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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

COLOMBIA - RURAL COOPERATIVES DEVELOPMENT

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AID-DLC/P-2082

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May 19, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Colombia - Rural Cooperatives Development

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed five million United States dollars ($5,000,000) to the Government of Colombia to assist in financing the local currency costs of the Borrower's program of rural cooperatives development.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee on Thursday, May 22, 1975; please note your concurrence or objection is requested by close of business on Wednesday, May 28, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committe
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
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PART ONE: SUMMARY AND RECOMMENDATIONS

1. Borrower and Executing Agency

The Government of Colombia (GOC) shall be the Borrower. The Executing Agency will be the National Cooperatives Financing Institute (Financiacoop). Financiacoop will act as an intermediate credit institution, channelling project funds (a) to eligible cooperative federations with rural cooperative members and individual rural cooperatives for agricultural relending purposes, and (b) to a cooperative marketing federation and its member cooperatives for investments in marketing projects.

2. Amount and Terms of the Loan

The amount of the loan will be $5.0 million out of a total project cost of $10.66 million. The proposed terms are 40 years amortization, including a grace period of 10 years. Interest charged during the grace period will be two percent per annum and three percent per annum thereafter.

The proceeds of the loan will be relent by the GOC to Financiacoop. The proposed terms of the subloan are 25 years amortization, including a grace period of five years. The interest rate will be seven percent per annum and the loan will be denominated in Colombian pesos.

3. Goal and Purposes

The goal of the GOC and the USAID/Colombia Mission in the agriculture sector is to increase the incomes of the rural poor associated with the project. The purposes of the project are to strengthen the financial and technical capacity of the rural cooperative system in Colombia so that it can develop into a viable, self-help mechanism able to offer better services to its present small farmer membership and, concurrently, able to reach out to attract other low income farmers that are not yet cooperative members.

The strengthening of the cooperative movement is expected to occur at two levels. First, the availability of production and investment credit and agricultural services for eligible cooperatives and their members should result in increases in farmer income and agricultural production. In turn, this will lead to the strengthening of existing cooperatives and the development of new ones. Secondly, the project will stimulate the development of the national-level cooperative financing agency, Financiacoop, enabling it to better serve as a vehicle for channelling external resources to the movement.

4. Background

The underlying rationale of the project is that the cooperative mechanism represents one of the most promising means of extending services and resources to large numbers of the rural poor. The cooperative movement, first legally recognized in 1933, has grown steadily in the intervening years and presently consists of approximately 1,500 cooperatives, with a total membership of approximately one million.

During the decade of the 1960s, the cooperative movement moved to a further stage of development -- the creation of federations as more effective mechanisms for attracting external resources and for promoting new cooperatives. In turn, this created pressures for national level institutions to serve the movement. In 1968, a national cooperative financing agency, Financiacoop, was established to channel resources to its member cooperatives and federations.

Until recently, the GOC generally adopted a lassez faire attitude toward the cooperative movement. However, when the Lopez Administration took office in August, 1974, the government took a much more active interest in the cooperative movement as a vehicle for reaching the rural poor, its declared priority target group. A substantial credit line for the cooperative movement was established by the Bank of the Republic in Financiacoop, and efforts were begun to strengthen the Cooperatives Superintendency, which established a target of ensuring the existence of a rural production cooperative in each of the municipalities of the country.

These actions are designed to support the overall GOC strategy of transferring a larger share of resources to the poorer half of the population, principally by improving their nutritional well-being. Within that overall strategy, the GOC is concentrating on increasing agriculture production, which will provide more food to the urban sector and, by increasing farm incomes, will improve the nutrition of rural workers.

There are presently some 332 cooperatives with approximately 209,000 members that may be considered rural. These cooperatives are principally multi-purpose credit unions and agricultural production and marketing coops. The focus of the GOC and AID will be on assisting those cooperatives which are eligible in accordance with small farmer criteria and which are also seen as a means of addressing the objectives of increasing agricultural production and improving rural welfare. The proposed project has been structured to support these initiatives.

5. Project Description

The proposed project, including the AID loan ($5.0 million) and the companion grant activity ($400,000), will consist of two major components designed to strengthen the rural cooperative movement in Colombia.

One component, which will be supported by the proposed loan, will consist of funds for relending for general agricultural credit and for marketing activities by the cooperative financing institution, Financiacoop. Resources for cooperative relending will be contributed by AID ($5.0 million), the Bank of the Republic ($2.5 million), Financiacoop ($.875 million), and the cooperative movement's own resources($1.625 million). These funds ($10.0 million) will be relent to eligible federations and cooperatives active in the rural areas, including but not limited to UCONAL (Union Cooperativa Nacional de Credito), the Caja Popular (Caja Popular Cooperativa de Boyacá), and CECORA (Central de Cooperativas de Reforma Agraria). The majority of the project funds, $7.0 million, will be for agriculture production purposes and will be subloaned to individual cooperative members to finance the following activities: agricultural production credit, farm equipment and infrastructure, and working capital. Furthermore, the individual borrowers will be required to contribute at least 10% (and generally more) to the project costs.

A second credit element, $3.0 million, will consist of subloans to the marketing federation, CECORA, and its affiliated cooperatives for investments in marketing activities. Up to half of these funds will be used to expand an existing CECORA feed concentrates operation; the remaining funds will finance smaller marketing activities which will have been identified as being particularly responsive to the small farmer cooperative member.

The second major component will assist the longer term program objectives of institutional development. The Mission is proposing a $480,000 companion grant to strengthen the institutional capacity of the major sub-borrower, UCONAL. The funds will be used to support the promotional and training activities of UCONAL (equipment, technical assistance, training, and new cooperative development) in particular for a group of 24 large, model cooperatives to be formed or restructured under the project. It is anticipated that UCONAL will use a portion of the grant funds to contract with CECORA to provide assistance in promoting marketing activities among individual UCONAL cooperative affiliates. In addition, CECORA will use approximately one-half of the interest rate differential between commercial interest rates and the 9% cost of funds available to it under this loan for purposes of identifying and developing the smaller marketing activities portion of the project

In addition, as part of its contribution, the GOC will make available $180,000 to the National Cooperatives Superintendency to carry out promotional and management training activities in support of this project; the Peace Corps has provided and is expected to continue to provide management assistance to cooperatives and federations associated with the project; and the cooperatives themselves will finance cooperative management training, contracting with the National Apprenticeship Service (SENA) to undertake both short and long-term training courses (for which SENA will bear a portion of the cost).

6. Financial Plan

The proposed loan is expected to be disbursed within three years and the elements to be financed are summarized below:

TABLE 1

Project Financing Plan
(US$000)

Project Components	AID	GOC	Financiacoop	Cooperatives	Total
	Source				
Relending Credits					
Agricultural Production	3,500	1,750	875	875	7,000
Marketing Activities	1,500	750	-	750	3,000
Institutional Development	480 1/	180	-	- 2/	660
Total	5,480	2,680	875	1,625	10,660

1/ Grant financed activity.

2/ Recurring counterpart expenditures related to the AID grant will be assumed by the cooperatives, but have not been calculated as part of their contribution.

The total project cost is $10.66 million, of which the proposed AID loan represents 47%, the proposed AID grant represents 5%, the GOC contribution represents 25%, and the cooperative movement 23%. Although no direct foreign currency expenditures are anticipated under the loan, off-the-shelf procurement of equipment and commodities amounting to over $1.0 million is anticipated.

The expected disbursement schedule for the project is as follows:

TABLE 2

Project Disbursement Schedule
(US$000)

Project Activity	1975/76	1976/77	1977/78	Total
Production Credits				
AID loan	1,000	1,500	1,000	3,500
Financiacoop BOR discounts	500	750	500	1,750
Credit Union resources	250	375	250	875
Financiacoop own resources	250	375	250	875
				7,000
Marketing Credits				
AID loan	700	600	200	1,500
CECORA's own resources	350	300	100	750
Financiacoop BOR discounts	350	300	100	750
				3,000
Institutional Development				
AID grant	200	180	100	480
GOC budget	60	60	60	180
				10,660

7. Alternative Sources of Financing

The Eximbank, the IBRD, and the IDB have been advised of the proposed loan and have indicated no interest in providing the necessary financing.

8. Other Donor Activity

No other donors are directly involved in supporting this project.

9. Loan Administration

AID loan disbursements will be made on a reimbursement basis. Standard AID procurement procedures will apply.

10. Statutory Criteria

All statutory criteria have been met (see Annex I).

11. Issues

The following issues have been identified by the Mission and are discussed in Part Two, Section IV:

a. The absorbtive capacity of UCONAL to utilize the funds under this loan and the proposed loan to COLAC.

b. The adequacy of an interest rate of 18% to the ultimate borrower.

c. The proposed relending terms from the Borrower (the GOC) to Financiacoop.

12. Views of the Country Team

The Country Team has recommended approval of the proposed loan.

13. Recommendation

On the basis of the conclusions of the Capital Assistance Committee that the project is technically, economically, and financially sound, it is recommended that a loan be authorized to the Government of Colombia in an amount not to exceed $5.0 million, subject to the following conditions:

A. Conditions

In addition to the normal conditions precedent to disbursement, the following shall be required:

1) Prior to the issuance of any commitment document or to any disbursement under the loan:

(a) The Borrower shall establish a Project Coordinating Committee for administering the project, under the direction of the National Planning Department (DNP). The Borrower shall furnish documentation satisfactory to AID, showing the planned functions of the Coordinating Committee in coordinating the various project activities, evaluating the progress of the various project components, and collecting baseline data to be used as a basis for that evaluation.

(b) The Borrower shall submit to AID, for its approval, an agreement with Financiacoop specifying the terms and conditions of the funds to be relent to Financiacoop.

(c) The Borrower shall cause the Project Coordinating Committee to submit to AID for its approval:

(i) - A policy statement covering the operations of Financiacoop under the loan which establishes the general agricultural lending policies of Financiacoop, defines the sublending criteria which must be met by cooperatives to establish their eligibility for receiving project funds, sets forth the terms and conditions upon which subloans under this project will be made, and provides a time-phased implementation plan which shall include a schedule for the counterpart funding to be provided by the BOR and Financiacoop.

(ii) - A time-phased implementation plan which shall include a schedule showing how the technical assistance and training to be financed under the companion AID rural cooperatives grant project will be coordinated with the activities to be financed under the loan.

(iii) - An outline of a program of cooperative education to be undertaken by Financiacoop, and a definition of the criteria which will be applied to judging the acceptability of cooperative education plans submitted to Financiacoop by cooperative federations which intend to borrow loan funds on behalf of their members.

(iv) - A policy statement outlining the considerations that will be given to making complementary agricultural inputs available to the cooperatives that will be borrowing credits from Financiacoop under the loan.

2) Prior to any disbursement of funds under the loan for an activity of CECORA or any of its affiliates, the Project Coordinating Committee, CECORA, and AID shall agree upon a statement of lending policies and procedures which will apply to any subloans made by Financiacoop to CECORA or its affiliates from project funds. CECORA shall also furnish a statement outlining its intended use of project funds, including a plan for obtaining the participation of an increasing number of lower income farmers in this portion of the project.

3) Prior to the disbursement of any funds under the loan to UCONAL or any of its affiliates, the Project Coordinating Committee, UCONAL, and AID shall examine whether additional external resources are available to UCONAL, and shall assess their likely impact on projected UCONAL lending. A determination shall then be made regarding UCONAL's capacity to effectively abosorb the additional resources.

B. Covenants

1) Unless AID shall otherwise agree in writing, the Borrower, represented by the Project Coordinating Committee, agrees to conduct annual reviews of the progress of the project with AID.

2) Unless AID shall otherwise agree in writing, Financiacoop shall allocate up to $3.5 million pesos equivalent of loan funds for agriculture-related lending to eligible sub-borrowers (credit acivity), and that at least 80% of the project funds shall be lent to cooperative federations on behalf of their eligible rural cooperative members. At least one fourth of Financiacoop's lending under the credit activity of the project shall be allocated to cooperatives affiliates with UCONAL.

3) Unless AID shall otherwise agree in writing, Financiacoop shall allocate up to $1.5 million peso equivalent of the loan funds for specific marketing investments by CECORA and/or its affiliates. Any such funds for purposes other than innovative marketing interventions directed

specifically at the target group that have not been approved for specific sub-projects within one year of loan signing shall be subject to reallocation by Financiacoop and shall become available for agriculture-related lending to eligible cooperatives/federations.

4) Any subloan application from CECORA or its affiliates in excess of $100,000 peso equivalent shall be supported by an independent feasibility study to be carried out in form and substance satisfactory to Financiacoop and the Project Coordinating Committee and subject to prior approval by AID.

5) Unless AID otherwise agrees in writing, funds received from the repayment of principal of subloans made with project funds shall be used solely for additional sublending for the same general purposes.

6) The Borrower agrees to undertake annually, jointly with Financiacoop and AID, a review of interest rate policy governing the rate paid by final borrowers of project funds for the purpose of adjusting interest rates, if necessary, in line with inflationary and/or monetary conditions.

14. Capital Assistance Committee

Chairman/Economist	-	James Fox
Loan Officer	-	Alan Cohen
Loan Assistant	-	Raul Sanchez
Statistical Assistant	-	Maria Christina Galan
Financial Analyst	-	William Ross
Financial Analyst	-	Consuelo Alarcon
Legal Advisor	-	Douglas Robertson
Rural Development Officer	-	David Peacock
AID/W TDY	-	Laurence Hausman
AID/W TDY	-	Edward Lijewski

PART TWO: THE PROJECT

SECTION I - NATURE OF THE PROJECT

A. Project Rationale

1. Goal and Purpose

The goal of the project is to increase the incomes of the rural poor associated with the project. Progress towards this goal is to be made through a strengthening of the small farmer rural cooperatives system in Colombia. The project will provide credit and marketing services to small farmers through cooperatives, which should serve to increase small farmer incomes directly by providing them with additional working capital. This credit and experience in intermediation will strengthen the financial position of rural cooperatives, as will the additional savings generated by the additional income resulting from the program. This strengthened financial position will then enable the cooperative movement to further operate to increase the incomes of the rural poor in Colombia.

The strengthening of the cooperative movement is to occur at two levels. First, the availability of production and investment credit for cooperatives and their members should serve to stimulate the development of new rural cooperatives and lead to the strengthening of existing ones. Secondly, the project will stimulate the development of the national-level cooperative financing agency, Financiacoop, enabling it to better serve as a channel for external resources to the movement. Should it be successful in achieving these objectives, it may possibly also have the additional result of creating pressures for the cooperative movement to define its future direction and the role of the private and public entities (the Cooperatives Superintendency, Financiacoop, INDESCO, and cooperative federations) that serve it.

2. Rationale

a. The Rural Poverty Problem

The problem of extreme poverty in Colombia is largely a rural one, for only in rural areas is there the complete lack of access to the means of development. A hard core of rural poor of perhaps three to four million persons has an almost complete lack of access to government programs in rural areas, both economic (credit, technical assistance, adequate land, adequate roads) and social (education and health facilities).

In part, the problem of the rural poor will gradually solve itself as opportunities open up in urban areas for migrants from the rural areas. This mechanism appears to be working sufficiently well at present to absorb at least the increment to the rural population, and it is not unreasonable to expect that the rural population in Colombia may begin to decline slowly, at least over the course of the next decade. Nevertheless, very serious and extensive rural poverty can be expected to persist for at least two or three decades.

Closely related to the magnitude of the rural poverty problem is the inability of the government to deal with it through the current one-on-one approach to rural services. Additionally, government programs have tended to be what may be called "complete" ones, in that they attempt to solve all of the problems of the recipient, without leaving any of the solution to individual efforts. For example, INCORA worked to solve the land tenure problem by providing a large number of services to a small number of beneficiaries, rather than attempting to solve the land problem for the bulk of the rural poor. In consequence, INCORA programs have affected fewer than 10% of the rural poor -- and its assistance to most of these consisted mainly in recognizing a title to public land occupied by the individual. In the major project now being undertaken by INCORA, total costs per family benefitted are expected to be on the order of $8,000.

Given the inability of the government to "think small" in terms of the level and type of assistance it provides the rural poor, extension of government economic and social services to the totality of the rural population may be two decades or more into the future. In order to justify this somber projection, it may be noted that the Caja Agraria (the agricultural bank that does the great bulk of lending to small farmers) appears currently to reach only about one-third of the small farmers in the country. No comparable data is available for the agricultural research and extension agency, ICA, but a coverage figure of 10% of small farmers is probably high.

b. The Credit Problem

The lack of sufficient production credit has often been identified as the major constraint to increased agricultural output on small farms, both in Colombia and elsewhere. Farm credit is usually a necessary if not sufficient condition for increasing productivity and improving income. This is especially true for small farmers who do not have sufficient savings or ready access to institutional credit sources. There appears to be considerable scope for the use of institutional credit to replace or augment credit from traditional sources to alleviate monopoly situations, to overcome inelasticities in the supply of credit which become apparent when new opportunities emerge, to ease the seasonal financial shortages among rural households, and, most importantly, to encourage small farmers to raise their output and enter the commercial sector. This farm credit constraint has generally manifested itself as a shortage of working capital. The most direct evidence of this constraint in Colombia has been obtained through analysis of results of a survey of INCORA land and credit recipients. Because of the nature and size of the sample, these results are far from definitive, but they are very suggestive of an important role for increased credit in increased output.

The AID Spring Review of Small Farmer Credit documents the usefulness of credit for agricultural development throughout the developing world. Additional support for an agricultural development strategy which emphasizes credit for small farmers in Colombia in particular is found in the results of the LA Bureau Sector Analysis Division's extensive analysis of Colombian agriculture. It is a major conclusion of the analysis that the high productivity of working capital on small farms makes the availability of working capital (credit) to small farmers the most important constraint:

> "We conclude that the expansion of credit availability to small farmers, in selected commodities, directed at working capital for labor, animal power, chemical inputs, seeds, and land rental would have significant impacts on the major goals (except labor productivity) and would be able to absorb large quantities of capital in the short run. It would also be complimentary to the sector objectives of employment generation, increased income for low income families and increased exports."

c. Target Group

The target group for the loan is the Colombian small farm subsector. For the purpose of this loan, the small farm subsector will be defined to include only farms with fewer than ten hectares, and farmers with annual net incomes below $800 (Because of the DNP interest in the issue, the definition may later be further narrowed as a result of a study currently under way). This group of farmers currently can be characterized by lack of modern technology, lack of adequate working capital, and lack of sufficient land to use their labor productively under current technology.

d. The Institutional Vehicles

The philosophy of this proposed project is that the cooperative mechanism represents the most promising means of extending services rapidly to large groups of rural poor. By relying to a great extent on local initiative and effort, the cooperative approach can reach a far greater number of beneficiaries with a given level of outside resources than the traditional government approach. The process of credit retailing is both simplified and cheapened when personal knowledge of potential borrowers can replace bureaucratic procedures. Technical assistance can be much more efficient when it is paid for by the recipients, and when group approaches, as espoused by the cooperative movement, are used to the maximum extent possible.

The cooperative approach should not, however, be considered a panacea for the problems of the small farmer. Clearly, though cooperatives are democratically managed, they often have serious problems with financial management. Though the extent of such mismanagement can be reduced through support and advice from strong federations, it can be expected to be a permanent problem. A second problem with the cooperative approach is that such groups sometimes become overly involved with the mystique of cooperativism at the expense of economically sound orientations. This also seems to be a rather permanent problem, but one that national cooperative leadership seems aware of and intent upon combatting. Though there may be slippages from time to time, the Colombian leadership seems agreed that projects carried out by cooperatives need to be economically sound and capable of operating without subsidies.

In essence, then, the cooperative movement, despite its problems, appears to offer some real advantages in dealing with the very real problem of providing access to the means of increased production for a large part of the small farm sector in Colombia.

The project will be implemented by an existing secondary financial institution created by, and serving exclusively, the Colombian cooperative movement. This institution, Financiacoop, described more fully in Section II below, will pass agricultural production credit to rural cooperatives, largely to rural credit unions, and investment funds to the agrarian reform marketing cooperatives federation, CECORA.

All of the AID grant financing and a large portion of the loan financing will be channelled through the credit union movement in Colombia. There are two reasons why this type of cooperative is favored over more directly problem-oriented (e.g., production or marketing) types of cooperatives. First, the credit union is the simplest and most flexible type of cooperative organization. Administration is simple, and it is conceptually easy to explain to potential members. The flexibility of the credit union mechanism results from the fact that there are neither theoretical nor legal impediments in the Colombian context to credit unions branching out into other activities. In essence, the credit union in Colombia can serve as a base for the cooperative members to deal with whatever type of problem they feel affects them most seriously.

This process of converting credit unions into multipurpose cooperatives should be one that occurs over time as the cooperative members gradually gain confidence in the cooperative concept, and as the leadership gains experience. At best, this process can develop in three or four years; often it can be expected to take much longer, and many credit unions may never move beyond this stage. Nevertheless, the combination of people attempting to use the cooperative mechanism to respond to their felt needs and the leadership of a cooperative federation that is both dynamic and aware of the difficulties involved in agricultural production and marketing, seems the best possible one to achieve long-run solutions to the problems of mass poverty in rural areas.

The second reason for placing heavy emphasis on credit unions in the Colombian context is a more practical one: As explained elsewhere, the cooperative mechanism appears to be a viable means of speeding up the process of modernization of the rural sector in Colombia substantially. Given this role for cooperatives, a review of the cooperatives panorama in Colombia indicates that CECORA and UCONAL are the two most promising vehicles by far for cooperative development.

CECORA was found to be a dynamically led organization capable of providing effective marketing services to agrarian reform participants and some other small farmers. The government is pushing CECORA to expand its activities in the small farmer regions of the country. Such expansion, however, must be preceeded by consolidation of at least one existing CECORA marketing program. This consolidation will allow CECORA to use its maximum capacity for cooperative development.

A larger part of the project will be devoted to strengthening and expanding the rural credit union movement as a means of expanding agricultural production credit for small farmers. The national credit union federation (UCONAL) is the most promising organization to spread the cooperative gospel. UCONAL appears to have the expertise necessary to mount a meaningful program. (See Section II A 2.) Additionally, it has the experience, both good and bad, with the art of the possible that is needed to reach long-term solutions to the deep rural problems without recourse to grandiose schemes.

B. Project Focus and Targets

1. Small Farmer Focus

The cooperative movement varies widely in terms of the clientele it serves. Several milk-producing cooperatives represent producers that are quite large and wealthy. On the other hand, many cooperatives represent rural poor that are clearly in the bottom quarter of the income distribution. Given the project purpose of increasing incomes of small farmers through the strengthening of cooperatives that serve them, we wish to focus the project on cooperatives that serve primarily the target group and in geographic regions where this target group is quantitatively important. In project terms, the focus will be limited to those cooperatives where two-thirds of the members fall into the target group. In this way, both the availability of credit to the target group is ensured, and the existence of a cooperative framework that is basically responsive to their needs. Thus, the project will operate with a positive list of eligible cooperatives, that have proven their qualifications as vehicles for reaching the rural poor.

In addition to the qualification of cooperatives, however, the geographical scope of the project will be limited primarily to those areas with large concentrations of small farmers. This limitation will serve to maximize the demonstration effect of the project. In the _minifundia_ areas there will always be a large group of small farmers who can be attracted to the cooperative movement through the existence of a successful cooperative operated by their neighbors. Basic information on these priority areas is shown in Table I. These areas represent only about 12% of the national territory, but contain half of the small farmers. These areas are also the areas of concentration of other government programs for small farmers, and will receive substantial outside investment through integrated rural development programs carried out jointly between the GOC and the two international banks, the IDB and the IBRD.

Despite the priority given to the integrated rural development areas, some credit can be expected to go to small farmer projects in other parts of the country. The actual amount of this credit will depend upon the extent to which desirable projects in other small farm areas are presented to the Policy Committee, which will make the final decision concerning the geographical distribution of the loan funds.

2. Project Outputs

At the most basic level, the project will have outputs in the form of increased loans to small farmers and increased capital for marketing of small farmer products. During the three years of the project, some 55,000 production loans are to be made to members of the target group, including at least 14,000 people who receive production credit for the first time. In addition, an estimated 10 loans will be made to cooperatives for marketing activities that serve 30,000 farmers. The detailed targets for this level of output, as well as that of purpose level indicators, are included in Section III D on evaluation.

At the purpose level, project outputs are to represent a strengthening of the small farmer rural cooperatives system in Colombia. This strengthening is to occur in several fashions. A large number of new cooperatives is to be created, especially in small farmer areas, and cooperative membership, both in new and existing cooperatives, is to substantially increase. Secondly, the structure of the movement will be strengthened by increased effectiveness of cooperative federations and cooperative financing agencies in reaching the individual cooperatives with essential services. The measurement of the extent to which this strengthening occurs will be based on the extent to which existing unaffiliated rural cooperatives decide to belong to such entities. Finally, the increased strength of the cooperative movement will be measured by the extent to which new savings come into the system.

TABLE I

FARMS BY SIZE

INTEGRATED RURAL DEVELOPMENT PROJECTS

AREA	No. of Munici-palities	Under 1 Ha.	Under 5 Ha.	Under 10 Ha.	Under 20 Ha.	Over 20 Ha.
CAUCA-NARIÑO	58	21,420	74,485	90,287	99,051	7,602
SOUTHERN CUNDINAMARCA	60	20,094	46,506	56,453	62,474	5,674
EASTERN ANTIOQUIA	35	13,379	36,000	44,134	49,648	7,365
CORDOBA-SUCRE	29	13,419	25,284	29,498	33,384	10,328
BOYACA-SANTANDER	124	58,772	165,100	195,198	212,722	19,206
TOTAL	306	127,084	347,375	415,570	457,279	50,175
NATIONAL TOTAL	921	251,262	666,307	821,854	938,160	201,342
RURAL DEVELOPMENT AREAS AS % OF TOTAL	33.2%	50.6%	52.1%	50.6%	48.7%	24.9%

Source: National Planning Department and DANE, *Censo Agropecuario, 1970*

Finally, a sample survey of credit recipients under the program will provide data on the extent to which the project goal is being reached. This goal of increasing incomes of small farmers can be considered satisfied if the farmers receiving credit under the program are found to have increases in annual income of 9% per year or more.

C. Project Description

Project inputs will consist of a $5 million AID loan for relending, $5 million equivalent in Colombian counterpart, $480,000 in AID grant funds and $180,000 peso equivalent from the National Cooperative Superintendency. Coordination of project inputs will take place through a Cooperatives Committee that will be established as a part of the project. The Committee will have responsibility for general guidelines concerning use of project funds and concerning rural areas for priority concentration. The Committee will be chaired by representatives of the National Planning Department, and include representation from the National Cooperatives Superintendency, and Financiacoop.

1) Project Elements

The project can be considered to be composed of three parts or subprojects: production credit through rural credit cooperatives; marketing subprojects; and a cooperatives institutional development activity.

