreed to complement and not compete in cooperative development; and
  - -- They have agreed to "coordinating mechanisms" including a "macro-planning committee" and a "co-op coordination committee."

Nonetheless, having this agreement still leaves some loopholes. Devres did not find within the agreement the type of statements needed to assure coordination. In short, the joint statement said nothing about:

  - -- Frequency of meetings and interactions;
  - -- Leadership in terms of who could call the meetings and set the agenda;
  - -- Follow-up to joint activities, who would serve as the monitor for effective coordination;
  - -- Commitment of joint funds for coordinated projects; or
  - -- System of record-keeping on co-developed projects and meetings.

- o ANERA and the CDP signed an agreement on March 21, 1988 which "defined" the general parameters of technical assistance and training which the Cooperative Development Project (CDP) is willing to provide, within the limits of its available capabilities and resources, to American Near East Refugee Aid (ANERA) in support of its revolving loan fund programs to and through cooperative entities in the Wet

Bank/Gaza areas. It also outlines the general areas of cooperation, information (feed-back), etc. which ANERA is willing to provide to CDP so that this arrangement can be effectively implemented (Letter signed by Lance Matteson and Donald H. Thomas on CDP stationary, March 21, 1988).

With regard to this agreement, Devres does not believe that either CDP or ANERA pay much attention to it as a formal arrangement.

Devres recommends that ANERA and CDP review the March 1988 agreement and up-date its stipulations regarding the coordination between them needed to improve the revolving loan fund program to the cooperative sector.

- o In March 1987, a memorandum of understanding was signed between the six PVO's: AMIDEAST, ANERA, CDP, CRS, JCO and Save the Children in order to coordinate efforts, to avoid duplication, and to achieve integration in credit related activities.

Devres believes that this agreement has been superseded by the arranged described above in the opening paragraph. But apparently, this agreement is dated since many of the heads of PVOs are new in WB/G.

- o ANERA and AMIDEAST have had several collaborative activities. An example is a 10-week training course given by AMIDEAST to the staff of the Bethlehem Municipality so that the staff could use effectively the computer hardware that ANERA helped the municipality obtain.

- o ANERA coordinates with local and international institutions concerned with credit activities, such as the Arab Development and Credit Co. (ADCC), Economic Development Group (EDG), Technical Development Corporation (TDC), and Cooperation for Development (CD).

Devres finds a sufficiency of agreements and mechanisms for coordination among ANERA, CDP, and other PVOs. However, the degree of actual coordination can not be attested to by Devres..

Devres recommends a more direct involvement of A.I.D. in the coordination among PVOs with regard to cooperative sector projects. USAID is needed to monitor and to effectively assist in the determination of needed coordination.

# IX. A.I.D. MANAGEMENT

A.I.D. management of the WB/G program differs significantly from other bilateral A.I.D. programs. Until September 1991, A.I.D./Washington managed the program via a Working Group and through support from the Department of State in the field. From September to mid-July 1992, an A.I.D./Rep was assigned in Jerusalem to assist A.I.D./Washington in the management of the West Bank activities with the support of two Palestinian personal services contractors (PSCs). The Devres Team had one day with the A.I.D. Representative who left the next day for another assignment. An Economic Officer in the U.S. Embassy/Tel Aviv, with one PSC, assists A.I.D./Washington in the management of the Gaza activities. As the Devres Team conducted its assignment, an Economic Officer in the U.S. Consulate General assumed the oversight responsibilities for A.I.D./ Washington in the West Bank.

The Devres Team had two days in Gaza with the Economic Officer of the U.S. Embassy and his PSC. The Embassy Officer appeared to have a good grasp of development issues in Gaza and of the activities of CDP and ANERA. The Devres Team got the impression that he had the commitment and interest of a dedicated A.I.D. Officer.

The change in A.I.D. management in the West Bank released several comments and concerns about A.I.D.'s interventions with both PVOs. PVOs staff were critical of "excessive" A.I.D. requirements for monitoring and of reports in the Arabic newspapers that A.I.D. would reduce its support to Palestinians through PVOs. The news accounts were attributed to the A.I.D. Representative, although the Devres Team could not support these claims. PVOs were concerned too that critics of the cooperative movement (such as O.Shehedah, a Ph.d. candidate, and Dr. Allen Richards, a university professor) were influencing A.I.D./WB-G monitoring. Without going into more detail in this report, it suffices to say that communications between A.I.D./Washington and the PVOs have been strained.

Devres asked representatives of CDP and ANERA how A.I.D. could more effectively exercise its management role. The PVOs responded with these general comments:

- o The PVOs would welcome a local (Jerusalem based) A.I.D. officer to backstop their projects;
- o The PVOs want someone who would see, first hand, projects in the field and respond directly to questions or complaints raised about PVO performance;

- o The PVOs believe that there is excessive paperwork requested of them by A.I.D. and that the requests would go down if the local A.I.D. person went more often to the field and checked more frequently with the PVOs; and

- o The PVOs want to cooperate with A.I.D. but they are concerned that A.I.D. consults more with non-PVO groups which are critical of PVO projects. The PVOs request that the A.I.D. Officers consult first with them when a problem or issue arises regarding their activities.

Devres recommends that A.I.D./Washington proceed quickly with an A.I.D. replacement in the Jerusalem office and that the next person assigned to the post become more familiar, first hand, with the in-field and local operations of the PVOs. While it may be appropriate also to have an A.I.D. Officer for Gaza, the Devres Team does not believe a replacement for the Gaza Embassy Officer is needed right away. Devres recommends that the next person(s) be prepared to work directly with the PVOs in handling problems or complaints regarding their activities. That the replacements have working knowledge of Arabic, although the other selection criteria are more important at this time.

# X. FUTURE ACTIVITIES

At present, "cooperative sector" projects are at a crucial juncture. On the one hand, the PVOs can continue along a path as they have in the past, with ANERA focused on vital infrastructure and "institutional development" and CDP focused on "human resource development" and "cooperative strengthening." This path, however, will bypass several Palestinians in the "popular" cooperatives and will not abate some of the criticisms leveled against ANERA and CDP.

On the other hand, the PVOs can charter another path which is more encompassing, inclusive and more far reaching. The alternative path will include new terrains for both CDP and ANERA and will even have some pitfalls. It will include consultations with "popular" cooperatives, their NGO support, and new criteria for selecting cooperatives.

Of course, both PVOs must be prepared to alter courses to some degree because of the dynamic nature of the cooperative sector. But as Devres suggests, the PVOs should be prepared to incorporate new approaches and cooperatives.

Devres believes that CDP and ANERA need to change paths jointly, especially with regard to achieving some "real" visible successes in the cooperative sector. As yet, Devres cannot say with strong assurances that there are ideal "model" cooperatives to learn from within WB/G. There are some good cooperative Boards and some projects which have sustainable properties, but there are no outstanding cooperatives like the Mondragon cooperatives of Spain or the cooperatives of Bangladesh, for example. After allocating $30 million in funding for the cooperative sector of WB/G, A.I.D. should expect to have a few cooperatives become highly visible examples of success.

Devres does not want to suggest that more money is needed. Large doses of A.I.D. money are not the critical elements needed at this time. What is needed are more significant, conventional commitments towards the basic goals addressed. Namely:

- "cooperative strengthening";
- "institutional development"; and
- "human resources development".

Devres recommends that CDP and ANERA work concertedly towards the establishment of at least nine cooperative successes. Five years may be sufficient for this goal, provided there are no major exogenous setbacks in the political economy. At least 25 percent of CDP and ANERA inputs should be devoted to strengthening a subset of cooperatives. The successes can be shown in terms of the following:

- o Cooperatives which adhere to the basic principles of cooperation spelled out in section II;
- o Cooperatives with members who invest back into their cooperative and understand the principle aims of cooperation;
- o Cooperatives which sustain revolving credit programs and build member equity and pay regular dividends based on "patronage";
- o Cooperatives which support educational programs of members and youth, which contribute to an understanding of cooperatives within their communities; and
- o Cooperatives which are economically competitive in the market place and on the basis of charging members the full cost (usually market prices) for services and inputs and requiring that outputs be sold at market prices. Cooperatives must be convinced that business profits can have more lasting returns to members if reinvested in the cooperatives.

The above agenda will require some programmatic changes. ANERA, in particular, will need to sharpen its tasks and staff for working with select cooperatives. It will need to have cooperatives' adhere to basic principles. CDP will need to orient its training and technical assistance more towards programs for educational and human resource development and less towards "how to" curriculums, e.g., "how to drive and repair a tractor," "how to work with LOTUS on the computer." Devres recognizes the importance CDP gives to teaching cooperatives to use their resources more effectively, but Devres emphasizes that such teaching must keep in its curriculum the basic lessons of cooperation.

For the above strategy to work, management too must be trained and prepared to charter different orientations.

Devres recommends that the staffs of CDP and ANERA confer to plan for the future with select cooperatives. The conference goals should be to define and clarify the goals and targets of the "cooperative sector." Secondary goals should include the following:

- o Agreeing to a set of "principles of cooperation" that all cooperatives will follow;
- o Agreeing to coordination and enhanced communication with regard to cooperative sector activities;
- o Agreeing to target certain cooperatives to serve as models and leaders in the cooperative sectors; and
- o Agreeing to contribute certain PVO resources to sustain the above.

Devres recommends that USAID underwrite the costs needed to hold a conference of CDP and ANERA and to assist with the development of a management information system aimed at strengthening cooperatives via the PVOs..

Devres recommends that CDP and ANERA continue their efforts towards reaching more cooperatives within the cooperative movement but that the additional activities be based on "needs assessments," "feasibility and market studies." Since the PVOs have general roles to play in serving the greater Palestinian population. Devres recommends that the PVOs communicate more frequently with and become more interested in the NGOs operating within the cooperative sector. As a guesstimate, Devres believes that about 75 percent of the time and money allocated to CDP and ANERA should be devoted accordingly.

# ANNEX A

## Evaluation Scope of Work

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ATTACHMENT A

## SCOPE OF WORK

## EVALUATION OF WEST BANK/GAZA COOPERATIVE SECTOR AND THE COOPERATIVE DEVELOPMENT PROJECT

### I. PURPOSE

The purpose of this evaluation is to analyze the A.I.D.-funded assistance to the cooperative sector in the West Bank and Gaza and to examine the performance of two private voluntary organizations (PVOs) in the implementation of programs in the cooperative sector.

This statement of work has two components:

1. an evaluation of the performance of the AID-funded cooperative sector activities of the PVOs ACDI and ANERA in the context of the needs of West Bank/Gaza cooperatives; and

2. evaluation of the ACDI (Agricultural Cooperative Development International, Inc.) Cooperative Development Project in West Bank/Gaza.

The rationale for this joint evaluation is that many of the issues and questions are similar for the PVOs providing assistance to cooperatives, although the emphases of their programs are different. In fact, both PVOs may be assisting the same cooperatives. Therefore, the scopes of work for the two components of this contract are similar. The contractor will address supplementary questions for the ACDI evaluation and will examine a larger sample of projects than will be selected for the two other PVOs involved in the cooperative sector. The evaluation report for each component will be self-sufficient and will stand alone. The ACDI evaluation report will focus strictly on ACDI; however, that report will benefit from the overall sector evaluation and will incorporate the relevant findings and recommendations of that evaluation.

In addition to reports available from A.I.D./W and the PVOs, the A.I.D. Representative at the ConGen Jerusalem and the Economics Officer at the American Embassy in Tel Aviv will provide the evaluation team with records and other documentation that describe on-going and completed cooperative development activities funded by A.I.D. in WestBank/Gaza.

The following are the objectives of the evaluation:

1. Analyze the current and future needs of the cooperative sector and, within the framework of the overall strategy for WB/G, make specific recommendations on the type of



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assistance A.I.D. should provide and the mechanisms for best delivering that assistance.

2. Based on objective 1 (above), analyze current AID-supported activities in the cooperative sector and determine strengths as well as weaknesses of the activities. Identify and describe any changes that should be made.

3. Assess the technical and managerial capabilities of the PVOs to successfully implement current and future activities in support of planned cooperatives programs. Assess the experience of PVO coordination.

4. Evaluate the performance of the PVOs and document their progress towards achieving project purposes and target inputs and outputs.

5. Assess the actual or potential impact of the projects.

6. Recommend a specific system to improve monitoring of CDP progress.

## II. DESCRIPTION OF THE PROGRAMS TO BE EVALUATED

### A. The Cooperative Sector

There are approximately 250 working cooperatives in West Bank/Gaza. They include agricultural production and marketing, housing, village electric, handicrafts and other services (transportation, domestic water supply, higher education, health). The Palestinian cooperative movement began in 1920. PVOs estimate that there are 32,000 member families and that coops effect approximately 30,000 non-member families.

### B. The PVOs

ACDI and ANERA are, by far, the AID-funded PVOs that provide the greatest dollar amount of assistance to Palestinian cooperatives. The program status of each PVO is summarized in semi-annual reports, the most recent of which is the May 1992 report. These reports include updating of Project Performance Indicators (PPIs). The PPIs are the product of joint AID-PVO consultations in 1989-90.

#### 1. ACDI

The Cooperative Development Project (CDP), ANE-0159-G-SS-6020-00, began in 1985. Life of project funding is $9,186,759. The estimated completion date is August 31, 1992. A follow-on project currently is being reviewed by the A.I.D. This evaluation is timely as the results will be significant for a three-year follow-



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on project. (A copy of the ACDI proposal for this follow-on project is provided.)

As the implementing organization for the Overseas Cooperative Development Committee (OCDC), ACDI leads the effort by the U.S. cooperative movement to assist in the development of Palestinian cooperatives serving agricultural, housing, electric power and other needs. Through provision of short and long-term technical advisors, equipment, training, and credit, ACDI is seeking to improve rural cooperative infrastructure, productivity, and access to credit.

2. ANERA

ANERA was one of the first PVOs to work in WB/G under A.I.D. funding. ANERA operations in WB/G began in 1975. ANERA has received a number of grants from A.I.D. and currently is implementing the Development Assistance IV Project under Grant No. ANE-0159-G-SS-9048-00. The project began in FY89, the project completion date is September 29, 1994, and life of project funding of $14,293,000. Development Assistance IV activities related to cooperatives focus on agriculture (marketing, processing, irrigation, machinery, land reclamation, disease and pest control, livestock, dairy) and credit with some assistance to handicraft and health cooperatives. ANERA interventions are oriented towards capital projects (equipment and infrastructure).

## III. STATEMENT OF WORK

### A. General

The frame of reference for the evaluations and for assessing to what extent project purposes and input and output targets have been achieved will be the grant agreements and project performance indicators. Relevant portions of the Grant Agreements and the PPIs are attached to this SOW. Team members will familiarize themselves with these basic references and with other references cited in this scope. In evaluating PVO performance, the contractor will develop an approach based on a comprehensive examination of project purpose, inputs and outputs for both PVOs. The reference points for this approach will be the grant agreement, the PPIs and logframes. Note that there is not a uniform format for the statement of project purpose, inputs and outputs in the Grant Agreements. In general, the Grant Agreements contain a statement of purpose followed by a statement of objectives. The latter is a summary of what the PVO intends to do and may be a combination of project inputs and outputs.

There will be 3-5 team members (3 expatriates and 1-2 Palestinians). It is suggested that the management specialist be the team leader and take the lead on the Cooperative Sector evaluation. It is also suggested that a second team member (e.g.

the agricultural economist) take the lead on the ACDI evaluation.

Each team member should have a minimum of seven and preferably ten years of previous successful international development experience. Prior work experience in the Middle East, familiarity with the socio-political conditions of the area and Arabic language capability are all desirable but not required qualifications. The Palestinian team member(s) should be fluent in English and Arabic and have extensive knowledge of and experience relevant to this evaluation. Team members must be able to operate independently as well as a team for interviews, site visits, and drafting portions of the evaluation reports.

B. Personnel Requirements and Qualifications

1. A management specialist with prior experience developing, managing, and evaluating cooperative development programs. This person will have extensive practical experience working with cooperatives, will have a thorough understanding of the prerequisites for a cooperative to achieve its full potential and successful operation. It is suggested that this specialist serve as Team Leader and, as such, is responsible for managing the team schedule, the division of labor among team members and insuring the timely delivery of two well-written, integrated evaluation reports.

2. An agricultural economist with project level work experience in agriculture cooperatives, small farm production, marketing systems, agricultural and cooperative credit, and development of cooperatives. This team member will be responsible for all aspects of the two evaluations related to agriculture cooperatives needs assessment and PVO assistance to agriculture and ag marketing coops. It is suggested that this person take the on primary responsibility for the ACDI evaluation.

3. A human resources development specialist with experience in cooperatives, agribusinesses, extension services or similar background. This team member is responsible for analyzing the training and technical assistance needs of the WB/G organizations receiving AID-funded assistance and the PVO response to these needs. It is suggested that this team member take the lead in evaluating all but the agriculture cooperative assistance and in addressing cooperative and PVO management questions and questions regarding (PVO) coordination.

4. Palestinian(s) with expertise in development planning and administration, practical experience with or substantial knowledge of non-governmental organizations. Prior experience evaluating development projects and



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particularly cooperatives would be particularly appropriate. Palestinian team members will have excellent knowledge on the history and operations of Palestinian cooperatives, current needs, constraints and issues. They will be experts whose views are respected by key figures in the cooperative movement. Fields of specialization may be any engineering, management, economics, agriculture, or human resource development.

5. Translator(s) to accompany the team whenever translation is needed (e.g. field visits).

C. TASKS

1. COOPERATIVE SECTOR EVALUATION

The contractor will produce a report that addresses all of the questions in this section.

a. Overview: Basic Questions

- What are the needs for cooperative development assistance? Do some types of cooperatives make more sense than others in the WB/G context? Are some types generally more successful than others? What role do cooperatives play in the economy?

- What should PVOs be doing to assist cooperatives?

- What assistance are other donors (EC, UN, IDB, etc.) providing to cooperatives and what have been the results?)

- What have been the bases for PVO selection of cooperatives with which to work? Should any changes be made in the criteria used currently to determine when and if assistance will be offered?

- Did the project analysis that preceded assistance address key issues (e.g. sustainability) and clearly stated objectives? How have Palestinians been involved in project selection and design?

- How do the needs of the cooperative sector in Gaza differ from needs in the West Bank?

b. PVO Performance: Basic Questions

The contractor will answer the following questions for ACDI and ANERA as relevant to their activities in support of cooperatives:

- Does a logframe exist and is the proposed logframe sound?



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- What were the planned versus actual purposes?

- What were the planned versus actual objectives? If the objectives are not as planned, why? (See earlier note regarding objectives.)

- What were the planned versus actual inputs and, if different from planned, why? How did this affect the planned outputs?

- What were the planned versus actual outputs? If outputs are not as planned, why and how has this affected planned objectives? How do outputs accomplished relate to the purpose/objectives of the grants? In what areas have project outputs exceeded the original objectives? In which areas has performance been weakest, i.e., objectives not been met?

- What general factors (e.g. design, management, socio-political conditions, environmental conditions) have contributed to satisfactory or unsatisfactory performance? What has been done to overcome difficulties?

c. <u>Evaluation of Specific Project Inputs</u>

Training, technical assistance and commodity procurement/construction constitute the major elements in the PVOs activities. Based on a review of selected cooperatives, the evaluation will determine:

Has short and long-term technical assistance to cooperatives been effective and relevant?

What local sources of technical assistance be used to a greater extent?

How effective has training been in e.g. measurably improving the skills of cooperative members and staff in the use and maintenance of equipment, production techniques and management? Has it been timely, reached appropriate audience and been reinforced? Has methodology been appropriate to subject and audience?

For commodity procurement and construction, have decisions regarding the location and types of equipment purchased been technically sound and within the financial capabilities and actual needs of receiving cooperatives? Are long-term issues, such as covering recurring costs and operations and maintenance, design flexibility and cost control taken into account in the upfront analysis? Are the commodities and equipment being used and used appropriately?

Have the PVOs adequately addressed the issue and costs of mechanization versus utilization of (unemployed) manpower?

To what extent are A.I.D. "Buy America" preferences being addressed? How can the record be improved?

For infrastructure and construction, have planning and design been sound? Has there been appropriate, professional supervision of works? Are the structures appropriate, maintainable and maintained by the beneficiary institution and used for the planned purposes? (The evaluation team should evaluate such these activities in the context of original stated needed and subsequent developments such as Intifada and the decline of tax revenues.)

d. <u>Project Impact: Expanding the Role and Strengthening the Capabilities of Cooperatives</u>

The philosophy guiding A.I.D.'s funding of cooperative development PVOs is that in the WB/G, cooperatives are indigenous, locally accepted organizations through which economic development can be advanced on a cost-effective and equitable basis. An intermediate step in improving the well-being of West Bank/Gaza residents, therefore, is to expand and strengthen the role, functions and capabilities of cooperatives to serve the needs of their members. Based on a review of selected cooperatives, the contractor will evaluate the impact of project assistance, by answering the following types of questions and presenting supporting data or evidence:

- Has assistance to cooperatives contributed to or resulted in the intended improvements; e.g. new activities, increased production, greater volume of goods processed or marketed, expanded membership, increased levels of lending and repayments? Has the internal management of the cooperative improved; e.g., improved accounting, financial or management information systems developed, increase in number of elections held, or other improvements made? If not, why not? Has assistance helped to prevent deterioration in these areas in view of the Intifadah and other developments?

- What is the likely viability of assisted cooperatives after A.I.D. support is terminated? What actions have been taken to assure economic sustainability; e.g. user fees paid to recover costs? --
- What actions are needed to promote viability?



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- Does assistance provided to cooperatives negatively affect or disrupt market competition? Are there any problems with private companies and farmer-owner enterprises (cooperatives) operating side-by-side, competing in the same areas? If so what criteria could be used to avoid this problem?

- In what sectors or sub-sectors have the PVOs and A.I.D. assistance been most effective? Least effective? What factors contributed to these results and what can be done to generate greater economic benefits in areas where performance has been weak? How can effective assistance be replicated in new areas?

e. Project Impact: Beneficiaries

Has the assistance of the PVOs resulted in or is it likely to produce quantitative economic or social benefits or services for cooperative members, users of cooperative services and others directly affected by the projects? E.g., increased net revenue per member, increased member satisfaction with services, increased farm production, employment generation, business expansion?