(a) Rural Cooperatives

This activity will include up to $7.0 million equivalent in agricultural credit for rural cooperatives: $3.5 million will be provided by the AID loan; $1.75 million in new resources for rural cooperatives will come from the Bank of the Republic (Colombia's Central Bank); and $.825 million equivalent each will be provided by Financiacoop and the participating cooperatives. The credit will be used in its entirety for agricultural production purposes and will be subloaned to individual cooperative members to finance: agricultural production credit, farm equipment and infrastructure, and working capital. The Cooperative Project Committee will have responsibility for setting priorities for use of the funds. In practice, this will involve approval of the proposals of cooperative federations or of rural cooperatives for agricultural production programs. The Committee will examine each proposal for economic feasibility, consistency with government priorities, and availability of adequate technical supervision. In cases where assistance from government agencies, such as ICA, IDEMA, or INCORA, are needed, the Committee will ensure that adequate coordination with the required agency is available. Unless otherwise agreed with AID in writing, 80% of the credit made available under this activity will have to be channelled through coop federations, with the other 20% available for direct lending to cooperatives.

While the actual distribution of the funds will be subject to project presentation and approval, our current expectation is that UCONAL affiliates will receive about 30% of the funds under the activity, that the Caja Popular Cooperativa de Boyacá will receive about 20%, Coopcentral some 10% or so, and that the remainder of the funds will be distributed to smaller federations such as Fenacoor (should it be successfully reorganized), and new cooperatives to be formed as a result of the efforts of the Superintendency.

Once the Committee has given approval to a project, normal approval procedures in Financiacoop will be used. In essence, the actual approval process for subloans will follow standard banking practice once favorable action has been taken by the Cooperatives Committee.

At the level of the rural cooperative, loans of project funds will be made by the cooperative Board of Directors (democratically elected by the coop members) in accordance with policy established by the Project Committee and accepted by the cooperative as a condition of its subloan from Financiacoop. As the bulk of funds will be lent to final borrowers for production credit, it can be expected that most of the cooperative's borrowings will reflect short-term needs related to the predominant crop cycles of the local areas. The cooperatives will also borrow for longer-term subloans for agricultural and livestock investments of their members or for the cooperative itself. (The latter case could include artificial insemination equipment in livestock areas or trucks for cooperative transport of produce.)

Education and training for members and to the coop leadership has always been an integral part of the cooperative movement, and is legally required, though assistance for directly productive activities (e.g. agriculture) have traditionally been only a small part of the total. All Colombian cooperatives are required to devote at least 20% of their annual surplus for educational activities. Should this not be done within one year of their generation, these funds must be given to the National Cooperatives Superintendency for general cooperative education. Our investigation of the cooperative movement suggests that the use of these funds seems generally in accord with the needs of the coop members, but that additional assistance for agricultural production is needed. Therefore, individual cooperatives receiving funds under the program will be required to explicitly devote two percentage points of their interest rate spread for technical assistance in agricultural production to their members. This requirement should meet the technical assistance needs of the final borrowers under the loan (though it will be supplemented in the case of UCONAL by funds from a grant project).

b. Marketing Projects

This activity includes up to $1.5 million in AID funds and an equal amount of counterpart to be provided by Financiacoop and CECORA. Specific investments in marketing facilities will be financed under this activity, to be undertaken either by CECORA or its member cooperatives with CECORA guidance. It is expected that the project will finance four types of subprojects: (i) an extensionof some current activities and for which preliminary feasibility studies have already been completed; (ii) new marketing subprojects growing out of CECORA expanded involvement in government -identified integrated rural development districts; (iii) marketing cooperative promotion; and (iv) marketing project identification.

(1) Feed Concentrates Activity

Among the existing projects related to CECORA's ongoing activities, the subproject with highest priority for AID financing is the expansion of CECORA's feed concentrates program. This program was initiated in 1970 under a special agreement between INCORA (the land reform agency) and AID. CECORA became involved in coordination of the program through its member cooperatives. The agreement called for

U.S. donation of 35,379 tons of corn to be used in conjunction with INCORA counterpart funds in the production and distribution of subsidized feed concentrates to small poultry, swine, and dairy farmers in INCORA project areas. (See Section II A 2 for more detail.)

In spite of the difficulties created by pricing and management errors in the AID-INCORA feed concentrates program, the basis for a profitable activity has been created. It appears that the program can be an important way of serving small poultry, swine, and dairy producers in the areas in Cundinamarca, Boyacá, Cauca, and Valle del Cauca. The funds would provide funds to purchase pelleting equipment for poultry feeds and to provide working capital for the purchase of raw materials and for product distribution. (See Table II)

As shown in Table II, the largest component in the sub-project is for working capital. Corn and sorghum which represent about 80% of the cost of feed concentrates must (for economic reasons) be purchased semi-annually at harvest time and stored until utilized. Other products in the ration can be purchased year round but must normally be held in the process of transport, processing, and distribution for about two months. Chattel mortgage loans can be obtained for about 50% of the value of commodities stored in bonded warehouses, but this is feasible only for grains.

The following is an estimate of the working capital required to operate the CECORA feed mills (in Palmira and Bogota) at 90% of commercial capacity.

Working Capital Needed to Produce 39,500 Tons/Year

	US$Millions
Corn and sorghum	1.61
By-products	.05
Feed meals	.416
Flours	.12
Minerals	.001
Pre-mixes	.037
	2.234

Table II - Project Financial Plan - CECORA

(Thousands of Dollars)

i) Feed Concentrate Activity		1st Year	2nd Year	3rd Year	Total
AID -	Fixed Investments	70	--	--	70
	Working Capital*	430	150	100	680
	Total	500	150	100	750
FINANCIACOOP					
	Working Capital*	250	75	50	375
CECORA					
	Working Capital*	250	75	50	375
	Total	1,000	300	200	1,500
ii) New Marketing Sub-Projects					
AID		200	450	100	750
FINANCIACOOP		100	225	50	375
CECORA		100	225	50	375
	Total	400	900	200	1,500
TOTAL		1,400	1,200	400	3,000

*The total amount of working capital ($1,430,000), together with warehouse bonds for half of the value of the corn and sorghum stored, will provide the $2,234,000 necessary for operation of the concentrates activity at a level of 39,500 tons/year. Because of inventory turnover (all inventory is turned over at least twice each year), the working capital availabilities are sufficient to provide the sales indicated in TABLE IV.

But if we assume that 50% of the corn and sorghum costs can be financed with short-term chattel mortgages, the total working capital for raw material purchase are about U. S. $1. 4 million.

CECORA believes that concentrate sales can be restored to previous high levels and beyond (see Table III) with concerted marketing and technical assistance efforts. CECORA has recently hired two veterinarians to provide technical assistance to their customers and to work with INCORA and ICA extension agents in assisting low income farmers who wish to become new customers.

Table IV shows a projection of expected costs, sales, and net income over the loan disbursement period. It indicates that the feed concentrates activity will generate significant net incomes in the first year of the loan with sizeable growth in succeeding years. After the third year, net profits are expected to level off at about US$200, 000 per year. This level of net income should make it possible for CECORA to repay the Financiacoop loan and to have available resources for use in developing new programs to serve its members; to use in cooperative development in new areas and/or to redistribute as patronage dividends.

The benefits of this subproject are expected to reach some 1, 600 small poultry swine and dairy farmers with high quality and competitively priced feeds and with technical assistance. The loan would help to consolidate the financial position of CECORA and affiliated cooperatives and would also provide valuable managerial experience for CECORA affiliated cooperatives and their members. It is almost indispensable for CECORA to put its feed concentrates program on a sound economical footing before directing its limited, managerial talents toward development and implementation of the second marketing type of subprojects described in the next section.

(2) Marketing Projects in Integrated Rural Development Areas

This part of the loan provides up to $1. 5 million in loan and counterpart funds to finance new marketing activity designed to help small farmers in selected regions to market their products more profitably

Table III - Production of Feed Concentrates - CECORA

(Metric Tons)

Year	Bogota	Valle	Total
1970	--	3,245	3,245
1971	3,739	10,443	14,182
1972	13,470	16,019	29,489
1973	15,083	19,030	34,113
1974	7,644	5,608	13,252
1975 (Proj.)	10,000	8,500	18,500
1976 "			25,000
1977 "			34,000
1978 "			39,500

Table IV - Projected Income from Feed Concentrates -CECORA

(US$000 Dollars)

	First Year	Second Year	Third Year
Sales	4,190	5,700	6,620
Expenses	4,060	5,520	6,420
Raw Materials	3,940	5,360	6,230
Personnel	30	45	50
Other	90	120	140
Net Income	130	180	200

and efficiently. Marketing has often been a serious problem for small farmers in general, and for cooperatives in particular when the cooperative members produce the same crop. CECORA is the oldest and most experienced cooperative marketing federation in Colombia, and will, at the request of the government, substantially expand its activities in the integrated rural development areas. either expanding the operations of existing cooperatives, or working with new ones to be created under other parts of the project. CECORA will identify marketing bottlenecks (see part (4))and provide subloans and technical assistance where necessary to deal with these problems.

One example of the type of project that would be eligible for financing, would be a potato marketing activity.1/ Potatoes are a staple item in the diet of at least half of the Colombian population, and have traditionally been an important crop in the principal integrated rural development areas, for large numbers of small farmers. As a result of annual variation in the rainfall pattern, limited market information, and limited storage capacity, potato prices paid to farmers have been quite variable and unpredictable. A USAID study showed that wholesale and farm level prices may vary by as much as 25% from one day to the next, and seasonal variations are quite large.

A case study of potatoes indicates that purchase and storage of potatoes during harvest with subsequent marketing is a very high-return activity, and would have a stabilizing effect on market prices. The project would thus consist of building limited facilities in a carefully selected location for storage and developing a system of price and marketing information. The fixed investment in land would be limited, but the project would require a larger amount of fixed working capital and a relatively high level of managerial skill and administrative flexibility.

(3) Marketing Promotional Activities

As part of the proposed AID grant for rural cooperatives, CECORA will work with UCONAL in cooperative promotional activities in areas designated by the National Planning Office for integrated rural development projects. During the three years of the project, CECORA will be expected to promote the development of marketing cooperative or

1/ Other possible projects include a yucca starch facility, fresh fruit and vegetable marketing and a fresh produce freezing facility.

marketing activities of other cooperatives in these areas. CECORA's promotional efforts will seek to orient low-income farmers toward more effective marketing alternatives and demonstrate the specific advantages of group marketing efforts. The activity can be expected to increase the understanding of marketing mechanisms, leading to efforts by cooperatives to reduce marketing costs by assembling larger quantities of single commodities, increasing the bargaining power of coop members, and increasing the flow of marketing information.

As part of its promotional activity, CECORA will offer a special five-day cooperative and agricultural marketing training course for 3,700 low-income farmers in the GOC integrated rural development areas. CECORA's promotors will follow up with special marketing information programs for interested farmers, and provide assistance to pre-cooperative groups. Resources to finance the activity will include the peso equivalent of $150,000 to be provided by CECORA from the interest differential earned by receiving low interest (9%) funds for working capital for the feed operation.

(4) <u>Agricultural Marketing Project Promotion Program</u>

Continuing discussions with CECORA over this proposed new institutional orientation suggested that an element of technical assistance to CECORA for this particular program focus should also be recommended. As noted earlier, CECORA fully accepts the proposed new project focus. Initial discussions by the Loan Committee indicated that CECORA might be able to combine these new project identification program efforts with those of the cooperative development program described above. To some extent, we and CECORA continue to believe that the cooperative promotional program will, in fact, generate new agricultural marketing project ideas/opportunities. However, it is presently considered more prudent and better management planning for CECORA to organize and implement a special effort for the specific purpose of project identification-analysis-implementation. In this fashion, CECORA will be able to generate early momentum in this important area of concentration which should result in more rapid project identification and, therefore, more assured early disbursement of the project resources. CECORA will devote approximately half its earnings from the feed grains program (based on its receipt of project funds for working capital requirements at 9%, which to some degree replace higher cost commercial borrowing) to finance promotional activities and identification and development of smaller, innovative marketing activities. CECORA will make available approximately $50,000 peso equivalent annually for these activities.

The proposed technical assistance funds will enable CECOR to augment its existing project analysis staff with the eservices of a full-time marketing-agribusiness expert in project promotion and development. This expert will assist CECORA in defining the scope and objectives of the program, its organization and administration, and follow-up activities. Additionally, provision of funds is recommended for use of short-term consultants, as necessary, for assistance in specific aspects of project development (for example, in developing specialized market information, product adaptation, processing facilities, etc.). Both the full and short-term consultant expertise is likely to be available locally in Colombia.

c. Cooperative Institutional Development

This part of the project is intimately linked to the credit portion of the project, although it does not directly involve loan financing. An AID grant will finance promotional and service activities of UCONAL on behalf of rural cooperatives; the National Cooperatives Superintendency, financed by government budget funds, will promote rural cooperatives; the Peace Corps is providing management assistance to cooperatives and federations; an AID grant to Catholic Relief Services will strengthen certain rural coops; and the cooperatives themselves finance cooperative leadership training.

The UCONAL portion of this activity will be partially financed by an AID grant (see PROP - Colombia: Rural Savings and Loan Cooperatives). The basis for the Cooperative Development activity is a five year institutional development plan prepared with and for UCONAL by Carlos Flores of COLAC (the Latin American Confederation of Credit Unions). The purposes of that program are three-fold: a) to promote and organize savings and loan credit unions in rural areas; b) to reorganize and strengthen the savings and loan credit unions already existing in the rural areas; and c) to establish "Integrated Production Credit Programs" for assistance to members engaged in agricultural production through these rural credit unions.

In the first phase of the planned activities, efforts will be directed at organizing small farmers into basic credit cooperatives at a community level so that, in the second phase, the membership can be encouraged to participate in the integrated production credit programs of their cooperative. The program is considered to be a basis for further community action, enabling the membership to build and develop organizational methods to deal with and solve other problems related to agricultural production and community development.

The geographical focus of the project will be determined by selecting those rural areas where there are large (over 2,000) concentrations of small farms

Specific targets of the promotional program during the three year AID/UCONAL project period are:

Promotion of Rural Cooperatives:	76	77	78
No. (total) of coops.	30	80	130
No. of members (total)	3,000	12,500	29,500

Installation of Production Credit Programs:	76	77	78
No. (total) coops:	2	12	24
No. of members(total):	600	4,100	10,700

To attain these objectives, UCONAL's development plan incorporates the following elements:

(1) A series of seminars and courses for training directors, and managers of cooperatives (12 seminars, and 50 courses annually);

(2) Assistance and advice in cooperative administration to the cooperatives through UCONAL's training of cooperative promotion specialists and agricultural credit advisers for field work;

(3) Annual auditing services by UCONAL for cooperatives;

(4) Bonding insurance for cooperative managers and officers;

(5) Life insurance for depositors and borrowers;

(6) Statistical information on production credit activities and market information on prices of supplies and commodities;

(7) Financing administrative expenses and acquisition of basic office equipment by new and expanding coops (for those coops developing the production credit program);

(8) Coordination with other agencies/organizations involved in agricultural technical assistance, procurement of farm inputs, marketing, processing, etc., to support the production credit activities; and

(9) Production and development of basic information (manuals, newsletters, instructional documents) aspects of continuing cooperative development activities for the participating coops.

PROJECT EXECUTION

The project efforts will be concentrated as much at the community level, where new cooperatives will be organized or where the existing ones will be assisted, as at a

(iii) Organizing Committee

If substantial interest exists, an organizing committee would be formed. This committee will be in charge of recruiting membership for the cooperative, receiving the savings to be deposited, initiating systems of accounting and preparing the necessary steps to become legally incorporated as a cooperative. In this process, UCONAL will be very active, offering advice and assistance.

(iv) Founding Assembly

In accordance with the existing law on cooperatives, the Assembly would formally organize a cooperative, elect the Directors, and approve its by-laws. Again, advice and assistance from UCONAL technicians will be available.

(v) Initiation of Activities

After legal formation, the cooperative will begin operation. The cooperative's Administrative Council will approve credit regulations and the Loan Committee will be trained to analyze and approve loans. During the initial period of operations, loans will generally be directed toward family and household needs, e.g., education, medical expenses, etc. In this phase, the credits to be made available will be based solely on the savings resources of the cooperative membership itself. At the same time, the cooperative management and leadership will be trained in administration, accounting, credit analysis, supervision, etc.

(b) Second Phase

Establishment of Programs of Integrated Production Credit

Among the rural cooperatives associated with UCONAL, certain coops will be selected for the Integrated Production Credit program. Program implementation will be taken in two steps; first, the establishment of pilot projects; and second, the amplification and expansion of these programs, from two cooperatives initially to 24 cooperatives by the end of the third year.

Under this program, loans made by the cooperatives will be principally for short-term credit needs (working capital) of agricultural production. A small part of the credit available will be for medium-term loans of 2 to 5 years for the acquisition of tools and agricultural equipment and machinery. Livestock production, artesan activities, and small "industry" projects would also be eligible for credit under this program. As in the first stage, the credit needs of families for education, health, and other activities would continue to be part of the program. The agricultural production credits to be made available would be financed or funded with resources obtained by the cooperative from UCONAL.

The portion of the activity financed by the National Cooperatives Superintendency will include creation of cooperatives among several groups currently being assisted by other government agencies. A number of projects are currently being developed by the Superintendency, with the three most advanced including cooperatives among several Indian groups, among small forestry operations currently working with INDERENA, and the possibility of forming cooperative agricultural enterprises in colonization areas, designed along the lines of the Israeli Moshav.

The Indian groups have been receiving assistance in the past from the Ministry of Government, and the idea of creating a cooperative has been developed as a means of creating a self-help institution. Similarly, the program with INDERENA would involve an attempt to create a viable enterprise from the combination of a group of individuals involved in forestry exploitation who currently depend upon INDERENA for assistance.

The cooperative farms would involve the creation of a village for a group (perhaps 100) farm families who would have ownership over the surrounding area (perhaps 1,000 hectares). The cooperative would provide all social services for the village, and provide equipment, credit, technical assistance, supplies and marketing services for the farmers, who would cultivate individually-owned plots. Feasibility work is currently under way on two such possible projects, both in the underpopulated eastern plains.

Any new cooperatives of these types would be eligible for credit through the program as long as the recipients are found to fall within the target group, and the subproject approved by the Policy Committee.

It has been recognized that effective cooperative management will play a key role in the successful implementation of the overall project. Technical assistance to UCONAL affiliates will be provided through the AID grant, and assistance to CECORA is discussed within the marketing section above. Technical assistance to cooperatives not affiliated with UCONAL or CECORA will be provided primarily through the National Apprenticeship Service (SENA), although a certain amount may be provided by the Cooperative University (INDESCO) should this institution resolve its internal problems. All such cooperatives will be required to have a signed agreement with a cooperative assistance institution or a certification from SENA that the cooperative is administratively and financially well run in order to be eligible for credit under the program. In the case where such assistance is received from SENA, SENA has agreed to pay half of the cost of the assistance, with the other half being paid from the interest rate spread on loans under the project. SENA expects to be able to handle trouble-shooting and specific training assignments for 100 cooperatives annually.

Cooperative federations are expected to substantially increase their services and support role for rural cooperatives under the project. The largest federation, UCONAL, will receive technical assistance in support of their expanded rural activities from the AID grant. UCONAL, other federations, and some of the larger cooperatives will also receive management related assistance from Peace Corps Volunteers. The Peace Corps has been operating a successful program of technical assistance for cooperatives for the past two years. Over twenty Volunteers have worked largely with urban cooperatives in solving specific management problems on short, three-month assignments with each cooperative or federation. The Peace Corps has indicated a willingness to assign about a dozen Volunteers to rural cooperatives and federations in coordination with the loan project. The Volunteers who have been sent to Colombia in the cooperatives program generally have impressive credentials; many are MBAs with cooperatives or business experience. The Volunteers assigned to federations and large rural cooperatives should provide in-depth assistance on about 40 cases per year. The availability of assistance of this quality and quantity is expected to facilitate the expansion of the role of federations in the rural cooperative movement.

Support for a large group of rural cooperatives in the San Gil area of Santander will be provided through an AID grant to Catholic Relief Services (CRS). CRS has been working with this group of cooperatives in the past, and has developed an intensive supervised credit program for some 23 participating cooperatives with 18,000 members.

Our evaluation of the capabilities of Financiacoop is that the institution requires no outside technical assistance. At least for the initial period of loan implementation, Financiacoop will be primarily concerned with the bankability of the subloans, leaving project development and evaluation activity to the individual coop federations and to the Cooperatives Committee. Nevertheless, the project can be expected to put some strain on Financiacoop's capabilities, and AID will require that Financiacoop contract for an administrative study of its operations at the end of the first year of the project.

To a large extent, the project will simply mean that Financiacoop will make large loans to the cooperative federations -- to which it has lent small sums in the past -- and consequently should create no serious administrative problems for the institution. Should administrative problems begin to emerge, the financial projections indicate that Financiacoop should have the financial resources available to pay for outside assistance. Given the control of the cooperative movement over Financiacoop, there seems little danger that administrative or procedural problems would prevent timely flow of the financial resources from the project.

2. The Mechanism

The proposed loan will be sublent in its entirety by the Government of Colombia to the Cooperative Finance Institute (Financiacoop), a private secondary lending institution owned by Colombian cooperatives. The subloan will be denominated in pesos; its terms are discussed in the Financial Analysis and Issues sections of this CAP.

Financiacoop will further sublend funds under the credit portion of the project as well as matching funds from its own resources and from a rediscount credit line at the Bank of the Republic (BOR) to specific eligible rural cooperatives for final lending to small farmers under terms and conditions outlined in the following section. At least 80% of the subloans made under the credit activity of the project will pass through cooperative federations. The federations, which are made up of and controlled by those cooperatives which are their affiliates, provide services such as auditing and cooperative education for their affiliates. By channelling a major portion of project funds through the federations, the project is expected to increase the representational role of the federations. The local cooperative will receive assistance from its federation in preparing lending programs eligible for Financiacoop financing and will depend on the federation to represent it before Financiacoop, thus facilitating its receipt of additional resources. The allocation of project funds among small farmer regions and the establishment and supervision of eligibility criteria for use of project funds will be undertaken by the Project Committee subject to AID approval.

Under the marketing portion of the project, Financiacoop will sublend loan funds and matching funds from the BOR rediscounts to CECORA for investment in specific marketing activities. Up to half the funds will be allocated to a loan for working capital for the feed grains subproject. The length of this loan will depend on the conclusions of the feasibility study of the subproject. Increased working capital will allow CECORA to increase its purchase of grains from its affiliated cooperatives, which are made up largely of agrarian reform participants. It will sell its feed concentrates on the open market at the same government-established prices that hold for commercial firms. CECORA's high quality standards, in comparison with commercial firms, assure it a good market for its feeds. It will give priority in allocating sales first to its affiliates and second to other purchasers in small farm regions.

The other half, or more, of the marketing portion of the project will finance new CECORA marketing activities in small farmer areas. It is likely, for instance, that CECORA would borrow project funds to finance installations and working capital for potato marketing. Any such subprojects will be subject to feasibility studies, upon which the length of subloans will be based.

3. Eligibility Criteria

Under the credit portion of the project, the definition of eligibility criteria for receipt of loan funds is the key to assurance that the additional credit made available by the loan is of direct benefit to the target group. In addition, eligibility criteria are to be employed to assure efficient project implementation. Criteria are to be applied both to rural cooperatives and to final borrowers.

The Project Committee will develop a positive list of rural cooperatives eligible to borrow under the project. Issue #1 presents the considerations which led to the expectation that a positive list will be defined. The criteria for inclusion on the list may be further refined but are currently expected to be that two-thirds of the eligible cooperatives' members are small farmers, small farmers being defined as owners of less than 10 hectares and recipients of net incomes of less than $800 annually. In addition, the cooperative will have to demonstrate that its management is qualified by prior training and experience or has contracted with a competent organization (e.g. SENA, INDESCO, UCONAL) to provide training. The cooperative will also be required to devote at least two percentage points of its gross margin on relevant project funds to agricultural technical assistance for its members. That assistance may be acquired under contract with public or private agencies or by the cooperatives' employment of its own agronomist(s).

The cooperative will also submit a lending policy statement which defines the eligibility criteria of final borrowers and the minimum conditions under which loans will be made. For instance, to be eligible for receipt of loan funds under the project, a borrower must devote his loan proceeds to agriculture production or investment in agriculture or livestock. The policy statement will also have to define a minimum interest rate of 18%. Minimum conditions regarding guarantees and the ratio between borrowing and capital in the cooperative will be established by Financiacoop's Board of Directors, who themselves represent federations and major cooperatives.

It will be required of Financiacoop and its subborrowers that reflows of project funds, less amortization of AID loan funds, be reused under the conditions applicable to the original use of the funds. (See Covenant No. 5.)

With respect to the marketing portion of the project, the Project Committee will determine the eligibility of the marketing investments submitted by CECORA subject to the following criteria: First, that all investments be supported by the findings of feasibility studies acceptable to the Committee and AID. Second, that no more than half the funds allocated to CECORA be devoted to the feed grains project. Third. that CECORA expand its activities in the priority small farmer areas (see Section I B 2 - The Small Farmer Focus). And fourth, that at least half the funds available to CECORA be allocated to new marketing investments specifically benefitting small farmers in the priority areas.

D. Project Background

1. Agricultural Sector Summary

Although Colombia lies within a tropical zone, three towering ranges of the Andes Mountains branching northward from the southern border result in wide variations in elevation and climatic conditions. These physical characteristics have largely shaped the development of this agricultural sector.

The more amenable areas within the mountainous regions were the first to be settled. Here small farmers have been able to produce a subsistence living with "traditional" methods for several hundred years. These more temperate areas became and remain the most populated regions. Coffee, traditionally the most important export crop, and basic food crops (corn, potatoes, wheat, yucca, peas, carrots, and barley) are grown in these areas, largely by small farmers using low levels of technology.

A second, so-called "commercial" subsector, has developed largely since World War II. It consists primarily of medium and larger farms located in the flatlands of the valleys, savannahs, and the north coast region. Because of the nature of the terrain and climate within the lowland areas, these farms require a higher level of technology and investment to cope with more serious problems of flooding, drainage, diseases, and insects than those encountered in the more mountainous regions. In general, this group of farmers has been better able to avail themselves of credit, markets, mechanization, and improved technology; as a consequence, yields of many of the commodities typically produced (cotton, rice, oil crops, sorghum, sugar, beef, dairy, and poultry) have shown significant increases over time. This has contributed substantially to the dualistic nature of Colombia's agricultural sector today.

More remote from the original centers of population and infrastructure -- in the eastern Llanos, the southeastern forests, and lower Magdalena River valley -- lie very large areas of potentially productive land and forest resources which are only beginning to be utilized. The agricultural potential of these scarcely populated areas is estimated to be greater than the present total agricultural production of Colombia. However, much of this area may require substantial investment and a high degree of technical skill to bring it into production.

The Andean ranges separate the nation into distinct geographic areas. Improved communications have only recently begun to break through this isolation. Rapidly increasing population in the larger cities along with improvements in transportation and communication is resulting in the development of a national market for agricultural products. There is increasing regional specialization in production and a gradual lengthening of the distance over which products are transported to the ultimate consumer. Traditional patterns of marketing have been inefficient and there is a growing awareness among public officials that improvements are required in this area.

The agricultural sector as a whole grew at an average annual rate of 4.0% between 1950 and 1972, resulting in a gradual decline in the importance of agriculture in GNP from 38% at the beginning of the period to 29% at the end. Since population grew at an average rate of about 3% during the period, agricultural output grew at slightly less than 1% per capita. The overall trend, however, masks substantial variations among crops. Coffee, the most important single crop, grew in output only until 1958, from which date production has virtually stagnated. The production of so-called commercial crops (mainly sugar, rice, and cotton), on the other hand, have increased at an annual rate of about 8% per year throughout the period. Traditional crop output (cane for panela, beans, plantains, and yuca) have been almost stagnant, with production increasing by less than 1% per year over the period. Production of transition or mixed cultivation crops has grown at about the same rate as that of population -- 3% per year. Thus, the picture that emerges from historical trends is that of a dynamic commercial agriculture, combined with stagnant or declining traditional agriculture.

Although one should not equate "traditional" and "small farm" agriculture, nor "commercial" with "large farm," there is a rough correlation. Table V indicates the change in the structure of farm size between the two agricultural censuses of 1960 and 1970. As indicated by the Table, a large number of small farms disappeared during the 10-year period, while both the number and size of large farms grew during the period.

Despite the shift towards larger farms and the relatively more rapid growth of production on commercial farms, Colombian agriculture continues to remain principally a small farm agriculture. Table VI gives the breakdown of total farm production by size of farm for 1960, the most recent date for which such information is available. Farms under 10

TABLE V

FARMS, BY SIZE, IN COLOMBIA

SIZE	NUMBER 1960	NUMBER 1970	AREA (Thousands of Hectares) 1960	AREA (Thousands of Hectares) 1970
0-1	298,071	268,705	132	126
1-5	458,534	431,520	1,107	1,019
5-10	169,145	159,659	1,165	1,088
10-50	201,020	217,873	4,211	4,653
50-200	62,307	74,316	5,676	6,750
200-2500	19,809	23,634	9,533	11,325
2500 and up	786	1,104	5,513	6,031
TOTAL	1,209,672	1,176,811	27,338	30,993

Source: DANE Censo Agropecuario 1960 and 1970

NOTE: The Census results include only the developed protions of the Countries (The Departments), and exclude the outlying areas (Intendencias y Comisarias) that make up nearly half of the national territory.

TABLE VI

AGRICULTURAL PRODUCTION BY SIZE OF FARM

Colombia, 1960

Size of Farms (Ha.)	%	All Crops %	All livestock %	Total Value added %
<1	1.9	2.1	4.9	4.0
1-5	16.3	16.7	10.1	15.3
5-10	14.0	14.1	6.7	11.6
10-20	15.2	15.2	7.1	5.4
20-100	25.2	25.2	19.6	23.4
100-2,500	27.3	26.5	50.9	40.2

Source: Al Berry "Land Distribution, Income Distribution and the Productive Efficiency of Colombian Agriculture" Yale Economic Growth Center Discussion Paper #108, 1971.

hectares produced nearly one-third of total crop output, while nearly half of crop output and more than one-fourth of livestock production was produced on farms under 20 hectares. While the relative importance of large farms has probably increased since 1960, one can be fairly certain that farms under 20 hectares are still responsible for somewhat more than 40% of total crop output.

From this general description of the agricultural sector, we can conclude that small farm agriculture is quite important to the total sector but that it has been stagnant relative to the large farm sector.

2. Historical Development of the Cooperative Movement

The cooperative form of organization was first recognized by law in 1933, and the first cooperatives in Colombia were established in that year. Since that time, the growth of cooperatives has been both steady and rapid, as is indicated by Table VII. By the end of 1974, there were an estimated 1,500 cooperatives, with one million members. The membership totals suggest that about one-fifth of the households in Colombia are represented in the cooperative movement.

The National Cooperatives Superintendency (Supercoop) was established in its current form in 1948 as the government entity responsible for supervising and controlling the movement. New cooperatives were required to be registered with Supercoop, and all existing cooperatives were required to send semi-annual reports of their financial condition and educational activities to the Superintendency.

The majority of the early cooperatives were in urban areas, usually of workers in large enterprises. The main function of the cooperative was consumption, though savings and credit cooperatives were also numerous. It was not until around 1960 that the cooperative movement moved to the next stage of development -- that of creating federations as mechanisms for provision of services to members, as well as mechanisms for spreading the cooperative movement. UCONAL, the credit union federation, was created in 1959, while ASCOOP, the second large coop federation was created in 1960.

TABLE VII

Evolution of Cooperative Movement in Colombia
1933 - 1973

Year	No. of Coops.	No. of Members	Capital	Value of Operations
1933	[illegible]	1,807	46,393.00	164,736.00
1934	15	3,380	197,136.00	1,249,407.00
1935	25	5,519	360,691.00	2,514,974.00
1936	48	13,182	692,542.00	3.110,309.00
1937	84	19,886	1,158,334.00	5,143,349.00
1938	120	27,498	1,751,249.00	6,962,059.00
1939	165	37,911	2,538.262.00	8,332,769.00
1940	165	43,760	5.289,763.00	10,845,452.00
1941	165	43,385	6,000,660.00	14,891.772.00
1942	203	48,561	7,823,527.00	21,104,306.00
1943	240	51,965	11,013,040.00	31,578.797.00
1944	240	53,820	11,568,025.00	34.704,075.00
1945	248	63.229	8,124,201.00	41.159.346.00
1946	266	68,245	11,918,904.00	48.485,401.00
1947	296	68,741	15,228.241.00	64,953,878.00
1948	363	114,719	22,740.683.00	114,574,180.00
1949	437	134,482	26.027,651.00	136,138.254.00
1950	472	145,943	28,597,847.00	188,440,410.00
1951	414	114,576	28,848,207.00	197,970,505.00
1952	452	116,130	31,584,242.00	223.150,554.00
1953	438	123,111	36,702,690.00	318,076,344.00
1954	381	133.373	38,998.961.00	198,977,959.00
1955	385	135,047	42,308,808.00	214,586,950.00
1956	410	141,177	44,889.081.00	237,758,858.00
1957	410	175,510	46,736,979.00	268,052,014.00
1958	413	192,814	56,541,845.00	305,406,787.00
1959	409	233,817	61,287,386.00	373,098,461,00
1960	425	234,392	86,716,704.00	513,481,406.00
1961	639	384,824	102,318,724.00	523,714,461.00
1962	759	443,023	119,594,885.00	628,625,185.00
1963	1,056	494,474	159,241,944.00	787,213,423.00
1964	1,452	532,052	184,232,433.00	1,083,134,582.00
1965	1,553	627,315	245,302,372.00	1,435.261,476.00
1966	1,802	714,230	318,411,483.00	1,527,630,384.00
1967	1,807	805,810	413,637.272.00	2,174,728,249.00
1968	1,824	902,365	508.937,679.00	2,406,840,316,00
1969	1,634	812,786	636,361,868.00	6,634,016,610.00
1970	1,527	982,299	706,699,704.59	8,838,485,650.00
1971	1,529	1,045,488	892,533,103,00	9,244.036,822.00
1972	1,480	1,113,185	964,348,973.57	9,940,738,240.00
1973	1,563	1,185,542*	1,150,468,325.00*	10,596,826,963.64*

* Estimates

It was also around 1960 that the rural cooperative movement began to acquire significance. It is not clear why this occurred, though it probably results from several causes. First, the creation of cooperative federations established a mechanism to expand the movement to new areas. Secondly, other institutions, such as Acción Cultural Popular (ACPO), began to promote development of cooperatives as a means of self-help in rural areas, and may have had a significant impact. Finally, the government, acting especially through the agrarian reform institute (INCORA) established in 1961, began promoting organization of the rural poor. INCORA began creating cooperatives directly among recipients of land titles, and about 1968 created an umbrella organization, CECORA, for these cooperatives.

The establishment of cooperative federations appears to have created pressures for national level institutions to serve the movement. A cooperative university (INDESCO) was established in 1967, with the major cooperative federations as shareholders, and a cooperative financing agency (Financiacoop) was established in 1968. Both the major federations and many individual cooperatives became affiliates of Financiacoop. In the period since 1968, the movement has gradually strengthened these national-level institutions, though without any significant involvement on the part of the government. When the Lopez Government took office in August, 1974, however, the government began to take a more active interest in the cooperative movement as a means of reaching the rural poor. A substantial credit line for the cooperative movement was established by the Bank of the Republic, and an effort was begun to strengthen the Cooperatives Superintendency, which established a target of ensuring the existence of a rural production cooperative in each of the municipalities in the country.

3. Present Structure of the Movement

The cooperative movement in Colombia can be thought of as having four levels of organizational activity. At the lowest level are the individual cooperatives, which are free associations of the members, which elect their leadership and decide the type of activities in which to involve themselves. Table VIII gives a summary of the cooperatives in Colombia at the end of 1972 by type of activity. There are some problems with the categorization given in the table, in that some cooperatives listed as savings and loan coops may actually carry out additional functions. Additionally,

TABLE VIII

COOPERATIVES BY TYPE

Type	No. of Cooperatives Urban	Rural	Total	No. of Members	Paid-in Capital (Colombian pesos)	Operations
Educational (cooperative schools)	59	32	91	11,497	3,559,754,32	24,125,432.56
Agricultural	39	140	179	171,016	99,897,205.00	3,050,271,234.00
Consumption (specialized)	76	22	98	43,206	32,582,153,00	618,678,685.00
Savings & Credit	499	71	570	417,221	277,331,208.00	2,121,020,857.00
Artesanal	10	6	16	1,199	1,491,520,25	13,281,973.76
Transport	153	--	153	17,892	54,211,379.00	584,873,282.00
Housing	38	--	38	13,857	18,345,215.00	197,995,205.00
Multi-Functional	222	21	243	407,925	460,384,754.00	3,273,564,813.00
Others	89	3	92	29,372	16,545,785.00	56,926,758.00
TOTALS	1,185	295	1,480	1,113,185	964,348,973.57	9,940,738,240.32

Source: National Superintendency of Cooperatives, Statistical Office

TABLE IX

RURAL COOPERATIVES IN COLOMBIA

TYPE	NUMBER	(thousands) NUMBER OF MEMBERS
AGRICULTURAL	115	36
CREDIT	119	92
COFFEE	36	64
MULTI-USE	31	13
CONSUMER	18	2
ARTESANAL	13	2
	332	209

RURAL COOPERATIVES BY AFFILIATION 1/

FEDERATION	No. of COOPS	No. of MEMBERS (thousand)	CAPITAL (million pesos)
UCONAL	90	50	48
CECORA	25	19	22
FEDECAFE	43	74	80
FENACOOR	22	12	9
ASOCREDITO	13	7	5
ASCOOP	5	14	23
CENCOA	7	25	20
CALDAS	3	3	7
FEDETENZA	5	1	0.2
COOPCENTRAL	23	18	14
UNAFFILIATED	141	54	85
TOTAL	332	209	247

Source: COOP Federations

1/ Because of frequent double affiliation, considerable double counting is included in Table. Total, however, excludes double counting.

there is a significant conceptual problem in the definition of cooperatives as either urban or rural. The definition used by the Superintendency is simply the size of the city where the cooperative headquarters is located. Cooperatives in cities with more than 20,000 population are considered urban. This may understate the number of rural coops, since many cases exist where cooperatives made up of rural members have their offices in a city. The Mission has undertaken a more detailed analysis to determine what cooperatives are actually rural, and the results are summarized in Table IX. In essence, some 325 cooperatives with 192,000 members should be considered rural. The rural coops are principally savings and credit and agricultural production or marketing coops.

The second level of cooperative operation is that of federations of individual coops. The federation can provide services of various sorts, such as technical assistance, external audit, and administrative services. Officers in the federation are elected by the representatives of the member coops, so that the federation is generally quite representative of the wishes of its member cooperatives. There are some eighteen cooperative federations or quasi-federations in Colombia, whose activities are summarized in Table X. Five of these are important in the rural sector.

At a third level of operation are non-governmental cooperative service organizations. In Colombia, there are two such organizations -- Financiacoop and Indesco. Financiacoop acts as a cooperative financing agency, channelling external resources into the movement, while Indesco serves the movement by providing both general training for persons interested in cooperatives and specific programs for individual coops or federations -- this latter on a fee basis. Both Indesco and Financiacoop were created by the cooperative movement, and both are directed by representatives of the major cooperative federations.

The final organizational level of the cooperative movement is the one of national government. The National Cooperative Superintendency is the only institution of this type in Colombia, and it provides the general registration and control function to the movement.

The structure of the movement given above has served to make the first three levels of the movement quite responsible to the wishes of the members. Although this democratic structure has sometimes resulted in fights among cooperative federations concerning policies of Financiacoop

TABLE X

COOPERATIVE FEDERATIONS IN COLOMBIA

FEDERATION	TYPE	No. OF COOPS	No. OF MEMBERS
UCONAL	CREDIT UNION	280	150,000
ASCOCREDITO	CREDIT UNION	13	7,000
ASCOOP	CONSUMER	86	116,000
FEDECONSUMO	CONSUMER	40	N.A.
FENACOOR	MARKETING	22	12,000
FEDECOTRANS	TRANSPORT	59	8,500
ACAE	EDUCATION	N.A.	N.A.
FEDEHABITACION	HOUSING	N.A.	N.A.
CENTRAL FERRCVIARIAS	URBAN WORKERS	N.A.	N.A.
FEDCOOP TRABAJADORES	URBAN WORKERS	N.A.	N.A.
CECORA	AGRICULTURAL	25	19,000
CENCOA	AGRIDULTURAL	7	25,000
COOPCENTRAL	RURAL CREDIT UNION	23	18,000
FED.TENZA	RURAL CREDIT UNION	5	600
ASCOOP CALDAS	RURAL URBAN WORKERS	11	5,000

and Indesco, such disputes have tended to be temporary, and such institutions have generally been reflective of a consensus of the movement as a whole. In essence, then, the movement is a broadly-based system, controlled by those it serves, and consequently responsive to their wishes.

While the broad outlines given above are generally accurate, the reality of the movement is somewhat more complex. In a few cases, such as that of CECORA, cooperatives are not simply free associations of people who have joined together for a common purpose, but rather creations of the government, which maintains a more or less strict control over their operations. Additionally, the structural lines among the levels of the movement are not all clean. Many cooperatives are not affiliated with any federation, and have direct relations with the third-level insitutions. In other cases, the support to a group of cooperatives may be provided by an organization that is not a federation. The principal example of this is the Coffee Federation, an organization involved principally in non-cooperative matters, which provides financial and technical assistance to the coffee cooperatives of the country.

4. Relation to GOC Priorities

While the current GOC has not published any overall development plan, it has indicated clearly that it considers the highest priority for government investment to be for programs aimed at improving the quality of life of the poorest half of the income distribution. In applying this general principle, the GOC has focused on nutrition as the central element of its strategy. In the short run, it feels that improved nutrition is the most important means by which the poor half of the population can be assisted. The nutrition strategy has two elements: to ensure that more and higher quality food reaches the poor, both urban and rural; and to increase agricultural production in order to make more food available. This second element is a two-pronged one, in that greater agricultural production should both provide more food to the urban sector and, by increasing farm incomes, improve the nutrition of agricultural workers. The GOC agricultural production effort has concentrated primarily upon increased production on small plots, and is currently designing projects (to be financed in part by the IDB and the IBRD) for production stimulation in all the areas of the country with large concentrations of small farmers. The GOC sees cooperatives as an important means of reaching large numbers of small farmers with credit and technical assistance, and consequently gives this project a high priority. Prior to discussions concerning this loan, the GOC had already begun taking steps to stimulate cooperative development. The 1975 budget of the Superintendency included for the first time (at least in recent years) budgetary funds for the development of new cooperatives, and the Superintendency began developing a long-term cooperatives development strategy. A resolution of the Central Bank Monetary Board last October created a line of credit for cooperative development through Financiacoop equal to 250% of that institution's capital and reserves. This additional credit has already begun to flow to the cooperative movement, and has stimulated considerable interest in cooperatives development.

In essence, then, the proposed loan does support the central GOC priority for government investment. This priority has been indicated both by GOC statements of strategy and by concrete commitment of increased resources to the cooperative movement.

5. Relation to Other AID Assistance

AID has been involved in the cooperative movement in Colombia since the early 1960s. A summary table indicating AID's involvement in the sector is shown as Table XI. This involvement, however, has been rather limited, and has related only to specific aspects of the movement. AID funding to CUNA allowed it to provide limited assistance to UCONAL in stimulating the credit union movement in Colombia. An AID-financed expert wrote a report proposing the creation of a cooperative financing institution, which helped serve as the basis for the creation of Financiacoop. Some long-term advisory assistance was provided to coops in fruit and vegetable marketing. A 1969 study of the Colombian cooperative movement by CLUSA continues to be the basic analytical document concerning the movement.

In the area of capital assistance, AID has been involved in three parts of the cooperative movement -- rural electric cooperatives, housing cooperatives, and agricultural marketing coops. In the first of these cases, a $1.3 million loan was made for electrification of three rural areas in Colombia. Though the project was a technical success, the cooperative form of organization was ultimately adopted in only one of the three municipalities. In the other two municipalities, responsibility was assumed by government agencies, and there appear to have been no subsequent efforts at establishment of rural electric coops in other parts of the country. Two million dollars equivalent of counterpart funds to AID program loans were later used for pilot cooperative housing activity, with technical assistance

TABLE XI

AID ASSISTANCE TO COOPS IN COLOMBIA

1960-71

(thousand of dollars)

PURPOSE	Grant	Loan	Pl-480
Credit Unions	86 1/		
Artisan and Industrial Coops	501		
Agricultural Marketing Coops	107		4,890
Rural electrification	33	1,048	
Housing	278	2,000 2/	
Cooperative Education (OCA)	380		
Clusa Report and Other	50		
	1,435	3,048	4,890

1/ Excludes $35,000 used to make a movie.
2/ Counterpart Funds

Source: ATAC Report on AID Assistance to Cooperatives, and Mission records.

from the Federation for Cooperative Housing. While the project had some demonstration effect, cooperatives continue to be a very marginal means of providing housing in Colombia. The third area of AID capital assistance -- and the only one with direct relevance to the current project -- has been use of PL 480 commodities in a poultry and livestock feeding operation carried out by the cooperative federation of agrarian reform recipients, CECORA. This experience is discussed in some detail in Section II A. This project was not very successful. Initially operated with a large subsidy to the producers, the project ended prematurely in mid-1973 when supplies of PL 480 commodities became scarce. The ending of this subsidy at a time when grain prices were quite high resulted in a rapid rise in input costs and forced CECORA to both raise input prices and subsidize the operation, which nevertheless declined substantially in size. The principal error in the project formulation appears to have been the use of a subsidy to the producers under the program. Had this not been done, termination of PL 480 supplies might not have had any significant negative impact on the project.

This project also bears some relation to several projects currently being studied by the Mission in other areas. A proposed loan for pick-and-shovel roads should assist some areas where the farmers are receiving credit for production or marketing from the current loan. Indeed, cooperatives in the past have been sometimes operated successfully to convince the government of the need for assistance in this type of farm-to-market roads, and provided a channel for the recruitment of volunteer labor to help build such roads. We expect the cooperatives assisted by this loan to provide the same function in the future where appropriate.

In addition, a small farmer development loan, now undergoing intensive review as an FY 1976 project, will seek to develop and test technological packages of productive-input combinations that will allow small farmers to substantially increase their yields and incomes. To the extent that the loan is successful in developing such packages, the cooperative system will be used as one means for disseminating them. AID will ensure that the results are available to the cooperative federations, and that the federations provide technical assistance to member coops in adopting such technologies.

Finally, an AID loan that would provice assistance to SENA (the National Apprenticeship Service) and Acción Cultural Popular (a private educational organization important in rural areas) is currently in the process of intensive review. The loan would not assist directly the cooperative educational activity of either organization, though both organizations do engage in such activity. In the case of SENA, however, the entity will be directly involved in assisting in the implementation of the current loan, so that proper coordination between the two projects will be assured. In the case of Accion Cultural Popular, the impact on the cooperatives sector is principally through the institute's radio programs, which serve principall to create interest in the cooperatives concept, thus serving indirectly in the implementation of the current loan.

SECTION II - PROJECT ANALYSIS

A. Institutional Analysis

1. Executing Agency - Financiacoop

The National Cooperatives Financing Institute (Financiacoop) was established in 1968 with the legal status of a private entity, though it was given certain specific legal rights by law. It is owned and controlled by its member cooperatives. Financiacoop plays an important role in the promotion of cooperatives by serving as a sort of national cooperatives bank for its affiliated cooperative federations and independent cooperatives. Though its main operating activity is credit for its affiliates, the institute also carries out a small amount of cooperative education activity.

Financiacoop derives its special status from the fact that all cooperatives in the country are legally required to maintain 25% of their legal reserve as a deposit with the institute. In practice, it has no means of enforcing this requirement other than the periodic sending of a reminder letter to non-participating cooperatives. Though only 612 of the country's estimated 1,500 cooperatives are members of Financiacoop, the affiliates represent the bulk of the cooperative movement in terms of membership and capital and all of the country's major coop federations. The principal advantage to affiliation with Financiacoop results from access to its credit availabilities. The recent increase in this availability has led to rapid growth in membership applications in recent months.

The institute's credit availabilities stem (in addition to member deposits) principally from access to several rediscount lines with the Bank of the Republic: one for 25 million pesos, one of 20 million pesos for agricultural credit, and one equal to 2.5 times the institute's paid-in capital. This latter line was created in October, 1974, as part of the government's policy of stimulating the cooperative movement. Generally, the institute is allowed four points on its rediscounts -- Financiacoop lending at 11%, and being rediscounted at 7%. The institute has grown rapidly since its inception, with capitalization increasing from 14 million pesos in 1969 to 68 million pesos at the end of 1974. Recent balance sheets and profit statements for the institute are shown as Tables XII and XIII. The institute has had very favorable experience with repayment. Loan delinquency has been held at 2%, and there has been only one significant instance of default in the history of the organization (when UCOPAN, a marketing cooperative federation, went backrupt in 1973).

TABLE XII

FINANCIACOOP

Income Statement
(Colombian pesos 000)

	1971	1972	1973	1974
Income	3,532	4,750	7,017	9,230
Administrative Services	823	1,323	1,430	2,077
Interest & Commissions	2,280	3,202	5,197	6,830
Investment Income	429	155	263	-
Other	-	70	127	323
Expenditures	2,694	3,348	4,667	6,668
Personnel	1,261	1,477	1,559	2,252
Administrative	66	224	34	678
Interests & Commissions	831	1,123	1,774	2,104
Contributions to Coops	42	50	65	54
Other	494	474	1,235	1,580
Surplus(+) or Deficit(-)	837	1,402	2,350	2,562

TABLE XIII

FINANCIACOOP

Balance Sheet
(Colombian pesos 000)

	1971	1972	1973	1974
Assets	42,693	61,697	84,395	162,653
Cash & Banks	706	1,805	2,889	38,586
Accounts Receivable	794	1,597	673	1,435
Loans	40,283	54,219	76,173	118,482
Investments	595	1,668	2,281	1,784
Real Estate	315	1,945	1,868	1,783
Equipment & Vehicles	-	463	511	583
Liabilities	27,301	42,512	58,229	87,946
Accounts Payable	52	1,462	1,364	732
BOR	26,620	39,797	55,535	85,361
Interests & Payments	397	903	925	1,334
Severance Payments	232	350	406	519
Capital and Reserves	15,392	19,184	26,165	74,707
Paid-In Capital	14,209	16,904	21,845	67.778
Legal Reserves	168	377	658	1,128
Funds & Reserves	443	800	1,617	3,654
Deferred Debt	-265	-299	-305	-415
Accumulated Profit or Loss	837	1,402	2,350	2,562

Financiacoop operations are directed by its five-member Board of Directors, which appoints the general manager and approves all loans exceeding one million pesos. The Board derives its authority from the General Assembly of all Financiacoop members, which meets annually to elect directors, revise the governing statutes, and approve the annual report of the Board of Directors. The current Board is made up of two representativ each of the two major cooperative federations, UCONAL and ASCOOP, and one representative from an unaffiliated cooperative. A new Board will be elected in June, 1975.

The past lending policies of the institute have tended to favor loans to individual cooperatives rather than to federations. Under the project, this emphasis will be shifted, at least in the case of rural cooperatives. The general policy of the institute has been to favor production and investment loans where possible. Within this general orientation, loans have tended to favor cooperatives in strong financial condition, with emphasis placed on repayment capacity. Table XIV shows the breakdown by type of cooperative of Financiacoop lending in recent years. Loan processing usually requires about two weeks, and loan maturities range from one to five years, depending on use.

Finarciacoop currently operates only in Bogota, though expansion to the other major cities of the country is now under active consideration. An organizational chart for the institute is shown as Table XV. The entity has 26 employees (seven professional, five technical, and fourteen clerical and service). One of the seven professional and two of the five technical personnel are women.

No major increase in staffing is projected for Financiacoop, since, at least for the present, its only role is that of channelling additional resources into the cooperative movement, principally through the coop federations. The function of project evaluation for development content will be carried out by the Policy Committee, while the role of credit distribution to, and financial analysis of, individual cooperatives will be carried out by the federations.