Have the benefits of A.I.D. assistance to cooperatives been equitably distributed through the membership of the cooperative? Have women participated in and benefitted from the projects equitably? What can be done to improve the distribution of benefits and the participation of women? Are more special projects targeting women needed?

f. Management

Are the planning and project implementation procedures followed by ANERA and ACDI generally adequate and sound? Do the PVO staffs visit project sites frequently to stay informed of implementation progress or problems? Are project management information systems developed to track implementation progress and alert managers to implementation problems? Do the reporting procedures and evaluation activities of the PVOs reflect adequate supervision and management of project activities? What improvements could be made? What data collection and/or reporting changes should be made to inform A.I.D. of project implementation status and development results?

g. Coordination Among PVOs and A.I.D.



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Is there sufficient and effective coordination among ANERA and ACDI, other PVOs (e.g. AMIDEAST) and other donors active in the cooperative sector to promote either complementary activities or avoid duplication of effort? In which activities do the PVOs coordinate and cooperate with one another and with other U.S., local or international organizations or donors?

How do the PVOs carry out this coordination and cooperation? How effectively do they work with cooperative members, the military government, municipal officials, other donors and the U.S. government representatives? In what areas could improvements be made? How could A.I.D. and the PVOs themselves facilitate these improvements?

h. A.I.D. Management

The evaluation team will review the role of A.I.D. management related to cooperative assistance and identify problems or difficulties from the perspective of the PVOs, the cooperatives that benefit from AID-funded assistance, other donors, and other interested parties. The evaluation report will include specific recommendations on any changes A.I.D. can make to more effectively exercise its management role.

Is the PPI system, designed with A.I.D. assistance useful for PVO planning and management?

i. Future Activities

Based on the evaluation findings, the contractor will develop recommendations based on but not limited to the following questions:

Is PVO assistance appropriately oriented to meet cooperatives needs? What are the recommendations for improving existing or developing new activities?

Is assistance appropriately directed given what other donors are doing or plan to do? Are overall programmatic changes needed; e.g., reorient the type of assistance provided to cooperatives, focus project activities? What sub-sectors should we work with more? What sub-sectors should we work with less? Should we focus our effort on certain categories of coops or give greater attention to problem areas? How can we build on the results of completed projects? When is this appropriate?

What management improvements are needed to



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strengthen the overall performance of the PVOs, their relationship with each other, and their relationship to A.I.D.?

What programmatic changes are needed to align activities more closely with A.I.D.'s WB/G strategy?

2. ACDI: Evaluation of the Cooperative Development Project (CDP)

In addition to the report on the cooperative sector, the contractor will produce a separate, stand-alone report which addresses CDP-specific questions. Upon arrival in WB/G, the evaluation team will select for site visits and data collection a number of cooperatives in the WB/G that have received intensive assistance from the CDP. The cooperatives should be representative of the CDP, fully covering the range of CDP activities. These cases will constitute an important part of the data upon which the evaluation will be based. The evaluation team will obtain information from cooperative leaders and members as well as other sources.

The contractor will carry out all of the tasks contained in the Cooperative Sector evaluation beginning with the section "PVO PERFORMANCE(b). In addition, the contractor will address the following supplementary questions, specific to ACDI:

a. Technical Assistance/Training

Have the scopes of work for all categories of short-term advisors been specific and relevant as to the purpose, tasks and products of the assignments? Has the quality of short-term advisors been generally good? Have they been used effectively? What achievements can be attributed to the work of short-term advisors?

Are the experience and qualifications of ACDI's long-term technical assistance team relevant to the needs of the cooperative sector in WB/G?

What are ACDI's outputs beyond quantitative indicators of training days, courses delivered, number of members worked with, etc.? How should outputs be measured in future CDP activities?

b. Publications/Resource Center

The CDP Resource Center was begun for the purpose of assembling cooperative and related information in one place so as to be readily accessible by Palestinian cooperative members, staff and support personnel. The Publications component is charged with developing and



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distributing appropriate technology updates and cooperative education publications. The evaluation team will answer the following questions:

Are project publications used by the cooperatives as tools for member/community education? Are those publications reaching a wider audience and helping to create an environment conducive to cooperative development?

Is the Resource Center used as planned?

What kinds of resources should be developed for distribution and for use in the Resource Center?

c. Project Design and Monitoring

The CDP is a large, complex project covering several sectors and sub-sectors of the local economy. The CDP has provided training, technical assistance and credit to many cooperatives and members. In addition to agricultural cooperatives, a major effort has been made in the area of electrification cooperatives. New areas of work such as housing and jobs creation have increased and will increase the management burden. Based on the evaluation team's review of selected cooperatives, the evaluation will:

Recommend a specific system to improve monitoring of CDP progress. What type of quantitative and qualitative indicators should be tracked? How should the information be presented and from what sources should its underlying data come?

d. Future Activities

The evaluation team will study the ACDI May 1992 proposal for the three-year extension of the CDP. Based on its findings in the Cooperative Sector and the CDP evaluations, the evaluation team will comment on the soundness of the purpose, inputs and outputs of the new proposal, make specific recommendations, and identify options ACDI should consider. For example:

Is the strategy of strengthening the managerial, financial and marketing capability of nine (model) cooperatives the most appropriate response and the best use of A.I.D. funding?

Based on past experience and current needs, is the approach to promoting sustainable institutions realistic, workable and appropriate?

Is the proposal to provide financial assistance to cooperatives via a revolving loan fund managed by a Palestinian organization workable and sound?

Generally, what management improvements are recommended to improve the overall performance of CDP and A.I.D.'s relationship with CDP and ACDI? What programmatic changes are needed to align CDP activities more closely with A.I.D.'s WB/G strategy?

## IV. SCHEDULE OF WORK AND MINIMUM LEVEL OF EFFORT

The evaluation will work a total of four weeks in Jerusalem, Tel Aviv and the Occupied Territories. The U.S.-hired members of the team, excluding the team leader, will work up to four additional days in the U.S., with two days prior to departure reserved for briefings from A.I.D., State, and the PVOs and review of documents and two days upon return reserved for briefings to A.I.D., State, and the PVOs. The team leader will work up to nine additional days in the U.S., including the four days of briefings and up to five days to incorporate into the report comments collected and provided by A.I.D.

At the beginning of its fourth week in Jerusalem, the team will provide an annotated outline of the evaluation report and an oral briefing to the interested parties at a meeting organized by the A.I.D. Representative. A separate briefing will be provided to the Embassy Economics Officer if he is not involved in the A.I.D. coordinated meeting. Prior to its departure from Jerusalem, the team will present copies of its draft evaluation report to the A.I.D. Representative and to the Embassy Economics Officer. Upon its return to the U.S., and one week prior to the scheduled briefings in Washington, the team will present the copies of the same draft to A.I.D., State, and PVOs.

Not more than two weeks after the briefings, to A.I.D and the PVOs, A.I.D. will present written comments on the evaluation reports to the contractor. The written comments will represent the coordinated views of the field and home offices of A.I.D. and the PVOs and the views of the Embassy. Upon receipt of the written comments, the contractor, in the person of the team leader, will work up to five days to finalize the evaluation document. The contractor will submit ten copies of the final report to A.I.D. not later than two week as after the contractor receives the written comments.

An illustrative schedule follows:

Week 1: Discussion with AID/W and PVO representatives on Scope of work and program background. The team will fly to Tel Aviv and travel to Jerusalem. The contractor will organize two days of team planning meetings and resource reading in Jerusalem. The meetings will include briefings by A.I.D. and the Consular General and the Economic Officer from the Embassy in Tel Aviv, and representatives of the PVOs (ACDI/OCDC, ANERA).' The team, in consultation with the A.I.D. Representative will develop a plan and a system for selecting cooperatives for in-depth study and site visits. The team will begin site visits to projects by the end of the first week.

Weeks 2-3: Focus effort on site visits and interviews with cooperative representatives and beneficiaries. The team will function independently of the PVO organizations, arranging its own meetings. The team will make weekly progress reports to the AID Representative.

Week 4: At the beginning of the week, the team will present a detailed oral briefing and annotated outline of the evaluation reports to the AID Representative, the Embassy Economics Officer, and the PVOs. Based on comments from these interested parties, the team will produce two draft reports (4 copies of each) and deliver them to the A.I.D. Representative and the Embassy Economics Officer prior to departing Jerusalem. Upon its return to Washington, the evaluation team will provide copies of each draft report (same as above) to interested AID/W and State Department staff and to the PVOs.

Week 5-6-7: Team will brief A.I.D. and the PVOs, A.I.D. will provide its comments as well as input from the State Department and the PVOs on the drafts within 2 weeks of the oral briefing. The evaluation team leader will produce two final reports within two weeks of receipt of written comments.

## V. LOGISTICAL AND ADMINISTRATIVE SUPPORT

The contractor is responsible for all logistical support for the evaluation team and contracting arrangements with the Palestinian team members. Office space, transportation (vehicle, chauffeur, etc), word processing, translation, typing, printing will not be provided by the AID office. Team members are advised to carry with them their own word processing equipment. The contractor is authorized to use funds provided in this PIO/T to secure adequate word processing and micro-computer support and to hire services as required.

## VI. DELIVERABLES

The team will be responsible for producing two evaluation reports that complete the tasks presented in this scope of work. At the beginning of the 4th week, the team will submit to the AID Representative and to the State Department Economics Officer an annotated outline of the evaluations and will make an oral presentation to the AID Representative, the ConGen Jerusalem, Embassy representatives, and to representatives of the PVOs evaluated. (Copies of the draft CPD outline will be provided to

ACDI and not to other PVOs.) Based on comments from the briefing and review of the outlines, the team will make appropriate revisions. The team leader will submit four copies of the final draft reports to the AID Representative and the Embassy Economics Officer prior to departing West Bank/Gaza.

Upon its' return to Washington, the evaluation team will provide a copy of the draft report and oral briefings to interested A.I.D. and State Department staff and to the PVOs. A.I.D. will provide coordinated, written comments on the draft within two weeks of the oral briefings. The evaluation team will produce a final reports and deliver ten copies of the final printed reports to the AID/W Program Coordinator <u>within two weeks</u> of receiving A.I.D. comments.

The contractor will provide AID/W with a disc containing the text of the two reports in Word Perfect 5.0 or 5.1.

The format for the reports should conform to the following guidelines and will contain the following sections:

1. Basic (Project) Evaluation Sheet , part 2 (one page)

2. Executive Summary (3-5 pages, single spaced)

3. Contents-Main text. (Maximum 40 pages single spaced). Describe briefly the context in which the projects were developed and implemented. N.B. The impact of the Intifadah, the Gulf War and general operating constraints are well-documented. Therefore, the team should not devote more than 1-2 pages to background on these subjects). Provide evidence and analysis which form the basis for conclusions and recommendations. The evaluators will clearly distinguish between their findings and their conclusions and the recommendations that follow. Appendices may include additional supporting analyses and data.

4. A short and succinct statement of conclusions and recommendations that are mutually supporting. When possible, recommendations should indicate who should take responsibility and when for the recommended action.

5. Appendices will include the following:

a. Evaluation scope of work
b. Logical frameworks and PPIs
c. Description of the methodology used in the evaluation (e.g. indicators for measurement of impact)
d. Bibliography of documents consulted
e. List of person contacted/interviewed
f. Other

Attachment 1

## Preliminary List of Key Documents

Relevant Sector Assessments or summaries

Grant Agreements (relevant sections)and Program Performance Indicators for ACDI, ANERA.

May 1992 Semi-Annual reports for ACDI, ANERA.

Cooperative Development Program/JOBS proposal, May 1992 (CPD extension 3-year extension)

"Evaluation of the WB/G Cooperative Sector Projects" April 10, 1989

(CDP) "Final Report: Evaluation of West Bank/Gaza Cooperative Sector Programs," by Bruce H. Kratka, Gene F. Miller and Dave E. van Tijn, TvT Associates, 1989

"Palestinian Cooperatives: A Development Strategy," Joint ACDI/ANERA statement 2/92

Letter to ACDI from Dr. Stephen H. Grant, April 6, 1989.

Letter from ACDI to Dr. Stephen H. Grant, May 1, 1989.

Evaluation of ANERA program, TvT, 4/92.

ANERA proposals: "Cooperative, Municipal and Business Development Projects in the West Bank/Gaza," October, 1987 and 1988.

ACDI proposal: "West Bank and Gaza Cooperative Development Project, Project Expansion/Extension Proposal," ACDI, 1989.

ACDI:"Consultancy Report on CDP Credit Program," by Charles Taylor, December, 1991.

ACDI: "Village Electric Cooperative Program Assessment," by Bard Jackson, January, 1992.

"Audit of A.I.D.'s Monitoring System for the West Bank and Gaza Program," Audit Report No 0-000-00-000, February, 1992, A.I.D. Inspector General's Office.



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# ANNEX B

## Logical Frameworks and Project Performance Indicators

# PROGRAM PERFORMANCE INDICATORS AND MONITORING INFORMATION FOR A.I.D.-FUNDED PVO PROGRAMS IN THE WEST BANK AND GAZA

Diane S. Ponasik
ANE/DP/E
February 20, 1990

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INTRODUCTION

For the past 18 months the Evaluation Division of the Asia Near East Bureau has been assisting all Missions to establish a system of Program Performance Indicators. These Program Performance Indicators (PPIs) are a series of measures generated from the overall objectives of the Country Development Strategy Statements (CDSS) of each Mission that give an empirical report on the progress being made in each AID country toward reaching these goals.

Program Performance Indicators serve several important functions. The most important is a management function. Because PPIs focus on overall objectives at at least a sectoral level, they enable senior managers to gain an overview of the progress their programs are making toward accomplishing higher level goals. For project officers who are required to focus on inputs and outputs to assure implementation they provide a needed periodic reminder of the overall purposes their projects are expected to accomplish. They also necessitate a fresh look at project progress to see if accomplishment of the outputs is making expected progress toward achieving these purposes. An annual country-level review of PPIs focuses on the overall impact the program is having on the host country's development. Weaknesses perceived in progress may direct decisions toward design changes needed in projects (indicating, for example, that original project assumptions about outputs needed to effect changes were incorrect). A review of PPIs should also identify areas for new program directions, needed projects, and areas with least potential for project assistance. Tracking program performance indicators therefore has greatest value at the country level as a management tool.

Because Program Performance Indicators provide quantitative information on the progress a program is making toward achieving its overall objectives, they also serve as important reporting tools. With the added interest from Congress in accountability, and in receiving better information from A.I.D. on its overall impact on host country development, these PPIs take on the added value of providing standardized empirical data on the kinds of impact the AID dollar is generating. While in AID missions the level of assistance is generally not high enough to claim significant increase in a national statistic, if PPIs are well-thought out and related to overall objectives they should nevertheless give a measurement of the kind of higher-level effect the program is seeking. For instance, usually an AID program could not claim to have increased the share of the private sector in the national economy by 10%. However, an AID program could perhaps measure the number of national banks now providing loans to small businesses, or an overall increase in the volume of these small

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loans, etc. Similarly, a PVO program in the West Bank/Gaza could perhaps claim to have raised the income level of 25% of all agricultural coops. A PVO could also take particular credit for a program to which it along with other donors has contributed substantially. PPIs thus serve as reporting tools which should give a more accurate impression of the kinds of impact being achieved by AID programs. Presumably the benefits of this improved accountability should include, if not increased funding, at least better cases made for what is being accomplished, and better justification for funding requests.

A third function of PPIs now under consideration in the ANE Bureau is the use of these indicators to establish overall Mission performance, and then to compare performance of all Missions in the bureau. This exercise would be incorporated into performance-based budgeting, with best performers receiving higher percentages of program funds. This gives an added dimension to the management potential of program performance indicators.

In the spring of 1989 a consultant was recruited to work with PVOs in the West Bank and Gaza to establish Program Performance Indicators for the overall assistance portfolio funded through USAID. Based on previous experience at Missions using the CDSS as the point of departure for establishing indicators, the consultant was asked at that time to base his work on the draft AID strategy, drawn up in 1987, and to identify 1) activities PVOs were funding that fit within various sectors of the strategy, and 2) indicators showing progress towards achieving these goals.

When the draft report was reviewed in AID/W, the Evaluation Division realized that in the unique situation of the West Bank and Gaza, where a major portion of the program is being implemented by PVOs, basing the indicators on the draft strategy was not the most effective approach to gaining good measurements of progress. Among other reasons, the fact that many PVOs had established programs long before the strategy was drafted meant that the fit between their objectives and the strategy was not always perfect. Because of this, the report was only able to list indicators at an output level under the AID strategy. This was disappointing for both AID/W and the PVOs in that it did not do justice to the work being done on the West Bank and Gaza because no real results at a purpose level could be tracked.

The decision was made to rethink the Program Performance Indicators for the PVO programs in the WB/G identifying their overarching program objectives, and establishing indicators which they could track over time that would measure progress toward achievement of these objectives. In most cases, this involved working closely with each PVO, in some cases to rethink or rephrase purpose level objectives, to reexamine logframes and end-of-project status indicators. Each PVO identified a series of overall objectives for its entire program and then generated a list of indicators issuing from its projects which should track progress toward meeting the objectives. Data collection and sources were also identified and a matrix was introduced on which the data can be reported (see attachment A). These indicators will be reported on annually, in the May report. The matrix will show baseline data and, in subsequent years, the change that has taken place. After a few years of data are available, the PVO should prepare some analysis of what the data show about its program - where are the weaknesses and strengths, and what future plans seem called for by the data.

During this trip, it was established that PVOs will standardize reporting to AID/W. All will submit semi-annual progress reports, due November 1 and May 1. The November report will cover progress from April 1 - September 30, and the May report will cover October 1 to March 31.

The November report will cover regular project monitoring information and an annual update on Program Performance Indicators. Regular project monitoring requires the tracking of project outputs and individual project purposes. Outputs are project products that are needed to achieve the purpose. For instance, if a project purpose is to increase the drinking water supply in 25 villages, the outputs would be the number of wells dug, technicians trained to maintain the well, pipes laid, etc. The inputs to achieve this would be commodities, money and technical assistance. In project monitoring, these inputs and outputs are tracked to assure that the project is proceeding in a timely fashion. Progress toward reaching the purpose of the projects is also tracked. In the two semi-annual reports the PVOs will report on agreed-upon outputs and purposes that have been standardized. This will eventually result in a time series of information that can be tracked and also, in some cases, accumulated for several PVOs to give an idea of overall program impact on the West Bank and Gaza. As suggested in the body of the report, the output level information will be shown in 6 month intervals, since the beginning of the project (showing the year it began) and since the beginning of the program (showing the year), if it is only one phase of a larger activity. The 6 month interval reporting will be helpful because it will give PVO project managers, as well as AID officers an idea of the rhythm of the project (i.e. is an output increasing regularly, are there peaks and ebbs, etc.) For this reason, we ask PVOs to show the data over at least a two year period (eg 11/88, 5/89, 11/89, 5/90).

The May report, for 1990 only, in addition to the monitoring information (input and output data) will list Program Performance Indicator baseline data. Any PVOs that have retrospective baseline data and indicator data showing progress toward objectives can include it in the first May report.

In subsequent years the May report will only list project monitoring information (outputs, as shown in this report), while the November report, in addition to output data, will also give an annual update on Program Performance Indicators. While we realize that this coming November (1990) there will be little change from the baseline given in May, we would appreciate PVOs updating wherever possible, to give us as recent information as possible for Congress. This will also then get PVOs into the established rhythm of PPI reporting in November.

# PROGRAM PERFORMANCE INDICATOR
# WEST BANK/GAZA PVO PROGRAM

ACDI (Cooperative Development Project)

The overall goal of the Cooperative Development Project (CDP) is to improve and expand cooperative services, thereby increasing the income and well-being of members of Palestinian coops. The project has three purpose-level objectives for which indicators have been established, to be reported on annually. These purposes also relate to various goals of the draft AID strategy, and accompanying indicators are discussed.

Purpose One: CDP's first purpose is to strengthen WB/G coop enterprises' capability to operate as effective and efficient businesses, providing services to member-owners.

| Objectives | Indicators |
|---|---|
| a) Cooperative revenue covers costs of operation | % of total operating costs covered by revenue |
| b) Self sufficiency of each coop income-generating activity(model coops only) | % of each service's total costs covered by revenue generated (model coops) |
| c) Increased use of coop services by community(model coops only) | Number of new members (dis-aggregated by gender) using each service (model coops only) |

Purpose Two: To improve coop ability to market agricultural products

| | |
|---|---|
| a) Increase in agricultural products sold by coops in domestic market( including livestock and dairy) | Value and Metric tons sold domestically by model and and core coops (including livestock and dairy) |
| b) Increase in agricultural products exported by coops | Value and tonnage exported by model and core coops (and market value) |

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ACDI

Purpose Three: To improve coop access to credit and improve coop-based credit programs

| | |
|---|---|
| a) Increased access of coops credit | No. of loans received by core and model coops. |
| | Value of loans received by model and core coops. |
| | % of loans delinquent by 3 months or more (principal past due/ total principal outstanding) |

Data Collection: Through its training program, ACDI is collecting data for 6 model coops, with which it works most intensively, and for 23 core coops, in which it works on selected activities. A data base is now being collected for all 29 of these coops, through a general audit being undertaken by the Credit Advisor. The audit will be final within the next year and will generate baseline data as well as annual measurements needed to report on the indicators listed above. In a few years a rapid rural appraisal should be conducted by ACDI to determine the "trickle down" effect these model coops have had on the larger group.