TABLE XIV

FINANCIACOOP

Lending Activity, 1969-74

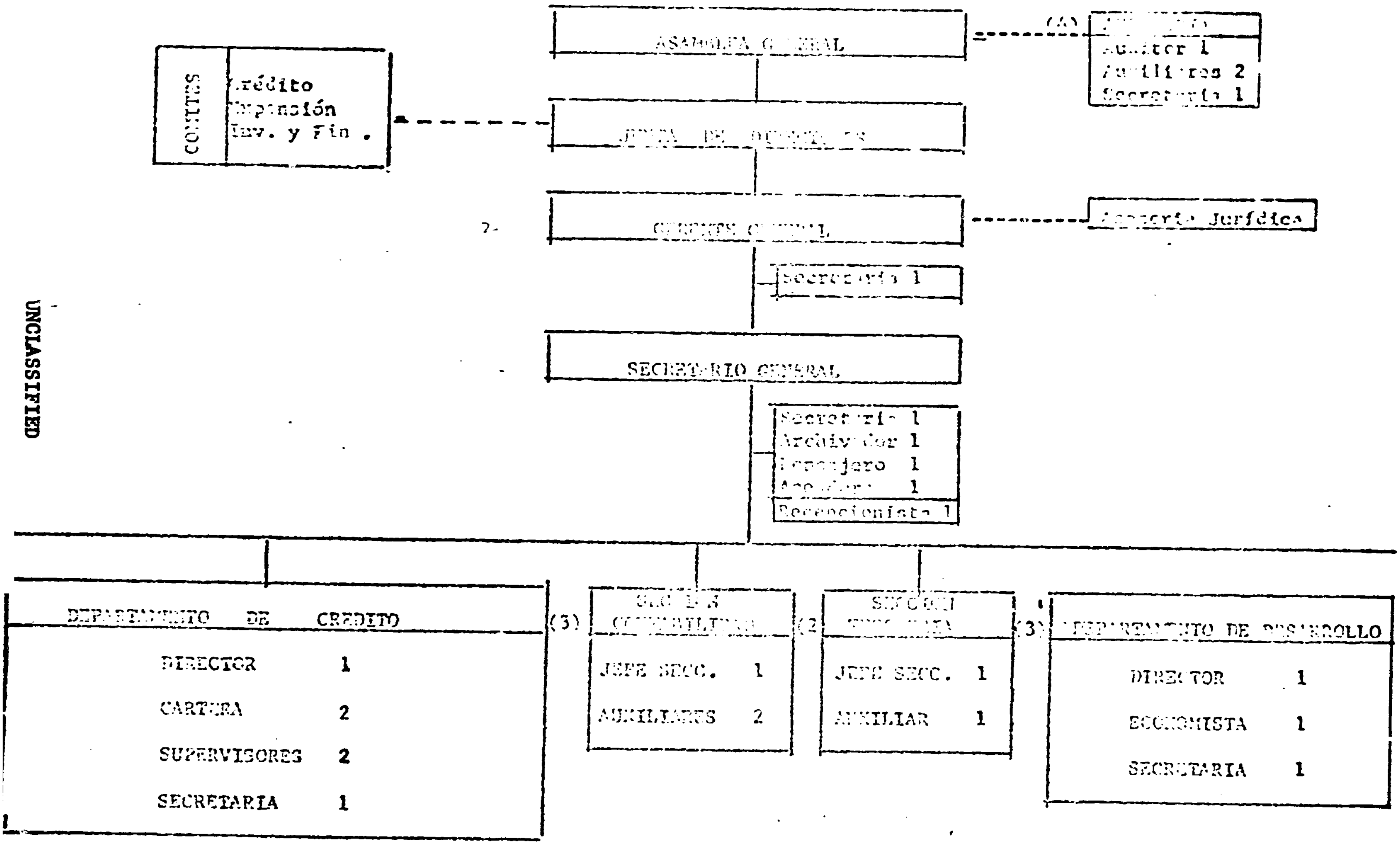
(million pesos)

Type of Cooperative	1969	1970	1971	1972	1973	1974
Agriculture	4.2	4.4	5.2	11.0	19.2	28.0
Industry	-	-	0.8	1.3	1.8	9.3
Transport	0.1	1.8	1.3	1.1	1.9	1.7
Consumer	1.7	1.2	1.9	2.2	0.7	5.1
Housing	0.1	6.3	3.4	4.7	9.7	23.7
Credit & Multiactive	13.0	37.9	46.9	50.6	57.6	69.5
Total	19.1	51.6	59.2	70.9	90.9	137.2

TABLE XV

UNCLASSIFIED

ORGANIGRAMA ACTUAL ...



PLANTA DE PERSONAL EXISTENTE: 26.-

2. Recipient Institutions

a. UCONAL and Affiliates

The Union Cooperativa Nacional de Crédito (UCONAL), Colombia's principal credit union federation, was established in 1959 by thirteen credit cooperatives. It appears to have been the first cooperative federations established in Colombia -- at least of those currently operating. The organization received technical assistance and training during the 1962-65 period under an AID/CUNA project. The principal goal of the project appears to have been the creation of new credit unions, in which it was successful. By the end of 1964, UCONAL had 329 affiliates, with 60,000 members. After the end of this project, the number of members of UCONAL cooperatives continued to grow steadily, to a total of 153,000 at the end of 1973. The number of cooperatives, however, began to decline slowly for several years, both as the result of consolidation of small cooperatives into larger ones and as a result of the disappearance of weaker ones. The current level of 280 member cooperatives represents a slow increase over the past several years, after the period of consolidation. Between 1970 and 1972, UCONAL affiliates in one region of the country attempted to move into food marketing in urban areas. This proved to be beyond their capabilities, and the activity ended with a loss of some 4 million pesos, which was assumed by UCONAL. The activity has apparently had a major impact on attitudes within the organization. Prior to this experience, UCONAL paid little attention to questions of financial management or to capitalization of the movement, tending to use below-market or subsidized operations where possible or necessary. The traumatic experience of the supermarket losses, however, has caused a strong reaction to the previous social orientation, and has resulted in the current management of the organization emphasizing good financial management and economic feasibility questions. Since the organization was restructured in 1973, its general financial condition has improved substantially. Balance sheets and profit statements for the organization of the last six years are shown as Tables XVI and XVII.

UCONAL operates a national office and six regional offices throughout the country. The federation employs 82 people -- 24 executive and technical-level people, and 59 clerical and service employees. An organizational chart for the federation is shown as Table XVIII, while Table XIX shows a proposed reorganization, to be undertaken in conjunction with an AID grant project.

TABLE XVI

UCONAL

INCOME STATEMENTS, 1969-74
(thousand pesos)

	1969	1970	1971	1972	1973	1974
INCOME	1,553	1,951	2,878	4,653	7,406	9,495
Membership Quotas	744	746	965	1,174	1,474	1,543
Administrative Services	229	217	669	1,247	1,537	2,539
Interest & Commissions	177	132	221	1,142	1,685	2,089
Income from Sales	60	312	749	610	1,229	2,192
Other	343	544	274	480	1,481	1,132
EXPENDITURES	1,514	2,145	5,002	5,142	7,255	8,909
Personnel	1,062	1,279	2,991	2,907	3,398	4,194
Administration	346	723	1,527	1,191	2,192	2,187
Financial Charges	106	143	373	896	1,393	1,795
Reserves	--	--	111	148	272	733
Surplus (+) or Deficit Before Extraordinary Items	40	-193	-2,123	-489	150	586
Extraordinary Profit (+) or Loss 1/	--	--	--	-1,118	-995	209
Net Surplus (+) or Deficit	40	-193	-2,123	-1,607	-845	795

1/ This item refers to debts of UCONAL affiliates that were assumed by UCONAL in relation to losses incurred by the affiliates a supermarket development project. Final liquidation of the project occurred during 1974.

TABLE XVII

UCONAL

BALANCE SHEET 1969-74
(thousand pesos)

	1969	1970	1971	1972	1973	1974
ASSETS	2,467	4,684	11,140	17,220	23,370	42,798
Cash & Banks	90	72	1,517	2,817	2,291	8,440
Accounts Receivable	574	993	3,255	8,698	6,236	7,292
Deposits	28	61	15	114	187	270
Loans	--	--	--	--	9,407	14,199
Inventories	276	1,347	1,563	1,103	1,228	2,608
Investments	365	411	277	812	519	7,189
Real Estate	589	919	1,822	1,999	1,654	1,464
Equipment & Vehicles	545	881	2,326	1,459	1,657	1,136
Other	--	--	365	218	191	200
LIABILITIES	2,045	4,404	11,316	18,491	23,796	34,574
Account Payable	1,235	2,670	7,902	13,453	19,771	18,714
Deposits	84	198	1,979	3,447	2,416	10,423
Severance Payments	81	54	154	136	163	596
Cooperative Investment Fund	645	1,482	1,128	1,454	1,409	--
Deferred Charges	--	--	153	1	37	4,841
CAPITAL & RESERVES	422	280	-176	-1,271	-426	8,143
Paid-in Capital	244	244	1,647	2,009	3,334	11,347
Funds & Reserves	178	229	514	664	1,029	790
Other						
Accumulated Profit or Loss		-193	-2,337	-3,944	-4,789	-3,994

TABLE XVIII

UCONAL: EXISTING ORGANIZATIONAL STRUCTURE

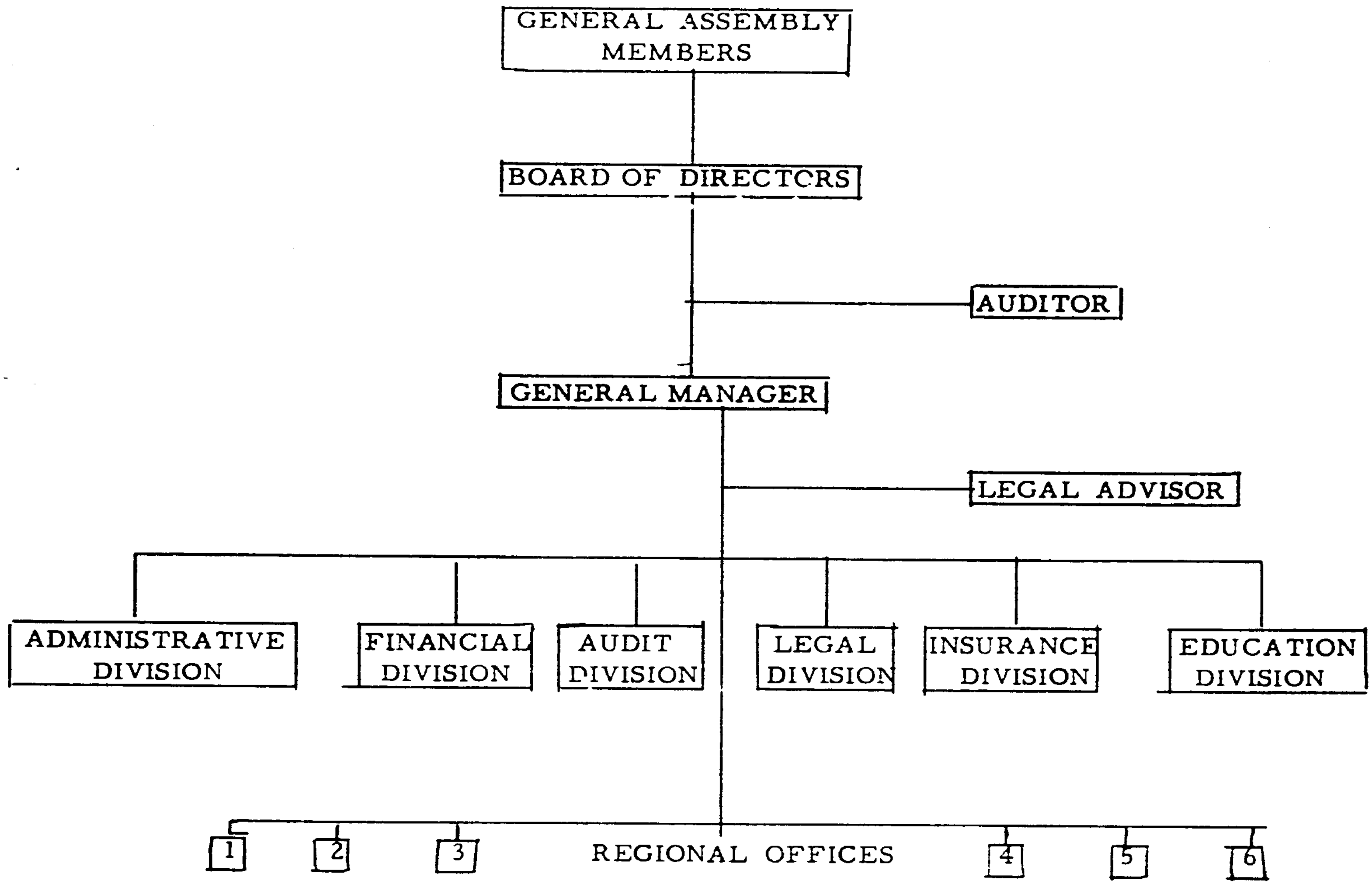


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TABLE XIX: UCONAL

PROPOSED ORGANIZATIONAL STRUCTURE

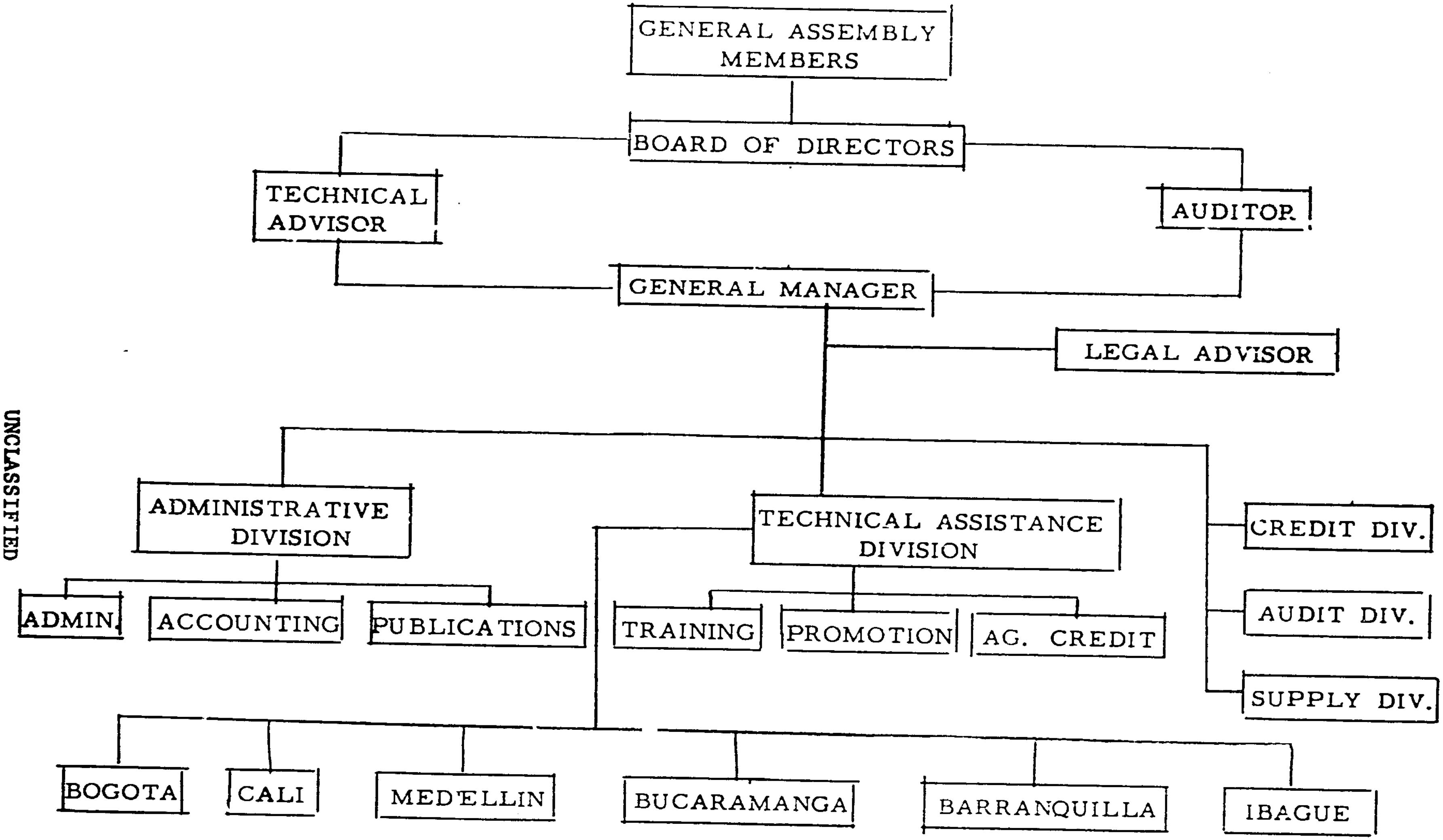

TABLE XIX

The 280 UCONAL affiliates had 325 million pesos in savings at the end of 1973 and a loan portfolio of 378 million pesos. Some 230 of these affiliates have at least one full-time employee, usually a manager. Some 90 of UCONAL's affiliates are rural cooperatives, with a membership of 50,000. These cooperatives were capitalized at 50 million pesos and conducted total lending operations in 1973 of about 180 million pesos. Interest rates charged by the rural cooperatives were generally 18% per year (1 1/2% per month on outstanding balance), though some member coops charge 2% per month.

A recent study[1] of savings habits of Colombian households developed by means of a survey, a profile of savers in savings and loan cooperatives. Since 80% of the survey respondents were UCONAL members, the results should be broadly representative of UCONAL members. According to the survey, the average income of savers was 2,000 pesos (80 dollars) per month. Forty-five percent of the savers lived in large cities, 22% in rural areas, and the remainder in small and medium-sized cities. Seventy-five percent of the savers are male, and the majority of the savers have less than a high school education. Sixty-four percent of the members saved regularly with each pay check. The principal reason given for saving was capital accumulation, with housing and education for children following in importance.

The member cooperatives pay an annual membership fee on a sliding scale ranging from 0.5% to 1% of their loans outstanding. In addition to this fee, members pay separately for the principal services offered by the federation, and are required to maintain 5% of their legal reserve as shares in UCONAL.

The functions provided by UCONAL for its affiliates include:

- Audit. The federation provides a standardized accounting system for its affiliates, and provides audit services for about half of its members.

- Training. A wide range of training courses is offered, ranging from general seminars on cooperativism to courses on administrative control and management. In 1973, it operated 250 courses and seminars for 5,000 participants.

1/ Alfredo Ocampo Famorano, "El Ahorro y la Gente en Colombia," 1975.

- Insurance. UCONAL provides life insurance for members and employees, using a CUNA affiliate.

- Credit. UCONAL made 210 loans to its affiliates in 1974 for 19.0 million pesos and had a loan portfolio of 14.2 million pesos at the end of the year. Sources of funds are internal resources, borrowing from Financiacoop, and borrowing from commercial banks. The latter is usually based on use of compensating bank balances obtained through the use of a centralized account for member cooperatives.

- Legal Assistance. The federation provides general legal assistance to its affiliates. In practice, this involves assisting new cooperatives in legal formation, and helping others when they have legal difficulties.

- Cooperative Organization. UCONAL organized the great majority of its current affiliates, but currently has no separate cooperative development program.

Under the AID grant described in Section I C 1, UCONAL will reorganize its national office, establishing two new departments -- technical assistance and cooperative development. The former will be responsible for assisting rural coops in developing appropriate technical assistance programs for their members, while the latter will have responsibility for assisting rural groups in creation of new cooperatives.

(i) UCONAL Capacity to Implement this Project

Under the AID grant described in Section I (C) 1, UCONAL will reorganize its national office, establishing a new department for technical assistance and cooperative development. During the preparation of UCONAL's cooperatives and institutional development program a detailed examination was undertaken ot UCONAL's administrative capacity to execute the project. As a result, certain administrative changes were suggested and discussed with UCONA. These have been incorporated in the following discussion:

Technical Assistance and Promotion Division
(See Table XVIII)

Under the proposed project, implementation responsibilities for the cooperatives development program will be assigned to this division, utilizing the personnel of the six regional UCONAL offices in Bogota, Cali, Medellin, Bucaramanga, Barranquilla, and Ibague. The division is divided into a Training Department and a Department of Agricultural Credit Assistance.

The personnel of UCONAL's regional offices will be in charge of providing administrative assistance and support to the existing cooperatives, and for the organization and promotion of new cooperatives. To augment the existing personnel of the regional offices six new cooperatives promotion specialists will be hired.

Each regional office will be headed up by a Regional Manager responsible to the Director of the Technical Assistance and Promotion Division. The latter will directly supervise the personnel of the Department of Agricultural Production Credit Assistance. As the program is expanded, this Department will assume more independent responsibility and will focus exclusively on providing services to rural cooperatives. In the first year of the program, this department will have two advisors charged with developing the demonstration projects in production credit, as described earlier in Section I (C). In the second year, four additional advisors will be hired. Their responsibility will be to assist in the development and implementation of the integrated production credit programs.

The Training Department will be in charge of programming and coordinating all activities relating to education and training at both the regional and national level. These training programs will be executed in each region utilizing the expertise and knowledge of all regional personnel, the management and leadership of existing cooperatives in each region. Since the activities of this department will be notably increased under this program, an assistant to the Director of Training will be recruited. A portion of the AID grant support proposed for UCONAL will be used to cover the additional personnel expenses to be incurred in the three-year project period for the purposes described above.

The examination of the other departments and divisions of UCONAL resulted in a determination that no direct or immediate increase in personnel nor reorganization of activities was merited before implementation of the project begins. As the duties and workload of these offices increases with the addition of new demands from increased membership, some expansion of personnel in accordance with the approved recommendations is expected.

Overall, it is the opinion of the Development Loan Committee that UCONAL, in accordance with the recommendations of the Flores report (as summarized above), is fully capable of implementing the proposed project.

b. Cecora and Affiliates

Background

CECORA (Central de Cooperativas de Reforma Agraria) was organized in 1968 as a federation of 11 cooperatives which had been founded by INCORA (the Land Reform Agency) for agrarian reform participants. Its basic focus has been the procurement of agricultural inputs and the marketing of agricultural productos for member cooperatives. INCORA has maintained considerable influence over CECORA, but that influence, and an operating subsidy granted by INCORA, has been steadily declining.

Table XX shows data regarding CECORA's affiliated cooperatives, number of members, assets, operational sales volumen, etc. The federation's growth particularly in terms of assets, sales volume, and paid-in capital, has been smooth and rapid.

As of mid-1974, there were 26 cooperatives located in 19 of Colombia's 22 departments with 22,451 members. These 26 cooperatives operate through a network of 130 offices, some of which have stores attached to them. At the level of the individual coop, the functions performed cover provision of agricultural inputs, some marketing of farm production of its members, and personal loans. Certain of the coops also engage in joint ventures with CECORA, e.g. operation of a rice mill, of cattle breeding farms, of contract beef fattening, exporting melons, etc. A vew of the coops have their own processing marketing operation, e.g. a butter and cheese plant. The capitalization of the 26 coops was 25 million pesos as of August, 1974, with 3.7 million suberibed by INCORA and the remaining 21.3 million from local savings. In 1973, the operations of the coops totalled 347 million pesos, 61% of which was financed by CECORA.

Characteristics of CECORA Members

Little specific data exist showing the characteristics of CECORA members. Out of the 22,451 members approximately 13,000 are also recipients of INCORA's services. Table XXI shows the number of INCORA beneficiaries per department and the average number of hectares per farmer. CECORA estimates that non-INCORA members of affiliated cooperatives have about the same number of hectares and possibly fewer than INCORA recipients.

In 1972 CECORA interviewed a random sample of 120 participants in their feed concentrate program. The survey indicated that the majority owned less than 5 hectares. The average number of animals owned per producer was 1,200 chickens or 20 pigs or 30 cows. About 90 percent of the producers were engaged in one or more agricultural enterprises in addition to their livestock or poultry enterprise. It was found that the

TABLE XX

CECORA - Number of Affiliated Cooperatives, Individual Members, Assets and Value of Sales

(Colombian pesos 000)

Year	#Affiliated Coops	#Individual Members	CECORA Assets	CECORA Sales	CECORA Net Income	Paid Capital (Coops & CECORA	Paid in Capital retained earnings & reserves	Returned on Invested Capital
1968	28	17,593	19,994.2	7,992.8	128.4	351.9	525.5	24.4%
1969	28	21,111	42,148.9	28,233.0	203.6	795.0	2,240.5	9.1%
1970	29	23,165	66,000.8	49.949.0	1,703.0	1,226.5	2,864.1	59.5%
1971	29	23,847	90,885.3	66,543.4	2,887.6	2,887.8	11,973.4	24.1%
1972	28	23,050	122,685.5	87,305.3	1,182.2	5,452.8	15,953.2	7.4%
1973	26	21,885	180,777.5	181,879.6	1,755.2	6,777.4	16,692.0	10.5%
1974	26	22,451	447,798.6	277,105.0	1,288.6	9,980.1	24,015.9	5.4%

TABLE XX

TABLE XXI

INCORA: Number of Farmers, Hectares Per Farmer

INCORA Projects	Number Beneficiaries	Hectares Per Beneficiary
Antioquia	384	34
Atlantico	124	8
Bolivar	476	13
Boyacá	39	6
Cauca	459	22
César	420	44
Córdoba	2,306	10
Cundinamarca	385	13
Huila	716	28
Magdalena	596	15
Meta	184	72
Nariño-Putumayo	904	14
Norte de Santander	708	21
Pereira	225	11
Santander	953	21
Sucre	2,971	11
Tolima	1,101	27
Valle	197	8
Total	13,148	17

majority of these cooperative members had been able to expand their business as a result of their participation in the beef concentrates program. Similarly 70% of the participants had been able to increase their net incomes since the program was initiated.

Organizational Structure

As a federation of cooperatives CECORA is ultimately responsible to an annual general assembly of representatives from each of its affiliated cooperatives. Its Board of Directors is elected by delegates to the annual assembly. The general manager is held responsible for day to day operational decisions. He is assisted by two staff offices-an Office of Planning and an Office of Education. He has two assistant managers: one for Operations and one for Financial Management. There are five operating departments. The department of agricultural inputs is the largest in terms of sales - U.S.$6 million in 1974. The second largest is the Marketing Department with sales of US$3.3 million in 1974. The Livestock Department, which operates breeding farms in cooperation with several affiliated cooperatives, had annual sales of US$.1 million in 1974. Up to now, the Agro-industrial Department has focused primarily on research and promotion of agro-industrial projects for affiliated cooperatives.

Financial Aspects

Table XX shows a comparison of key financial statistics for CECORA since its inception. Assets and total sales have moved steadily upward with especially large increments from 1973 to 1974. While net returns have not been high in the past three years as in earlier periods(partly as a result of priceing policies largely beyond CECORA's control), CECORA continued to operate profitably.

The balance sheets for CECORA for year 1970-74 are summarized in Table XXII while the figures for the period ending December 31, 1974 indicate substantial growth over 1973 and earlier years they also,however, reflect a possible short term liquidity problem arising from the purchase of large quantities of relatively high priced fertilizers at a time in 1973 and 1974 when fertilizer was scarce and supplies were expected to be tight throughout 1974. Unfortunately supplies did not remain tight while prices remained high and demand dropped off, and CECORA (along with several other Colombian Institutions) has not yet been able to liquidate its stocks.

TABLE XXII

BALANCE SHEET, CECORA

(Millions of Pesos)

	1970	1971	1972	1973	1974
ASSETS	66.0	90.9	122.7	180.8	447.2
Current	39.3	59.1	94.7	145.6	408.0
Cash and Banks	3.5	4.8	4.5	4.3	1.9
Accounts Receivable	27.3	39.3	57.8	77.2	79.8
Inventories	8.0	13.9	31.4	61.7	309.2
Other					17.1
FIXED	1.9	2.7	3.8	9.0	14.3
Other Long-Term	24.8	29.1	24.2	26.2	24.8
Investments	13.4	13.6	10.4	13.8	12.5
Other	11.4	15.5	13.8	12.4	12.3
LIABILITIES	61.8	75.6	104.4	162.1	422.0
Current	34.8	45.7	63.5	116.3	383.1
Accounts Payable	18.8	19.7	30.0	71.9	15.0
Letters of Credit	--	--	--	--	272.6
Other	16.0	26.0	33.5	74.4	95.5
Long Term	27.0	29.9	40.9	45.8	38.9
CAPITAL AND RESERVES	4.2	15.3	18.3	18.7	25.2
Paid Capital	1.2	2.9	5.5	6.7	9.9
Reserves	1.3	9.5	11.6	10.2	14.0
Current Profit	1.7	2.9	1.2	1.8	1.3

CECORA indicates that this position is expected to be temporary, however, with a resolution of the situation likely within 6-12 months.

By was of background, CECORA explains that it, along with the Caja Agraria and other institutions providing support to the rural agricultural sector, were actively encouraged by the COG to purchase and build stocks of fertilizer during 1973 and 1974, when severe shortages of these essential inputs were being widely predicted, as a hedge against such possible shortages and as assurance that agricultural output would not fall sharply as a result of insufficient fertilizer availabilities. CECORA, as with the other institutions, responded with large purchases, although, CECORA is quick to point out, it acquired its stocks at a price substantially less than what the other institutions were paying.

The non-realization of the expected shortages, and the shortfall in projected demand for ferilizer from farmers, left CECORA, and the Caja Agraria in particular, with large inventories of fertilizer financed with short term credits. After explaining its plight to GOC officials, requesting special assistance in dealing with the problem, the Caja Agraria recently received a special line of credit from the BOR to enable it to sell, in an orderly fashion, its supplies of fertilizer at current market prices. CECORA has also requested such a line of credit from the BOR to enable it to hold its inventories until the market price of fertilizer rises to the level equal to the price CECORA paid. Indications are that the BOR will approve CECORA's request shortly. CECORA points out that, given the current price inflation, Colombian is experiencing, the costs of fertilizer are rising and will continue to rise so that, by CECORA's calculations, it will be able to liquidate or reduce to more normal levels its fertilizer inventory by the end of CY 1975.

The Loan Committee, in considering this issue, believes that the BOR, with support from the National Planning Department, will approve the line of credit to CECORA and is also in agreement with CECORA's projections regarding expected fertilizer price increases. In any event, a satisfactory resolution of this situation will be a requirement for CECORA's eligibility for use of loan proceeds under this project.

Proposed New Projects

CECORA, in cooperation with affiliated cooperatives, has elaborated several new projects and made plans to expand some existing activities. Included are plant to (1) expand and improve the feed concentrate program; (2) promote three rice mills in conjunction with three affiliated cooperatives to which CECORA would provide national rice marketing services; (3) expansion of cold storage and ice making facilities for improved fish marketing of the affiliated cooperative in Copetolu; and (4) develop an active involvement in the identification, development and implementation of the marketing sub-projects identified as part of large IDB and World Bank loans for integrated rural development in Minifundio areas. In each of those proposed activities, CECORA's objective is to retain an acceptable balance between the goal of improving their capacity to serve existing affiliated cooperatives and their members and the broader objective of serving potential new members of those cooperatives or serving the interest of non-INCORA organized cooperatives which might choose at some future date to become CECORA affiliates. In all cases CECORA remains committed to the objective of serving small and low income farmers.

In evaluation the first three of CECORA's project proposals, the Loan Committee determined that the expansion and consolidation of the feed concentrate activity should be considered eligible for financing under the overall AID-Financiacoop project given its importance to CECORA's present operations, the potential benefits for small farmer members of CECORA from an expanded operation, and the contribution of net income the project can make to CECORA's overall viability. The basic objective of the feed concentrate activity is to assist the small farmer engaged in poultry, swine or dairy cattle raising through providing him with: high quality balanced livestock feed at or below market prices, short term financing through CECORA for purchase of the feed concentrate and, in combination with technicians from INCORA, assistance in livestock production, development and marketing. The end objective of these efforts is to realize an increase in small farmer family incomes through increases in livestock productivity and reductions in marketing expenses. Presented below is an analysis of the experiences of this program to date.

History and Evaluation of the Feed Concentrate Program

In 1970 INCORA and CECORA began implementation of a feed concentrate production and distribution program designed to improve the incomes of low-income farmers and to increase protein availability through a poultry, swine and dairy development program. The program was developed with the help of the U.S. Government (AID) through a grant of 35,379 tons of corn and 90 percent of the cost of ocean freight to Colombian ports (total value US$4,889,743). INCORA agreed to provide counterpart funds (US$ 766,202) to cover technical assistance, inland transportation, and working capital to purchase other necessary raw materials. It was expected that 2,715 low income farm families would be benefitted over the life of the project - June 1970 to June 1973.

Low income farmers were to be subsidized initially through low priced high quality concentrates, low cost credit and technical assistance from INCORA. The objective was to "graduate" these farmers out of the subsidized program into commercial production.

The agreement called for the formation of a Central Council which would be responsible for formulating the policies, rules and regulations, necessary to attain the objectives of the program. The Council was composed of:

1. The National Director of the INCORA supervised credit program as chairman;

2. A representative from CECORA;

3. Two representatives appointed by local cooperatives.

The Central Council was responsible for policies regarding criteria for selection of participants, price and conditions of sale, priorities for use of funds and other general policies.

Local Councils, composed of the INCORA country supervisor and three members of local cooperatives, were responsible for formulating local budgets, nominating participants, making recommendations on overall program policies and supervising operation of the program at the local level.

The program was designed to subsidize participating farmers through the sale of concentrates at less than market prices on the following graduated scale:

Expected Pricing of Commodities to Farmers
(% of Market Price)

1st Q.	2nd Q.	3rd. Q.	4th Q.	5th Q.	6th Q.	7th Q.	8th Q.
65	70	75	80	85	90	95	100

In reality these guidelines were not followed because the Central Council concluded that farmers were not able to pay the higher prices. The projections indicated that at the expected prices the Program would generate sufficient income to pay project expenses over the three year period and leave a surplus of US$1,022,576. That surplus was to be used:

1. to purchase equipment and supplies to be owned by the cooperatives participating in the program for use in assisting members in the production and marketing of livestock and poultry products;

2. for loans to selected participants or groups of participants for livestock development programs under technical assistance;

3. for additional training and technical assistance to participants beyond that already contemplated by INCORA.

An evaluation of the program in 1973 indicated the following:

Degree of Completion of Goals at End of Corn Donation - June 1973

Item	Programmed	Executed	% Executed
Feed Concentrates (Tons)	70,000	60,000	86
Families Benefitted	2,715	1,434	53
Egg Production (000 units)	71,035	133,600	191
Poultry Meat (Tons)	1,300	2,700	208
Pork Production (Tons)	4,344	1,600	37
Milk Production (000 Liters)	47,569	26,540	56
Profits to Beneficiaries (000 dollars)	1,100	1,400	127

The evaluation also indicated that the 1,434 farmers had received the following estimated subsidies during 3 years of operation:

Subsidized Concentrate Prices	$4.2 million
Technical Assistance and Value of the Program Product due to Quality above commercial concentrates	$9.8
TOTAL	$15.0

At an average exchange rate of 22 pesos per dollar the effective subsidy per farmer over the three years was US$ 475

In addition, a total of 1.5 million pesos in net profits was distributed on the basis of patronage to cooperatives for purposes of capitalization. A total of 659,696 pesos was retained in CECORA for a product marketing fund. Each of the cooperatives which distributed the concentrates was able to collect a gross margin of about 7 percent. Largely as a result of increased gross incomes generated from the feed concentrates program along with CECORA-INCORA subsidies distributed to cooperatives participating in the program increased from a loss of 34,000 pesos in 1970 to a profit of over 4 million pesos in 1973.

Several CECORA cooperatives were able to sell their member's feed grains to the program. During 1972 and the first half of 1973 it is estimated that CECORA purchased 20,000 tons of grains at a value of 50 million pesos.

The U.S. corn donation terminated on June 30, 1973 with a cumulative total of 31,581.1 tons. The agreement had called for 35,379 tons but because of corn shortages in the U.S. and rapidly rising prices, AID was unable to fulfill its obligation.

The feed concentrate program ran into serious problems in mid 1973. The reasons were: (1) the unexpected shortfall in donated corn; (2) the failure of the Central Council to fulfill the planned pricing scheme - thereby continuing large subsidies to producers; and (3) high prices for Colombian feed grains and rapidly rising feed concentrate prices resulting in declining consumer demand. Given this situation, the Central Council was forced to revise its subsidized pricing policies. The resulting rise in concentrate prices to participating member livestock producers forced some out of the business and drove others to commercial suppliers. The number of participating producers dropped from 1,433 in the first semester of 1973 to 804 in the second semester of 1973 and to 771 in the first semester of 1974. Sales dropped from 19,534 tons of concentrate in the first semester of 1973 to 14,268 tons in the second semester of that year, and to 7,181 tons in the first semester of 1974. The substantial profits of 1971 and 1972 melted into large losses in 1973 and 1974 as shown below:

Year	Profit (Loss) Col. Pesos
1970*	1,320,815
1971	6,314,854
1972	4,886,868
1973	(8,128,015)
1974**	(2,201,534)
Total	2,192,987

* June 30-Dec. 31
** Through June 30 only

In late 1974, when feed grain and other raw material prices began to come back down, and after CECORA had made appropriate pricing and administrative adjustments, total sales began to stabilize and move upward again. Net profits of 1,553,884 pesos in the second semester of 1974 reduced annual losses for the period to 647,650 pesos. However, a full and rapid turn around of this situation was not possible in the short term. CECORA's plants were operating at only about 25 percent of capacity - partly because CECORA lacked sufficient working capital to increase its volume and partly because some of their previous customers had either gone out of business or shifted to other suppliers.

While this review describes a somewhat dismal picture of the past operations of the feed concentrates program, it is important not to ascribe responsibility for all of its negative aspects to CECORA management. Actually, most of the policy decisions, which combined with unforeseen high world feed grain prices produced serious trouble for the program, were taken by the Central Council. That committee was chaired by an INCORA representative and included two representatives from affiliated cooperatives as well as the CECORA representative. As indicated earlier, the Central Council's policy decisions frequently emphasized the effects of price increases on the small farmer members over the financial viability of the concentrates' program operations. Moreover, the AID grant called for subsidized concentrate prices. Clearly, everyone involved in the program (CECORA affiliated cooperatives, and producers) was forced into great inefficiencies as a result of the subsidies associated with the donation.

From these experiences, it is clear that CECORA has learned several valuable lessons. Feed concentrates are now priced at competitive prices. While the quality of the product is good, it is no longer maintained at the extremely high and costly levels which were maintained earlier. To minimize costs while maximizing output, CECORA has developed a linear programming model to determine least cost rations. They have hired two veterinarians to supply special technical assistance to coop members and thereby to stimulate sales towards previous levels. And finally CECORA has pened up their program a bit to include sales to non-cooperative buyers in order to regain sales volume.

Evidence suggests that with these recent changes, CECORA can recapture the market share which was lost. Discussions with CECORA indicate that CECORA expects to recapture its previous market within a year and a half after the expansion and consolidation program proposed is begun, with additional subsequent annual sales volume also predicted. It is important also to note that even while operating at a low level of capacity utilization, (25 percent) the feed concentrate program was able to continue to show a profit in January and February of 1975. Overall, the Project Committee believes CECORA can turn the project around within the projected period, that expected benefits from the activity to both CECORA and its small farmer membership will be substantial, and that the project qualifies for financing under the AID - FINANCIACOP project.

Management and Institutional Capacity

The Loan Committee considers that, in visiting with and observing the personnel of CECORA at work, CECORA's management and technicians are dedicated and capable. CECORA's central office is impressively well organized; each department efficiently discharges its responsibilities in a professional manner. This is also the case in most of the member cooperatives and distribution outlets. Clearly management problems do crop up from time to time. But it appears that any such problems are quickly confronted and corrective action is expeditiously taken. Evidence suggests that the individual members are committed to making their cooperatives and CECORA serve their needs. They also seem to be satisfied that the cooperatives are responding realistically to those needs. This includes not only those members that are involved in the program supported by the feed grain contribution but also those in other areas of production, such as corn, soybeans, sorghum, rice, sesame, peanuts, cotton, etc.

Nonetheless, demands upon CECORA for increased services to its membership in regard to its present programs, together with the expansion of operations under the feed concentrates activity and the development of new, more innovative marketing projects especially in the integrated rural development areas, will place strains upon CECORA's present personnel capabilities. As noted in Section I, C, 1, with grant-financing provided under the proposed UCONAL grant, CECORA will be able to increase its staff strength and capabilities in the promotion of marketing cooperatives and marketing training courses. To undertake the strong, directed promotional effort required by the program of developing new, innovative marketing projects, CECORA must expand its current project development and analysis staff. Although the full extent of additional staff to be required is not precisely known, at a minimum an additional full-time marketing-agribusiness expert in project promotion and development will be needed. Also, the regular use of short-term consultants, e.g., for developing recommendations on quality control procedures, packaging, product adaptation, development of a marketing information network for specific products, etc., is contemplated. After some actual experience with this effort, CECORA may decide to add a full-time expert in one or more of these or similar fields if their services prove to be in demand by the membership.

CECORA's first step in this institutional strengthening would be to hire the agribusiness-marketing expert who will play a major role in planning the entire project promotion efforts over the three-year period. As those plans are refined and approved by CECORA, more precise data on additional staffing required will become clear.

As noted in Section I, C, 1, revenues to finance this effort are to be derived from a portion of the earnings CECORA will receive from the expanded feed concentrates activity to be financed with the proposed 9% loan from Financiacoop.

c. Other Coop Federations

As indicated in Section I, the institutional structure of the cooperative movement in Colombia is rather complex. This section describes the federations, quasi-federations, and similar organizations, which, though not central to the project, play an important role in the cooperative movement or in the rural sector. The first two of these, the Caja Popular Cooperativa de Boyacá, and Coopcentral, may receive substantial funds under the loan. Four other federations (ASCOOP, FENACOOR, FEDETENZA, and ASOCREDITO) will probably receive only smaller amounts of loan funds because of their small size or organizational weakness. A section is also included on Coffee Federation cooperatives, which, because they are largely representative of middle-class farmers, can be expected to receive little or no credit under the program.

Caja Popular Cooperativa de Boyacá

The Caja Popular Cooperativa de Boyacá is the single largest cooperative in the country, and in many respects acts as a cooperative federation. It was founded in 1949, and operated during its first fifteen years in close relation to the Catholic Church. In 1965, when it began to assume a much more commercial orientation, the cooperative had 10,000 members and very little capitalization. In the ensuing decade, it has grown to an organization with 45,000 members and 55 agencies in the largely small farm departments of Boyacá, Cundinamarca, and Santander. In addition, it operates some 14 agricultural supply stores in rural areas.

Slightly less than half of the members of this cooperative are farmers, with most of the rest being workers, businessmen, and teachers. The Caja operates as the only banking entity in the community in some rural areas, and operates large checking and savings account departments. The checking and savings services are used extensively by non-members, and the service provides the principal means by which funds are obtained for loans to coop members. The Caja currently pays 18% interest on sight savings accounts and up to 24% on time deposits. Table XXIII indicates the balance sheet of the entity for the 1972-74 period.

The Caja's loan portfolio at the end of 1974 was 107 million pesos, and the average size of loan made in 1974 was 8,200 pesos ($310). Table XXIV gives the distribution of the 104.5 million pesos in new loans

TABLE XXIII

Balance Sheet, 1972-74

Caja Popular Cooperativa de Boyacá
(Millions of Pesos)

Assets	1972	1973	1974
Loans	57.3	74.2	107.0
Other Current	25.6	33.2	43.0
Fixed Assets	7.2	12.2	16.7
Deferred Assets	0.3	0.6	0.1
Other	0.5	0.7	6.3
Total	90.7	120.9	173.2
Liabilities			
Current	66.8	88.4	115.8
Medium-Term	-	-	20.2
Long-Term	0.4	-	-
Total	67.2	88.4	136.0
Capital and Reserves			
Capital	14.5	18.6	25.0
Reserves	5.3	10.2	6.1
Current Surplus	3.4	3.7	5.3
Total	23.2	32.5	36.4

TABLE XXIV

Loans by Use, 1974

Caja Popular Cooperativa de Boyacá

(Millions of Pesos)

Activity	Amount	%
Agriculture	67.2	64.3
Housing	12.5	12.0
Commerce	9.1	8.7
Small Industry	4.4	4.2
Transport	1.7	1.6
Education	1.4	1.3
Consumption	3.1	2.9
Other	5.3	5.0
Total	104.5	100.0

made in 1974. About 65% of all new loans were for agriculture, with housing and commerce following in importance. The lending activity was almost entirely the result of use of internally-generated funds, though small amounts were borrowed from Financiacoop, the Banco Popular, and the Corporacion Financiera Popular. The institution currently charges 2% per month on the outstanding balance for loans. It provides some supervision of its agricultural loans through periodic visits to the farm of the borrowers. The Caja reports that its overdue loans represent about 1% of its portfolio, and that it has had very little difficulty in the past with loan defaults. The institution has shown a profit in every year since 1963.

The Caja Popular has been a very dynamic organization, and sees itself as an important mechanism for reaching small farmers with supplies, credit, and technical assistance. Its activities in agricultural supplies began only in 1973, but it sold 5 million pesos in such products during 1974. In conjunction with its farm stores, the Caja also rents agricultural machinery and provides transportation of agricultural products for its members. It reached approximately 8,000 borrowers with its agricultural loans in 1974.

Coopcentral

Coopcentral is a regional federation of cooperatives in the San Gil area of Santander, an area with large numbers of small farmers and a long history of active cooperativism. Most of the cooperatives affiliated with Coopcentral are also affiliated with UCONAL, but its membership includes some unaffiliated cooperatives, and a number of other entities (parishes and local action groups) that are not cooperatives. Coopcentral has been closely associated with the Catholic Church in the area, with the motive force behind the entity being a Catholic priest. It has been in existence since 1964.

Coopcentral provides training and accounting services for its member cooperatives, in addition to limited credit. Most of the UCONAL affiliates in the San Gil area use Coopcentral rather than the closest UCONAL regional office (in Bucaramanga, some five hours away) because of the higher level of service that Coopcentral can provide. A 1974 balance sheet and profit statement for the federation is shown as Table XXV. Its

TABLE XXV

FINANCIAL STATEMENTS, COOPCENTRAL

Balance Sheet, Dec. 31, 1974

(Thousand Pesos)

ASSETS	4,460
Cash and Banks	275
Loans	2,753
Accounts Receivable	265
Investments	873
Fixed	257
Other	37

LIABILITIES	2,392
Loans	1,022
Deposits	1,352
Other	18
CAPITAL AND RESERVES	2,06
Paid Capital	74
Reserves	1,32

PROFIT STATEMENT, 1974
(Thousand Pesos)

INCOME	368
Interest	280
Quotas	34
Other	54
EXPENDITURES	261
Personnel	101
Interest	94
Administration	66
Surplus	107

loan portfolio at the end of the year totalled 2.7 million pesos, and the organization had an operating surplus for the year. The federation indicat that the repayment record on loans is quite good, and that loans in default currently represent about 2.4% of its portfolio, for which it has set aside adequate reserves.

A grant program between Catholic Relief Services (CRS), Coopcentral, and a related Catholic Church organization, SEPAS, is curr under review by AID. This project would provide a considerable amount c technical assistance to coop members, as well as some equipment for the federation.

Fenacoor

The National Federation of Rural Cooperatives (Fenacoor) is a federation of rural marketing cooperatives that represents the reorganized form of a federation called UCOPAN. UCOPAN was created in 1965 with assistance from UCONAL and the Ministry of Agriculture, as a federation of small farmer cooperatives to supply fertilizer and tools to its member cooperatives. It apparently worked well initially, but eventually began to lose money due to poor management. It later operated as a brokering agency for fish, rice, and panela, going into liquidation in 1973 after losing about 300,000 pesos in this business.

Fenacoor now has some 15 member cooperatives with about 8,000 members, including 8 urban consumer cooperatives, 5 rural savings and credit coops, and 2 agricultural supply coops. The entity is being reorganized administratively with assistance from CENCOA, financed by the Institute for International Solidarity, an entity of the German Konrad Adenauer Foundation. The IIS has hopes that the combination of the assistance from CENCOA, a small grant, and assistance in the creation of 3 mobile teams to assist member cooperatives will be enough to restructure Fenacoor into a strong organization.

Fedetenza and Asocredito

The Federation of Cooperatives of the Tenza Valley (Fedetenza) and the Colombian Association of Credit Cooperatives (Asocredito) are the remaining two cooperative entities currently operating in rural areas in

Colombia. Both are small (600 and 7,000 members, respectively) and regional. The Fedetenza operates only in the Tenza Valley of Boyacá, and Asocredito operates only in the Rio Negro Valley of Antioquia. These are the only two entities with which the Mission has not had direct contact during the preparation of this paper, so our information on them is not complete. (The Mission does expect to visit them, however, during the next month or so.)

Ascoop

The Colombian Cooperative Association (Ascoop) is the principal federation of consumer cooperatives in Colombia, with some 120 cooperatives and 120,000 members. While principally involved with consumer cooperatives, the organization actually includes as members cooperatives of all types and federations of cooperatives, but the principal acrivity of its affiliates is marketing of food and consumer durables. Ascoop members are heavily urban, with only six of its affiliates identifiable as rural. Ascoop may move more heavily into small farmer rural coops in the future, however, and would be eligible for credit under the program.

Coffee Federation Cooperatives

Some 43 rural cooperatives with 90,000 members are active in the purchase of coffee, and are responsible for the marketing of the majority of the Colombian coffee crop. These cooperatives are quite strong, having been supported extensively by the Coffee Federation, and many have branched into a wide range of activities. We expect these cooperatives, however, to be quite marginal to the current project for several reasons: their operation is most importantly related to coffee production, which is adequately financed; they operate primarily outside of the priority areas for integrated rural development; and large numbers of their members appear to be outside the target group because of higher levels of income. Consequently, while they are not ineligible for involvement in the program, the expectation is that they will play little, if any, role. This statement would also apply to federations, such as CENCOA, which represent a subset of these cooperatives.

d. Cooperative Educational Institutions

In addition to the cooperative technical assistance and training carried out by the principal cooperative federations, there exist several specialized entities that provide broad based technical or educational support for the cooperative movement. Of these, only three appear to have any impact on the rural area. The first two -- INDESCO and SENA -- can be expected to provide training and technical assistance to the rural coops that receive credit under the loan, though neither will receive loan funds directly. A brief description of these institutions follows:

INDESCO

The Cooperative University (INDESCO) was established as a college level academic institution in 1960 by the principal cooperatives and federations of the country. It was conceived as an institution to provide: (a) trained high level professionals for the movement; (b) academic research into the movement; and (c) short courses and short term training for the country's cooperatives. INDESCO currently functions principally as a normal university. It has fully accredited status, with six regional branches and about 900 students, offering courses in economics, sociology, administration, and education.

In addition to the academic program, INDESCO has organized and conducted extension courses and seminars, sometimes on its own initiative, sometimes at the request of a cooperative or federation. In 1972, INDESCO conducted 198 short courses for 4,324 students on a variety of topics of interest to the cooperative movement (22 of these seminars dealt directly with rural coops). It also conducted 48 seminars with 1,500 participants in the same year.

Finally, INDESCO has carried out basic and applied research projects, as well as technical and feasibility studies (usually on a fee basis). Some of this work has dealt with rural cooperatives. The university publishes a quarterly journal, which generally includes some of the research activity.

Financial support for INDESCO comes from the government budget, grants from the cooperative movement, and support from the German Institute for International Solidarity (IIS). Its Board of Directors is made up entirely of representatives of the cooperative movement, with one representative each from UCONAL, ASCOOP, CECORA, and FENACOOR.

There is a considerable feeling within the cooperative movement that INDESCO has moved considerably away from its original objectives during the past several years. The academic content has moved away from cooperativism, and most of the graduates appear to take jobs outside the movement. In its research and train ing, it has tended to take an ideological position as critic of the cooperative movement, rather than its servant. As a result, the involvement of INDESCO in activities with individual coops and federations has declined drastically over the past two years.

At the time of this writing, INDESCO was going through a major institutional crisis, largely as a result of the disagreement between the university and the movement on its goals. The IIS has suspended its financial support, and the university is currently occupied by the students. The Board of Directors has replaced the university president, but the occupying students have not allowed him to take possession, so that the former president continues to operate the institution. It is expected that this crisis will be resolved during the next month or so, either with a change in university leadership, or a complete break between the university and the cooperative movement.

SENA

The National Apprenticeship Service (SENA) provides two classes of assistance to the cooperative movement -- long term training, short courses and seminars, and administrative assistance. The long term training is provided for high level cooperative officials (coop manag ers and federation officials) at a rural cooperative training center in Armenia. The course includes 12 months of training, and is provided with technical assistance from the Israeli Government. Currently, 24 students are being trained per semester.

Shorter courses are offered by 44 SENA centers, distributed around the country. In general, these courses are offered in response to requests for such training by individual cooperatives, or contracted for by federations for their members. The courses range from cooperative philosophy to technical courses for accountants and managers. The third area of operation of SENA is in technical assistance to rural cooperatives. Each SENA center has one cooperative professional (who has received the course in Armenia), and one or more assistants, who are responsible for providing technical assistance to cooperatives in their region. The SENA personnel sometimes respond to requests from cooperatives, but generally make unsolicited visits to all of the cooperatives in their region to determine their problems and offer assistance in solving them. Based on this activity, SENA enters into longer term assistance programs (usually three to six months) with selected cooperatives. Current capacity of the institute for this longer term assistance is about one hundred cooperatives per year.

The cooperative movement is generally pleased with the quality of assistance received from SENA, and its services are used extensively by all major federations.

e. Campesino Training Institutes

There are seven or more institutes in Colombia, mostly church sponsored, for training rural youth or adults to assume responsibility in their communities. Acción Cultural Popular (ACPO) has three of these institutes. The diocese of San Gil, Santander, has two. The agrarian affiliate of a major labor federation, FANAL, operates a campesino training center near Fusagasugá. Finally, the Jesuits operate what is known as the "Universidad Campesina" near Buga, Valle, which offers a secondary school curriculum focusing on rural leadership. Another church related training institute is located on the Pacific Coast near Buenaventura.

Although these institutions have common objectives, broadly speaking, they vary greatly in specifics and in their closeness to the formal cooperative movement. The Universidad Campesina, for example, concentrated on the 15-18 year age group, and tries to place its graduates with rural development agencies. The Santander Institutes assume that most of their trainees will return to their regular occupations. FANAL concentrates on organization or rural workers. The degree of instruction relating to rural cooperaive establishment varies from institute to institute, but it appears to be treated to some extent in each.