## ACDI
## OUTPUT LEVEL INDICATORS
## TO BE INCLUDED IN EACH SEMI-ANNUAL REPORT

| Indicators | Last 6 Months | Since beginning of project (year) |
|---|---|---|
| **TRAINING:** | | |
| Types of courses (technical, institution building) | | |
| No. participants/by coop | | |
| No. days in training | | |
| No. coops affected | | |
| No. follow-up visits by staff | | |
| **CREDIT AND GRANT PROGRAM** | | |
| No. loans made | | |
| No. grants given | | |
| Amount in loans and grants | | |
| **VILLAGE ELECTRICITY** | | |
| Increase coop sales of electricity | | |
| Increase service reliability (# hrs. system load not met) | | |
| # scheduled hours daily | | |
| Losses (ratio of kwh billed vs generator output)' | | |
| **INSTITUTIONAL TRAINING** | | |
| No. trained in accounting | | |
| No. trained in financial planning | | |
| No. trained in coop. principles | | |

(note: in 18 months ACDI will undertake a rapid rural analysis to study the impact this training has had on strengthening coops' administrative capabilities).

Other areas to be covered in each semi-annual report will be discussed in narrative format. These include marketing, livestock component, activities in the agricultural coops, consultancies, progress on evaluation recommendations and W.I.D. activities.

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## ANERA
## PROGRAM PERFORMANCE INDICATORS

The ANERA program has three main components agricultural development through cooperatives and other local institutions; urban economic development through municipalities and village councils; social welfare including health, productive enterprises, vocational training and rehabilitation through various local institutions. The overarching goal of the program is to strengthen the Palestinian economy and society by bolstering local institutions and their ability to deliver services to increase income, employment and the quality of life.

Agriculture Purpose: To assist WB/G agricultural cooperatives to deliver effective and efficient technical services to their rural communities.

| Objectives | Indicators |
|---|---|
| To lower unit costs of production for beneficiaries through use of appropriate technologies | unit production costs lowered by ___% (specific key crops)<br>production costs lowered by $_____ (on key crops)<br>no. of farmers with reduced production costs |
| To increase farmer income thru export marketing of agricultural crops | no. of farmers exporting through ANERA supported coops<br>net increase in crop unit prices due to exports (difference between local price and coop price) of specific key crops |
| To reduce income loss caused by phylloxera | dunams planted with phylloxera resistant stock<br>gross income saved/dunam<br>total gross income saved<br>total beneficiaries (farm families) |

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ANERA

| | |
|---|---|
| To increase local pasteurized milk production | volume of pasteurized milk per year<br><br>value of pasteurized milk ($) |
| To strengthen capabilities of rural cooperatives and banks to provide well managed lending services to farmers and other business | total annual volume of loans made $______<br><br>repayment rate (weighted average) |

Institution Building
(see indicators developed for the CDP program, which operates in tandem with ANERA).

| | |
|---|---|
| | (indicator for all projects) # of local institutions submitting acceptable financial statements within a 3 month deadline |

Urban Sector Activities:

| | |
|---|---|
| To increase municipality local revenues by providing infrastructure and services that will encourage private sector growth | volume of revenues generated by new services<br><br>% increase of municipality revenue due to new services offered<br><br>no. of municipalities affected<br><br>no. business entities served by new infrastructure |

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## ANERA

Data Collection: Baseline data should be available from municipal records (for revenue and number of new business entities served) and from market administrators ( who are private individuals who buy this service through a bidding system). If market administrators are not willing to provide information on sales volume a proxy measure will be sought - perhaps number of transactions. Return annual visits to the same sources should provide indicator information.

Social Services:

| | |
|---|---|
| To assist local institutions to improve and increase social/ health services | no. of users served by project equipment or service |
| | % project equipment/services maintained, and kept operational by local institutions |
| To assist local institutions to generate income and profits through productive enterprises | no. of income-generating projects assisted |
| | no. of beneficiaries affected by projects (disaggregated by gender) |
| | total volume of sales in $ for all projects in this category |

Data Collection: Baselines are available at ANERA or can be easily determined from cooperative and other institution records. Number of beneficiaries and volume of sales will be obtained through local institutions.

Environment: Storm Water Runoff

| | |
|---|---|
| To increase the amount of rain-water returning to the aquifer | Volume of water conserved |

ANERA as part of general project monitoring expects to be able to collect these data annually.

# ANERA
## PROJECT OUTPUT INFORMATION
(to be reported in semi-annual report)

| Indicator | Last 6 months | Since bgng project (year) | Since bgng program (year) |
|---|---|---|---|
| **Agriculture** | | | |
| no. operating agricultural machinery units (describe) | | | |
| no. cperating ag. marketing units | | | |
| dunam planted with phylloxera-resistant stock | | | |
| no. operating modern irrigation systems | | | |
| no. people served by dairies (direct and indirect beneficiaries) | | | |
| no. operating microdairies | | | |
| no. functioning coops receiving ANERA assistance (not including multiple projects with the same coop) | | | |
| no. operating revolving loan funds | | | |
| **Urban Infrastructure** | | | |
| no. markets, slaughterhouses, light industrial complexes, sewage recycling systems | | | |
| no. of wholesalers served by infrastructure projects | | | |
| no. animals slaughtered | | | |
| no. of shops served by infrastructure projects | | | |

## ANERA
## OUTPUT LEVEL INDICATORS

### Health/Social Services

no. income generating projects assisted

patients served by health inputs

no. of training/social/education projects

no. of trained health workers (note the redundancy with AMIDEAST)

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ANNEX C

<u>Evaluation Methodology</u>

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## ANNEX C. EVALUATION METHODOLOGY

The Team began its work in Jerusalem on July 17 and departed from there on August 11, 1992. Its first meetings included briefings with the A.I.D. Officer in Jerusalem, the Consular General and the Economic Officer from the Embassy in Tel-Aviv and representatives of ACDI/CDP and ANERA. The Team developed a plan and selected 17 cooperatives for in-depth study and site visits. The selection included all nine cooperatives selected by ACDI/CDP for "targeted" activities. The same cooperatives are also beneficiaries of ANERA. Another eight cooperatives were selected to widen the range of coverage. They included cooperatives in Al-Nassarin, Jericho, Nablus and villages near Ramallah and Tulkarem. Filed trips and interviews began on July 22 and ended on August 5, 1992. Although some communities were on strike on three occasions in honor of Intifada and/or in response to the deaths of Palestinians, we were still able to conduct our surveys with good attendance of 4 to 10 cooperative members at each site we visited. We found also a very frank audience of respondents at each of the cooperatives. None harbored on the Israeli occupation and all got right down to business about their cooperatives.

The range of activities covered by CDP and ANERA is immense. Hence the tasks of our assignment were equally difficult. To handle the chores, the Devres Team made a division of labor in terms of questions and responsibilities. Following the guidelines set forth in the scope of work, the work allocations were as follows:

Refugio I. Rochin, Team Leader: Agricultural economist responsible for all aspects of the two evaluations plus the final drafts of the two reports.

Izzat Abdul Hadi: Palestinian with expertise in "development planning and administration," responsible for history and operations of WB/G cooperatives.

Jonathan Smith: "Human resource development specialist" responsible for analyzing the training and technical assistance needs of cooperatives and the PVOs.

Stanley A. Wells: "Management specialist" responsible for management operations and principles established by cooperatives and regional organizations within the WB/G.

It should be noted that each site was visited by each member of the Devres Team. In addition, the Team functioned independently of staff of the PVO organizations except for one site visit we attended with Abnan Obeidat, a

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General Assembly meeting of the Marketing Cooperative of Kufur Ni'meh near Ramallah. And Team members carried out independent evaluations of CDP and ANERA staff and operations in accord with their responsibilities.

# ANNEX D

## Bibliography

## ANNEX D. BIBLIOGRAPHY


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ANNEX E

List of Persons Contacted/Interviewed

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## ANNEX E. LIST OF PERSONS CONTACTED/INTERVIEWED

WB/G Cooperative Sector Evaluation Project
List of Persons Interviewed in Order of Meetings
(July 20-August 7, 1992)

| No. | Name | Institution | Title |
|---|---|---|---|
| 1. | Ibrahim Matar | ANERA | Deputy Director |
| 2. | Adnan Obeidat | ANERA | Coop Development Consultant |
| 3. | Lance Matteson | ANERA | Director |
| 4. | Thomas LaQuey | CDP | Project Director |
| 5. | Daoud Istanbuli | CDP | Coop Education Specialist |
| 6. | Abdel Rahman Abu Arafeh | CDP | Director of Technical |
| 7. | Nuhad Joudeh | CDP | Women Coop Advisor |
| 8. | Joseph Nesnas | CDP | Director of Finance & Economics |
| 9. | Richard Morash | CDP | Consultant |
| 10. | Domian Al-Alam | Beit Jala Coop | Chair of the BOD |
| 11. | Elias Jahshan | Beit Jala Coop | Director |
| 12. | Farouq Al-Mozafer | Bethlehem Coop | Coop Consultant |
| 13. | Adel Al-Ansari | Ramallah Coop | Coop Consultant |
| 14. | Khaled Al-Kutub | Jericho Marketing Cooperative | Chair of the BOD |
| 15. | Jehad Haddad | Jericho Marketing Cooperative | Director |
| 16. | Ahmad Sawafteh | Jericho Marketing Cooperative | Member of the Coop |
| 17. | Ali Radwan | Jericho Marketing Cooperative | Member of the BOD |
| 18. | Hamzeh Salameh | Olive Oil Union | Secretary |
| 19. | Daoud Hawareth | Olive Oil Union | Chair of BODChair of Ein-Sinia Coop |
| 20. | Muhammad Diab | Olive Oil Union | Member of BODChair of Deir Sharaf Coop |

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| 21. | Samir Hulieleh | Economic Develop. Group | Director |
| 22. | Ismail Deiq | PARC | Director |
| 23. | Kayed Janazrah | U.A.W.C. | Director |
| 24. | Ghada Zidan | PARC | Secretary |
| 25. | Mustafa Jabarin | Hebron Electric Coop | Secretary |
| 26. | Mousa Al-Shyokhi | Hebron Electric Coop | Chair of BOD |
| 27. | Zaki Afaneh | Hebron Electric Coop | Director |
| 28. | Ahmad Qubajeh | Hebron Electric Coop | Treasurer |
| 29. | Hidar Al-Akhras | Hebron Electric Coop | Electrical Engineer |
| 30. | Yousef Jebreen | Hebron Marketing Cooperative | Director |
| 31. | Ali Shalabi | Hebron Marketing Cooperative | Director |
| 32. | Yahia Hindi | Tulkarem Livestock | Chair of BOD |
| 33. | Taiseer Hussain | Tulkarem Livestock | Director |
| 34. | Ibrahim Salman | Tulkarem Livestock | Member of BOD |
| 35. | Ali Barakeh | Tulkarem Livestock | Secretary |
| 36. | Muhammad Melhem | Jenin Marketing Cooperative | Chair of BOD |
| 37. | Muhammad Hamzeh | Jenin Marketing Cooperative | Director |
| 38. | Firas Sawalheh | Agriculture Coop. Union | Director |
| 39. | Abdel Latif Zawati | Agriculture Coop. Union | Member of BOD |
| 40. | Amid Al-Masri | Agriculture Coop. Union | Agriculture Consultant |

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| 41. | Ismail Ghanam | Nablus Coop. Dep. | Coop. Consultant |
| 42. | Abdallah Sarhan | Jalazone Bakery Coop. | Secretary |
| 43. | Ali Orabi | Jalazone Bakery Coop. | Member of BOD |
| 44. | Ahmad Khalid | Jalazone Bakery Coop. | Treasurer |
| 45. | Juma'ah Sa'id | Jalazone Bakery Coop. | Member of BOD |
| 46. | Mira Rizek | SCF | Program Manager |
| 47. | Eileen Kuttab | OPOP | Chair of BOD |
| 48. | Mahmoud Samarah | Ramallah Poultry Cooperative | Chair of BOD |
| 49. | Wajeeh Tulaib | Ramallah Poultry Cooperative | Secretary |
| 50. | Ahmad Ibrahim | Ramallah Poultry Cooperative | Director |
| 51. | Fathi Salah | Ramallah Poultry Cooperative | Member of BOD |
| 52. | Ibrahim Lutfi | Ramallah Poultry Cooperative | Member of BOD |
| 53. | Jihad Al-Ash'hab | Ramallah Poultry Cooperative | Accountant |
| 54. | Ibrahim Daqaq | Arab Thought Forum | X-Director |
| 55. | Othman El Deik | Kofr Nimeh Coop (Ramalleh) | Chairman |
| 56. | Mohammad Zaida | Kofr Nimeh Coop (Ramalleh) | Member |
| 57. | Khalil Hanini | Kofr Nimeh Coop (Ramalleh) | Member |
| 58. | Muhammad Said | Kofr Nimeh Coop (Ramalleh) | Member |

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ANNEX F

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Royer: Cooperative Principles and Equity Financing

# Journal of Agricultural Cooperation

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## *Articles*



## *Invited Paper*



## *Classic Review*



## Invited Paper

# Cooperative Principles and Equity Financing: A Critical Discussion


***Jeffrey S. Royer***



This paper examines the role of the "principles of cooperation" in shaping the methods used by farmer cooperative associations for the provision of equity capital by members. Cooperative principles and financing practices based on them are evaluated in the context of some common issues and conflicts among patrons. The characteristics of a cooperative are compared with those of a patron-owned corporation, and two case studies in which patrons chose to organize businesses as patron-owned corporations are discussed. The paper concludes by making recommendations for patron-owned businesses operating within the cooperative framework.


*The so-called basic "principles of cooperation" are referred to frequently and with considerable ardor. Seldom is their significance seriously questioned.*

—*Richard Phillips, 1953*

On one level, these words are true today, nearly 40 years after they were written. To say that the "principles of cooperation" are cited frequently is a significant understatement. They are included in any introductory discussion of cooperatives. In fact, adherence to cooperative principles serves as the de facto definition of what a cooperative is and how it differs from other forms of business organization. As such, these principles, as a concept, occupy a venerated position among cooperative writers—a position that usually transcends serious scrutiny or challenge.

On another level, however, these principles have been subject to continual reexamination. This results in part from the fact that there has never been a consensus on what individual principles should be included. Conse-

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quently, numerous lists exist, and cooperative thinkers have spent considerable effort discussing the merits of particular principles and their interpretations. Such an environment has provided cooperative organizations considerable flexibility in determining the practices they follow. Despite the fervor with which specific principles are advanced, cooperative practices often appear to be influenced as much by individual self-interests, economic considerations, and statutory restrictions. Yet any discussion of the changes cooperatives must make in order to remain viable businesses must focus on the principles cooperatives use to define themselves.

This paper examines the role of the "principles of cooperation" in shaping the methods used by farmer cooperative associations for the provision of equity capital by members. Cooperative principles and financing practices based on them are evaluated in the context of some common issues and conflicts among patrons. Particular attention is given to issues regarding the equitable treatment of patrons. The reader will observe that the options available to cooperatives are frequently limited by the extent to which some principles have been incorporated into federal and state law. The characteristics of a cooperative are compared with those of a patron-owned corporation, and two case studies in which patrons chose to organize businesses as patron-owned corporations are discussed. The paper concludes by making recommendations for patron-owned businesses operating within the cooperative framework.

## Democratic Control and Proportional Voting

Most early writers on cooperative principles included as a basic principle the concept of democratic control, under which each member of a cooperative association was given one vote. This voting mechanism worked satisfactorily for most local farm supply, service, and consumer cooperatives, given the homogeneity of their memberships. However, as the cooperative movement in the United States grew, particularly in some western states, the size and nature of producer operations became increasingly heterogeneous. As a result, laws in a number of states began sanctioning proportional voting. Today there is still active debate about whether the principle of democratic control should be reinterpreted to include proportional voting.

According to Robotka, the traditional idea that control in a cooperative must be on a democratic or personal basis rather than a financial basis stems in part from the idea that a cooperative is an association of individuals instead of an impersonal organization of capital. The beginnings of the cooperative movement in England coincided with the campaign for universal suffrage. It was only natural that workers, denied representation in government affairs, would insist that there should be no discrimination among members in the control of their own organizations. Democratic control was also partly a reaction to the corporation, in which control often was concentrated in the hands of a few through the restriction of voting to common stock, the use of proxies, and other devices (Nourse).

Robotka pointed out that when the principle of democratic control was founded, a high degree of homogeneity in property ownership existed



among members. He believed that during the next century equal voting continued to meet with approval by cooperators primarily because of political and psychological reasons as well as the fear that unequal voting might result in favoring interests represented by wealth instead of the interest of members as patrons. Nonetheless, he asserted:

> It should be clear, however, that equal voting would tend to exclude those who might feel that their interests might not thus be adequately protected. For example, large-scale producers may refuse to join an organization consisting predominately of small-scale producers, and vice versa. *Under certain circumstances which necessitate the collaboration of a heterogeneous group, unequal voting has been found to be the only basis on which the necessary amount of participation was obtainable* [emphasis added]. (p. 112)

Citing examples from the United States and Europe, he concluded:

> From a strictly economic point of view, voting rights would be apportioned according to risks assumed, and since in a cooperative these are borne proportionally to patronage, voting would be based on patronage, if not strictly proportional thereto. (pp. 112–13)

This conclusion was shared by Phillips, who stated, "From the standpoint of economic structure, voting in the cooperative association [should] not be shared on a per firm (one-firm one-vote) basis, but on a proportional basis" (p. 77).

Support for this idea was also voiced by Schaars, who said, "Voting on basis of the amount of business transacted with the cooperative is likewise democratic in that it recognizes the differences in economic interests of the members and the importance of volume to an association's effectiveness as a marketing unit" (p. 192). However, he cautioned:

> Invested capital cannot become the basis of control (i.e., voting on the basis of shares of stock owned) without the fear that the institution will be operated to maximize dividends upon stock instead of benefiting primarily and largely the member-patron, unless (a) there is a limitation on the number of shares any member may own; (b) proxy voting is absolutely prohibited; (c) and a ceiling is placed on the dividends payable on stock. (pp. 192–93)

Each of the safeguards mentioned by Schaars is in place in many states (Baarda 1982, 1986). More recently, Knutson has criticized the sluggishness with which cooperatives have adopted pricing and control structures attractive to large-scale farm operators. The remedies he has offered include voting in proportion to the volume of business or stock.

Arguments that voting rights should be apportioned on the basis of patronage are convincing from both a theoretical and practical perspective. It is only fair that those patrons who have more equity at risk and a greater interest in the operations of the cooperative should have a greater voice in its decision making. There is a fear among some that proportional voting this situation should be no less acceptable or equitable than the domination of larger producers by smaller ones, as is possible under equal voting mechanisms. If cooperatives are to be responsive to the needs of larger producers, who in some situations may be essential to the continued success of the organization, voting should be apportioned according to patronage. Unfortunately, proportional voting is permitted only in a minority of states (Baarda 1986). In many states, the adoption of an unequal voting scheme would require changes in the state statutes regarding cooperatives.

## Financing in Proportion to Patronage

Although not generally included among the principles of cooperation, the concept of financing in proportion to patronage was discussed by Abrahamsen. Although he observed that the practice has not had general acceptance, he believed it was a sound practice, consistent with established cooperative philosophy and the idea of member ownership. According to Abrahamsen:

> Most cooperative members perhaps would agree that there is merit in strongly urging, if not requiring, that the financial obligations of members to their cooperative be in proportion to the volume of business they do through it. In most instances, however, this is not practical, especially when starting a cooperative. Some members are in a position to make relatively greater contributions to cooperative financing than others, who may be able to meet only the minimum financial requirements for membership. Also, there is the very practical problem of developing equitable techniques for maintaining this principle. Although it might easily be determined for an initial period, changes in individual patronage, as well as in overall volume from year to year, could cause problems in administering such a program. (pp. 65–66)

Cobia et al. elevated the proportionality concept to the level of a principle and used it as a criterion for evaluating alternative equity retirement plans. They argued that it was a logical extension of the principles of service at cost and ownership by members and the doctrine of fairness that pervades cooperative literature. They asserted, "The logic is compelling. If benefits are distributed according to patronage, benefactors should provide equity or risk capital in the same proportion" (p. 3). Barton (1989b) has listed an entire class of "proportional principles," by which member voting, patron equity investment, and the distribution of net earnings are proportional to use.

Financing in proportion to patronage is based on the "concept of proportionality," which is rooted in the work of Phillips. He stated:

> This *proportionality* determines the manner in which the participating firms will share all inputs, including entrepreneurial inputs, and all outputs—all costs and benefits—of the joint plant. In order to achieve a static optimum allocation of resources *among* the participating firms, the entrepreneurial decisions, the bearing of uncertainties, the financial responsibility, the economic use, the costs, and the economic benefits in connection with the joint activity must be shared by the firms on the basis of this proportionality. . . . *The financial responsibility (i.e., either providing the actual capital, or paying the interest and providing the security required to obtain it) will be shared on a proportional basis* [emphasis added]. (p. 77)



The greatest drawbacks to financing in proportion to patronage are the difficulties cited by Abrahamsen. Under normal circumstances, the proportion of patronage attributable to individual patrons will fluctuate from year to year. Thus, under strict adherence to the concept, a cooperative would constantly have to make annual adjustments, requiring additional investments from some patrons while refunding some of the investments of others. However, this adjustment problem is not serious conceptually. It can be handled easily within the framework of a base capital plan although most base capital plans employ a moving base period of several years to smooth out these adjustments and minimize the exchange of funds back and forth between the cooperative and its patrons.

More important is the burden that adherence to proportionality places on newer members. These members, particularly if younger, may be incapable of making immediate investments in the cooperative in line with their use. Most cooperative advocates would probably agree that it would place an unfair burden on new patrons to demand that they immediately invest their full share. In addition, some cooperatives may find it necessary to make such a concession in order to attract new members. However, in situations where a cooperative is able to provide members greater returns than they otherwise would obtain, it may be successful in demanding that new members immediately put up their proportionate share of financing.

## Service at Cost and Limited Returns to Equity Capital

Fundamental to cooperation is the concept of service at cost, i.e., that cooperatives should provide goods and services to members at cost. Cooperatives are not organized to earn profits in the manner of other firms. Instead, they are required to charge prices equal to costs or refund any surplus of revenues over costs to members in proportion to patronage.

Most businesses employ the conventional accounting concept of cost which includes interest expenses on borrowed capital, in determining profit. However, because cooperatives do not return earnings to investors on the basis of equity ownership, application of the accounting cost concept to cooperatives fails to take into consideration the contribution of the equity capital provided by members. Rewarding equity capital for this contribution is certainly consistent with the principles of cooperation. No principle prohibits payment of dividends on equity capital. The principles only restrict cooperatives from paying unlimited returns to equity capital as a means of preserving the essential nature of the cooperative association.