B. The Policy Environment

1. GOC Policies on Credit Allocation and Interest Rates

a. Current Allocation of Credit

The aggregate banking system credit situation is summarized in Table XXVI. Agricultural credit represented 11.1 billion pesos (about

TABLE XXVI

BANK CREDIT, COLOMBIA

LOAN OUTSTANDING, DECEMBER 31, 1973

(Millions of Pesos)

TOTAL BANK CREDIT	40,059
AGRICULTURAL CREDIT	11,124
AGRICULTURAL CREDIT SHARE	27.8%

BANK AGRICULTURAL CREDIT, BY USE AND INSTITUTION
(Millions of Pesos)

USE	Caja Agraria	Commercial Banks	Total
COFFEE	478	318	796
CATTLE	3,365	2,027	5,392
CROPS	3,199	1,737	4,936
TOTAL	7,042	4,082	11,124

Source: Revista, Banco de la República, and Informe de Gerencia, Caja Agraria

$445 million), or about 28% of all banking system credit at the end of 1973. Since the importance of the agricultural sector in Gross Domestic Product in the same year was 28.7%, the agricultural sector received an amount of credit about proportional to its importance in production. Since the output of the agricultural sector was 67.9 billion pesos in 1973, credit financed some 17.2% of the output. Nevertheless, this average figure appears to cover substantial variations within the sector. In particular, animal production is financed much more heavily (24% versus 14%) than crop agriculture. Similarly, though adequate data is not available to confirm this, some crops appear to receive relatively much more financing than others. Coffee production appears to be well financed, as are the bulk of the commercial crops (cotton, sugar, and rice), but the principal crops grown by small farmers, other than coffee, are not. Even leaving aside the variations within the sector, however, the average amount of credit per unit of output is rather small by international standards, and suggests that an increase in working capital per unit of output may be desirable. To the extent that small farmer crops are financed to a smaller extent than the overall average, this conclusion is reinforced. In addition, as discussed below, a limited survey done as a part of the agricultural sector analysis suggests that this conclusion is indeed correct, and that additional credit for the sector -- especially in the case of small farmers -- would have a high productivity.

The distribution of credit by banking entity is also indicated in Table XXVI. As indicated, the government agricultural bank, the Caja Agraria, is responsible for about two-thirds of the crop loans outside coffee. Lending to small farmers is even more concentrated in the Caja, and it is estimated that about 90% of the small farmer lending for crops other than coffee goes through the Caja Agraria.

Table XXVII summarized the activity of the Caja Agraria in agricultural credit by assets of the borrowers. Given the dominance of the Caja in the area of small farmers and the lack of data for other banking entities, the data in the Table can be considered representative of all banking system activity in the small farmer area.

It is difficult to relate the Caja classification, which is by amount of capital, to the size distribution of Colombian farms, shown in Table XXVIII. The best that can be said is that the Caja reached about 35% of the farms in the country with its credit in 1973. Additionally, it

TABLE XXVII

CAJA AGRARIA LENDING ACTIVITY

ASSETS OF BORROWER	NUMBER OF BORROWERS (Thousands) 1971	1972	1973	(Million Pesos) Amount Loaned 1973
0-50,000	213	212	191	881
50-100.000	72	83	91	661
100-200,000	42	51	61	705
200-300,000	16	20	24	417
300-500,000	10	10	16	406
Sub-Total Small Farmers	353	376	382	3.071
Medium and Large Farmers	15	21	28	2,613
Total	368	397	410	5,684

Source: Informe de Gerencia, Caja Agraria, 1971-73

TABLE XXVIII

NUMBER OF FARMS BY SIZE, 1970

SIZE (Hectares)	NUMBER
0-1	268,705
1-5	431,5[illegible]0
5-10	159,659
10-20	117,863
20-50	100,010
50-200	74,316
200-1000	21,271
1000-2500	2,363
Over 2500	1,104
	1,176,811

Source: DANE 1970 Agricultural Census

is expected that the coverage of the Caja is much more complete among medium and large farmers than it is among small farmers. In the absence of actual data, however, and in order to obtain a conservative estimate of potential credit demand among small farmers, let us assume that the Caja Agraria currently reaches half of the small farmers by its definition. If we can assume that credit needs of the other half of the small farmers are equal to those of the half that borrow (this seems safe, since a frequent complaint of actual borrowers is that they are allowed to borrow only a fraction of production costs), this would suggest an unfilled demand on the order of 3 billion pesos in 1973, or the equivalent of $120 million. Given the magnitude of this figure and the fact that it should represent a conservative estimate, we can conclude that there is a very large potential demand for credit among the small farm sector -- that the banking system is not currently filling.

There are two principal sources of credit outside the banking system, in addition to informal channels and moneylenders -- INCORA and the cooperative movement. INCORA has operated an agricultural credit program for recipients of land under the government's land reform programs for a number of years, and has a loan portfolio in the neighborhood of 300 million pesos. The loan portfolio of the small farmer cooperative movement appears to be of approximately the same magnitude, as indicated by Table XXIX. In reality, much of the cooperative credit represents internal generation of funds by members of the cooperative themselves (i.e., the lending to a coop member of his own or another member's savings).

b. Interest Rate Policy and Inflation

Colombia has a long history of moderate-to-serious inflation. During the past twenty years (since a national consumer price index was constructed) the average annual rate of inflation has been 12.0%. Seldom, however, has the actual rate been close to this average. Rather, relatively long periods of relative price stability have alternated with periods of rapid inflation. In twelve of the twenty years since the index was constructed, the rise in consumer prices has been below 10% -- usually between 6% and 9%. In four years, the rise has been between 10% and 15%, and in four years the rise has been above 20%. Table XXX summarizes this data.

TABLE XXIX

LOAN PORTFOLIO, BY AFFILIATION

SMALL-FARMER COOPERATIVES

AFFILIATION	12/31/74 LOAN PORTFOLIO (Million Pesos)
UCONAL	70
CAJA POPULAR	108
ASOCREDITO	12
ASCOOP	25
FEDECAFE	70
OTHER AND UNAFFILIATED (Estimated)	100
	385

Source: Reports from COOP Federations and Mission Estimates

TABLE XXX

Annual Cost of Living Increases

Colombia, 1955-74

Year	Cost of Living 1/ Index December	Increase in Cost of Living (%)
1954	100.0	
1955	102.1	2.1
1956	110.1	7.8
1957	132.4	20.2
1958	143.1	8.5
1959	154.4	7.9
1960	165.6	7.3
1961	175.3	5.9
1962	186.5	6.4
1963	247.5	32.7
1964	269.6	8.9
1965	308.7	14.5
1966	348.8	13.0
1967	374.1	7.2
1968	398.7	6.6
1969	433.0	8.6
1970	462.2	6.7
1971	525.4	13.7
1972	599,0	14.0
1973	740.2	23.6
1974	933.2	26.2

1/ Index is simple average of workers and employees indices.

SOURCE: Dane

In general, the Colombian economy has suffered periods of rapid inflation, but such periods have in the past been followed by successful efforts to reduce the inflation rate through austerity and stabilization.

The above observations may help put into perspective the current inflationary problems. The last two years have been a period of rapid inflation but government policy currently has stabilization of the economy as its principal goal. In fact, some international observers have suggested that current policy is "excessively orthodox" that it may reflect a willingness to pay too great a price in terms of unemployment in order to slow the inflation. Since the Lopez Government took office last August, a concerted policy of monetary and fiscal restraint has been undertaken, which has led directly to some slowdown in the economy. Some measures taken by the government, such as increases in sales tax rates and elimination of a major subsidy to the price of wheat, have had an immediate upward impact on the cost of living, but should serve over the longer term to slow the inflation. Given these factors, as well as the lags inherent in monetary policy, the stabilization policy has as yet not had a major impact (the rise in the cost of living during the traditionally bad first-quarter was 7.4%, compared with 8.7% in 1974). Nevertheless, a significant reduction in the rate of inflation should be clearly evident by June or July. From that time the annual rate of inflation should be down to a more respectable 15%, and -- assuming continuation of an austere monetary policy -- declining. The additional factor of the one remaining "political" price -- that of petroleum -- should, however, be mentioned. The government appears to have committed itself to a substantial rise in this price, and current expectations are that it will do so as soon as definite progress against inflation seems visible. This price rise should cause another jump in consumer prices even though the contractionary monetary impact of the price rise makes it basically an anti-inflationary measure.

The policy of the government with respect to interest rates has been somewhat complex. In part, it has attempted to allow interest rates to rise to market-determined levels. The allowable interest rate on savings deposits, which was raised from 4% to 8 1/2% in 1972, was raised last October to 12% and more recently to 16%. On large-scale certificates of deposit, commercial banks now pay around 24%, and lend the funds acquired at rates of 30% or more. Nevertheless, the government has also limited the annual correction of inflation-adjusted savings deposits (UPACs) to 20%, thus reducing their yield. Similarly, though the GOC has talked frequently about issuance of government paper with a market-determined interest rate, it has yet to do so. Furthermore, credit for the principal lines of productive activity continues to be lent at below-market rates, with the resources for the lending provided by rediscounts from the central bank. (The Colombian credit system operates with very high commercial bank reserve requirements and large rediscounts, while the U.S. banking system operates basically in the contrary fashion). Most agricultural credit continues to be lent at rates of 14% and 15%, although there is a great multiciplicity of rates, based on differences in maturities, types of crop financed, and size of borrower. The current hope of the government with respect to the raising of real interest rates on production credit seems to lie mainly on the side of reducing the rate of inflation.

Interest rates charged by rural cooperatives are currently 18% in most cases. Generally, this reflects an increase over the past two years from the 12% that was charged previously. (Actually, the legal maximum interest rate that can be charged by cooperatives is 12%. This rate is charged, plus a 6% "administration fee.") A few cooperatives may still be charging 12%, and a few have moved their rates up to 24%. UCONAL has encouraged its affiliates to raise rates to 24%, but 18% continues to reflect the general consensus of the movement.

The question of interest rates on savings deposits is rather complicated, in that no general treatment of such deposits exists. Many cooperatives pay no interest, but declare annual dividends based on the surplus generated by the cooperative. This procedure is similar to that of the U.S. credit unionmovement. Other cooperatives distinguish between a member's capital (i.e., shareholding) in the cooperative and discretionary deposits. Discretionary deposits are paid interest based on a fixed rate (generally between 8% and 12%), while dividends are paid on the capital. Some cooperatives have expressed concern that the recent increase in savings rates by the banking system to 16% may have an adverse impact on cooperative savings, but there appears to be no concensus as to whether cooperatives should raise their rates to match the banking system.

The Mission, and the leadership of the cooperative movement, are committed to the use of interest rates that are positive in real terms for cooperative lending, both under the project and in general. Unless such a policy is maintained, there is a danger that financing will be obtained for projects that are economically unfeasible, and that will collapse once the subsidy element is removed. In the area of cooperatives, this lesson concerning subsidy elements is quite clear from the experience of the CECORA feedgrains project. As indicated by the discussion above, however, there is some difficulty involved in putting this principle into practice.

In addition, there exists the problem of the interest rates charged by the Caja Agraria, the country's principal agricultural bank, of 14% and 15%.

Our expectation is that inflation rates during the life of the project will be 15% or less, so that the current rate charged by cooperatives will meet our real interest rate criterion. Should higher rates of inflation continue, we will require that interest rates to the final borrower either be raised to reflect this or be maintained at a higher level than that charged by the Caja Agraria (i.e., cooperatives will be required to raise their interest rates unless the Caja does not do so).

The question of interest rates on member deposits is a somewhat more difficult question. In principle, AID should have no involvement in this interest rate, since the savings are those of the coop members themselves, and they set the rules concerning the rate of interest to be paid on such deposits. Nevertheless, the idea of cooperative members' savings being decapitalized because of negative interest rates in real terms of such savings is not pleasing and, in any event, there is a considerable empirical basis for asserting that saving in general is encouraged by high interest rates.

Given the above situation, we propose only to use occasional discussions with coop officials at the federation level as a method of suggesting the possible advantages of high interest rates on member deposits.

2. <u>Agricultural Pricing, Marketing, and Taxation Policies</u>

In general, government policy towards the agricultural sector has been to let the market determine prices. There are several exceptions to this rule -- most importantly, milk and sugar -- but most commodity prices are the result of the interplay of competitive forces. Similarly, the government conceives of its role in marketing currently as one principally involving the maintenance of market-regulating stocks of commodities, and not of active intervention in the marketing system. Finally, government taxation policy for the sector -- except in the case of coffee -- does not operate in any fashion to restrict production. The personal income tax is the principal vehicle for tax collection in the country, and does not operate in any discriminatory fashion against agriculture. In addition, the government is in the process of implementing a presumptive income tax for the agricultural sector, which, though taxing the sector more heavily, should have desirable incentive effects on production.

In summary, then, there appear to be no issue in the area of agricultural pricing marketing or taxation that would serve to create policy issues regarding the economic feasibility of the current project. Government policy towards the sector has been market oriented in the past and the expectation is that, if anything, it will become more so in the future.

C. Economic and Social Analysis

1. Rural Credit Demand

The proposed loan would provide $6.125 million to the small farmer cooperative movement, or about 180 million pesos. Since current loan levels to small farms from the banking system are about 3 billion pesos, and loan portfolios of rural cooperatives are about 300 million pesos (see Section II B), this sum is small in relation to the potential demand by small farmers for production credit, but it is quite large in relation to the current loan level of existing cooperatives. Whether or not the cooperative movement can distribute such a large amount of additional credit will be considered in two parts -- UCONAL, and other cooperatives. In the case of non-UCONAL cooperatives, excluding the coffee cooperatives, the additional credit represents an expected 60% of the loan and counterpart, or about 110 million pesos. This figure would represent an increase of about 50% in their lending operations which, while large, is not excessively so. The experience of the Mission in its field visits during intensive review (about 25 rural cooperatives were visited) was that an increase in lending on the order of 40% to 50% would be quite easy. Managers of coops visited generally indicated that credit was currently rationed in the cooperative, and that increased external credit would serve to meet existing requirements. The procedures for credit allocation varied from cooperative to cooperative, but usually involved some reduction in the size of loan, limitations of loans to some multiple of capital, or waiting periods either for loan eligibility or for loans not related to immediate needs. In essence, an increase of close to this magnitude might result from simply dealing with repressed demand. In addition, however, the existence of a significantly increased amount of external resources is expected to stimulate additional membership, and consequently additional demand. Furthermore, rural cooperative managers frequently talked of projects involving specific crops or products that the cooperative would like to undertake if credit for the project could be obtained. While such projects would generally require technical assistance from a federation or from SENA before it would be ready for external financing, such projects do represent a potential demand for the funds. In conclusion, then, it appears that there is currently substantial excess demand for credit through these cooperatives, and that there will be no difficulty in disbursing the funds.

UCONAL, however, represents a special problem. It seems quite possible that UCONAL will receive funds under an AID/COLAC loan, and accordingly might receive AID funds from two sources. Our projections assume that UCONAL will receive \$2.0 million from the COLAC loan, and 30% (\$1.8 million) of the funds provided through Financiacoop under the current project. This total represents about 50% more than the current loan portfolio of the UCONAL rural cooperatives, so there is an obvious question as to the ability of UCONAL cooperatives to absorb such an increase in lending. However, it is our judgment that, while the \$3.8 million being projected for use by UCONAL may represent a close to an upper limit of absorbative capacity, it does not exceed that capacity. UCONAL has presented to AID a request for \$2.5 million based entirely upon expected demand from integrated production credit cooperatives to be created under the grant project. In large part, these integrated rural production cooperatives will be restructured savings and credit cooperatives currently affiliated with UCONAL. In addition, however, UCONAL has programmed the creation of 130 new savings and credit cooperatives within three years with [illegible]0,000 members, whose credit needs are not included in the request. The credit requirements of these cooperatives could absorb the additional funds without any great difficulty.

There is an additional point that should be noted with respect to the proposed COLAC loan, however. In addition to the fact that the COLAC loan is as we understand programmed for authorization during FY 1976, there appears to be a significant question concerning the speed with which the COLAC loan can be used by UCONAL. Foreign borrowing by the private sector is administratively controlled by the Bank of the Republic. We have been informed by UCONAL that their request to the Bank of Republic for approval of a foreign loan from COLAC was recently rejected. Consequently, there may be a fairly long period of negotiations necessary before a satisfactory agreement can be reached with the Bank of the Republic, and consequently lag that may be as long as a year between the beginning of disbursement of this loan to UCONAL and that of the COLAC loan, with the result that the COLAC loan could act in part as a follow-on to this loan. Finally, it should be noted that the above discussion has been based on the assumption that both loans would serve only the small farmer production-credit portion of UCONAL's activities. To the extent that the COLAC loan serves other parts of the federation's activities, it would not compete with the current loan at all.

2. <u>Economic Feasibility</u>

There are no fully satisfactory studies of the impact of additional credit on production and income for small farmers in Colombia. A survey taken in 1973 may provide some results in the next year or so concerning the question, but we are left at the present with only partial data on which to base our conclusions. Nevertheless, these results are so impressive in terms of the importance of additional credit on increased production, that even a very conservative interpretation of the results suggests credit as a major bottleneck to increased production.

There are basically three studies that bear on the question. All three work from the same data base (a survey of 2,900 farmers in the INCORA supervised credit program taken in 1969), so that their results are not really independent, even though each study deals with different questions. The first of the three, by Whitaker and Riordan,[2] investigated the importance of additional credit on corn production among INCORA recipients. The con-

2/ Morris Whitaker and James Riordan, "Supervised Credit: Its Impact on Profits Production, Factor Use, Technical Change and Efficiency of Resource Allocation in Corn Production in Colombian Agriculture," 1973 (Mimed.

clusion emerged that additional credit was an important determinant of improved technology and, consequently, increased production of corn. The additional credit also resulted in more intensive cultivation, thus generating employment. In quantitative terms, the researchers found that one additional peso of credit generated between .7 and 1.2 additional pesos of net income to the farmer. This is a very impressive result, implying a rate of return, after loan repayment, of 70% to 120%.

The second study, by Schwinden and Fiester,[3/] was done for the 1973 AID Spring Review of Agricultural Credit. The report contains no easily quantifiable data on the overall productivity of additional credit, but it does conclude that the INCORA supervised credit program had a significant impact on improving productivity and income for small farmers.

The final study, by Wayne Thirsk,[4/] concludes that the marginal value product (i.e., the value of additional production from one unit of additional input) for additional intermediate inputs is between 1.1 and 1.5. Thus, to the extent that additional credit is responsible for additional intermediate inputs (a link established in the Whitaker-Riordan study), it is very productive. In addition, Thirsk found that credit productivity is higher on small farms than large farms, and that, consequently, more credit should be allocated to small farms.

It is generally assumed in Colombia and other developing countries that the incremental capital output ratio is on the order of 3. The Thirsk figure on marginal value product suggests that it is probably below one for small farmer agriculture, implying that additional capital can be used much more productively in small farm agriculture than in the economy as a whole. In addition, he found that this productivity was much higher on small farms than on large ones, so that the current credit system effectively allocates too little credit to small farms.

Taken together, the three studies would suggest that, very conservatively, we can justify the assumption that the average subloan will have a real rate of return after repayment of 15% per year. In terms of income to the farmer, this would mean that his net annual income would increase by $37.50 by subloan under the project of $250. By the end of the loan, the

3/ James Schwinden and Gerald Fiester, "The INCORA Supervised Credit Program," AID Spring Review of Small Farmer Credit, Volume V, 1973.

4/ Wayne Thirsk, "Rural Credit and Income Distribution in Colombia," Rice University Development Studies Paper #51, 1974.

$7 million production credit activity should be generating this average of $37.50 for a total of 28,000 farmers, for a total of $1.05 million per year in increased net income to small farmers. The increase in production will, of course, be somewhat higher than this, since part of the value of increased production will be used to pay the interest on the loan. The increased net income is more difficult to relate to the actual income of the farmer receiving the credit, since we have no definitive information on the actual average net income of the expected borrowers under the program. Nevertheless, we can assume that a figure of $400 is reasonable for this, and thus note that the average expected increase in net income to the participating farmer would be somewhat above 9% per year.

As indicated in the section on evaluation, the loan will include an evaluation activity that will attempt to measure, through a limited survey, the actual impact of the loan on the net incomes of the borrowers. Consequently, we will have a basis for determining the validity of our assumptions concerning the returns to the farmers participating in the project.

In terms of increased agricultural output, the project is expected to lead, by the end of the project to an annual increase in agricultural production of $1.26 million. This total is small in terms of the Colombian agricultural sector, and even so in terms of the small farm subsector. It is expected that the increased production will occur in the broad range of small farmer crops, and not represent a very large part of the output of any of them. Consequently, no significant problems of price inelasticities or marketing problem should arise.

3. Social Considerations

The proposed loan fits very closely with the Agency policy of promoting democratic institutions and self-help efforts. It seems clear that the cooperative movement in Colombia in general is very democratically organized and has, especially in the case of small farmer cooperatives, the effective participation of its members. A Mission representative attended the first of this year's regional assemblies of UCONAL and was quite impressed by the extent of popular participation in decision-making and policy direction. Similarly, visits to individual cooperatives composed of small farmers revealed the same spirit of cooperation and joint decision-making. The members often expressed unhappiness with the quality of service provided by government-run rural entities, and a feeling that such organizations had little interest in the small farmer. In many cases, this feeling had clearly had the creative impact of establishing a spirit of cooperative organization as the only way to improve their economic and social status. In addition to providing a means for pooling resources and interchanging ideas about how to increase agricultural production of the members, the cooperatives have often been the means for organizing people to carry out public works on a volunteer basis.

It is our judgment that this self-help aspect of the cooperative movement in Colombia is quite significant. As indicated in the Background Section, the small farm cooperative movement, except for CECORA and the Coffee Federation cooperatives, has received almost no outside assistance since the founding of the movement. Consequently, the rapid growth of the movement can only be adequately explained by the conclusion that the members derive some meaningful benefits from their mutual cooperation.

4. Marketing Constraints and Linkage Effects

As indicated in the economic feasibility analysis, the expected production increases resulting from the project, while significant, will still be small relative to the agricultural sector as a whole in Colombia (aggregate production of the sector during 1973 was $2.5 billion), so that major marketing bottlenecks should not develop. Nevertheless, the fact that most of the credit under the program will be concentrated in certain small farm areas of the country could create marketing problems, however, for some crops in some areas. In these cases, however, the concentration of credit from this project will be included within the areas of concentration of GOC activity in promotion of agricultural development. As the program develops, the effect of the GOC integrated rural development projects can be expected to support and reinforce the efforts of the cooperatives to improve the economic situation of their members. This reinforcement should take the form of a gradual improvement in the economic environment in small farmer areas, taking the form of improved road, improved marketing channels, and increased availability of agricultural inputs. The establishment of the Cooperatives Committee under the loan will ensure that actual coordination between this project and the integrated rural development program actually does take place, and consequently that the project is properly linked with other activities to gain the maximum positive benefits from mutual reinforcement.

5. Potential Employment Impact

As indicated in the section on economic analysis, the project is expected to have a positive impact on rural employment. Given lack of working capital as the principal constraint to more intensive cultivation of land on small plots, the additional credit will enable the recipients to work his land more intensively -- using both more labor and more intermediate inputs of other types. The quantitative magnitude of this employment increase cannot currently be estimated, since data on the crops that will be grown with the loan funds and the extent of technology shift that will result are not available. Nevertheless, we can be fairly confident that the project will have a positive impact on rural employment, and that this impact will occur in the areas where the greatest labor surplus currently exists -- the integrated rural development areas, where the bulk of the loan funds will be allocated.

6. Income Distribution Impact

Income distribution in Colombia is quite unequal, though the extent of this inequality is subject to some controversy.

The most satisfactory estimate, however, is available from a recent study by a World Bank consultant, Jean-Pierre Jallade,5/ who adapted the results of several previous studies to get one consistent set of figures. The results of this analysis are shown in Table XXXI. As indicated by the Table, the top 13% of households received half of all income in 1970, while the bottom 19% received 1.9% of the total. In terms of 1970 dollars, the Jallade data would indicate that an income in the neighborhood of $1,000 would separate the bottom half from the top half of the income distribution. (In terms of current dollars, the figure would be around $1,300.) In order to insure that loan funds are used on a more narrowly defined group, however, the maximum net income of borrowers under the program will be limited to no more than $800, in terms of 1975 dollars. This income restriction should

5/ Jean-Pierre Jallade, "Public Expenditures on Education and Income Distribution in Colombia," World Bank Staff Occasional Paper #18, 1974.

TABLE XXXI

INCOME DISTRIBUTION AMONG COLOMBIAN HOUSEHOLDS, 1970

INCOME BRACKET (pesos)*	No. of Households (Thousands)	Total Income (Billion pesos)	Cumulative % of Households	Cumulative % of Income
0-6,000	639.0	1.99	19.0	1.9
6-12,000	679.1	6.18	39.2	7.9
12-24,000	836.0	14.87	64.1	22.4
24-60,000	767.2	28.63	87.0	50.2
60-120,000	294.9	24.66	95.8	74.1
120-240,000	114.6	17.48	99.2	91.1
Over 240,000	25.9	9.12	100.0	100.0
total	3,356.7	102.99		

Source: Jean-Pierre Jallade, Public Expenditures on Education and Income Distribution in Colombia, pp. 22. The actual figures are derived from DANE Encuesta de Hogares #2, McLure "The Incidence of Colombian Taxes", and Córdoba Distribución de Ingresos en Colombia.

*The average exchange rate in 1970 was 17.9 pesos/dollar.

insure that the wealthiest borrowers under the program are still in the poorest 40% of the population. Our expectation, however, is that the average borrower under the program will have an average net income of about half that, or $400 per year. This would place the average borrower just within the bottom 20% of the income distribution. In addition to this income criteria, however, (and in order to help assure its effectiveness) we will also require that borrowers under the program own no more than 10 hectares of land. As indicated in Table XXXII, the existing body of data on the relationship between income and land holdings suggests that the 10 hectare limit operates to give a slightly more narrow result than the income limitation i.e., a net household income below about 10,000 pesos of 1970 compared with a 12,000 peso limit for the income limitation. A study currently being undertaken by the National Planning Department will investigate the feasibility of reducing this 10 hectare limit even further, so it can be considered a maximum figure for relending criteri a, but not a definitive one.

Given the concentration of the loan resources among the poorest 40% of the Colombian population, and its expected positive impact on incomes of this group, the loan should have a definite positive impact on improving the income distribution in Colombia. As indicated above, in the section on economic analysis, the average loan under the program should result in an increase of about 9% in the annual income of the average borrower (who will be in the lowest 20% of the income distribution). Consequently, the loan should have a direct effect on improving the income distribution in Colombia.

TABLE XXXII

AVERAGE INCOME OF PRODUCERS BY FARM SIZE

(1970 Pesos)

FARM SIZE(Has.)	AVERAGE INCOME	Number of Producers
1-2	3,588	117,830
2-3	5,244	112,520
3-4	6,403	84,745
4-5	7,286	56,430
5-10	10,129	159,660
10-20	15,400	117,865
20-30	18,630	48,855
30-40	23,018	30,485
40-50	28,160	20,670
50-100	35,328	47,760
100-200	65,688	26,555
200-500	113,546	16,345
500-1000	282,900	4,930
1000-2000	523,848	2,365
2000 & Over	1,456,452	1,100
TOTAL	16,960	848,115

Source: Number of Producers is based on the 1970 Agricultural Census. Average income figures are derived from Berry "Land Distribution, Income Distribution and the Productive Efficiency of Colombian Agriculture", Yale Economic Growth Center Discussion Paper #108, 1971. The Berry data is for 1960, and has been converted to 1970 pesos (through use of the GDP deflator) to obtain comparability with Table XXXI.