The literature generally supports the notion that cooperatives should pay a return to equity capital but that this return should be limited to a "fair" or competitive rate. According to Engberg, "Any profits or net income after paying expenses, including a fair rate for the use of capital, belongs to the members. They share in such benefits and savings in proportion to the amount of patronage rather than in proportion to the amount of their investment" (p. 3). Schaars stated:

> Capital, like other factors of production, must be rewarded, but this reward is limited to the "going rate" just as the rewards going to labor[,] for the use of land[,] and for management are restricted to competitive rates or to what the services are worth to the association. Capital does not become the claimant to the net proceeds of the organization, for if it did, then the interests of the investors would be paramount to those of the member-patrons. It would furthermore imply that the major responsibility for success (or failure) was the capital investment rather than the patronage of the members. Consequently, in order that member-patrons may obtain the major benefits of cooperative action, limited returns for the use of capital and the other agents of production are essential. (p. 193)

Determining what is a "fair" rate, or even a competitive rate, can be fraught with difficulty. Most economists would argue that cooperatives should return to equity providers their opportunity cost of the capital. In one study, Beierlein and Schrader used the after-tax return to farm equity for the opportunity cost of capital. Snider and Koller as well as Dahl and Dobson used the price of short-term debt. The latter argued that because of the relatively small size of most patronage dividend allocations, farmers would use patronage dividends to retire short-term debt rather than long-term debt or, presumably, to invest in capital assets. An equally valid argument could be made for using the interest rate paid on investment in a liquid asset, such as a money market fund, plus a premium for the risk that the cooperative might fail or would be unable to redeem equity allocations in the future.

As Fischer noted, cooperatives that pay a rate of return to equity equal to its opportunity cost are operating on an economic cost basis. According to Fischer, failure to do so, as the result of not paying dividends on equity capital, can produce suboptimal results for a cooperative. If no dividends are paid, the net price of farm inputs, after subtracting the patronage dividend, will be too low, and patrons may demand a quantity greater than the optimal quantity determined by the marginal economic cost. Dahl and Dobson cited studies that indicated that failure to consider the opportunity cost of equity has led cooperatives to rely too heavily on equity capital, thereby resulting in capital costs that are higher than necessary, and to underestimate overall capital costs, thus resulting in overinvestment in assets.

Another reason for paying a return on equity capital is to compensate for disproportionalities between member equity and patronage shares. According to Robotka:

> Since any return members receive on their capital contributions would either be added to the expenses of the services they receive or be deducted from proceeds from sales accruing to them, there would be no point in paying such a return. Members would merely be shifting such amounts from one poc[illegible] to the other. In practice, however, capital contributions are frequently not made in proportion to the use participants anticipate making of the services of the organization. In such cases, the payment of a return on capital is justified on the ground that it compensates for disproportionalities in capital contributions. *The members who contribute capital in excess of their proportionate share, in effect, loan to those who contribute less than their proportionate share, and the return is, therefore, in the nature of interest rather than a distribution of residual income* [emphasis added]. (p. 111)



Most state incorporation statutes place specific limits on the dividend rate a cooperative can pay on equity capital, usually 8 percent or less (Baarda 1986). Cooperatives qualifying for federal tax status under section 521 of the Internal Revenue Code are restricted from paying more than the legal rate in the state of incorporation or 8 percent, whichever is greater. In addition, the Capper-Volstead Act restricts cooperatives that allow members more than one vote because of the amount of stock or membership capital owned from paying dividends on that capital in excess of 8 percent.

This 8 percent limitation has been restrictive during recent years when interest rates were high, and cooperatives in some states have lobbied their state legislatures to raise the limit. However, the original intent of the 8 percent limit was not to force cooperatives to pay low rates of return on equity, as it might seem today. That rate, which became the accepted standard in the early 1920s with passage of the Capper-Volstead Act and the Standard Act, upon which many state incorporation statutes were modeled, was for several decades virtually usurious relative to market rates.

Despite recent high interest rates and some efforts to increase state limitations on dividend rates, it seems that it is the practices of cooperatives themselves, and not statutory restrictions, that have limited the return on patron equity capital. According to the most recent U.S. Department of Agriculture (USDA) financial profile of U.S. farmer cooperatives (Royer, Wissman, and Kraenzle), only 22 percent of cooperatives that incurred positive net earnings in fiscal 1987 paid dividends on patron equity. Only 1.6 percent of net earnings after deducting net losses were distributed as dividends on equity, an amount equivalent to a return of 0.2 percent on total allocated equity.

It seems that to a great extent, cooperatives have simply chosen to return savings to members on a patronage basis. Sample bylaws published by USDA contain this provision:

> Section 1. *Operation at Cost.* The association shall at all times be operated on a cooperative service-at-cost basis for the mutual benefit of its patrons. *No interest or dividends shall be paid by the association on any capital furnished by its patrons* [emphasis added]. (p. 578)

Although footnotes provide instructions to those cooperatives that desire to include provisions for the payment of dividends, one also includes this information: "A number of cooperatives, however, are choosing to eliminate such [illegible]dends because their members prefer to receive all returns on a [illegible]

This choice may have considerable appeal in the minds of cooperative organizers, particularly given the optimism they may hold concerning the future performance of the cooperative's revolving fund. Expecting smooth performance of the fund, they do not foresee a need to pay dividends on member equity in order to remedy inequities arising from disproportionate equity holdings. Given a well-functioning revolving fund, payment of dividends on equity reduces the funds available for patronage dividends. In addition, most of the equities accumulated by patrons may be derived from retained patronage dividends, and patrons may see no reason to receive dividends on them. Once inequities become apparent, the payment of dividends is likely to be perceived as a stopgap measure that is counterproductive to the performance of the revolving fund in the long term.

The tax rules for cooperatives may also play a part in explaining the preference for returning savings as patronage dividends. Except for cooperatives qualifying for section 521 tax status, dividends on capital stock are included in the cooperative's taxable income. Thus, payment of dividends on capital stock produces a tax burden on the cooperative that does not occur when earnings are distributed as patronage dividends. This consideration has become more important recently as many cooperatives have found it increasingly difficult or economically undesirable to maintain section 521 status.

In 1979, the U.S. General Accounting Office (GAO) recommended that the secretary of agriculture should develop a legislative proposal making it mandatory for cooperatives to pay interest or dividends on retained equities and/or retire these equities within a certain period if cooperatives did not voluntarily adopt more equitable equity redemption programs. According to GAO, mandatory payment of dividends on retained equities would benefit inactive equity holders by compensating them for use of their capital and would provide an economic incentive for cooperatives to retire equities on a more timely basis. A study of that proposal (Royer 1983) concluded that under mandatory equity programs, cooperatives would be required to service equity in a manner similar to debt, diminishing their capacity to absorb the uncertainties of the business environment and possibly reducing the availability of credit from lenders who might view the programs as a threat to the ability of cooperatives to service debt. As a possible alternative, the study recommended requiring payment of dividends on only those equities held by inactive equity holders.

Another alternative has been suggested by Jones. He presented an alternative method for computing patronage dividends that is based both on the proportion of patronage attributable to the member and the member's relative equity contribution. Such a method of determining patronage dividends probably would not meet the Internal Revenue Code's definition of a patronage dividend, which clearly states that a patronage dividend must be based on the quantity or value of business done with or for the member. Jones's method for computing patronage dividends is equivalent to distributing conventional patronage dividends while paying interest to members who have invested more than their proportionate share of equity and assessing interest for members who are underinvested. Presumably, interest payments to members would be subject to income tax as dividends on capital stock, and interest payments received by the cooperative would be considered nonpatronage income.



## Financing by Former Patrons

Financing by former patrons is an important problem that directly contradicts the principle of member ownership. According to Abrahamsen:

> Support appears substantial for the idea that *member ownership* is a basic cooperative principle. It seems important to emphasize that cooperatives should constantly seek to keep ownership in the hands of member-users. As to the three principles . . . —operation at cost, member control, and member ownership—the ideal situation prevails when the members who benefit from cooperative patronage are also the ones who own the cooperative and control its operations. (p. 60)

Nonetheless, a 1974 survey by Brown and Volkin revealed that 69 percent of the centralized cooperatives surveyed held allocated equity issued to members no longer active. In fact, 56 percent of the equity holders were inactive, and they held 22 percent of total allocated equity. More recent USDA data indicate that annually the percentage of memberships reported as inactive has fluctuated between 19 and 22 percent (Frederick).

Thus, a situation exists in which a substantial proportion of the equity in many cooperatives is held by individuals with no operational interests in the organizations. Further, these equity holders generally do not receive compensation for the opportunity costs or risks associated with providing this capital. The situation is even more salient when one considers that these equity holders are often disenfranchised by their organizations so that they have no direct voice in determining the policies of the organizations, particularly those policies that affect them directly, such as those regarding the payment of dividends on equity and equity redemption.

This disenfranchisement results from bylaw provisions that permit a cooperative to terminate the membership and voting rights of members who have ceased patronizing the organization. For example, sample bylaws published by USDA contain this provision:

> Section 2. *Suspension or Termination.* If, following a hearing, the board shall find that a member has ceased to be an eligible member or has not, for a period of two (2) years, marketed through the association the products covered by a marketing contract or contracts with the association or has not otherwise patronized the association, it may suspend his rights as a member or terminate his membership. Upon termination of membership in the association, all rights and interests of such member in the association shall cease. . . . (p. 568)

Adoption of this type of provision is probably not motivated by a local desire to maintain control of the cooperative by active patrons as much as it is an effort to comply with statutory requirements designed to limit [illegible] include: (1) protection from antitrust legislation offered marketing cooperatives by the Capper-Volstead Act, which requires members to be engaged in the production of agricultural products; (2) deductions from federal taxable income allowed farmer cooperatives qualifying under section 521, which specifies that substantially all voting stock must be owned by agricultural producers who market farm products or purchase farm supplies through the cooperative; and (3) state incorporation statutes that require that members may include only persons engaged in the production of agricultural products to be handled by or through the association (Baarda 1986).

Certainly, there is justification for protecting the cooperative association and the operational interests of active members from the equity interests of inactive or "sleeping" members. British scholar LeVay asserts that

> the 'sleeping' membership is a potentially dangerous ingredient in a co-operative. It appears even more dangerous when one considers another objective—the realisation of the 'true' value of share capital kept nominally at par. Members no longer using their society may have invested considerable sums in it. . . . With non-appreciation of shares and the relatively low rate of interest they earn, such members may contemplate the dissolution of the society, particularly if its book asset value is high. If the rules specify that on dissolution any assets remaining after commitments have been met should be distributed in proportion to shareholding, then such members will gain from precipitating its demise. (p. 14)

An argument for the protection of the operational interests of active members can probably be made just as effectively on the basis of short-term conflicts. If voting rights were retained by inactive members, who may constitute a majority of the membership, the provision of an adequate level of services or the financial well-being of the cooperative might be threatened by the interests of inactive members, which would include the payment of dividends on equity capital and the more timely redemption of equities.

However, it seems that the solution to these conflicts should ideally be based on mechanisms designed to balance the operational interests of active members and the equity interests of former patrons, and this is unlikely to occur with the disenfranchisement of the latter. In fact, the existence of a sizable class of equity holders that neither receives compensation nor has a voice in shaping the policies of the organization would be indefensible under most circumstances. It is difficult to conceive of a similar situation existing among other business organizations for long without an impassioned outcry for legal or legislative remedy. Yet the situation exists within the cooperative community and is exacerbated by law.

## Unallocated Retained Earnings

Unallocated retained earnings are earnings retained by cooperatives and not allocated to individual patrons. Although some level of reserves may be required by state law, unallocated earnings are often accumulated at a cooperative's discretion as a buffer against future operating losses and



need to charge these losses against the allocated equity accounts of patrons. Although unallocated earnings are frequently derived from patronage business, nonpatronage income has been the most important source of unallocated equity. Except for cooperatives qualifying for section 521 tax status, nonpatronage income cannot be distributed to patrons as part of a deductible patronage dividend and therefore is included in cooperative taxable income. Patrons who receive distributions of nonpatronage income generally must include these distributions in their taxable income as well. Thus, many cooperatives find it sensible to retain nonpatronage income remaining after income tax as unallocated equity.

Recent data indicate that cooperatives are relying more heavily on unallocated earnings in their financial structures. According to the latest USDA financial profile (Royer, Wissman, and Kraenzle), 21 percent of cooperative equity was held in unallocated form in 1987, and 27 percent of net earnings were retained as unallocated earnings. More than 81 percent of the cooperatives that reported net earnings retained unallocated earnings. Some of the increase in the retention of unallocated earnings is associated with the decline in the proportion of cooperatives qualifying for tax treatment under section 521, which limits reserves to what is reasonable or required by state law.

Many of the cooperatives that incurred operating losses in the early 1980s wrote their losses off against unallocated equity reserves, apparently in part because of a reluctance to burden patrons directly with the losses during a period in which they too were experiencing financial difficulties. Undoubtedly, much of the increase in the proportion of net earnings assigned to unallocated equity reserves represents an attempt to rebuild these buffers. However, comparisons indicate that cooperatives are continuing to rebuild their unallocated equity bases beyond earlier levels. One possible conclusion is that the experiences of the 1980s altered cooperative attitudes about accumulating unallocated reserves, partly because of changes in expectations about future losses.

Some cooperative financial experts have advocated greater use of unallocated earnings based on what they consider to be financial advantages over retained patronage dividends. Bradley, for example, suggested that cooperatives consider replacing revolving funds consisting of retained patronage dividends with permanent unallocated equity. According to him corporations that accumulate retained earnings without an obligation to redeem them have an advantage over cooperatives that have an obligation to redeem allocated equity on a revolving basis. Ryan argued that because there is no expressed or implied call on unallocated equity, it can be used to acquire more leverage than allocated patronage dividends.

Both Bradley and Ryan observed that larger farmers might prefer not to receive patronage dividends because the cash portion would not be sufficient to cover the income tax on the total distribution. Indeed, research indicates that patrons might be financially better off if they received 100 percent cash patronage dividends and their cooperative acquired its equity capital exclusively from unallocated retained earnings. In one study (Royer 1982), such a program provided patrons a higher discounted after-tax cash flow at some tax and discount rates than plans based [illegible]

Perhaps opposition to greater use of unallocated earnings has been best articulated by Murray, who stated that there are "serious negative implications" in the growth of unallocated earnings or reserves. According to Murray:

(a) It diminishes the importance and responsibilities of the members as the primary source of finance in a co-operative.

(b) As reserves contribute to the asset value of the co-operative there is a danger that the members' financial stake in the co-operative becomes disproportionate to their trading or patronage interests. Members may be tempted to look for a financial return on their collective investment rather than a return related directly to their use of the co-operative's services.

(c) Over time, the increase in institutionally controlled funds reduces the importance—and thus the authority—of the user members in relation to the authority of the co-operatives' officials. (p. 85)

The argument that the accumulation of unallocated equity reduces the interest and authority of members is not universally convincing. According to Dunn:

> A potential conflict . . . arises from the same feature of unallocated capital that makes it attractive for use as risk capital: the distancing of the members' economic situation from that of the cooperative. Members of a cooperative whose financial structure is dominated by unallocated capital may become complacent about the cooperative's activities or condition because they have little financial stake in the organization. If the level of member interest is reflected in the intensity of the board of directors' concern, such complacency can evolve into loss of effective control. *However, abdication of the control of unallocated equity to management is a failure of the board of directors, not a characteristic of the capital* [emphasis added]. (p. 89)

The financial composition of most cooperatives probably includes enough allocated equity to guarantee that members have a financial stake in the organization. It seems that some of the apathy that exists among members is the result of a feeling of powerlessness common to participants in many organizations governed by representative democracies.

Another concern that has been voiced is that the existence of substantial unallocated equity will provide current members an incentive to dissolve the cooperative organization for personal gain. It is not obvious how real this threat is because members must weigh their operational interests in the cooperative against the value of the unallocated earnings, and the attractiveness of these equities may be diluted by a bylaw provision or state law requiring the assets of the cooperative to be distributed among both current and former members on a patronage basis (see USDA and Baarda 1982). In such a case, it seems that the existence of unallocated equity would no more threaten the existence of a cooperative than would allocated equity.



The greatest challenge to continued, unbridled accumulation of unallocated earnings may come from arguments based on the principle of service at cost. A conservative interpretation of this principle would hold that earnings from both patronage and nonpatronage sources should be allocated to patrons and that operating losses should be assigned to patrons according to their patronage during the loss year. This position has been articulated by the Internal Revenue Service (IRS), and sample bylaws published by USDA include these provisions:

> Section 2. *Refunds and Patrons' Capital.* . . . To assure that the association will operate on a service-at-cost basis the association is obligated to account on a patronage basis to all its patrons for all amounts received from the furnishing of . . . services in excess of operating costs and expenses properly chargeable against the type of service furnished. . . . The association is obligated to make payments of all such amounts in excess of operating costs and expenses in cash refunds or by credits to a capital account for each patron. . . . All other amounts, such as interest or amounts from nonpatronage sources, received by the association from its operations in excess of costs and expenses shall, insofar as permitted by law and to the extent practicable, be allocated to its patrons on a patronage basis. . . . An operating loss shall be apportioned among the patrons during the year of loss so that such loss will, to the extent practicable, be borne by the patrons of the loss year on an equitable basis. (pp. 578–79)

Under these provisions, both patronage and nonpatronage sources of unallocated equity and the role of unallocated equity in absorbing operating losses would be eliminated.

According to Schrader, unallocated retained equity conflicts with the principle of service at cost because of the following reasoning:

> If there is unallocated equity on the balance sheet accumulated from past patrons or business not done on a cooperative basis and all current net margins are allocated to patrons, then current patrons are being served below cost. . . . If current margins are retained unallocated, we have the opposite situation, that is, service above cost. The "under" and "over" might offset each other for the group as a whole . . . but only by accident would these effects exactly offset each other at the individual patron level. Even so, somewhere at the start, a patron group was not served at cost. (1989b, pp. 119–20)

Similar logic applies to the use of unallocated earnings for offsetting losses. It is not even clear that use of unallocated equity is the best means of planning for and absorbing losses. Research by Junge; Brase; and Barton (1989a) indicates that the cash flow of individual patrons can be improved if a cooperative incurring a loss allocates it to patrons instead of retaining it. Although the impact on the cooperative depends on several factors, their research suggests cooperatives could benefit from exploring alternatives to writing losses off against unallocated reserves.

**Table 1.—Comparison of Cooperatives and Patron-Owned Corporations**

| Function | Cooperative | Patron-Owned Corporation |
|---|---|---|
| Control | Voting on popular basis or in proportion to patronage. | Voting in proportion to common stock holdings. |
| Distribution of earnings | In proportion to patronage. Earnings usually excluded from corporate taxable income. | In proportion to stock holdings. Earnings included in corporate taxable income. |
| Retention of earnings | Most earnings allocated to individual patrons. Earnings that are not allocated to individual patrons are included in corporate taxable income. | Earnings not allocated to individual owners. |
| Equity appreciation | No mechanism for individual equity appreciation. | Owners share in equity appreciation through market. |

Recent discussions by an IRS representative indicate that IRS may move to prohibit the accumulation of unallocated equity from patronage-source earnings by disallowing the patronage dividend deduction under Subchapter T of the Internal Revenue Code of cooperatives that do so. The rationale is that the retention of unallocated earnings violates the pre-existing legal agreement to return earnings to patrons according to patronage that a corporation must make in order to be "operating on a cooperative basis."

## Comparison of Cooperatives and Patron-Owned Corporations

At this point, having discussed many of the financing issues and conflicts faced by producers and their cooperatives, it seems appropriate to consider an alternative that will be defined as the patron-owned corporation (POC). The comparison that follows is based on the assumption that there is a group of agricultural producers who are interested in selecting the best form of business organization in order to provide themselves with essential services. These producers are not interested in making investments outside their service area or in services they do not use. Thus, the owners and patrons of the business can be considered to be the same group.

The basic differences between a cooperative and a POC are summarized in table 1 for four functions: (1) control, (2) distribution of earnings, (3) retention of earnings, and (4) appreciation of individual equity shares. As will be shown, there are distinct differences between cooperatives and POCs in each of these four categories. However, some of the distinctions become somewhat ambiguous under close scrutiny.

Two differences with respect to control and the distribution of earnings are eliminated if the concept of proportionality is applied. In a cooperative, earnings are distributed in proportion to patronage, but if the provision of equity is also in proportion to patronage, the distribution of earnings would be equivalent in a cooperative and a POC. Furthermore, under the concept of proportionality, voting rights would be held in proportion to patronage. Thus, the distribution of voting rights would also be identical in a cooperative and a POC.



A difference in how earnings are distributed occurs only to the extent that a cooperative deviates from the concept of proportionality. Most cooperative advocates would probably espouse the concept of proportionality and argue that ideally cooperatives should be financed in proportion to patronage. On the other hand, many cooperatives, for practical reasons, are willing to diverge from this ideal in order to allow patrons a gradual means of investing into the organization. However, a decision to provide this means is not implied by the cooperative form of organization but is based on the desire of producers. Thus, although the essential difference between the methods used by cooperatives and POCs in distributing earnings is based on philosophical differences, the effective difference between distributing earnings on the basis of patronage and on the basis of stock ownership is ultimately determined by practical considerations on the part of cooperatives.

In principle, cooperatives allocate retained earnings to individual patrons. However, this characterization neglects the current practice of retaining increasing proportions of earnings in unallocated form. Cooperatives may be seen as effectively having two alternatives for retaining earnings—retaining them in "cooperative" form as allocated equities excluded from corporate taxable income and "corporate" form as unallocated equity included in corporate income—although the latter may be subject to statutory limitations.

Finally, cooperatives generally have no mechanism for the appreciation of individual equity whereas the owners of POCs can participate in increases in the value of the firm by selling shares. The absence of a market for the resale of cooperative stock is based in part on the patron-owner relationship and the necessity of maintaining ownership in the hands of producer-patrons. Some cooperatives have internal exchanges for equity shares, but these generally are subject to restrictions and the ability of new members to purchase shares gradually over time. Also, they usually do not allow for the appreciation of individual equity shares. This is based more than anything on the basic concept of cooperatives—that earnings are returned to members in proportion to patronage and not stock ownership.

Nevertheless, significant inequities can result from the absence of a mechanism for allowing cooperative members to participate in increases in the value of the firm. Sporleder describes a situation facing successful pooling cooperatives. When marketing pools consistently yield returns greater than spot market prices, they may attract new members. Original members may believe that their initial investment of capital is partly responsible for the success of the organization. Thus, they may seek reward for their investment despite the cooperative principles of returns in proportion to patronage and the equal treatment of members. Sporleder documents several methods that have been used to address this problem. They include a base contract system designed to reward initial risk capital. It establishes a n[illegible] marketing right that is allocated to the original members of the cooperative and can be resold to other growers. The return to the original members' equity is determined by the market for these negotiable rights.

Referring back to table 1, if we impose upon the cooperative organizational form the concept of proportionality, we are left with three significant differences between cooperatives and POCs. Cooperatives can generally exclude from their taxable income earnings distributed or allocated to patrons. However, as a result of the tax laws that provide this treatment, cooperatives may not be entitled to unrestricted accumulation of unallocated retained earnings. They also do not generally provide a mechanism for the appreciation of individual equity shares.

## Case Studies

Various reasons, including financial pressure on members and the absence of a mechanism for individual equity appreciation, have led some cooperatives to partially or totally restructure themselves as investor-oriented firms. Several of these cases have been described by Schrader (1989a) in an earlier issue of this *Journal*. Two additional examples are discussed here. In the first, current earnings from patronage sources continued to be distributed to members on a patronage basis, but conversion of the cooperative to a stock corporation allowed members to participate fully in the appreciation in the book value of the firm. In the second, a canning plant was acquired by growers through formation of a stock corporation. Although ownership was initially held in proportion to patronage, this relationship was expected to erode through the independent resale of stock and marketing contracts.

Plante described the conversion of United Grocers, Ltd., a large and successful grocery supply cooperative. In 1978, United Grocers began to review its legal and financial structure in an effort to develop an equity base that would keep pace with growth and provide a means by which its members could share in the increasing value of the cooperative. As a result of extensive study, the organization decided to reincorporate as a for-profit stock corporation operated as a cooperative. Member equities were converted to common stock. Upon recapitalization, United Grocers began to buy and sell stock from its members based on its book value at the end of the most recent fiscal year. Each member store was required to hold a certain amount of common stock, based on its average purchases. Each member held one voting share of stock and as many nonvoting shares as required. The corporation was permitted to pay up to 50 percent of patronage dividends in common stock or notes and the balance in cash.

According to Plante, the conversion was extremely successful and has been emulated by several other grocery supply cooperatives. As a result of the organization's new structure, members were able to share in its nonmember and nonpatronage profits through the appreciation of the book value of their common stock. Members viewed the cooperative as an assured source of supplies at competitive prices and an attractive investment. In addition, members now had an incentive to encourage management to expand into related profitable businesses. By converting its members' equities into common stock, the company was able to strengthen its balance



sheet and invest in capital improvements critical to its growth. By requiring members to hold common stock according to their patronage, the equity held by members was in direct proportion to their purchases.

Some of the same concepts are discussed in the Harvard Business School case study of Suzy Bel, Inc. Suzy Bel was organized by a group of California tomato growers to acquire a canning plant. In establishing Suzy Bel, organizers sought to remedy perceived structural weaknesses in the cooperative form of organization. In particular, they were concerned about undercapitalization of cooperatives stemming from the lack of incentives for member investment and the absence of economic rewards for retired members whose capital was involuntarily retained on a nonearning basis.

Suzy Bel was organized using a corporate form of grower ownership dubbed the "third way." The organization differed from a cooperative in that its objective was identical to a stock corporation and profits were to be allocated to owners on the basis of capital invested instead of the value of annual tonnage throughput. It differed from a corporation because of the dual role of the producer-owners.

Organization as a stock corporation allowed growers to acquire equity ownership of the physical assets of the cannery and thus participate directly in the appreciation of these assets as well as the cannery's profits. Because profits were allocated on the basis of capital instead of throughput, organizers believed there would be a continual market for Suzy Bel stock. Each share of stock was accompanied by a 10-year marketing contract that entitled the grower to sell a certain tonnage annually to the canner at the prevailing market price. Growers were free to sell either their ownership shares or their marketing contracts independently of the other. Thus, they had the flexibility to continue their relationship with the organization either as a grower or owner.

Because of the dual producer-owner role of growers and the correspondence between stock ownership and planned tomato deliveries, the organization would seem to conform to most notions of a cooperative despite return on the basis of stock ownership and its organization as a stock corporation. However, given the absence of restrictions on the sale of both the stock and the marketing contracts, the organization would be expected to gravitate away from a cooperative in practice to a conventional investor oriented corporation over time. If ownership and marketing rights were tied and their exchange limited to producers, the organization would meet most of the characteristics of the cooperative while providing for the appreciation of equity.

## Conclusion

The essential difference between a cooperative and a POC is the means by which earnings are distributed to owners. If equity is held in proportion to patronage, no difference in the distribution of earnings would exist in practice—at least in the short term. In the long term, differences could occur because of an appreciation in the value of the organization's assets. Cooperatives that emphasize the distribution of earnings on the basis of patronage generally do not provide their patrons a mechanism for partici-
pating in the increased value of the organi...

The decision of which organizational form to choose depends on the fundamental orientation of the producer-owners. Producers who are primarily concerned about providing essential marketing and supply services at cost should prefer to have the organization's earnings returned as savings on the basis of patronage. Those whose principal concern is earning profits on their investment in the organization may find it advantageous to form a stock corporation.

For producers who choose to operate their businesses as cooperatives, the retention of unallocated earnings from patronage income is inconsistent with the decision to return savings on a patronage basis. It seems reasonable, however, to allow a cooperative to retain income not attributable to patronage. Return of these earnings would not constitute a reduction in cost but rather a distribution of profits unrelated to the provision of services. By retaining this income in an unallocated capital account, the cooperative could use the income to offset future losses that are not attributed to undercharging patrons.

Strong arguments can be advanced in support of the concept of proportionality. Under this concept, voting rights would be apportioned according to the risks assumed. Because risks are borne proportionally to patronage, voting would be tied to patronage as well. By adopting this practice, cooperatives might become more attractive to larger farmers, who in some situations are essential to business success.

Application of the concept of proportionality to financing has even more intuitive appeal. Most cooperative advocates would probably argue that ideally the costs associated with financing a cooperative should be borne in proportion to the benefits received. New members may need the opportunity to build their investments gradually until these investments are in line with their patronage. For members who are unable to put up their proportionate share of equity, the cooperative could provide temporary financing by charging interest on the underinvestment, or members could finance the capital needed through a commercial arrangement.

Support has also been expressed for a balance between the operational interests of active members and the ownership interests of inactive members. Too often cooperatives create an inequitable situation in which a sizable class of equity holders neither receives compensation nor has a voice in shaping the policies of the organization. Given current statutory restrictions, cooperatives are limited in what they can do to give these former members a voice in controlling the disposition of their equity investments. However, the practice of paying little or no return on patron equities appears to be largely the result of cooperative choice instead of legal constraints. At a minimum, cooperatives should be obligated to pay preferred dividends on the equities of former members to the extent they can, given current limits on dividend rates imposed by state laws. Requiring active patrons to contribute proportionately to financing would help cooperatives in redeeming the equities of former patrons or paying dividends on those equities.

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# Cooperative Principles and Equity Financing: A Discussion of a Critical Discussion

***Michael L. Cook***

Royer's paper explores hypothesized impacts of the "principles of cooperation" on the current practices of voting, equity acquisition, and equity redemption in U.S. agricultural cooperatives. The author argues that practicing traditional cooperative principles may lead to an increasingly incompatible conflict between the investor-owner role, the user-owner role, and the user-patron role of a cooperative member. The author examines inconsistencies and inequities among alternative cooperative philosophies and practices. Subsequently, he concludes that he has found the solution proportionality—a concept that calls for the degree of control and benefits derived from an agricultural cooperative by a member to be directly related (proportional) to the amount of risk incurred by the member in the form of equity provided.

## Major Points

The major points made in the Royer paper include:

1. Royer observes and agrees with many (Schaars; Robotka; Phillips, Dunn) that some cooperative principles contribute to conflicts or paradoxes in the equitable treatment of user-owner patrons.
2. Royer argues that, to exercise control in a cooperative, equitable voting rights should be allocated according to economic risks assumed, which, in a cooperatively structured business organization, means risks are borne in proportion to patronage. Implicit in Royer's argument is that the "one person—one vote" principle and practice was equivalent to proportional voting in the founding period of cooperatives when the majority of membership exhibited many homogeneous characteristics, especially in net worth and patronage.
3. The paper suggests that a legislative or legal constraint exists in converting to proportional voting because only a minority of incorporation statutes for farmer cooperatives permit proportional voting.
4. In addition to arguing for proportional control he joins a growing list of contemporary cooperative thinkers (Barton 1988, 1989; Cobia) who advocate the concept or "new principle" of equity financing in propor

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tion to patronage. He additionally goes beyond their recommendations of implementing the proportionally oriented base capital plans to explore a different user controlled business organization structure entitled patron-owned corporations (POC). (See point 8 in this section.) He suggests that POCs alleviate some of the disadvantages of the base capital plan (Moore and Hardesty).

5. The paper details and consolidates the arguments that rewarding equity is legal and is an acknowledged objective of cooperatives, but it is a practice seldom followed. Royer hypothesizes that, because of tax objectives and horizon problems, cooperative boards of directors usually exercise the option of distributing the annually generated benefits in the form of patronage cash and allocated equity certificates rather than rewarding patronage and investment.
6. According to Royer, involuntary provision of equity capital by former or inactive members presents an increasingly important challenge to cooperative boards and management. He suggests that the amount of equity held by the disenfranchised inactive member is increasing and this violates the unwritten but well understood rule of cooperative fairness. His partial solution to this challenge is for cooperatives to improve and accelerate the use of well planned equity redemption plans.
7. Another growing problem in the field of cooperative finance, Royer observes, is the increasing tendency of cooperative members to undercapitalize their cooperative organization. Royer argues that this has fostered the recent increase in development and expansion of the unallocated equity reserve category on many cooperative balance sheets. Royer systematically points out that the most important source of unallocated equity is derived from nonpatronage earnings. But even though leverage and cash flow advantages exist, according to Royer, there are significant economic, control, and legal reasons why unallocated equity may not be the most sound method of enhancing the balance sheet.
8. As the ultimate solution, Royer proposes an alternative organizational structure that would maintain the contemporary user-control, user-benefit, user-ownership principles in addition to adding the proportionality concept. This alternative is called the patron-owned corporation (POC). Listed as the advantages of the POC are the possibilities of (a) appreciable stock and (b) a liquid market for stock, thus facilitating member-owner entry and exit. His paper does not detail nor discuss the disadvantages or conflicts of this alternative structure with traditional cooperative principles.
9. Royer adds to the Schrader list of cooperatives reorganizing to take advantage of investor-owned organization structures by analyzing the United Growers stock conversion and the Suzy Bel tomato grower "third way" organization. His comments on the success of the United Growers initiative is positive, but he reserves comment on the success/failure of other cooperative to corporate conversions.
10. As in many advocacy arguments, the author has reserved a fall-back position in case the patron-owned corporation and proportionality concepts don't foster firm level changes or statutory initiatives. He concludes that the minimum action cooperative leadership must



accomplish, if the "principle of cooperation—equity finance" conflict is to be addressed, is the adaptation of more disciplined equity capital redemption programs.

## Contribution to the Field

The Royer paper makes a number of explanatory, innovative, and positive contributions to the cooperative organization literature. Several of these contributions are expanded upon here.

1. Royer provides us with a detailed review of literature and reference list on the subject of cooperative proportionality. His review of Schaars, Robotka, and Phillips on proportionality in cooperative control and financing is particularly informative.
2. The author is relatively successful in combining the disparate parts of control and finance into a comprehensive view of the concept of cooperative proportionality. The melding of USDA's 1987 user-owned, user-controlled, user-benefited contemporary principles *with* Barton's proportional principles *with* the thoughts of numerous cooperative statesmen regarding equity acquisition and redemption *with* Cobia's proposals on control proportionality formulates a challenging set of issues for cooperative leadership. The clarity of his accomplishment will be helpful not only to a "first timer" but also to veterans of the issue.
3. Royer should be congratulated for renewing efforts to explain and clarify to cooperative leaders the complex set of issues that have widespread importance for future collective action forays and for those who are attempting to position their member organizations for the challenges of the next decade. Conversion to proportionality might be a difficult stakeholder education undertaking, and the challenge should be thoroughly discussed. A survey conducted by Barton (1988) reveals that no Kansas local cooperative has adopted the base capital plan (a proxy for proportional financing), and only a very small percentage of the large U.S. agricultural cooperatives have adopted the plan.
4. The paper addresses and expands on the clarification of one of the basic problems in cooperative finance—the provision of sufficient risk capital contributed by current user-members versus the inadequacy of capital reserves to satisfy long-term needs. His proposed dual solution to this well-defined horizon problem (Swackhamer and Maihan; Staatz) is (a) total cooperative proportionality to solve the current risk capital side of the issue and (b) patron-owned corporations (POCs) to address the capital reserves issue. (See below for greater detail regarding the proportionality solution.)
5. Finally, and perhaps most important, Royer implicitly addresses the critical but seldom discussed "original versus current justification" issue. This issue might be explained best by posing the question: Are the economic needs of the current members served best by the organizational structure that was most appropriate for correcting the market ...ures that existed when the cooperative was founded? In other words, ...ould cooperatives that were initially formed to eliminate the inequi... of market failure be maintained to prevent pos...e future market

failures? If so, how should they be organized to address today's concerns? Royer addresses this "original objective versus current justification" or "maintenance-founder" issue by suggesting that those who argue for maintaining close affiliation with outdated principles should re-examine the historical dynamics of the U.S. agricultural cooperative environment. His point is that total proportionality would facilitate the solving of some of the problems fostered in "traditions" and fixed "institutional" constraints that were important in correcting problems of an earlier and quite different economic period. I would argue that the traditional principles were very appropriate for addressing the market failure situations of the 1920s and 1930s, but continued dedication to rules and principles of that period has led to a relatively high transaction cost organizational structure. That does not bode well in a market environment where survivors will be characterized by organizational structures that minimize the *sum* of *production* and *transaction* costs.

## Unanswered Questions

Although the paper makes significant contributions to addressing certain issues, it raises new ones and leaves unanswered a number of others. Briefly these queries might fall into the following categories.

1. There is a temptation when addressing complex cooperative issues, especially those involving purposes, goals, and objectives, to use the same assumptions and criteria for evaluating the performance of cooperatives as IOFs (investor-oriented firms). But as Staatz has pointed out, the scope of optimization may be broader and more diffuse for cooperatives than for an IOF. This more ambiguous set of objectives might have complex behavioral and structural implications for cooperative stakeholders. By addressing these implications under the assumption of proportionality, Royer might have contributed even more to critical thinking on cooperative issues.
2. Mancur Olson, in his classic study on the logic of collective action, concluded that even when all interested members in a group would gain benefits from production of a public good (i.e., the correcting of a market failure), the members may fail to make contributions to the group if the organization relies solely on the value of the public good to induce member contributions. His conclusions were derived from the "Free Rider Principle" and the "Principle of Imperceptible Effect." Royer indirectly addresses the free-rider issue but does not address the imperceptible-effect issue, which is one of size (in large organizations the share of the public good received is so small that it is rational to contribute very little). The examination of the concept of proportionality might have much to say about the Olson assertion that cooperatives will succeed only if they remain small.
3. Royer accepts the results of previous studies on cooperative opportunity cost of capital (Beierlein and Schrader; Snider and Koller; Dahl and Dobson; Fischer). But if Staatz's hypothesis is correct that cooperatives have a broader objective function than the IOFs, then the opportunity cost of cooperative equity using the traditional economists' and accountants' definition (i.e., short-term Treasury Bills) might be miscalculated. What is the opportunity cost of eliminating a market failure? To increase our understanding of this important measure, perhaps we need to more aggressively explore opportunity cost valuations that appraise total member costs. This measure might fall between the private opportunity cost and the social opportunity cost. Minimal analytical effort has been expended on this subject, and yet no other subfield would benefit more than cooperative finance if research were to be conducted in this area.
4. Given his familiarity with the literature, it would be beneficial to the cooperative finance reader for Royer to suggest further empirical and theoretical work to be done. Questions such as: Does proportionality reduce transaction costs in control, in equity acquisition, in equity redemption? Does the concept of proportionality reduce agency problems caused by the separation of residual risk bearing and decision management? Would the horizon problem be ameliorated if the organization's members pursued wealth maximization rather than utility maximization?
5. Royer's section on the patron-owned corporation is relatively brief. Further explanation is needed on how POCs might alleviate some of the inequities created by a nonproportionality equity acquisition option. A further contribution might include a discussion of the disadvantages of a POC, particularly when over time increasing amounts of stock are acquired by nonpatrons.
6. Identification and description of quasi-proportionality control and financing tools that are currently being implemented in many U.S. agricultural cooperatives would be instructive and perhaps would lend credibility and power to some of Royer's arguments.
7. And, finally, a discussion of the complexity of transitioning from a nonproportional structure to a proportional cooperative structure would be particularly helpful to cooperative management and directors. The economic cost and political challenges of transitioning may be a major factor in explaining why more cooperative firms have not restructured.



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## New Comments on a Classic

*Among the respected leaders and thinkers about cooperatives in the earlier half of this century, E. G. Nourse surely ranks near the top. Much of his philosophy of cooperation was summarized in a short article published by the American Institute of Cooperation in* American Cooperation 1942 *to* 1945, *pp. 33–39. This reprint makes more accessible this classic paper. Two retrospective commentaries by Joe Coffey and Ronald Cotterill address the relevance of this piece to the 1990s.*

# The Place of the Cooperative in Our National Economy

***Edwin G. Nourse***

It would be very easy to write an article under this title along the simpl and enthusiastic lines of a "pep talk." One could point out that the leg foundations of the cooperative association and federation have been wel laid and generally recognized; that sources of finance have been provid and financial methods adapted to the peculiar needs of cooperatives; tha managerial and accounting practices have been greatly improved; that th growth of cooperative business is impressive, and enthusiasm for furthe development is at a high level. In a word, we could predict that cooperati business is destined to take a successful and prominent place in our econ omy—even a dominant position as it is reported to have done in Swede

On the other hand, it would be very easy to write an article couched in terms of caution, apprehension, and disillusionment. One could dwell upo the perennial difficulties of getting members to be "loyal" or of striking a working balance between showing current cash benefits and still accumu lating the necessary capital to build a sound and growing organizatio One could wax pessimistic about the cooperatives' ability to bid successfull for the kind of managerial talent necessary for conducting the larger typ of enterprises, or dilate upon the dangers, imaginary as well as real, of "trying to run before we have learned to walk." One could look only at th dark side of the cooperative picture and become a "Gloomy Gus" just as, b looking only at the bright side, he might become [illegible] nna.

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# ANNEX G

## CDP-ANERA: Palestinian Cooperatives, A Development Strategy

Cooperative Development Project

ANERA
AMERICAN NEAR EAST REFUGEE AID

# PALESTINIAN COOPERATIVES

## A DEVELOPMENT STRATEGY

*Jerusalem*

*February 1992*

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# INTRODUCTION

This document is a joint statement by American Near East Refugee Aid (ANERA) and the Cooperative Development Project (CDP) on the importance of Palestinian cooperatives in development assistance strategies for the West Bank and the Gaza Strip (WBG). First, why support Palestinian cooperatives? Second, what are the key priorities in WBG cooperative development? Third, what are the distinct roles of CDP and ANERA in addressing these aims?

Jerusalem February 1992

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## I. WHY SUPPORT PALESTINIAN COOPERATIVES?

### A. Cooperatives are private sector community enterprises2

A cooperative is a democratic business, owned and controlled by its users-members. Co-ops are driven by the need to serve their members, rather than make profits for investors. That is not to say co-ops need not be efficient and profitable; indeed they must. But commitment to members' long-term economic interest outweighs the importance of quick returns and bottom lines.

Co-ops allow many people to participate in private enterprises who might not otherwise do so. Where there are many small producers, co-ops provide services and economies of scale that fit their needs, and thus draw them into the market economy. They move people out of the informal and into the formal economy.

Many cooperatives serve people of limited income not reached by the few commercial financial institutions, and they support business activities which might otherwise not be possible. They help replace informal lending practices which often disadvantage the small farmer.

On the West Bank and Gaza, there are more than 200 functioning co-ops providing vital community services:

- o Olive, livestock, poultry and dairy co-ops are assisting farmers in processing and marketing their produce;
- o Marketing co-ops are finding new overseas markets in Europe and assist farmers in shipping their produce to Jordan;
- o Housing co-ops give people an opportunity for home ownership and common services from streets to small parks;
- o Village electric co-ops meet the power needs of WBG communities, which are often not linked to the national grid; and
- o Handicraft co-ops preserve Palestinian traditions, help women develop marketable skills, and increase incomes by marketing their products.

West Bank and Gaza cooperatives bring economic benefits into a community. Equally important, by introducing people to the formal economy and providing a means of education and a sense of empowerment, they are maintaining economic vitality in the face of extremely difficult economic times.

B. Cooperatives promote democracy

Open and voluntary membership is a hallmark of cooperatives. The members own the business. They provide share capital, elect a board of directors, and receive the benefits of ownership through better service often at lower costs.

As schools for democracy, co-ops provide an opportunity to learn to resolve problems democratically. Many individuals who received their education in democracy from cooperatives have gone on to become important leaders in their societies. In many recent elections in WBG cooperatives, younger leadership is coming to the fore. There is now a clear positive trend toward increasing democracy in WBG cooperatives as a whole. Co-op training and other development projects facilitate this progress by enhancing awareness of member rights and co-op procedures, by requiring the wide mobilization of counterpart resources and efforts, and in many cases by necessitating formal general assembly approval. Such precedents have healthy spin-offs in other kinds of institutions.