D. Financial Aspects

1. Borrower and Terms

The Borrower of the loan will be the Republic of Colombia represented by the Ministry of Finance. As the entire loan is to finance local costs of the project, AID will disburse pesos purchased on the open market to the Borrower, although the loan will be denominated in dollars for purposes of repayment to AID. The Borrower's repayment terms will be AID's most concessional.

2. The Subloan

The Finance Ministry will relend the pesos it receives from AID to the Cooperative Finance Institute (Financiacoop) at terms of 25 years, including a 5-year grace period, at 7% interest. The loan to Financiacoop will be denominated in pesos. The shorter repayment period, coupled with the 7% interest rate, will allow the Borrower to repay AID with no expected real subsidy to the cooperative movement additional to that implicit in AID loan terms. That is, at an expected average devaluation rate of 9.5% annually (the 25-year average has been just over 10%, although over the last 10 years the rate has been under 8%), the funded repayments by Financiacoop are equal in value to the Borrower's repayments to AID at the time of the final repayment. (See Annex III for a full exposition of this point.) Because of the high cost of lending to small farmers and because of the high benefit to the AID target group, and the project objective of strengthening the cooperative movement, the subsidy implied by AID's most concessional terms is justifiable.

3. Financial Plan

Within Financiacoop the loan project will be implemented in two parts. One part (the marketing activity) up to the peso equivalent of $1.5 million, for CECORA, will be relent for specific projects which satisfy the feasibility and suitability criteria established by the Project Committee and approved by AID. Those funds will be matched on a one-for-one basis -- half from the Bank of the Republic rediscounts at 7%, and half by CECORA's own resources. The subloans to CECORA will be made at 9% with terms dependent on the feasibility studies of the subprojects. Whether CECORA will be required to maintain deposits in Financiacoop equal to 5% of its lending (as borrowing cooperatives are generally required to do) will be subject to further study. CECORA will attempt to acquire a government guarantee for its subloans from Financiacoop.

The second part of the loan (the agricultural credit activity), will be sublent to rural cooperatives. At least 80% of these subloans will be passed through cooperative federations. A total of $7.0 million is involved, of which the AID loan will finance one-half ($3.5 million). The balance will be financed three-eighths by Financiacoop ($1.75 million from Central Bank rediscounts and $875,000 from Financiacoop's internal resources) and one-eighth by the cooperatives ($873,000).

Half of the counterpart for this loan will come from a special rediscount facility in the Central Bank in favor of Financiacoop. That is, the BOR will make an additional credit line available to Financiacoop equal to 50% of its receipt of AID loan funds. That discount line will apply to Financiacoop loans made under the conditions of the marketing activity and credit activity of the project. In consideration of the new Administration's interest in cooperatives, the BOR made a new line of rediscount credit available to Financiacoop equal to 250% of its paid-in capital, principally membership fees and voluntary contributions. The BOR rediscount contribution to the loan is additive to this amount.

Unrestricted access to funds equal to 250% of capital would be an explosive resource base for the cooperative movement. Neither the BOR nor the Superintendency of Cooperatives, which promoted the special discount line, ever foresaw this as an unlimited resource. Indeed, the Mission anticipates that Financiacoop's rediscount facility will be permitted to grow at 250% of its capital growth through the end of 1975, at most. Further expansions of its rediscount facility, additional to the counterpart to the AID loan, will be based on general monetary expansion considerations. In the Financiacoop financial projections we have assumed that after this year, the BOR rediscount facility will be allowed to grow on a one-for-one matching basis with Financiacoop capital. Discussions with DNP and the Monetary Board have confirmed the reasonableness of this projection. It is expected that the absolute level of discount facility achieved by the end of this year (projected to be 289 million pesos) will be maintained and that the future discount rate of 100% of paid-in capital will apply to net future additions to capital.

TABLE XXXIII

PROJECT DISBURSEMENT SCHEDULE
($US 000)

Source	Year 1*	Year 2	Year 3	To
Part I of Loan Project				
AID Loan	1,000	1,500	1,000	3,[illegible]
Financiacoop BOR Discounts	500	750	500	1,[illegible]
Credit Union and federation resources	250	375	250	875
Financiacoop own resources	250	375	250	875
				7,000
PART II of Loan Project				
AID Loan	1,000	500	--	1,500
CECORA's own resources	500	250	--	750
Financiacoop BOR Discounts	500	250	--	750
				3,000
UCONAL Promotion Activity				
AID Grant	200	180	100	480
Superintendency of Coops				
GOC Budget	060	060	060	180
				10,[illegible]

* The Project is expected to begin during the final quarter of 1975, and be completed within three years.

The subloans to federations will be made at 9%, generally for short terms. Financiacoop will add 5% to its subloans which, when repaid, will be credited to the deposits maintained by the Borrower's federation in Financiacoop. Federations in turn will lend to rural cooperatives at 12% for short terms. The interest spread available to federations (approximately $150,000 annually during the first five to ten years of the project) will be used to finance increased services, especially cooperative education, provided by the federations to their members. The spread should also increase the capitalization of federations by increasing retained earnings.

Any direct subloans by Financiacoop to rural cooperatives will be made at 12%, so that the interest rate to the cooperative will be the same whether it has borrowed from a federation or from Financiacoop. Part of the interest spread earned by Financiacoop on these subloans will be earmarked for rural cooperative education, primarily scholarships for rural cooperative leaders' attendance at courses of the cooperative university (INDESCO) or of SENA.

Financiacoop will add 5% to the value of loans to individual cooperatives to be credited to that cooperative's deposits in Financiacoop. In turn, local cooperatives will charge an extra 5% or 10% of subloans as a forced capitalization fee imposed on borrowers, i.e., borrowers will repay 110% of their loans, 10 points of which will be added to their share deposits in the cooperative. Colombian cooperatives have generally had to ration credit among their members through debt-equity ratios which have so far not exceeded 3 to 1. With greater fund availabilities these restrictions will no doubt be relaxed, especially for agricultural production credit.

The rural cooperatives which receive funds either directly from Financiacoop or through federations will receive at least a 6% margin on subloans. (That is, they will charge at least 18% interest on subloans, while some cooperatives will charge up to 24%.) Subloan applications are reviewed by loan committees elected from among cooperative members. Subloans generally require a fiduciary guarantee. A condition of Financiacoop and federation lending to cooperatives will require a maximum sized subloan of US$500 equivalent. The local cooperative will devote at least 2 percentage points of its interest earnings on loans under the project to finance agricultural technical assistance either by hiring its own agronomists or through contracts with ICA.

4. Disbursement Schedule

The disbursement schedule is summarized in Table XXXIII.

5. Financial Projections

The primary immediate benefit for the cooperative movement from the loan project will be an increased level of financial activity. Increased activity will yield increased cooperative profits as it reduces the overhead load. More important, it will stimulate internal capital formation both from increased income and from greater savings by the cooperative members. While it is impossible to predict with confidence the quantity of rural cooperative savings growth which will be stimulated by an infusion of an additional five million dollars to the movement, there is evidence to support the inference of substantial growth. The general worldwide credit union experience supports such a projection. Of more immediate relevance to Colombia, there is the experience of Financiacoop itself in the past several months. Since an additional, attractive, rediscount line in the Central Bank was made available for Financiacoop in October, 1974, the paid-in capital of cooperatives anxious to use that credit has grown from 26 million pesos to 70 million pesos.

A thorough and apparently reasonable projection of the growth of rural cooperatives promoted and assisted under the proposed UCONAL grant program* suggests that savings of about $1.5 million will be generated during the three-year disbursement period of the loan, and an additional $1.5 million during the following two years within the 280 UCONAL affiliates benefitting from the grant project alone. Those cooperatives are expected to receive about one-third of the credit available under the rural credit union part of the project. Growth of other rural cooperative savings and capitalization may be somewhat lower, in that they will not benefit from the UCONAL promotion activities. Thus, as a very rough projection of rural cooperative savings stimulated by the loan project, we expect those new savings to reach $3 million by the end of the third year of the project and to grow by at least $1.5 million annually during the following years. Annual lending levels should be between $8 and $10 million dollars by the end of the third year of the project.

* See the document by Carlos Flores of COLAC, "Propuesta de Proyecto," January, 1975, which has been filed as a Supplement to this CAP.

TABLE XXXIV

EXPECTED ADDITIONAL EARNINGS RESULTING FROM INTEREST MARGIN ON PROJECT SUB-LOANS
(000 Dollar Equivalent)

	Year 1	Year 2	Year 3	Year 4
Financiacoop	33	100.5	153	171
Credit Activity 1/	18	63	108	126
From AID Loan	12	42	72	84
From BOR 2/	6	21	36	42
Marketing Activity 3/	15	37.5	45	45
From AID Loan	10	25	30	30
From BOR	5	12.5	15	15
Coop Federations 4/	21	73.5	124	147
Rural Coops 5/	49.5	184	312	367.5

1/ Margin of 2% on loans to federations, 80% of Part I, and 5%, from which 1% spent on education has been deducted on loans directly to cooperative

2/ BOR rediscounts carry 7% interest charge to Financiacoop.

3/ Margin of 2%

4/ Margin of 3% on 80% of Part I

5/ Margin of 6% on all of Part I. (Some cooperatives will have a higher margin, if the final interest rate exceeds the 18% minimum.) Two points of the margin will be required to be spent on technical assistance.

Note: Earnings have been calculated by multiplying margins times the accumulated disbursements of prior years plus half the disbursements of the current year, per the Disbursement Schedule of Table XXXIII.

Federation income generated by the project is especially hard to project accurately, largely because different federations have different fees. Federation interest income is expected to be $150,000 annually by the third year of the project. Auditing and membership fees may be about half that. UCONAL's additional earnings, exclusive of auditing fees, from the 280 cooperatives they are expected to promote and assist during the first five years of the project (see PROP) should exceed $50,000 by the fifth year. Again, other federations will probably not earn as much on the volume of their operations, but it is clear that the rapid increase in lending activity by federations will have a stimulating effect on their overall level of operations.

The cash flow projection for Financiacoop is shown as Table XXXIV. The cash flow demonstrates substantial capital growth, in excess of its debt service requirements, for Financiacoop. Even with the projected growth, Financiacoop, at the end of ten years would still be a relatively small financial institution with capital of about $30 million and total portfolio of $10C million. The cash flow is based on Financiacoop's current regulations regarding administrative fees and forced capitalization. The administrative charges would no doubt fall substantially as average costs fell due to the much higher lending level expected in future years.

The forced capitalization could also be adjusted downward if the affiliated cooperatives so desired. We would expect the coop, however, to recognize the leverage available from the forced capitalization as well as the capitalization of interest on their deposits in Financiacoop, thereby maintaining the capital growth fairly close to the projected level.

The tables in Annex IV, which are the bases of much of the cash flow, demonstrate that Financiacoop will have no difficulty servicing its debt from the AID loan and the BOR rediscounts.

6. Prospects for Repayment

The prospects for repayment of the proposed loan are excellent. The Government of Colombia will undertake the obligation and assume the exchange risk. Colombia's debt service burden is low compared to other Latin American countries experiencing similar economic conditions.

TABLE XXXV

FINANCIACOOP CASH-FLOW
1976/1985
(Colombian pesos)

	76	77	78	79	80	81	82	83	84	85	
REVENUES											
A. AID LOAN											
1. AID Disbursements											
Cecora	34,300,000	18,780,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Rural Coop	34,300,000	56,340,000	41,430,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
2. BOR Disbursements											
Cecora	17,150,000	9,390,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Rural Coop	17,150,000	28,170,000	20,715,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
3. Financiacoop											
Rural Coop	8,575,000	14,085,000	10,357,500	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
SUB-TOTAL	111,475,000	126,765,000	72,502,500	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
B. 1. LOANS RECUPERATION "CARTERA ACTUAL"	36,015,000	30,505,000	34,232,500	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
2. AID Loan - Cecora	-0-	-0-	-0-	-0-	-0-	1,037,365	1,130,725	1,232,495	1,343,415	1,464,325	A
C. NEW RESOURCES											
1. Initial Capitalization	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	
2. Complementary Cap.	5,240,755	13,145,803	15,118,728	41,979,091	47,465,237	53,825,634	63,049,982	73,936,980	86,087,150	85,275,395	
3. Interest											
over AID Loan	10,002,850	22,076,080	29,076,080	28,981,315	28,981,315	28,981,315	28,981,315	28,598,620	28,432,240	28,310,879	B/C
over "CARTERA REGULAR"	7,337,057	18,404,125	32,233,287	58,768,213	66,451,332	75,355,887	88,269,975	96,118,075	104,191,806	127,758,013	
other (re-lending)	-0-	276,286	929,844	1,864,079	2,882,394	3,992,357	4,889,135	5,862,444	6,916,318	8,862,478	D
4. Administrative Charges	4,192,604	10,516,643	18,419,021	33,581,836	37,972,190	43,060,507	50,439,986	51,755,886	60,261,005	68,792,776	
5. Capitalized Interests	4,066,687	7,031,034	7,979,739	10,381,706	12,762,063	16,508,264	20,951,150	26,287,705	38,080,249	54,673,274	
D. New Rediscount	9,407,442	20,276,837	23,198,467	52,460,797	60,327,300	70,493,898	84,101,132	115,112,082	124,267,399	153,048,669	
TOTAL	187,837,395	249,096,808	233,790,166	186,037,946	256,941,831	292,377,862	341,913,400	399,004,287	449,597,582	541,285,809	
OUTLAYS											
1. Payroll and Fees	2,311,500	2,558,225	3,056,958	3,515,501	4,042,826	4,649,249	5,346,636	6,148,631	7,070,925	8,131,563	
2. Reserves											
a. Fringe Benefits	1,155,800	1,329,618	1,528,479	1,757,750	2,021,413	2,324,625	2,673,318	3,074,325	3,534,863	4,065,831	
b. Bad Debts	8,385,208	19,061,851	26,964,230	33,581,836	37,972,190	43,060,507	50,439,986	59,149,584	86,087,150	98,275,395	
c. Legal	2,105,562	2,659,913	3,460,568	5,134,021	5,522,754	6,983,716	8,762,568	16,320,106	20,502,477	24,518,174	
3. Interests											
a. over AID Loan	7,203,000	15,090,600	19,440,750	19,440,750	19,440,750	19,440,750	19,124,625	18,786,375	18,424,445	18,037,180	E
b. over rediscount	376,297	811,073	927,938	2,098,431	2,413,092	2,819,755	3,364,045	5,755,604	6,213,359	9,182,920	
c. over Coop. shares	7,031,034	7,979,739	10,381,706	12,762,063	16,568,264	20,951,150	26,287,705	38,080,249	54,673,274	65,351,797	
d. other	720,300	1,509,060	1,944,075	1,944,075	1,944,075	1,944,075	1,912,462	1,878,637	1,842,444	1,803,718	
4. Operating Expenses	447,719	537,262	644,714	773,656	928,387	1,114,064	1,336,876	1,537,407	1,844,888	2,213,865	
5. AID Loan Principal	-0-	-0-	-0-	-0-	-0-	4,603,000	4,925,210	5,269,970	5,638,870	6,033,440	E
TOTAL	29,736,420	51,537,341	68,350,018	76,279,102	129,733,901	107,890,891	124,173,431	156,000,888	205,832,705	237,644,033	
	158,100,975	197,559,467	165,440,148	109,758,844	127,207,930	184,486,971	217,739,969	243,003,399	243,764,857	303,641,776	
Resources Generated	76,362,395	122,331,808	161,287,666	186,037,946	256,941,831	292,377,862	341,913,400	399,004,287	449,597,552	541,285,809	

TABLE XXXV (Continued)

FINANCIACOOP DEBT/CAPITAL LEVEL
1976/1985

		76	77	78	79	80	81	82	83	84	85
A.	Debts-Level										
a.	Initial	314,445,317	476,546,292	674,105,759	839,545,907	949,304,751	1,076,512,681	1,260,999,652	1,478,739,617	174,743,016	1,965,507,903
b.	Additions	158,100,975	197,559,467	165,440,148	109,758,844	127,207,930	184,486,971	217,739,969	243,003,399	243,764,887	303,641,776
	TOTAL	476,546,292	674,105,759	839,545,907	949,304,751	1,076,512,681	1,260,999,652	1,478,739,617	1,721,743,016	1,965,507,903	2,269,149,679
	CAPITAL LEVEL										
a.	Initial	107,778,127	137,995,666	173,028,449	212,701,064	276,137,745	349,185,838	438,128,433	544,003,561	668,648,585	817,272,472
b.	Comp. Capitaliz.	5,240,755	13,145,803	15,118,728	41,979,091	47,465,237	53,825,634	63,049,982	73,936,980	86,087,150	98,275,395
c.	New Coop. Shares	100,000	100,000	100,000	100,000	100;000	100,000	100,000	100,000	100,000	100,000
d.	Capitalized Int.	4,066,687	7,031,034	7,979,739	10,381,706	12,762,063	16,568,264	20,951,150	26,287,705	35,080,249	54,673,274
e.	Other	15,810,097	19,755,[illegible]	16,544,148	10,975,834	12,720,793	18,448,697	21,773,996	24,300,339	24,376,488	30,364,177
	TOTAL	132,995,666	173,028,449	212,701,064	276,137,745	349,185,838	438,128,433	544,003,561	668,628,585	817,272,472	1,000,685,318
	Net Addition	25,217,539	40,032,783	39,742,615	63,436,681	73,048,093	88,942,595	105,875,128	124,625,024	148,643,887	183,412,646
# Average of loans		35	38	39	24	30	28	27	25	24	22

The lending experience within the cooperative movement itself has been excellent. Bad debt rates within rural cooperatives have been relatively quite low given the inherent riskiness of lending to the rural poor. Bad debts, including late payments, averaged less than 5% among several cooperatives visited during the preparation of this project. Financiacoop has enjoyed an excellent record of only 2% delinquency. Although the growth rate will cause greater lending risk than that experienced so far, the prospects for capable portfolio management are good.

E. Other Considerations

1. Performance of the Colombian Economy

The current performance of the Colombian economy represents a mixed picture. The growth rate over the past several years has been satisfactory exceeding 6% in each of the last four years. On the other hand, inflation has become a serious problem, with the average rate of increase for 1973 and 1974 averaging 25%. (The question of inflation is treated in somewhat more detail in Section II.B.1). The current government, which assumed power in August, 1974, has taken strong measures to slow the rate of inflation, and it is expected that inflation will gradually be reduced to more acceptable levels. The anti-inflation measures taken so far include a major tax reform aimed at improving the government's fiscal performance, elimination of some government subsidies, liberalization of imports, and a very tight monetary policy. This austerity is expected to have a negative impact on the growth rate, and some observers project a GNP growth below 3% for 1975. Nevertheless, given the induced nature of this contraction and the fact that the economy appears to be generally sound, it appears likely that more rapid growth can be forthcoming by 1976, in an environment where inflation is much less serious.

The balance of payments picture for 1975 appears somewhat unfavorable, due mainly to a softening of demand for Colombia's major exports. Coffee prices have fallen substantially over the past six months, and prospects for the future seem unfavorable. At the same time, the recession in the industrial countries has led to a slowdown in exports of industrial products, with registrations for the first two months of 1975 trailing slightly the figure for the same period a year earlier. At the end of March, 1975, international reserves stood at $370 million or about three months imports.

By the end of the year, current projections are that reserves will be substantially below this level, and that the country may wish to seek a Stand-by Agreement with the International Monetary Fund. Nevertheless, this problem does not merit the term "crisis", and the expectation is that, through some reduction in the current high level of imports and an improvement in the external demand situation, propects will again begin to improve for the balance of payments in 1976.

In general terms, then, the current performance and management of the Colombian economy indicate no problems with the effective utilization of the loan. The current austerity program reflects a serious effort to deal with the major problem of the economy, and reflects a high level of concern for good economic management. The balance of payments is currently in deficit, so that the effective transfer of the dollar resources made available under the loan seems assured

2. Impact on the U.S. Economy

The activities proposed for this loan will not compete with U.S. enterprise, nor will they have any adverse effects on the U.S. Economy. The Loan is expected to primarily increase production of basic food crops, with the expected increase in production intended for domestic Colombian consumption.

The loan will increase foreign exchange availabilities, which in turn should lead to an increase in U.S. exports to Colombia, particularly in view of the fact that since 1972 the U.S.'s share in Colombian imports has risen nearly 5 percentage points to 43% of the total. Similarly, the expected general impact of the program of contributing to the overall economic and social development of Colombia should, over the long term, provide a larger market for U.S. exports, assuming their continued price competitiveness.

3. Environmental Considerations

Being an intermediate--credit--institution loan, the project will have no direct effect on the quality of the environment. Nevertheless, the loan agreement will contain a covenant requiring the borrower to adequately take into account environmental considerations in the granting of subloans.

4. Role of Women

The proposed loan would provide credit to primarily provide production credit for members of rural cooperatives. As such, the loan cannot be expected to have a major role in enhancing the role of women in economic development. Most farm households are headed by men, who can be expected to be the bulk of the borrowers under the program. However, the borrower will ensure that steps are taken to prevent the existence of sex discrimination in the issuance of sub-loans under the project.

While not especially important as borrowers under the program, women can be expected to play an important role in its implementation. As indicated in the institutional summaries, women are quite important in each of the implementing agencies. About 40% of the managers of rural cooperatives visited in the preparation of this project were women, and the number of women professionals in the national offices of the agencies goes considerably beyond the level of tokenism. All these agencies have assured us that no sex discrimination exists in the hiring of professionals, and that the women professionals enjoy equal status with men in status and salary.

SECTION III - LOAN ADMINISTRATION

A. Target Dates

Current expectations are that loan disbursements will begin during the final quarter of CY 1975, following approximately 60 days for loan negotiation and 90 days for meeting Conditions Precedent.

Evaluation of progress toward meeting project goals will take place annually beginning one year after loan signing. The first such evaluation should therefore take place during July, 1976.

Disbursement of the loan should be completed within three years of loan signing.

B. Disbursement Procedures

Disbursement of loan funds will be made on a reimbursement basis as a fixed proportion of actual Financiacoop subloan disbursements -- two-thirds of their disbursements of up to $1.5 million dollars equivalent to CECORA and four-sevenths of their disbursements of up to $3.5 million dollars equivalent to eligible rural cooperatives or their federations. Because we understand the GOC will insist that loan funds pass through the Treasury, disbursements will be made to a Special Account to be held by the Treasurer exclusively for Financiacoop.

C. Loan Monitoring

Primary responsibility for monitoring loan implementation will rest with the USAID/C Capital Development Office assisted by the Program Economist, Rural Development, and Controller staffs. One Colombian direct-hire professional will be involved essentially full-time in the monitoring of the day-to-day progress of the project. Disbursement requests will be accompanied by detailed reports of program activities which shall serve as the basic management tool. Qualitative progress will be reviewed through periodic field inspections.

D. Evaluation

In order to assure evaluation of the project's impact at both the goal and purpose levels, as well as provide timely implementation monitoring information for the project's managers, both Colombian and U.S., the following comprehension evaluation plan has been prepared.

1. Baseline Study

The Mission has, from the Agricultural Sector Analysis Activities, information on the productivity of additional credit provided to the small farm. It is the hypothesis of this project that additional credit to the small farmer will increase his productivity, which in turn will increase his income. Prior to the outset of this project, there will be a contract funded under the Rural Savings and Loan Cooperative PROP with INDESCO to conduct a baseline study which will yield the level of income of the cooperative potential and current small farmer members. There currently exists income data for all small farmers. The baseline study will determine current income levels of a random sample of small farmers from a small group of participating cooperatives. During each year of implementation, we will re-intervi the same farmers to determine if the current small farm cooperative member's income has increased as additional credit becomes available to him, and compare the income increases of this group to the change in income of small farmers as a whole.

2. Annual Reporting

In addition to containing an annual summary of the progress made in achieving planned outputs (detailed in the quarterly and monthly reports section below) the annual reports will include a detailed statement of progress in achieving purpose level indicators. The indicators and the reporting format to be included in the annual report are:

Establish rural credit coops in integrated rural development areas:

CY	No. Planned	No. Achieved
76	45	
77	75	
78	80	

Increase membership of rural credit coops:

CY	Planned Increase	Increased Achieved
76	6,000	
77	24,000	
78	50,000	

Percentage of currently unaffiliated coops joining federations:

CY	Percent Planned	Percent Achieved
76	20	
77	50	
78	80	

Reduce percentage of unaffiliated coops:

CY	Percent Planned	Percent Achieved
75	45	
76	35	
77	30	
78	25	

Increase annual rate of growth of rural credit coop savings (in 1974 dollars):

CY	Rate Planned	Rate Achieved
75	10	
76	15	
77	15	
78	20	

Increase savings (measured in constant dollars) in rural credit coops:

CY	Amount Planned	Amount Achieved
75	4.0	
76	4.6	
77	5.3	
78	6.4	

Percentage of currently unaffiliated rural co ps belonging to Financiacoop:

CY	Percent Planned	Percent Achieved
76	20	
77	40	
78	60	

Percentage of all rural coops belonging to Financiacoop:

CY	Percent Planned	Percent Achieved
75		29
76	40	
77	60	
78	80	

Amount of funds flowing from Financiacoop to rural coops for small farmer credit:

CY	Amount Planned	Amount Achieved
75		0.5 million
76	2.25 million	
77	4.90 million	
78	6.70 million	

Number of first-time borrowers:

Reporting Period	No. Planned	No. Achieved
76	3,000	
77	5,000	
78	6,000	
	14,000	

Number of Production loans outstanding to Target Group:

CY	No. Planned	No. Achieved
76	8,000	
77	20,000	
78	22,000	

Amount of Marketing Loans Outstanding:

CY	Amount Planned	Amount Achieved
76	2,000	
77	3,000	
78	3,000	

Quarterly and monthly reporting will be used to indicate the progress being made toward achieving the project's planned outputs. The monthly reports will be largely financial, providing the following information:

- number of production loans outstanding;
- amount of project funds in outstanding production loans;
- amount of marketing loans outstanding;
- amount of disbursed project funds not in outstanding loan
- average size of production loan (targeted amount is $250).

The quarterly reports will summarize the monthly data for the quarter, but will also provide the following additional information:

- number of new borrowers;
- loan delinquency (the projected rate is 4%);
- average loan processing time (the projected rate is six weeks from first application by individual cooperative to receipt of funds);
- number of marketing projects identified by CECORA;
- quarterly profit statement of the CECORA feed-grains project.