Co-op leadership on the West Bank and Gaza has represented a pragmatic influence during the Intifada. In the current politically and economically difficult situation, co-ops mesh well with goals for Palestinian self-government. They represent a link to Jordan, which can be of vital economic assistance over the long-term. From a broad perspective, the importance of Jordanian-Palestinian economic links is well recognized by Palestinian farmers and the Palestinian national consensus.

C. Cooperatives build and broaden open markets

Today, governments around the world are increasingly divesting themselves of state-owned enterprises in favor of the open market.

Cooperatives can provide a private sector alternative to state companies and ensure wide participation by the users. They spread economic power; they are a proven, effective tool in avoiding the concentration of economic power in the hands of the few.

Several vegetable co-ops in the WBG have successfully penetrated hitherto inaccessible markets in the European Community. Opening these kinds of markets and others in the Gulf states is a major goal of the Palestinian cooperative movement.

WBG cooperatives are the key local institutional facilitators of agricultural produce export to Jordan and, through trans-shipment, to the rest of the Arab world.

Cooperatives encourage competition. They give small producers alternative marketing, finance, input, or services channels. In this respect they give competition to monopolistic middlemen and money lenders whose charges are often exorbitant.

Co-ops in the WBG have also historically opened up substantial marketing opportunities for the private sector by pioneering certain technologies and businesses that other firms deemed too high-risk, but were happy to replicate (sometimes abundantly) once proven by the co-ops. Examples in the WBG are olive seedling nurseries and semi-automatic olive presses in the southern West Bank as well as micro dairies.

Sound cooperative lending systems in a variety of cooperatives supply members with impartial credit---on the business merits of loan applications.

A WBG self-governing authority would have in co-ops a proven and fair way to promote broad economic development on a private sector basis.

D. Cooperatives reduce poverty, raise individual dignity

Cooperatives elevate human dignity by giving people a way out of poverty and a means to achieve dreams, such as educating children or owning a home. Examples are found in many successful West Bank housing cooperatives as well as the agricultural cooperatives that press olives or reclaim land for small tenure farm families.

People with little formal learning benefit greatly from the skills they learn from co-ops. Because educated decision-making by members is paramount to their success and sustainability, cooperatives work to educate their members in a wide array of skills, ranging from basic accounting and co-op practices to technical know-how. Notable illustrations of this skills-transfer process are seen in the Palestinian olive press cooperatives and in many of the livestock, dairy, and poultry cooperatives---including those primarily serving Bedouin communities.

Cooperatives empower individuals by giving them the chance to participate in decisions which have an impact on them. A co-op brings democratic and entrepreneurial practices into a community, and those practices are then utilized by members to find self-help solutions to social and economic needs.

Co-ops strengthen Palestinian self-worth.

## E. Cooperatives are appropriate development vehicles

### 1. Historical background of the Palestinian cooperatives

The Palestinian cooperative movement began around 1920. Its backbone has always been agricultural cooperatives catering mainly to the needs of small farmers. In the British Mandate period and in the early 1950s, cooperatives helped protect small Palestinian farmers from extreme usury practices.

Palestinian cooperatives were partially influenced by British cooperative laws and methods (during the Mandate period), by the early cooperative movement in Palestine, and by Jordanian and Egyptian laws and regulations between 1948 and 1967.

However, Palestinian cooperatives have played a distinctive role due to the unique political circumstances obtaining on their land and, specifically, the Israeli military occupation since 1967. The WBG cooperatives have carried extra burdens, such as government vetting of new members in Gaza, member land confiscations, no-charge arrests of members and officers, and routine military barriers to movement of goods and people, etc. They have lacked the normal advantages which most cooperative movements in the world enjoy: availability of credit, legal protection, normal registration, the right to assemble, and non-taxable status.

There are roughly 250 active WBG cooperatives representing about 32,000 families and serving an estimated 30,000 additional non-member families. Thus, about 20% of the citizenry of the WBG is directly and tangibly affected by cooperatives.

The WBG agricultural cooperatives are the predominant farmer-owned institutions in the Palestinian agricultural sector. This fact may be due in part to the small scale land tenure in the WBG community.

One example is the Tarqumia Olive Press Cooperative which has 1600 members, 75% of whom own two acres or less. Hebron small farmers founded the co-op in 1975 with their own funds (as is the case with almost all active Palestinian cooperatives), raised in part by selling family jewelry. Since then, this co-op has reclaimed 15,000 dunums of rocky land with two bulldozers acquired in 1979 and 1988, the older of which has no book value but a market value of over $50,000 due to excellent maintenance. The co-op has purchased and successfully operated a fully automatic olive press with double line processing. It has produced over one million olive seedlings and introduced competitive olive nurseries to the southern West Bank region. Finally, it established an experimental revolving loan fund for members.

Cooperative economic activities benefit from larger business volume, operational efficiencies and professional management. Many WBG cooperatives enable farmers, otherwise limited to raw production, to access supplies at reasonable costs, or obtain the use of farm machinery at a fair price. For example, 50 to 100 farmers in a village can feasibly own a tractor and equipment that individually none could afford. Likewise, 500 farmers can own a $180,000 bulldozer for land-reclamation. Village electric cooperatives buy their diesel fuel in bulk and act as a local development engine by spurring small-scale enterprises not possible without reliable energy.

It should be noted that co-op unions on the West Bank, and potentially now in Gaza, are becoming important second tier cooperatives for leveraging services for constituent cooperatives and their members.

2. Response to criticisms of WBG cooperatives

Objective, factual criticism of Palestinian cooperatives and co-op projects is constructive and welcome. However, categorical denigration by some critics reflects over-generalization from isolated examples, or just plain ignorance and negative stereotyping. Substantial development activity in a sector tends to draw the fire of criticism and problem exaggeration as surely as non-activity draws little or none. The fractious, negative, and accusatory atmosphere of the WBG community is also a forgivable symptom of the situation on the ground.

In co-op development we do encounter problems and deficiencies. One can pose three pragmatic development questions: (a) Given proper precautions and preconditions, are WBG cooperatives useful vehicles for achieving priority development goals? (b) Are selected WBG cooperatives at least as appropriate and viable as other available institutional bases for specific types of priority development projects? (c) What practical improvements can be made in WBG cooperative development programming? A negative answer to these questions (a) and (b) would mean the wholly unwarranted exclusion of a major class of Palestinian institutions.

It will be useful here to dispel a few specific myths. The corrections below apply to most active Palestinian cooperatives and, specifically, to ANERA and CDP project counterpart co-ops. The conclusions are relative to Palestinian institutions generally---the only realistic or fair standard of assessment.

First, WBG cooperatives are not elitist or plutocratic, but democratic and grassroots.

Membership is not limited to a certain race, sex, creed or economic class. It is true that cooperatives are not charitable societies nor philanthropies; they are businesses. But as a whole, WBG co-ops reflect fairly the socio-economic diversity of the community. Their overall record on election frequency and openness of membership compares favorably with most other types of WBG institutions, including those especially billing themselves as grassroots.

The same is true from the standpoint of written by-laws and audited financial statements---important measures of democratic accountability. The 150[illegible] members of the Jericho Agricultural Marketing Cooperative, operating in the traditionally feudal Jordan Valley, elected a board half of which is landless sharecroppers---a previously unprecedented first step out of domination by landed elites. Most farmers in the Jordan Valley are members of this co-op, which despite its problems is an important institution.

**Second, WBG cooperatives are not economic failures, but productive enterprises.**

Failures die. WBG co-ops survive and grow because their members benefit tangibly. Certainly any WBG business has an uphill battle given the negatively stacked political and economic deck, among other problems. Co-ops are no exception.

Many examples of surviving and prospering co-op businesses can be cited. A case in point is the Ramallah-El Bireh Poultry Cooperative, which established its initial feed plant (with ANERA assistance) in early 1980. Four years ago the factory expanded to produce pelletized feed. Accounting is now fully computerized (with CDP and ANERA coordinated help). Membership has increased from 78 to 160. Production and sales have increased even during the reduced work days of recent Intifada years. It should be added that some co-ops are distributing dividends from net surpluses and many others give advance patronage dividends in the form of services or product discounts.

**Third, WBG cooperatives are not tools of Jordan or Israel, but of their Palestinian members.**

Cooperatives have been under heavy pressure in a variety of ways from the Israeli military authorities as have most Palestinian institutions. Some problem co-ops have indeed arisen, as is the case in any given class of WBG organizations; but overall, the co-ops have been more independent than most other types of institutions.

The Jordan Cooperative Organization (JCO) still has a role in the West Bank, mostly through very modest funding of a

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few dozen Palestinian cooperative managers and technical specialists. The degree of actual JCO intervention is minimal. The occasional assertion that the very fact of registration in Jordan or Israeli Civil Administration is suspect, does not bear up under scrutiny. Almost all of the well known relief committees and other such groups are themselves registered in some form with Israel as non-profit organizations or companies. Most significant Palestinian development projects of any type require one or more institutional registrations or permits from the Israeli authorities in order to have a chance of being legally protected and sustainable.

Moreover, co-ops sometimes struggle for years, often in vain, to register legally. Entire boards of registered WBG co-ops have been arrested. Palestinian marketing co-ops doing business in Jordan have a natural reason to register there. In sum, the reality is that WBG co-ops are very much on their own.

**Fourth, WBG cooperatives are not on-going sinkholes for PVO charity, but authentic local institutions with significant local resources.**

All responsible development agencies require local counterpart contributions for projects. This principle has been almost universally applied to WBG co-op projects. Moreover, almost all active WBG co-ops have started their activities with significant member equity, often in substantial amounts.

**And fifth, WBG cooperative projects do not undercut but support or supplement the non-cooperative private sector.**

Such projects have generated a great deal of business for the private sector and are targeted to fill gaps not otherwise being adequately met in the market: olive pressing for small volume producers, agricultural machinery services for small tenure farmers, piloting of promising new technologies, etc. In some cases, long waiting lists for co-op membership (as in the case of Beit Lahia) and for services such as land reclamation tell the story clearly.

Finally, co-ops are non-exclusive, they do not favor one individual over another, and anyone wishing to benefit can join.

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In assessing actual problems and weaknesses in WBG co-ops, several points should be borne in mind:

(a) Cooperative and other development is not easy or quick in the West Bank and Gaza. A patient, persistent long-term approach is needed and proven to be effective.

(b) Cooperatives are the only proven permanent, farmer-owned structures legally available for substantial agricultural development projects.

(c) WBG co-op problems and weaknesses necessitate focused interventions, careful monitoring, and experienced judgment calls. This is of course true for all WBG development.

3. Distinct development importance of WBG cooperatives

Despite the lack of loan financing available and foreseeable in the WBG---(no country comes to mind with less per capita lending and government support for agriculture)---credit is the ideal form of assistance for the development of business and agriculture. However, this requires a massive amount of human resource development and institution building. That process has made a good start among Palestinian cooperatives and should continue. Many valuable lessons have been learned. The institutional alternatives in agricultural credit, specifically outside of East Jerusalem, are meager indeed.

Until there is a real institutional structure for credit throughout WBG, capital financing from PVOs such as ANERA and CDP for carefully selected projects is the only feasible form of development assistance. In several sectors, co-ops present the only fair way to do this: they must have open membership and are thus not subsidizing a few lucky groups or individuals. It is the job of the sponsoring PVO to enforce these presuppositions.

A critical point is that due to military government restrictions, registration of new institutions is sometimes extremely problematic, protracted, or impossible. Co-op registration in the Gaza Strip, for example, completely stopped between August 1977 and August 1991. Although PVO efforts helped loosen this specific suppression, restrictions remain such as the control exercised by the CIVAD over new membership applications in Gaza. The key is that if current institutional development is to be taken seriously, the institutions that are available and able legally to do business and extend credit must be utilized.

The benefits of cooperatives are worth the efforts. Yet, donors and development organizations involved in supporting WBG co-ops must also continue to encourage better and more supportive government policies. They need to be patient given the long timeframe essential for institutional development.

## II. COOPERATIVE DEVELOPMENT GOALS SHARED BY CDP AND ANERA

ANERA and CDP have a shared vision, in common with knowledgeable Palestinian leaders, of the role of cooperatives in WBG economic development. We believe it can be practically realized, indeed already has been to some degree. In certain key sectors we see few viable alternatives.

### A. Overall development philosophy

The watchword of development is empowerment. This means institution building and human resource development. In the WBG, attention must be paid to the definition of "institutions". Target counterparts are indigenous and legitimate structures and political, tribal or religious domination is to be avoided. Sustainable development suggests frameworks based on the democratic process and organizational and financial accountability. Wide participation implies the utilization of such processes at all levels, and cooperatives are among the best examples of just that.

Along with institutional empowerment comes the strengthening of economic self-sufficiency, a standard development objective. This means increasing net incomes and jobs.

These aims are vital and should undergird the overall development strategy for WBG. Strong and well-functioning WBG cooperatives can be engines to achieve these objectives.

Development does not mean further enriching the wealthy. Rather, it suggests emphasis on lower and moderate-income families. The Beit Lahia Strawberry and Vegetable Cooperative is a prime example. It is composed of 450 small farmers in the northernmost part of the Gaza Strip, where the average holding is just three dunums. While some members may be illiterate, they know the art of growing vegetables and the importance of their voices in governing the cooperative. As proof of their effectiveness, 400 membership applicants await approval.

Palestinian society is drastically behind its neighbors, Jordan and Israel, in terms of the institutional infrastructure vital to the provision of essential services to the population. A highly developed Israeli cooperative movement has existed for more than half a century, and a smaller, less sophisticated movement has taken hold in Jordan. WBG co-ops can profit from the Jordan and Israel co-op experience---both negative and positive. Also, the long track record of the US cooperative movement has great relevance to the WBG.

In sum, ANERA and CDP share a common development goal: to empower cooperative institutions to strengthen, expand and improve member services and become efficient, self-sustaining business enterprises. Member and family incomes can be thus enhanced and the quality of life improved.

B. Cooperative development objectives

To achieve the goals set forth above the two AID-assisted PVOs aim to:

o Develop human resources among the membership and management of the co-ops, thus strengthening local leadership and improving business skills;

o Provide specialized training and technical assistance to co-op members and staff;

o Provide sources of disciplined credit to cooperatives and their membership;

o Based on sound feasibility studies, selectively finance equipment and start-up costs for viable and new economic enterprises or activities;

o Provide legal aid to co-operatives on a case by case basis; and

o Press for less restrictive government policies.

C. Key cooperative sector objectives

1. Agriculture and marketing

Agriculture demonstrably continues to be the mainstay of the local economy. Up to 40% of the population lives in rural and village communities dominated by an agrarian economy. Moreover, agriculture disproportionately affects other sectors of the economy.

Key co-op related agricultural objectives include:

o Provide appropriate technologies (tools, machines, and infrastructure) in agricultural production, including machinery units that can reduce unit production costs and improve productivity in selected cooperatives based on absorptive capacity and economic feasibility;

o Improve control of disease and pests;

o Improve quality and efficiency of agricultural inputs;

o Improve and expand irrigation systems;

o Facilitate crop diversification;

o Build and strengthen domestic and export marketing capabilities and institutions through realistic export market studies stressing profitability;

o Maintain a workable Market Information System (MIS) with timely communication to key institutions, cooperatives and farmers;

o Process farmer produce so that it will command a higher price on the market and create greater returns for the producer;

o Improve and expand packing, storage, cooling and grading facilities as well as efficient quality and security control systems; and

o Expand agricultural trade between Gaza and the West Bank.

Cooperatives are ideally situated to play key roles in meeting these needs and delivering the required services. It is worth mentioning that both ANERA and CDP have jointly and actively supported the two main cooperatives engaged in the direct and indirect export of vegetables to Europe (Jericho Marketing and Beit Lahia cooperatives).

2. Olive press cooperatives

Olive oil production represents the single largest agricultural resource in the West Bank with approximately 40% of all arable land planted in olive groves, and 20% of the total value of ag-production. More than 10% of annual production is carried out through olive press cooperative associations of farmers. Both agencies have worked with these cooperatives in the past and will continue to in the future.

Our shared vision for the sector includes the following:

o Encourage these co-ops to expand their services to members to include marketing of processed olive oil;

o Provide technical assistance and training to make operations more cost-effective;

o Assist them in utilizing by-products; and

o Provide technical training in olive press maintenance.

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### 3. Dairy and livestock

The dairy sector in the West Bank and especially in Gaza suffers from inadequate processing facilities, poor marketing capabilities, sub-standard herds, and severe competition from Israel. In the 1980s ANERA helped establish a series of small cooperative dairy plants situated in various locations of the West Bank. They were designed to provide needed markets for local milk producers by processing hygienic yogurt and lebaneh and to provide an additional source of income to co-op members. More recently, ANERA has begun facilitating a series of co-op based mobile veterinary clinics; two are operational: one in the West Bank and one in the Gaza Strip. The clinics serve the badly neglected Bedouin community as well as other livestock owners. CDP has provided specialized technical assistance and training in business management, marketing and accounting.

Both CDP and ANERA view these cooperatives as having the potential to play an expanded role in WBG livestock and dairy development. To this end, CDP and ANERA intend to:

- Upgrade hygienic standards and methods in livestock, poultry and bee production.
- Develop better receiving and delivery mechanisms for raw material and products;
- Extend the efficiency of plants and expand markets;
- Train and technically assist staff and board members to enhance business management and technical skills; and
- Re-enforce co-op principles via member and board education.

### 4. Village electrification

There are two centers for village electric cooperatives in the West Bank: one in the south (Hebron District) and the other in the north (Nablus District). The former encompasses six co-ops in some of the poorest villages in the region, and the latter approximately eight. The systems grew out of a desperate need for electrification for both home and small business operations.

Over the years some of the village systems have connected to the Israeli grid, while others have not. Most systems have enormous voltage drops or losses due to old, poorly maintained or inadequate networks and the majority of the co-ops provide electricity for only a limited period of time each day.

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While this is a small sector within the cooperative movement, its importance to the villagers is vital, and CDP assists these co-ops in up-grading their networks. They provide electricity for tens of thousands of homes in the villages served and for hundreds of small businesses and enterprises.

While ANERA no longer works in this sector, both agencies share the view that these systems must be supported and strengthened as independent and democratically owned and operated cooperatives. The Israeli authorities have not been supportive of cooperative village electrification, preferring that WB villages tie directly into the Israeli grid.

Key sector objectives:

- o Expand electrical power in rural localities so that value-added enterprises may be established;

- o Strengthen management and technical capabilities in the electrification cooperatives; and

- o Enhance the economic viability of cooperative rural electric systems in remote areas by facilitating efficient technical operation and business-like cost and revenue management.

5. Housing cooperatives

A number of Palestinian housing cooperatives have constructed and managed reasonably priced housing for their members. However, during the years of the Joint Palestinian-Jordanian Committee, many co-ops were formed and begun at a time when continued Joint Committee funding was expected. It failed to materialize and more than 900 units stand unfinished to this day. Other problems have been weak planning and site selection and a lack of infrastructure (mainly power, streets, and sewer and water networks).

CDP and ANERA feel that a well organized cooperative housing sector is feasible and could be highly beneficial, productively utilizing existing assets and physical and institutional structures. It would also provide badly needed employment in building and construction. The long-term need is for a Palestinian institutional structure responsible for coordinating the entire development of the sector: planning, organization, design, financing, and construction of co-op housing projects. At some point a Palestinian Housing Bank, comparable to the very successful Jordan Housing Bank, is a must.

However, housing is an exceedingly complex process under any circumstance, and made more difficult in the WBG where mortgage and financing mechanisms are absent, where the planning process,

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licensing and building permits are in the hands of the Israeli authorities, and where building standards and costs are high. To address the needs of the entire housing sector in the WBG, USAID has engaged ACDI's sister organization, the Cooperative Housing Foundation, to undertake a housing needs assessment. This begins in March 1992 and housing cooperatives will be included in the assessment. The study will comprise part of the basis for the overall AID development strategy for the WBG currently in progress.

6. Handicrafts

WBG handicrafts marketing cooperatives provide a valuable service for producer-members (often women). Better marketing skills are badly needed in these co-ops. Export marketing potential exists in some cases, notably in the Bethlehem area olive wood Christmas ornament industry (Beit Sahour Handicrafts Cooperative). Better organized women's cooperatives of traditional cross-stitch and rugs found in Soureef and Samou'a also deserve and are receiving attention.

D. Financing cooperative development

The absence of a formal financing mechanism for cooperatives (and other enterprises) in the WBG has been a major development constraint. Periodic grants and loans were made available to many WB cooperatives during the period of the Joint Committee, but these were never set up as disciplined credit. Most "loans" were and are perceived as grants, though some were repaid.

To a limited extent, this co-op development void has been filled by PVOs, primarily ANERA and CDP. ANERA has capitalized a number of agricultural cooperative revolving funds for loans to members for equipment purchases, green-house building, etc. Each cooperative manages the fund with on-going technical assistance and training.

CDP has made loans through the Electric Union to several village electric cooperatives to improve their systems and plans to continue this program in a modified form. CDP is concluding negotiations with the East Jerusalem-based Technical Development Company (TDC) to administer this and its ag-lending program to cooperatives.

For cooperatives to achieve significant economic development impact, we see a long term need for a Palestinian cooperative bank, which could have some affiliation with Jordanian financial institutions. Such a bank should be owned---at least in part---by the cooperatives it serves, possibly along the lines of the US Bank for Cooperatives and the National Cooperative Consumer Bank, based in Washington, DC. Alternatively, an International Finance Corporation-supported hybrid bank is a possibility. In either

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case, market interest rates would be charged in order to maintain its financial viability.

We do not feel that a Palestinian Bank for Cooperatives should become engaged in mortgage lending for WBG housing cooperatives. Rather, a specialized housing finance and banking institution is more appropriate for that purpose.

Recently, ANERA employed a consultant to evaluate the concept of a cooperative bank and his report is separately available. While there are serious obstacles to such a proposal, primarily on the political level, the benefits could be substantial.

## III. SPECIAL CDP AND ANERA ROLES IN COOPERATIVE DEVELOPMENT

CDP and ANERA have concentrated their cooperative development efforts in such a way as to complement, not compete with one another. This section briefly describes each organization's cooperative development emphasis and the means of coordination where an intersection of interest is present.

### A. CDP cooperative focus

In its broadest sense, CDP's goal is to increase the income and well-being of members of Palestinian cooperatives by improving and expanding their services. To achieve such goals CDP seeks to a) strengthen WBG co-op enterprises' capability to operate as effective and efficient businesses; b) improve the ability of co-ops to provide services and market their products; and c) improve WBG co-ops' access to credit. CDP inputs include specialized training and technical assistance and loans and grants.

Naturally, cooperatives are the focal point of CDP's current development efforts. To achieve its goal CDP has developed a strategy of concentration which targets a limited number of cooperatives showing the greatest promise of replicability.

This strategy of concentration is broken down along sectoral lines, viz. marketing cooperatives, agricultural co-ops, electric cooperatives, etc. After identifying and selecting those cooperatives that match its strict development criteria, CDP then conducts a needs analysis and management audit. After careful analysis and discussion with the co-op, an Action Plan is developed which is mutually agreed to by CDP and the cooperative. Pursuant to this, a continuous follow-up provides frequent interface, TA and training where called upon, and careful assessment and evaluation.

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CDP employs a comprehensive arsenal of human resource development tools to meet the needs identified in each cooperative Action Plan.

In the agricultural sector, CDP has concentrated its efforts on a limited number of major agricultural cooperative enterprises. These are carefully selected based on geography, sector, size and attitudes towards change.

CDP's cooperative specialties, distinct from ANERA, are (1) training and technical assistance, (2) village electrification, and (3) facilitating credit to cooperatives.

1. Cooperative training and technical assistance

As an organization whose primary focus is human resource development, training becomes the most significant single component. In its five year span CDP has delivered approximately 150 courses to over 2000 participants representing 226 co-ops. We have developed a curriculum of 36 courses. CDP training includes courses, seminars, workshops and one-on-one technical assistance. Courses range from technical to organizational on issues of immediate concern for co-ops. These include business management, accounting, planning, marketing, member and board education, computer skills, and specific technical skills in sectors such as dairy, farm machinery and marketing.

CDP prides itself on being the foremost training institution of its kind in the WBG and this is made possible by its inter-disciplinary team of 15 professional Palestinian trainer/technicians.

CDP also calls upon its US-based sister organizations in specialized sectors such as the National Rural Electric Cooperative Association (NRECA). NRECA helps CDP in the oversight of its rural electrification program with frequent consulting visits. Through a sub-agreement with another sister agency, the Volunteers in Overseas Cooperative Assistance (VOCA), highly qualified US volunteers with specialized skills for clearly identified needs are made available. In 1991 alone, experts in dairy and post-harvest technology provided invaluable inputs to various WBG co-ops.

Beginning in 1992 CDP provides small amounts of assistance to cooperatives facing administrative and legal problems with the CIVAD.

2. Credit TO cooperatives

A small grant and disciplined credit component complements CDP training and TA. It should be noted that the credit program

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is for cooperatives per se as opposed to credit to individual co-op members. This is a powerful incentive or "carrot" for cooperatives to make change, and thus represents a modest but vital tool in CDP's arsenal.

CDP is commencing a small, tightly controlled, disciplined ag-credit program in March 1992 in cooperation with the TDC. The program will make market-rate, short-term and medium-term loans to eligible cooperatives for expanding new or existing productive enterprises, production credit, and working capital for marketing costs.

3. Rural electrification

In the arena of electrification as described earlier, CDP is currently targeting 6 cooperatives in the Hebron district and will later extend the radius of this program to the northern area where 8 other co-ops function. The program currently provides loans for up-grading existing networks, and these have been channeled through the Electric Union. Once agreement is reached with the TDC, they will also be the conduit for village electric loans.

B. ANERA cooperative focus

Since the late 1970's ANERA's overall institutional development program has been with municipalities and charitable societies as well as cooperatives. Viewed sectorally, ANERA's current cooperative development program focuses on agriculture and credit, though with some handicraft and health co-op projects. Important agricultural sub-sectors include marketing, processing, irrigation, agricultural machinery services, land reclamation, disease and pest control, and livestock and dairy.

The three special areas of ANERA cooperative project emphasis, distinct from CDP, are (1) capital projects, (and specifically,) (2) agro-equipment and agro-infrastructure, and (3) credit from, co-ops to their members---as against credit to coops.

1. Cooperative capital projects

While very strongly supporting human resource development as the paramount WBG development priority, ANERA is oriented especially toward substantial capital projects that give local institutions and leaders the opportunity to apply concretely the human skills, knowledge, and values needed for development. At the same time, the projects have visible substantive impact in the community. This on-the-job approach is used by ANERA in a variety of WBG cooperative projects. Training and technical assistance, integral to ANERA's program, have a project specific emphasis.

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2. Agricultural and agro-industry equipment, machinery, and marketing infrastructure

ANERA agricultural and agro-industry equipment, machinery, and marketing infrastructure projects are not limited to the cooperative sphere but include municipalities, technical training institutions, and other organizations. Co-ops have been counterpart institutions in scores of such projects implemented in the past decade.

In the early 1980's, ANERA sponsored some AID-funded village electrification cooperative projects. Since that period ANERA's involvement has been limited to follow-up and monitoring. Unlike CDP, ANERA has not sponsored formal training in co-op management, although it strongly supports the importance of such training.

3. Credit FROM cooperatives, and related institutions, to member borrowers

As indicated, ANERA has piloted revolving credit schemes which are owned and run by cooperatives and targeted at their borrower-members. In contrast to CDP, ANERA does not make loans to cooperatives as such.

C. <u>CDP/ANERA COORDINATION</u>

1. General pattern

ANERA and CDP both feel that a strong, democratic, business-and-service-oriented cooperative movement can meet the needs of a large segment of Palestinian society. This conviction is the common denominator for both organizations.

It is important to recall that it was ANERA's cooperative consultant, who in 1985, saw a need for specialized expertise in cooperative development and initiated the linkage between the US and Palestinian cooperative movements. This close historic bond between the two communities reflects very much the close on-going ties between ANERA and CDP.

CDP and ANERA adhere to the premise that cooperative development in the WBG is not only indigenous but reflective of and responsive to local needs. Both are mindful that US co-ops grew out of grassroots self-help movements themselves. They have gone through the same evolution that those on the West Bank and Gaza are undergoing. They understand and appreciate the problems WBG co-ops are facing. The objectives enumerated in this document should be seen in the context of an on-going dialogue with the Palestinian community and may need to be adjusted accordingly.

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The practical aim of CDP and ANERA has been to coordinate on project planning and implementation and to work in distinct spheres of cooperative development. Inasmuch as (a) PVO development assistance in the WBG is a relatively new process, (b) PVOs world wide tend to coordinate less than the ideal, (c) AID-funded cooperative development as such is scarcely a dozen years old, and (d) CDP has been present for half that time-- the learning curve is inevitably still high. Certainly many improvements in substantive development programming and in coordination can be made. Progress in this area continues-- including coordination with other PVOs such as CRS, which has at times worked with co-ops.

2. Specific illustrations of coordination

An early example of close CDP-ANERA coordination is seen in the co-op computerization project dating from 1987, where ANERA financially assisted regional marketing co-ops to acquire PC computers and CDP spearheaded training in their use.

In the credit area the two PVOs have also coordinated actively from the same early period. ANERA developed a specific revolving loan fund project and CDP sponsored generic training on credit subjects and produced a comprehensive credit practices and forms manual (English and Arabic).

ANERA and CDP have both been active in supporting the development of an agricultural Market Information System. Its main initial purpose is to obtain, tabulate (in a data base), analyze and disseminate critical market information in the major wholesale markets in WBG on a daily and weekly basis. CDP's role has been to develop and refine the system and software, build the data base and offer the information and data in understandable ways in English and Arabic.

ANERA's role has been to sponsor the basic hardware and software infrastructure in the Palestinian marketing cooperative movement and specifically in the current coordinating center in the Nablus-based Agricultural Marketing Cooperative Union (ACU). This includes a fax link with Amman, Jordan, now used for sending and receiving official certificate of origin documents that previously had been carried physically at a cost of perhaps $350 per trip per farmer.

Another example of CDP/ANERA coordination is their work with the Jericho Marketing Cooperative. CDP and ANERA both assisted Jericho with entry into the tough EC market. Jericho has received extensive CDP training and TA in business management and post harvest technology, including a specialized training trip to Europe for board and staff in 1989. This complemented ANERA's financial support to Jericho---mainly for the export grading and packing infrastructure---as the co-op conducted its export programs in 1989, 1990, and 1991. ANERA has assisted the cooperative's participation in a European fair as well. In turn, CDP has sponsored popular marketing workshops which brought together exporting cooperatives (Jericho and Beit Lahia), importers, and supporting agencies such as the EEC, French and Italian aid, and ANERA. More recently CDP assisted in facilitating a forum among the co-op's board and staff with European importers to improve export standards. In none of these cases was there duplication or redundancy of effort.

The Beit Lahia Strawberry Cooperative in Gaza is yet another example of close working relationship between the agencies. Made up of 450 lower-income Gaza farmers, this co-op began to export directly to Europe in the winter of 1989-90. To assist the co-op in meeting its expanding member needs, ANERA established a $250,000 revolving fund in the cooperative which is used for small loans to members for equipment, greenhouse construction, and other key needs. ANERA is also assisting with the construction of a cooling facility adjacent to a UNDP funded packing house. CDP, for its part, has provided intensive TA and staff training, and significant inputs in the export process. CDP has also agreed to provide partial support for a professional manager, on a declining basis, for two years. Close coordination is maintained between the CDP and ANERA offices in Gaza to avoid duplication of effort.

Among livestock and dairy cooperatives, CDP's assistance has been centered on training and specialized TA to the boards and staffs. This is conducted and coordinated by its dairy expert. As mentioned earlier, CDP's efforts have been to make the operations more efficient, to expand their markets, and extend the radius of their operations to include more local farmer/producers. For its part, ANERA was instrumental in helping to finance equipment needed to launch the cooperative micro-dairies in the first place. Its TA includes substantial technical support on operating, maintenance, and marketing issues. It should be noted here that, because of the proximity of the relationships, CDP and ANERA have also established a "dairy coordinating committee."

3. Coordinating mechanisms

To achieve the optimal coordination and complementarity CDP and ANERA have adopted the following procedures:

o Macro planning committee: We agree that the most important element in inter-agency cooperation begins at the planning and conceptualization stage. Accordingly, we have

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established a macro-planning committee composed of the country directors of each organization and a senior Palestinian from each agency. This committee meets twice a year to discuss each organization's future plans and directions to ensure coordination. The minutes of these meeting are sent to the Washington headquarters for their use and follow-up.

o Co-op coordination committee: The purpose of this committee is threefold: first, to make sure that mutual consultation has taken place among the agencies during the planning and feasibility stages for all co-op related projects to be submitted to USAID for funding; second, to review each other's current AID-assisted programs to make sure that duplication is avoided; and three, to share information gathered about key co-ops and coordinate inputs. The committee meets bi-monthly and will include project directors and other key Palestinian staff.

Other committees, if need be, can also be established.

Conclusion

CDP and ANERA believe that the case for strong support for WBG cooperatives is compelling and that each agency has a distinct and crucial role in that effort. We also feel that the coordination structures now in place will ensure complementary inputs and a tightly focused development program.

ANNEX H

<u>Beit Jala Olive Press Cooperative Workplan</u>

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WORKPLAN

FOR

BEIT JALA OLIVE PRESS COOPERATIVE

COVERING THE TWELVE MONTHS ENDING

DECEMBER 31, 1992

**February 20, 1992**

WORKPLAN FOR BEIT JALA OLIVE PRESS COOPERATIVE
Output Manager: Arafat Dajani

The CDP team consisting of Abed Abu Arafeh, Daoud Istanbuli, Joseph Nesnas, and Arafat Dajani suggest the following workplan for the Beit Jala Olive Press Cooperative for the calendar year 1992, subject to approval and commitment of both CDP and the said cooperative. A meeting will be scheduled between the co-op and the team to discuss and approve the workplan and agree on commitments of both sides.

PURPOSE OF WORKPLAN:

To develop and set a short term CDP strategy for intervention in this targeted co-op.

METHOD:

1. To ensure full coordination and support for the workplan to be, the CDP team met internally to discuss CDP intervention possibilities and plan before meeting the board of directors.

2. The team then met with the co-op board and staff and discussed the following agenda items:

   a. Identification of co-op strengths and weaknesses and suggest ways to overcome these weaknesses.
   b. List future development plans of the co-op and prioritize them in accordance with available resources.
   c. Areas of cooperation between the co-op and CDP.
   d. The basis of cooperation between the two parties including its objectives, contents and timetable.

3. Preparation of a one year (mutually agreed upon) workplan divided into two six-month parts.

4. Distribution of tasks and responsibilities among CDP staff.

OBJECTIVES:

1. Increase olive pressing efficiency by 10% (by programming the pressing schedule.
2. Increase use of ag. machinery unit by at least 15%.
3. Study the feasibility of the soap factory.

GENERAL INFORMATION:

1. Management:
The co-op has thirteen active board members and three active supervisory committee members and well experienced staff with a big potential. The staff consists of an acting manager (accountant), a chemical

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engineer, a seasonal tractor driver, and a guard. In addition, ten to fifteen seasonal workers are hired to help with the olive press season.

2. Membership:

The co-op has 776 members representing the entire area of the Bethlehem district including almost fifty per cent of the olive growers in the district (about 32,000 dunums of olives). On the average, every farmer holds 26 dunums. This co-op has had regular general assembly meetings.

A. Current Activities:

The co-op activities includes three main components:

1. Olive Press: This consists of a 1981 Paralizi one line full automatic press. The pressing capacity is one ton per hour. During a good season the press works for two shifts of 11 tons each daily. The range of the total annual production is 400 to 1000 tons of olives[1]. Being the only efficient press in the area, farmers have to wait between 7 to 10 days for their turn. Last fees for olive pressing was NIS 300 per ton for members and NIS 350 per ton for non-members. The rate for previous year was NIS 200-250 respectively[2]. Additional minor income are generated from the selling of the press olive residue (JIFT) at a rate of NIS 15 per ton, last year sale of this item was JD 1680 equal to $ 2600.

   Olive pressing is currently considered the best business activity, last year net profit of the olive press was JD 27.583 (almost US 42,000).

2. Machinery unit: This unit was established in 1989 and consists of one heavy caterpillar bulldozer model 963 and two 1989 tractors of 73 HP. Tractor implements consist of the following:

   xxxxxxxxxxx
   The original feasibility study for the bulldozer showed that a loss of xxxxx was expected.

   Currently this unit is well maintained however very

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[1] The range of length of the season is 18 to 60 days starting from October 16 through to December 16.

[2] Total revenue from pressing arranging between NIS 120,000 NIS 500,000 or almost NIS 60,000 to 250,000, the actual revenue for 1991 was JD 74,000 or US 110,000 Dollar.

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limited activity is being undertaken, no staff is available to operate the unit temporary drivers are hired for single missions. During 1990 the tractor's total loss was US 2200 while the total annual income didn't exceed $ 2500. The bulldozer was almost not operating with total income limited to US$ 1200, no profit was recorded.

The none efficient function of the machinery unit is attributed to several factors:-

a. The new board paid little attention to this new activity being intensively involved in reorganizing the cooperative business and administrative activities, mainly the olive press, the soap factory and the overall managerial needs.
b. Directing most of the cooperative financial resources towards reactivating the soap factory, leaving very little resources to the machinery unit.
c. Lack of time and resources left the unit without a plan and staff.
d. The heavy bulldozer, although, it is very efficient, couldn't compete with other lighter bulldozers available in the market.
   The high operational costs of the bulldozer make the rate of the work costing at least double than the lighter bulldozers.
e. The transport cost for the bulldozer reaches up to US. 250 regardless of distance. This cost element affects negatively the profitability of the unit.
f. The board views land reclamation as a long term investment project, accordingly it sees little opportunities for the bulldozer, especially that farmers are considered financially weak to afford joining such a program.
g. Tractor implements are limited; additional implements are badly needed.

In their deliberations to solve these issues, the board took the following steps:

a. ANERA has agreed to cover a six months salary of the unit manager to be employed by the cooperative in the early summer.
b. Applying for ANERA to provide the cooperative with a grant for completing the needed ag. machinery implements.
c. The board is planning to conduct a research study in the Bethlehem area concerning the needs assessment of the unit's services.
d. A preliminary contract was prepared with Tarqumia Olive Press cooperative in Hebron in order to lease the bulldozer to them. The contract has not been implemented yet.

e. An idea was raised to replace the existing bulldozer with a lighter one.

f. A joint small campaign for eradication of external parasites on sheep, with the union of work committees has been implemented. Similar activities are currently proposed.

g. Negotiations with ANERA are still in the process concerning ANERA's credit portfolio.

3. The Soap Factory: Reactivation of this factory has been a challenge for the newly elected board. Serious intensive efforts were made in this respect, including a grant agreement with CDP and a comprehensive evaluation of the present status of this factory. The cooperative also succeeded to release a JD 12,500 from the cooperative accounts at JCO. This process has reached a stage where an expert from a German well known company is most probably due within the next few weeks to help in the trial runs of the factory. Arrangements were also made with the same company to provide the factory with needed raw materials.

At the end of this effort four alternatives will be evaluated:

1. Obtaining positive results regarding technical obstacles which will pave the way for regular operations.

2. Obtaining negative results which requires restarting the whole process over again with the ICA company in Jordan.

3. Obtaining positive technical result but negative economical results requires reevaluating the whole idea of the factory including equipment, methods, and type of output.

4. Obtaining positive economic results requires further marketing, packaging, operations and management programs, in addition to new sources of funds.

B. Proposed Activities:

1. ANERA loan program: as an integral part of the ANERA loan program $25[illegible],000 were allocated for Beit Jala to be used as a revolving loan fund. The co-op has a completely different approach for this program which does not meet ANERA's criteria.

The main difference of opinion is in the collection of repayments. ANERA wants the co-op to be in charge of this process and bear the responsibility while the co-op is unwilling to get involved in collecting repayments and having to sew members if need be, since being an olive press co-op,

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SUMMARY OF CRITICAL FACTORS:

| Strengths | Weaknesses |
|---|---|
| 1. Efficient and capable BOD | 1. Huge investments without operations |
| 2. Successful press operation | 2. Unused machinery unit |
| 3. Regular BOD meetings | 3. Limited staff and expertise |
| 4. Timely financial statements | 4. Unavailability of spare parts and technical expertise for olive press maintenance |
| 5. Potential for big operations | 5. Use of profits of one profit center to finance another |

SUGGESTED ACTIVITIES AND PRIORITIES:

| Item | Est. Cost | Source | Comments |
|---|---|---|---|
| Add line for olive press | 100,000 | loan?? | feasibility study/Programing |
| Spare parts unit | to be decided later | | Maintenance course |
| Startup of soap factory | 18,100 | CDP | Previous commitment |
| T.A. for soap Factory (German) | 4,000 | CDP | consultant |
| Research/Observation Jordan | 3,000 | CDP | If TA not workable |
| Packing machine for soap | 10,000 | ?? | Feasibility study |
| Extraction of oil from "Zibar" | 5,000 | CDP (Loan) | Feasibility study |
| Farm machinery staff for one year | 6,000 | ANERA | Training |
| | 500 | CDP | Survey |
| Computer upgrade | 450 | CDP | News to Members |

RESPONSIBILITIES:

| Item | CDP | Co-op |
|---|---|---|
| Olive Press new line | Feasibility Study | Look for loan sources |

| Item | CDP | Co-op |
|---|---|---|
| Spare parts unit | Facilitation/ coordination | Initiate joint project with other co-ops |
| Startup of soap factory | Funding (18,100) on-going monitoring and evaluation | Phasing and programing, follow consultant's recommendations, share info with CDP |
| T.A. for soap Ftry | Funding | Speedup arrangements for consultant's arrival and lodging arrangements |
| Observation tour | Funding and 2 staffers | Arrangements with ICA - Jordan |
| Packing Machine / soap marketing | Feasibility study | Look for donors |
| Oil from Zibar | Feasibility study Loan considered | Technical study |
| Farm machinery staff | Assistance in Survey Programing of activities ($500) | Survey |
| Computer upgrade | Funding/T.A. | $450 and publications |

ASSUMPTIONS:

1. Full commitment to assigned responsibility by CDP and co-op.
2. Availability of funds for different projects
3. No major changes in prevalent external policies and regulations.

# ANNEX I

## Successes in ANERA's Agricultural Cooperative Development Projects

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# OUTSTANDING SUCCESSES IN ANERA's AGRICULTURE COOPERATIVE DEVELOPMENT PROJECTS

Adnan Obeidat, Sector Coordinator

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## OUTSTANDING SUCCESSES IN ANERA's AGRICULTURE COOPERATIVE DEVELOPMENT PROJECTS

**Sector Coordinator: Adnan Obeidat**

The cooperatives in Palestine have a deep and long history in serving the Palestinian members and local communities. Beginning in 1920, this cooperative movement has 72 years of contributions. There are 300 active cooperatives in all sectors (agriculture, housing, women and services). There are another 400 registered but inactive cooperatives which invite international agencies to assist and support the reactivation. More than 32,000 family members belong to cooperatives which represent more than 20 percent of the citizens in the occupied territories. In addition, these cooperatives are helping, serving or touching the lives of another 30,000 non-member families. (The average size of a nuclear family is 6.5 people in West Bank and 7 people in Gaza).

Farmers found that cooperatives are the practical vehicle for rural development. Agricultural cooperatives protected small farmers from usurers during the British mandate and the early 1950s, at the beginning of the Jordan cooperative movement.

Cooperatives as developmental institutions should prove that they are:

- Legitimate and democratic institutions accepted and respected by the community.
- Serving their target groups and individuals in economic and feasible methods on a business basis, by reducing cost and adding value.
- Creating new jobs and encouraging self-employment.
- Increasing the income of the members and beneficiaries and as a result the national income in general.
- Meeting the basic needs of the grassroots and small farmers.

**Land Reclamation**

Agricultural ownership in the Hebron district is small scale. (The size of farms is small; half of the farmers do not own more than two acres.)

For example, 75 percent of 1,600 members in the Tarqumia Olive Press Cooperative/ Hebron district do not own more than two acres. This cooperative was established in 1975 when the small farmers wanted to prove that cooperation is the better way



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to solve their economic and social problems. This was the first time in the history of the Hebron district that farmers and rural citizens established a vital and tangible agricultural project with their own funds which included selling the jewelry of their women.

Agriculture cooperatives, with the assistance of ANERA, have been able to provide very important and vital services for the farmers in the area of land reclamation. It is estimated that 1.5 million dunums in the WB are reclaimable, which represent more than 25 percent of the total area of the WB.

Five Cat bulldozers owned by cooperatives reclaimed a total area of 21,600 dunums during the last period. One bulldozer served for 12 years; another one served for 9 years; and, three bulldozers served for 5 years each. The total working years are 36.

The assumption is that each bulldozer works for 1200 hours and reclaims 600 dunums and 15 kms. of agricultural road annually.

This field of activity can create tangible results in providing jobs for the local communities.

Each reclaimed dunum creates 10 person days of temporary employment for clearing, building walls and terraces, and planting trees, etc. (21,600 x 10 = 216,000 person days).

One bulldozer creates 100 permanent jobs annually (on the assumption that six dunums creates one full-time farmer).

The accumulated created jobs are:

| | |
|---|---|
| a) Permanent jobs = 21,600/6 dunums = | 3,600 jobs |
| b) Temporary jobs = 216,000/300 day = | 720 jobs (full time, full year equivalent) |
| Total = | 4,320 |

This gives the following indicators:

1. Each bulldozer creates 100 permanent jobs and 6,000 person/days of temporary work annually.

2. The bulldozers proved to be the best element for income generation for the cooperatives. In 1991, the two bulldozers of Tarqumia Cooperative achieved JD 14,000 as net surplus after all expenses including depreciation.



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3. Increase in personal income and the national income by 21,600 x $100 per dunurn = $2.16 million. This amount will be increased as more land is reclaimed.

4. In addition to job creation, the agricultural income from new land in one year for one bulldozer is $60,000. During the first three years the cost of a 963 Cat ($180,000) will be collected by the farmers from their new land. The average life of a bulldozer is 10 years. Eight new bulldozers are needed in the OT.

**ACU Agriculture Information Center (Assisted by ANERA)**

This service enabled the Palestinian producers and merchants to get marketing permits from Amman, Jordan by using new communication techniques to save their effort, time and cost.

The estimated number of permits during one year is 5,000. Each trip to Amman including the permit fees costs $350.

If ACU facilitates 200 faxes in the first year to Amman through ACU branch in Jordan and follow-up to get permits from the Ministry of Agriculture, the total savings will be $350 x 200 permits = $70,000.

ACU will charge $30 for this service. The number of permits will grow gradually.

**Livestock and Dairy Projects**

**a. Veterinary Mobile Clinics**

ANERA has assisted the livestock cooperatives in these projects. This service was introduced for the first time in Gaza Strip and the West Bank.

It is obvious that these services are highly demanded, especially by Bedouins.

The most important issue is that this service is reaching the grass roots and small farmers in their local communities. The cooperatives are charging the real cost and marginal profit to develop other services. (The Bedouins are the poorest sector in the Occupied Territories.)

**b. Micro-Dairies**

For the first time in the history of the Palestinian cooperatives, five micro-dairies have been established in different WB districts. At least one micro-dairy should be encouraged in Gaza Strip as soon as possible.



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**Cooperative Revolving Credit Program**

ANERA was the pioneer in allocating funds for a supervised credit system. This program is owned, operated and managed by the elected cooperative members. Ramallah Marketing Cooperative and Beit Lahia/Gaza Agriculture Cooperative proved that their collections of payments were very successful and encouraging for expansion in other regional agriculture cooperatives. (The percentage of collection is over 90 percent.)

This experience in credit encouraged the cooperatives and agriculture cooperative union to ask ANERA for assistance in establishing a cooperative finance bank in Palestine.

ANERA invited Mr. Marshal Burkes (finance management expert) to work on the proposal.

In the past, cooperatives adopted credit services for the members. They became the backbone of the small and poor farmers to protect their land from the usurers who charged the farmers more than 100 percent interest.

The new credit cooperative program, which is assisted by ANERA, is productive and economic. Regional cooperatives and village/local cooperatives are considered the most effective vehicles to reach the grassroots in the rural areas. I believe that there is no other alternative system available. Cooperatives/ANERA are building structural systems and institutions in the absence of any other grass root system.

**Cooperative Democratization**

ANERA encouraged cooperatives which implemented the credit program to hold general assembly meetings to approve the program. In many cases, elections for the board of directors took place in Beit Lahia, Gaza Livestock, Khan Younis Agriculture Cooperative, Beit Jala Olive Press, Hebron Marketing, Nablus Marketing, Qalqilia Marketing and Ramallah Marketing Cooperative.

Another example with reference to democratic action is the Jericho Marketing Cooperative. More than 80 percent of the 1,500 members are landless sharecroppers. With a history of a feudal system in the Jordan Valley, the sharecroppers won the last cooperative elections for the first time to obtain half of the seats on the board of directors. The cooperatives are proving themselves as schools of democracy in our local communities.

Cooperative principles, rules and regulations were adopted and respected, despite the severe political conditions.

**Reactivation of Stagnant Projects**

ANERA encouraged and assisted in reactivating some old stagnant projects such as Beit Jala Soap Factory and Ein Sinya Olive Oil Canning Factory.

**Gaza Cooperatives and ANERA Role**

a. Cooperative consultant in Gaza Strip. ANERA employed capable person to help in developing Gazan cooperatives.

b. MG froze cooperative registration starting in 1977. ANERA and CDP raised this issue in different occasions and on various levels. MG registered four cooperatives recently (1991) and approved reactivation of three old ones.

c. ANERA encouraged the establishment of a general cooperative union for all of the 77 registered cooperatives in Gaza.

**Businesslike Cooperatives; Profitable and Feasible Operations**

Ramallah Poultry Cooperative proved that cooperatives are businesslike institutions. This cooperative is a leader in getting profitable business. ANERA assisted in establishing its initial feed factory in early 1980. Four years ago the feed factory was modified to produce pelletized feed.

The capacity and size of the plant was doubled as the number of members increased from 78 to more than 160.

**Cooperatives are introducing appropriate technology**

Cooperatives in the agricultural sector are capable of introducing, operating and absorbing new and appropriate technology.

Cooperatives are leading in bridging the gap between the Palestinian agricultural system and the neighboring countries' system. It is difficult or impossible for small farmers alone to develop activities and services in the agriculture sector. Agriculture cooperatives can be properly equipped to organize farmers and enable them as cooperative members to own new technology and modern machinery. With economic feasibility, 50-100 farmers can successfully own a tractor and equipment. Also, it is feasible for 500 farmers to economically run and operate a bulldozer (Cat 963) costing $180,000.

The cooperatives are leading in the direction of reducing costs for the direct benefit of the members and indirectly for nonmembers. They are also leading in adding value to the projects in such areas of business and services.



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### Distributing Dividends

Cooperatives are paying early dividends for all members who get agricultural services, and some cooperatives are distributing dividends at the end of the financial year from the net surplus funds according to the cooperative law.

### Occupied Syrian Golan Heights

ANERA visited Golan on November 9, 1991 to get familiar with the situation there. ANERA has managed to present the needs of Golani people and cooperatives to Arab and International Organizations. Furthermore, ANERA encouraged local leaders to visit Palestinian cooperatives and exchange experiences.

### Tenders and Bidding

This issue was adopted and developed by ANERA and has been very successful in improving the procedures within the target institutions (including cooperatives).

Consequently, these new procedures were instrumental in implementing the cooperatives' internal financial regulations.

### Cooperative Computerization

For the first time and with the assistance of ANERA, 11 cooperatives were provided with computers and technical training. This service was indispensable for the cooperative movement in order to bridge technological gaps, upgrade the capabilities of cooperative staff and modernize the accounting system.

### Conclusions

ANERA is supporting the cooperative program to enable the cooperatives to have a major role in economic and social development and in building institutions and strengthening the existing organizations.

Cooperatives are uniquely equipped to meet the needs of 40 percent of the Palestinians in West Bank and Gaza Strip. Their role in the economic and social development of local communities is indispensable, acting as a channel for grassroots initiatives. If cooperatives are important under normal conditions, I believe that they are an absolute saviour under our extraordinary conditions.

A national task for agriculture cooperatives is to reclaim more than 1,500,000 dunums of land to productivity in the West Bank and Gaza, and save it from the risk and danger of Israeli confiscation. This includes a general strategy of increasing



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agricultural areas and land productivity, creating tens of thousands of jobs, raising income, and improving the national economy.

Cooperatives are equipped for this task. This ANERA program was started in 1979. The cooperatives own 7 bulldozers, heavy agricultural machinery and 60 tractors, and participate for their members in a successful new revolving credit program assisted by ANERA, on the assumption that all these services are integrated and complementary.

## ACTIVE AND COMPLETED ANERA PROJECTS
## A.I.D. IV PROJECTS

| NAME OF INSTITUTION | PROJECT DESCRIPTION |
|---|---|
| 1. Hebron Agr. Marketing Cooperative | Grape Juice Factory |
| 2. Jenin Agr. Marketing Cooperative | Marketing facility |
| 3. Jericho Agr. Marketing Cooperative | Marketing facility |
| 4. Nablus Agr. Marketing Cooperative | Marketing Union |
| 5. Auja Cooperative | Agricultural machinery |
| 6. Deir Ghassaneh Cooperative | Agricultural machinery |
| 7. Kufer El-Labad Cooperative | Agricultural machinery |
| 8. Saida/Allar Cooperative | Agricultural machinery |
| 9. Salem Agricultural Cooperative | Agricultural machinery |
| 10. Salfit Agricultural Cooperative | Agricultural machinery |
| 11. Samou' Agricultural Cooperative | Agricultural machinery |
| 12. Majed Al Ba'a Cooperative | Agricultural machinery |
| 13. Taffouh Cooperative | Agricultural machinery |
| 14. Dura Livestock | Agricultural machinery |
| 15. Sanour Agr. Cooperative | Agricultural machinery |
| 16. Tubbas Agr. Cooperative | Agricultural machinery |

## A.I.D. III PROJECTS

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|---|---|
| 17. Beit Jala Olive Press Cooperative | Agricultural machinery |
| 18. Hebron Agr. Marketing Cooperative | Agricultural machinery |
| 19. Jenin Agr. Marketing Cooperative | Agricultural machinery |
| 20. Jericho Agr. Marketing Cooperative | Marketing services, agricultural machinery |
| 21. Qalqilia Ag. Marketing Cooperative | Marketing services, agricultural machinery |
| 22. Tarqumia Olive Press Cooperative | Land reclamation |
| 23. Tarqumia Olive Press Cooperative | Land reclamation |
| 24. Tulkarem Agr. Marketing Cooperative | Marketing services, agricultural machinery |
| 25. Ramallah Agr. Marketing Cooperative | Marketing services, agricultural machinery |
| 26. Nablus Agr. Marketing Cooperative | Land reclamation/marketing union |

# ANNEX J. ANERA: SUPPORT TO COOPERATIVES, WEST BANK/GAZA



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ANNEX J.

**ANERA**
**SUPPORT TO COOPERATIVES, WEST BANK/GAZA**
**(30 JULY 1992)**

**Note:** This annex contains brief information regarding the most recent status of cooperative sector projects supported by ANERA under USAID Grant No. _________ and identifies those cooperatives with an asterisk (*) which were examined by the Devres Team between July 20 - August 7, 1992. Funding data is up to 30 July 1992. Funding recommendation comes from Suzanne Olds in her Cable to AID/Washington July 30, 1992.

**I. PROJECTS WITH RECENT AGREEMENTS - WORK IN PROGRESS**

A.* PROJECT: BEIT LAHIA (GAZA) COLD STORAGE
STATUS: ACTIVE - WORK IN PROGRESS
FUNDING LEVEL: USDOLS 500,000
BALANCE: $414,000

B. PROJECT: JABALIA MARKETING
STATUS: ACTIVE - WORK IN PROGRESS
FUNDING LEVEL: USDOLS 350,000

BALANCE: USDOLS 220,000

C.* PROJECT: TULKAREM MARKETING
STATUS: ACTIVE - WORK IN PROGRESS
FUNDING LEVEL: USDOLS 400,000
BALANCE: USDOLS 70,000
FUNDING RECOMMENDATION: CONTINUE FUNDING.

D. PROJECT: AGRICULTURAL MACHINERY PROJECTS
STATUS: THIS PROJECT PROVIDES AGRICULTURAL EQUIPMENT TO COOPS IN FIVE AREAS INCLUDE: AHLIEH AGR. (GAZA), BEIT-HANOUN AGR. (GAZA), NAJAH ALMOND (GAZA), BEIT-ILLU (RAMALLAH), AND KUFUR NIHMEH (RAMALLAH).
FUNDING LEVEL: USDOLS 700,000
BALANCE: USDOLS 225,000
FUNDING RECOMMENDATION: CONTINUE FUNDING.

E.* PROJECT: LIVESTOCK/VETERINARY CLINIC PROJECTS
STATUS: USDOLS 150,000 OF THIS BUDGET IS FOR THE PROCUREMENT OF MOBILE CLINICS. ONE CLINIC IS OPERATING IN GAZA, THREE MORE HAVE BEEN ORDERED. ANERA HAS NOT, BUT

NEEDS TO COORDINATE WITH THE CRS PARA VET TRAINING PROJECT.

F.* PROJECT: COOPERATIVE CREDIT
STATUS: FOUR COOPS HAVE RECEIVED THE FUNDING THESE ARE: BEIT LAHIA (GAZA), RAMALLAH, HEBRON AND KHAN YUNIS (GAZA. THE SAME FOUR COOPS WILL RECEIVE THE BALANCE REMAINING IN THIS PROJECT. ANERA CLAIMS THAT REPAYMENT RATE IS GOOD.
FUNDING LEVEL: USDOLS 700,000
BALANCE: USDOLS 379,000
FUNDING RECOMMENDATION: CHERYL LASSEN WILL ASSESS THIS PROJECT WITH ANERA. FOLLOW LASSEN'S RECOMMENDATIONS FOR FUNDING.

G. PROJECT: NABLUS SLAUGHTERHOUSE (PHASE II)
STATUS: NEAR COMPLETION. JOE PASTIC VISITED THIS PROJECT AND FOUND NO PROBLEMS.
FUNDING LEVEL: USDOLS 100,000 UNDER A.I.D. IV. (THIS PROJECT BEGAN UNDER A.I.D. III.)
BALANCE: USDOLS 100,000

H. PROJECT: GAZA SLAUGHTERHOUSE
STATUS: PHASE I NEAR COMPLETION, PHASE II TENDERING TO BEGIN.
FUNDING LEVEL: USDOLS 200,000 UNDER A.I.D. IV. (THIS PROJECT BEGAN UNDER A.I.D. III)
BALANCE: USDOLS 20,000

I. PROJECT: JALAZONE COOPERATIVE BAKERY
STATUS: FUNDING FOR EQUIPMENT. ANERA HAS SIGNED AN AGREEMENT COMMITTING TO THE PROJECT. EQUIPMENT SPECS HAVE BEEN COMPLETED. TENDERING IS UNDERWAY. ANERA IS FUNDING THIS PROJECT BECAUSE THE NEAREST BAKERY TO THIS TOWN IS IN RAMALLAH. ANERA ASSURED US THAT IT HAD CAREFULLY ANALYZED THIS PROJECT, AND THE PROJECT WILL HAVE SUFFICIENT WORKING CAPITAL AND EXPERTISE, ETC.,.
FUNDING LEVEL: USDOLS 120,000
BALANCE: USDOLS 120,000
FUNDING RECOMMENDATION: FOLLOW DEVRES TEAM EVALUATION

## II. <u>PROJECTS FOR WHICH EXPLICIT COMMITMENTS HAVE BEEN MADE:</u>

A. PROJECT: TULKAREM FEED FACTORY
STATUS: FUNDING FOR EQUIPMENT. TENDERING FOR EQUIPMENT HAS TAKEN PLACE. HOWEVER, THE

COOPERATIVE MUST RAISE USDOLS 250,000 BEFORE THE ANERA CONTRIBUTION S PROVIDED. NOTE: THERE ARE SEVERAL WEST BANK OPERATED FEED COMPANIES. A.I.D. HAS BEEN ASKED BY A RESPECTED PALESTINIAN ECONOMIST NOT TO FUND THIS PROJECT, BECAUSE IT PUTS THE COOPERATIVE IN DIRECT COMPETITION WITH PRIVATE BUSINESS AT A DISADVANTAGE. ANERA DOES NOT BELIEVE THAT THIS IS A COMPELLING ARGUMENT AGAINST FUNDING THIS PROJECT, AND BELIEVES THAT NEGOTIATIONS ARE TOO FAR ADVANCED TO PULL OUT. ANERA STATES THAT BOTH ISRAEL AND WEST BANK FEED FIRMS SELL BELOW STANDARD ANIMAL FEED AND THAT THIS COOP WILL SELL QUALITY FEED.

FUNDING LEVEL: USDOLS 250,000

BALANCE: USDOLS 250,000

FUNDING RECOMMENDATION: FOLLOW DEVRES TEAM RECOMMENDATION.

B. PROJECT: JERICHO AGRICULTURAL COOPERATIVE MARKET

STATUS: FUNDING FOR A PACKING HOUSE AND EQUIPMENT TO JIFLIK; PACKING HOUSE AND PACKING AND GRADING EQUIPMENT IN JERICHO. THE JIFLIK WORK IS COMPLETED. THE WORK IN JERICHO WILL NOT BEGIN UNTIL NEW ELECTIONS ARE HELD. NEW ELECTIONS MOST LIKELY RESULTING IN A NEW BOARD WILL OCCUR SOON.

FUNDING LEVEL: USDOLS 204,000

BALANCE: USDOLS 204,000

FUNDING RECOMMENDATION: FUND THE JERICHO PORTION OF THE PROJECT AFTER ANERA CERTIFIES THAT THE BOARD HAS THE BOARD APPROVES THE PROJECT AND THAT THE BOARD HAS THE EXPERTISE, OPERATING CAPITAL, ETC. TO RUN THE ENTERPRISE.

C. PROJECT: HEBRON GRAPE JUICE FACTORY

STATUS: THIS PROJECT WILL PROBABLY NOT GO FORWARD. NOTE: UNDP WAS ALSO TO PROVIDE SUBSTANTIAL FUNDING FOR THIS PROJECT. THERE IS REAL QUESTION ABOUT THE NEED FOR SUCH A FACTORY.

FUNDING LEVEL: USDOLS 300,000

BALANCE: USDOLS 300,000

D. PROJECT: JENIN COOPERATIVE MARKETING CENTER

STATUS: FUNDING FOR INFRASTRUCTURE. PLANS ARE STILL BEING DRAWN UP. THE MUNICIPALITY DOES NOT YET HAVE A LICENSE TO BUILD. ANERA HAS SIGNED AN AGREEMENT TO FUND

THIS PROJECT. THIS PROJECT WILL PROVIDE INCOME TO THE MUNICIPALITY.
FUNDING LEVEL: USDOLS 150,000
BALANCE: USDOLS 150,000
FUNDING RECOMMENDATION: RECOMMEND FUNDING.

E. PROJECT: COOPERATIVE CREDIT
STATUS: ANERA PLANS TO PROVIDE USDOLS 200,000 EACH TO SIX AG COOPERATIVES. THESE COOPERATIVES ARE:
QALQILIA, TULKAREM, NABLUS, JENIN, RAFAH (GAZA) AND BEIT JALA OR JERICHO. IT HAS SIGNED AN AGREEMENT WITH TWO COOPERATIVES, IS ABOUT TO SIGN WITH ONE MORE, IS AWAITING ELECTIONS IN ONE COOPERATIVE (JERICHO) AND IS HOLDING DISCUSSIONS WITH TWO MORE.
FUNDING LEVEL: USDOLS 1,156,000
BALANCE: USDOLS 1,156,000
FUNDING RECOMMENDATION: CHERYL LASSEN WILL ASSESS THIS PROJECT COMPONENT, AND THE OTHER COOP CREDIT PROJECT. FOLLOW LASSEN'S RECOMMENDATIONS FOR FUNDING.

F. PROJECT: BETHLEHEM/BEIT SAHOUR SLAUGHTERHOUSE
STATUS: THE DESIGN STAGE WILL BE COMPLETED IN ONE MONTH. NOTE: THE ARCHITECT/ENGINEER DESIGNING THIS PROJECT INFORMED AIDREP THAT THE EL BIREH SLAUGHTERHOUSE WASTE TANKS AND PROBLEMS. THE SAME PERSON INFORMED US THAT THE EQUIPMENT WOULD BE ORDERED FROM FRANCE. NOTE: WE HAVE INFORMED ANERA THAT THEY SHOULD PROVIDE THE MUNICIPALITY INFORMATION ABOUT U.S. MANUFACTURERS, AND PROVIDE ANY ASSISTANCE POSSIBLE TO ENSURE THAT U.S. MANUFACTURES ARE INFORMED OS THIS TENDER.
FUNDING LEVEL: USDOLS $450,000
BALANCE: USDOLS 450,000
FUNDING RECOMMENDATION: IF THERE ARE PROBLEMS WITH THE WASTE TANKS AT THE EL BIREH SLAUGHTERHOUSE, AIDREP DOES NOT BELIEVE THAT A.I.D. SHOULD FUND THIS PROJECT UNTIL THE KHAN YOUNIS AND EL BIREH WASTE PROBLEMS ARE SOLVED.

G. PROJECT: DHAHARIA SLAUGHTERHOUSE
STATUS: ON HOLD
FUNDING LEVEL: USDOLS 250,00
BALANCE: USDOLS 250,000

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