These reports will be augmented by frequent field trips by the USAID project monitor. The USAID staff will visit an average of eight cooperatives per month during implementation, and supplement these visits with discussions with Peace Corps Volunteers and SENA professionals working in the project.

E. Conditions Precedent

In addition to the normal AID conditions, the proposed loan will require that:

1. Prior to the issuance of any commitment document or to any disbursement under the loan:

a. The Borrower shall establish a Project Coordinating Committee for administering the project, under the direction of the National Planning Department (DNP). The Borrower shall furnish documentation satisfactory to AID, showing the planned functions of the Coordinating Committee in coordinating the various project activities, evaluating the progress of the various project components, and collecting baseline data to be used as a basis for that evaluation.

b. The Borrower shall submit to AID, for its approval, an agreement with Financiacoop specifying the terms and conditions of the funds to be relent to Financiacoop.

c. The Borrower shall cause the Project Coordinating Committee to submit to AID for its approval:

(i) A policy statement covering the operations of Financiacoop under the loan which establishes the general agricultural lending policies of Financiacoop, defines the sublending criteria which must be met by cooperatives to establish their eligibility for receiving project funds, sets forth the terms and conditions upon which subloans under this project will be made, and provides a time-phased implementation plan which shall include a schedule for the counterpart funding to be provided by the BOR and Financiacoop;

(ii) A time-phased implementation plan which shall include a schedule showing how the technical assistance and training to be financed under the companion AID rural cooperatives grant project will be coordinated with the activities to be financed under the loan;

(iii) An outline of a program of cooperative education to be undertaken by Financiacoop, and a definition of the criteria which will be applied to judging the acceptability of cooperative education plans submitted to Financiacoop by cooperative federations which intend to borrow loan funds on behalf of their members.

(iv) A policy statement outlining the considerations that will be given to making complementary agricultural inputs available to those cooperatives that will be borrowing credits from Financiacoop under the loan.

2. Prior to any disbursement of funds under the loan for an activity of CECORA or any of its affiliates, the Project Coordinating Committee, CECORA and AID shall agree upon a statement of lending policies and

procedures which will apply to any subloans made by Financiacoop to CECORA or its affiliates from project funds. CECORA shall also furnish a statement outlining its intended use of project funds, including a plan for obtaining the participation of an increasing number of lower income farmers in this portion of the project.

3. Prior to the disbursement of any funds under the loan to UCONAL or any of its affiliates, the Project Coordinating Committee, a UCONAL, and AID shall examine whether additional external resources are available to UCONAL and shall assess their likely impact on projected UCONAL lending. A determination shall then be made regarding UCONAL's capacity to effectively absorb the additional resources.

Covenants

1. Unless AID shall otherwise agree in writing, the Borrower, represented by the Project Coordinating Committee, agrees to conduct annual reviews of the progress of the project with AID.

2. Unless AID shall otherwise agree in writing, Financiacoop shall allocate up to $3.5 million pesos equivalent of loan funds for agriculture-related lending to eligible subborrowers (credit activity), and that at least 80% of the project funds shall be lent to cooperative federations on behalf of their eligible rural cooperative members.

3. Unless AID shall otherwise agree in writing, Financiacoop shall allocate up to $1.5 million peso equivalent of the loan funds for specific marketing investments by CECORA and/or its affiliates. Any such funds for purposes other than innovative marketing interventions directed specifically at the target group that have not been approved for specific sub-projects within one year of loan signing shall be subject to reallocation by Financiacoop and shall become available for agriculture-related lending to eligible cooperatives/federations.

4. Any subloan application from CECORA or its affiliates in excess of $100,000 peso equivalent shall be supported by an independent feasibility study to be carried out in form and substance satisfactory to Financiacoop and the Project Coordinating Committee and subject to prior approval by AID.

5. Unless AID otherwise agrees in writing, funds received from the repayment of principal of subloans made with project funds shall be used solely for additional sublending for the same general purposes.

6. The Borrower agrees to undertake annually, jointly with Financiacoop and AID, a review of interest rate policy governing the rate paid by final borrowers of project funds for the purpose of adjusting interest rates, if necessary, in line with inflationary and/or monetary conditions.

SECTION IV - ISSUES

A. Extent of Credit Demand

Given the possibility that AID will make a concessional loan to COLAC for relending to its members (which include UCONAL), there is an issue concerning the ability of UCONAL to use both the proceeds of the current loan and a portion of the COLAC loan. This issue is considered in Section II C 1, where it is concluded that UCONAL can productively use both $2.2 million from the COLAC loan, and $1.8 million from this loan during the three-year disbursement period of the loan.

B. The Real Interest Rate

The issue of the adequacy of the 18% currently charged by most rural coops for loans to their members, in view of the experience of inflation of around 25% per year during the past two years, has been raised. The question is discussed in Section II B 1, where the conclusion is drawn that, since the expected future rate of inflation is on the order of 15%, and since the 18% currently charged exceeds that charged by other agricultural lending agencies, the 18% rate is adequate for loans made under the project.

C. Financiacoop Repayment Terms

At the beginning of Intensive Review of this loan, the Government of Colombia proposed to pass the entire loan to Financiacoop under approximately the same concessionary terms it receives from AID, but to denominate Financiacoop's repayment obligation in dollars. The Government argued that the subsidy implicit in AID terms and substantial counterpart, through BOR rediscounts, also on concessional terms was sufficient for the social purposes of the project and that, therefore, the Government would not absorb additional subsidy. The Mission agreed with this position. However, Financiacoop, like most enterprises in Colombia, was extremely wary of absorbing the exchange risk of the AID loan. Given the constant but erratic devaluation of the peso in Colombia, borrowers generally prefer high interest rates on peso loans to lower rates on dollar loans. The IBRD industrial loans for large enterprises, which offers choice between those two alternatives, has been entirely used for peso-denominated loans.

Therefore, the Mission developed a set of subloan terms for a peso-denominated loan at 7% for 25 years, including a five-year grace period which has been tentatively accepted by both the government and Financiacoop. Under those terms, as explained more fully in Annex III, the government will pass the entire concessionality of the AID loan to Financiacoop with, however, no additional subsidy. Financiacoop much prefers this alternative to receiving a dollar loan even for 40 years at 2% or 3%, because it will not have to absorb annual depreciation which has averaged 8% since the Second World War (or 10% over the past 10 years) and which tends to fluctuate considerably.

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

APP - Foreign Assistance and Related Programs Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA Sec. 103; Sec. 104; Sec. 105; Sec. 106; Sec. 107. Is loan being made

   a. for agriculture, rural development or nutrition;

      Yes

   b. for population planning or health;

      No

   c. for education, public administration, or human resources development;

      No

   d. to solve economic and social development problems in fields such as transportation, power, industry, urban development and export development.

      No

   e. in support of the general economy of the recipient country for development programs conducted by private or international organizations.

      No.

COUNTRY PERFORMANCE

Progress Towards Country Goals

a. FAA Sec. 208; Sec. 251(b)

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

Colombia is making appropriate efforts through its Office of Agricultural Planning, Institute of Agricultural Marketing, Institute for Development of Natural Renewable Resources, and the Colombian Agricultural Institute. These efforts are more fully described in Section I of this CAP as well as in the analysis of the Agriculture Sector dated March, 1972 as revised May, 1973 and June, 1974.

(2) Creating a favorable climate for foreign domestic private enterprise and investment.

With respect to domestic private investment a favorable climate has been maintained and investment continues at a respectable rate. With respect to foreign private investment, some enterprises, which might possibly fall within the restrictive provisions of the Andean Code, may have been deterred by the uncertain legal status of the Treaty of Cartagena and the Andean Code from investing in Colombia; but the amount of investment, if any, so deterred is a matter of speculation.

(3) Increasing the public's role in the developmental process.

The public's role in the development process is clearly being increased, as witnessed by the programs instituted by the Colombian Government: under this loan and other programs also assisted by A.I.D. loans, entailing substantial increases in the financing of education and of credit to small and medium sized farmers.

(4) (a) Allocating available budgetary resources to development.

The Mission has concluded that Colombia's investment in the four crucial sectors of the economy concerned with overall development is both "reasonable and feasible."

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations (See Item 10)

It is considered that some expenditure for modernization of Colombia's armed forces is justifiable.

Colombia is not intervening in the affairs of other free and independent nations.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Colombia, with the assistance of the Mission, has embarked on a program of substantially improving tax collection procedures, which has resulted in increased fiscal revenues. Colombia's program of land reform is discussed in detail in Parts One and Two of the 1972 Agricultural Sector Loan Paper. The development plans of the GOC recognize the importance of individual initiative and private enterprise. Individual freedom of press, speech and religion continue.

(6) Adhering to the principles of the Act of Bogotá and Charter of Punta del Este.

Colombia is adhering to the principles of the Act of Bogotá and the Charter of Punta del Este.

(7) Attempting to repatriate capital invested in other countries by its own citizens.

Under the 1967 Foreign Exchange Statute, Colombian nationals were to repatriate demand and time deposits by mid-1967, upon their sale, and no Colombian national was to invest abroad without the prior approval of the Department of Planning. During 1967 it is estimated that up to $50 million was repatriated, which represents the bulk of the capital which was overseas. Presently, very strict laws are in effect which limit severely capital flight from Colombia.

(8) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

The GOC is undertaking effective self-help measures in response to vital concerns of its people.

B. Are above factors taken into account in the furnishing of the subject assistance?

Yes.

Treatment of U.S. Citizens by Recipient Country

3. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to U.S. citizen for goods or services furnished or ordered where (a) remedie and (b) debt is not denied or contested by such government?

According to the best information available, Colombia is not known to be so indebted.

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No such action is known to have been taken.

5. FAA Sec. 620(o). Fishermen's Protective Act. Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters.

Apart from an incident which occurred in 1967, which was satisfactorily resolved, no such seizure, penalty or sanction has occurred.

a) Has any deduction required by Fishermen's Protective Act been made?

N.A.

b) Has complete denial of assistance been considered by A.I.D. Administrator?

N.A.

Relations with U.S. Government and Other Nations

6. FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

In March, 1975 Colombia restablished diplomatic relations with Cuba, and will shortly exchange ambassadors with Cuba.

7. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

Yes.

8. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?

Loan funds will not finance any production enterprise which will directly compete.

9. FAA Sec. 620(f). Is recipient country a Communist country?

No.

10. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No.

11. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. Property?

Colombia is taking adequate measures to prevent such damage or destruction.

12. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

The GOC signed an investment guaranty bilateral agreement in 1963, and has cooperated in implementing the guaranty program to date. However, the agreement has not been ratified by the Colombian Congress. For this reason, the "Administrator's Determination" under which the program has operated was not renewed upon its expiration on December 31, 1970. OPIC currently is studying the question of whether to continue the program in Colombia. Pending this study, the Mission recommends against denying assistance.

13. FAA Sec. 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?

No.

14. FAA Sec. 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

No.

15. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

16. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. operational Year Budget?

Colombia is not delinquent.

17. FAA Sec. 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

The Government of Colombia has been made aware of the problem of narcotic drug trafficking and has initiated measures designed to inhibit such traffic ing. The President has designated the Minister of Justice as overall coordi tor. The Procurador General also has oversight responsibility through the J dicial Police. Seizures of narcotic drugs in the past twelve months have be substantially above earlier periods. The GOC has sponsored or participated a number of inter-governmental, intragovernmental and public/private seminar which have served to increase awareness generally and improve technical capa ty of law enforcement officials. Staff of control agencies are being trainec in narcotics interdiction. Assistance and advice of the USG in these respec has been solicited, provided and utilized.

18. FAA, 1973 Sec. 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

N.A.

Military Expenditures

19. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PP/RC).

(a) In 1975, the Ministry of Defense will receive less than 10% of the national budget. Said Ministry's share of the national budget has been declining steadily for the past several years.

(b) Foreign Exchange Expenditures for Military Equipment:

In CY 1974 the GOC spent $17 million dollars on military "hardware."

(c) Foreign Exchange Expenditures for Sophisticated Weapons:

In CY 1974 there were no new commitments for Sophisticated Weapons.

CONDITIONS OF THE LOAN

General Soundness

20. FAA Sec. 201(d). Information and conclusion or reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.

The terms of the proposed loan are consistent with the laws of Colombia and the United States and are not excessive or unreasonable for the Borrower (See Section III).

21. FAA Sec. 251(b)(2); Sec. 251(e) Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically technically sound manner?

The project is economically and technically sound. The GOC has submitted an application for the proposed loan and the Mission has been provided sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner.

22. FAA Sec. 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The terms of the proposed loan are such that there are reasonable prospects for its repayment. (Section III).

23. FAA Sec. 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

The IBRD, IDB and Eximbank have been advised of this proposed loan and have indicated that they are not interested in financing the program (See Section III).

24. FAA. Sec. 611(a)(1). Prior to signing of Loan will there be (a) engineering, financial, and other plan necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the Assistance?

A preliminary feasibility study of the CECORA feed concentrates operation to be funded under the Loan has been reviewed by the Mission, and the Mission is satisfied that the economic and financial analysis adequately supports the cost estimates included in the body of the CAP.

25. FAA Sec. 611(a (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?

No further legislation is required except for the yearly Budget Law which is normally approved by the end of each CY. Based upon past performance, there are reasonble expectation that the necessary Budget Laws will be enacted and that the law or amendments thereto will contain the amounts scheduled to be contributed by the GOC.

26. FAA Sec. 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Yes. See Director's certificate.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA Sec. 207; Sec. 251(a); Sec. 113 Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs; (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

The proposed assistance would promote directly the creation and strengthening of democratic institutions at the grass roots, and self-help efforts in meeting the country's food needs by stimulating development of agricultural production efforts of rural cooperatives. In addition, the cooperative movement plays an important role in integration of women into the recipient country's national economy.

28. FAA Sec. 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

No.

29. FAA Sec. 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The activity is closely related to, and complementary with, the country's development effort. It is expected to contribute to the long-range objective of improving the quality of life for the poorest half of the population.

30. FAA Sec. 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

See comment under Item 29 above.

31. FAA Sec. 209; Sec. 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

Loan has no direct bearing on achieving such integration.

32. FAA Sec. 251(g); Sec. III. Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

The loan promotes the development of the cooperative movement in Latin America directly.

33. FAA Sec. 351(h). Information and conclusion on whether the activity is consistent with the findings and recommendation of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

This loan is consistent therewith.

34. FAA Sec. 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local government institutions.

Section IV hereof outlines the expected impact of the program on the people of Colombia, and concludes that it will increase participation by the populace in the development process.

35. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

By encouraging democratic action through cooperatives, the program contributes to popular participation in self-government. The program is designed to ensure maximum participation of the people of the country in determining their needs.

36. FAA Sec. 601(a). Information and conclusiones whether loan will encourage efforts of the country to (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan association; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce and (f)strengthen free labor unions.

The loan directly fosters private initiative and competition. It directly assists cooperatives and credit unions in their efforts to, among other things, improve technical efficiency in agriculture. The private initiative element, represented by cooperative efforts to join small producers together to solve their own problems, should discourage monopolistic practices by large firms.

37. FAA Sec. 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

N.A.

Loan's Effect on U.S. and A.I.D. Program

38. FAA Sec. 251(b)(4); Sec. 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

The Mission does not contemplate any adverse effect on U.S. economy.

39. FAA Sec. 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

Five million dollars, the totality of the loan.

40. FAA Sec. 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

(See Section III B.)

41. <u>FAA Sec. 601(d).</u> If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

N.A.

42. <u>FAA Sec. 602.</u> Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

See Item 39 above.

43. <u>FAA Sec. 620(h).</u> Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

44. <u>FAA Sec. 621.</u> If technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as good and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

See Item 39 above.

<u>Loan's Compliance with Specific Requirements</u>

45. <u>FAA Sec. 110(a); Sec. 208(e).</u> Has the recipient country provided assurance that it will provide at least 25% of the costs of the program project, or activity with respect to which Loan is to be made?

Yes. See Section III.

47. FAA Sec. 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?

No.

48. FAA Sec. 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

49. FAA Sec. 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?

Yes.

50. FAA Sec. 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?

The Loan Agreement and Implementation Letters will so provide.

51. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance to be placed in the United States on commodities financed by the loan?

Goods to be financed under the proposed loan will be purchased on a CIF basis with the responsibility for the purchase of marine insurance being left to the exporter. The loan agreement will contain such a clause.

52. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

N.A.

53. FAA Sec. 604(f). If loan finances a commodity import program, will arragements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as elegible and suitable?

N.A.

54. FAA Sec. 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

The loan agreement will contain a provision enjoining Borrower to use U.S. excess property under appropriate circumstances.

55. FAA Sec. 611(b); App-Sec. 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?

N.A.

56. FAA Sec. 611(c). If contracts for construction are to be financed, what provisions will be made that they be let on a competitive basis to maximum extent practicable?

Colombian law so requires.

57. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

See Section III E of this loan paper.

58. App. Sec. 113. Will any of loan funds to be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?

No.

59. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

60. FAA Sec. 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?

Loan Agreement will not permit such use.

61. FAA Sec. 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed $100 million?

No.

62. FAA Sec. 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?

No.

63. App. Sec. 103. Will any loan funds be used to pay pensions, etc., for military personnel?

No.

64. App. Sec. 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?

Yes.

65. <u>App. Sec. 107.</u> Will any loan funds be used to pay UN assessments?

No.

66. <u>App. Sec. 109.</u> Compliance with regulations on employment of U.S. and local personnel (A.I.D. Regulation 7).

N.A.

67. <u>App. Sec. 110.</u> Will any of loan funds be used to carry out provisions of FAA Secs. 209(d) and 251(h)?

Such is not anticipated.

68. <u>App. Sec. 114.</u> Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.

69. <u>App. Sec. 601.</u> Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?

No.

70. <u>MMA Sec. 901(b); FAA Sec. 640(c)</u>
(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

Loan agreement will contain a provision in compliance with this requirement.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

No.

A.I.D. Loan No.______________

DRAFT LOAN AUTHORIZATION

Provided from: FAA Section 103 ("Food and Nutrition")
COLOMBIA: Rural Coop Development

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress by the Foreign Assistance Act of 1961, as amended, and the delegation of authority issued thereunder, I hereby authorize the establishment of a Loan ("Loan") pursuant to Section 103 of said Act to the Government of Colombia ("Borrower") of not to exceed five million United States dollars ($5,000,000) to assist in financing the local currency costs of the Borrower's program of rural cooperatives development.

The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment: Borrower shall repay the Loan to A.I.D. in United States dollars within forty (40) years from the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars, on the outstanding balance of the Loan, interest at the rate of two percent (2%) per annum during the grace period, and three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and unpaid interest.

2. Other Terms and Conditions:

a) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

b) Prior to disbursement of any funds under the Loan, the Borrower shall enter into a sub-loan contract with the Cooperative Finance Institute (FINANCIACOOP) which is in form and substance satisfactory to A.I.D.

c) Prior to disbursement of any funds under the Loan, the Borrower shall cause to be established a Project Coordinating Committee, which Committee will prepare a policy statement acceptable to AID which defines eligibility criteria for receipt of loan funds by intermediary cooperative institutions and by final borrowers.

d) The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy US Coordinator

Date

UNCLASSIFIED
ANNEX II
Exhibit 2

CERTIFICATION PURSUANT TO SECTION 611(e)
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

SUBJECT: COLOMBIA - Capital Assistance - Rural Cooperative Development

Having taken into account, among other things, the maintenance and utilization of projects in Colombia previously financed or assisted by the United States, I certify hereby that in my judgment Colombia has the financial capability and the human resources (when supplemented by the specific external technical assistance to be required under the proposed loan) to maintain and utilize effectively the proposed Rural Cooperative Development Loan.

This judgment is based primarily on the facts developed in the Capital Assistance Paper for the proposed loan of $5 million which discusses in detail the capabilities of the Government of Colombia and the sub-borrowers and finds them in possession of adequate financial and human resource capability to effectively utilize and maintain the project.

William A. Ellis

April 30, 1975
Date

PROPOSAL FOR AN INTEREST RATE FOR AN AID COOPERATIVES LOAN

Summary: This memorandum indicates a method by which the proposed AID loan for cooperatives development can reach the cooperative movement cheaply, yet without government subsidy. Assuming that the peso declines in value at 9.5% per (a rate higher than the recent trend), the Government of Colombia can afford to assume the exchange risk of the AID loan (which will be made in dollars at 2% interest during a 10 year grace period, and at 3% interest during a 30 year amortization period) and relend the proceeds in pesos to Financiacoop at 7% interest, but with a shorter maturity. In essence, the shorter maturity of the loan to Financiacoop results in the creation of a fund in the hands of the government that can earn interest and enable the government to repay its obligation without recourse to general revenues.

Background: An AID loan of $6 million to be channeled to the cooperative sector through the cooperative financing agency, Financiacoop, has been proposed. Since all of the subloans will be made in pesos, it appears desirable for Financiacoop's debt to be also in pesos, and for the Government of Colombia to assume the exchange risk after charging an amount equal to the expected amount of this risk. Such an approach would enable Financiacoop and the cooperative movement to know with certainty the extent to their future obligations, and to plan their operations accordingly.

Rationale: In large part, the purpose of the loan is to capitalize the cooperative movement, so that it can play an important role in the development of small-farm agriculture. By providing a large interest-rate spread for the cooperatives, the loan would enable them to provide a higher level of services to their members. On the other hand, the loan is being provided by AID on a concessional basis, and there seems to be no reason why the Government of Colombia should provide a further subsidy. Based on the above considerations, a desirable approach would be for the Government of Colombia to be the borrower in dollars of the AID loan, and to pass the loan on to Financiacoop in pesos at the lowest interest rate consistent with the expected depreciation of the peso.

Considering the principle established above, the first requirement is to establish an expected rate of devaluation of the peso. Given our lack of knowledge of the future, the most reasonable predictor of future behavior is probably historical performance. The historical experience since 1948 is shown in Table I. Over the period 1948-1974, the average annual depreciation of the pesos was 10.4%. However, a very definite structural change in the exchange system took place in 1967, so that it may be argued that -- since future exchange policy is likely to continue on the basis established in 1967--this more recent period (1967-1974) is a more appropriate period for projection. During this more recent period, the average depreciation of the peso was slightly less than 8.9% per year. While, given the apparent determination of the Government to stabilize the economy, the lower figure of 8.9% might seem reasonable to use, we have chosen to be conservative by using the somewhat higher figure of 9.5% per year.

Procedure: Choosing the 9.5% figure, the amortization and interest requirements for the AID loan were established in Table II. Column 1 shows the dollar repayment requirements for the AID loan. Column 2 shows the exchange rate over the repayment period, and Column 3 shows the peso equivalent of the repayment requirement. Column 4 shows the payment to the Government of Colombia by Financiacoop, assuming Financiacoop pays the loan in 25 years at 7% interest with 5 years grace. Column 6 shows the excess paid to the Government over what must be paid to AID. Finally, Column 7 shows the interest earned by this Fund, assuming the balance of the fund is lent at 16% interest. (It should be noted that 16% is a very reasonable lending rate for this fund, for given the 9.5% assumed devaluation of the peso it represents only 6% in dollars.) As is indicated by the table, these assumptions result in a net cost to the Government of the loan of approximately zero (under the assumptions, there is a small cost in the fortieth year, but this would be reduced to zero by a very slight reduction in the rate of peso devaluation). Since this result nearly meets our requirement that the money be provided at the cheapest rate consistent with non-subsidy by the government, it is recommended that the Government assume the exchange risk on the AID loan, and relend the peso equivalent to Financiacoop at 7% interest, with 5 years grace and a 20 year amortization period.

CUADRO No. I

TASA DE CAMBIO, COLOMBIA, 1948-1974

AÑO	TASA DE CAMBIO[1]
1974	28.69
1973	24.89
1972	22.88
1971	21.00
1970	19.17
1969	17.93
1968	16.95
1967	15.82
1966	13.50
1965	13.51
1964	9.00
1963	9.00
1962	9.00
1961	6.70
1960	6.70
1959	6.40
1958	7.22
1957	5.97
1956	2.51
1955	2.51
1954	2.51
1953	2.51
1952	2.51
1951	2.58
1950	2.04
1949	2.16
1948	2.15

1/ Tasa Principal de Venta, fin de año

Fuente: FMI

CUADRO No. 2

AMORTIZACION DEL PRESTAMO DE AID

AÑO	Pago a AID 1/ (miles US$)	Tasa de Cambio 2/	Pago a AID	Pago al Gobierno 3/ por Financiacoop	Saldo de Fondo Rotatorio 4/	Intereses Ganados por Fondo 5/
			(Millones de Pesos)			
1	40	34.30	1.37	4.80	3.43	
2	80	37.56	3.00	10.06	11.04	.55
3	120	41.43	4.97	15.86	23.70	1.77
4	120	45.04	5.40	15.86	37.95	3.79
5	120	49.31	5.91	15.86	53.97	6.07
6	120	53.99	6.48	21.39	77.52	8.64
7	120	59.11	7.09	21.39	104.22	12.40
8	120	64.72	7.77	21.39	134.52	16.68
9	120	70.86	8.50	21.39	168.93	21.52
10	120	77.59	9.31	21.39	208.04	27.03
11	306	84.96	26.00	21.39	236.72	33.29
12	306	93.03	28.47	21.39	267.52	37.88
13	306	101.86	31.17	21.39	300.54	42.80
14	306	111.53	34.13	21.39	335.89	48.09
15	306	122.12	37.37	21.39	373.65	53.74
16	306	133.72	40.92	21.39	413.90	59.78
17	306	146.42	44.80	21.39	456.71	66.22
18	306	160.33	49.06	21.39	502.11	73.07
19	306	175.55	53.72	21.39	550.12	80.34
20	306	192.22	58.82	21.39	600.71	88.02
21	306	210.48	64.11	21.39	653.80	96.11
22	306	230.47	70.52	21.39	709.28	104.61
23	306	252.36	77.22	21.39	766.63	113.48
24	306	276.33	84.56	21.39	826.12	122.66
25	306	302.58	92.59	21.39	887.10	132.18
26	306	331.32	101.38	0.0	927.66	141.94
27	306	362.79	111.01	0.0	965.05	148.43
28	306	397.25	121.56	0.0	997.93	154.41
29	306	434.98	133.10	0.0	1,024.50	159.[illegible]
30	306	476.30	145.75	0.0	1,042.67	16[illegible]
31	306	521.54	159.59	0.0	1,049.21	166.83
32	306	571.08	174.75	0.0	1,043.15	167.89
33	306	625.33	191.35	0.0	1,018.70	166.90
34	306	684.73	209.53	0.0	972.16	162.99
35	306	749.77	229.43	0.0	898.28	155.55
36	306	820.99	251.22	0.0	790.78	143.72
37	306	898.98	275.09	0.0	642.21	126.52
38	306	984.38	301.22	0.0	443.74	102.75
39	306	1,077.89	329.83	0.0	184.91	71.00
40	306	1,180.28	361.17	0.0	-146.67	29.59

1/ Términos del Préstamo son 2% durante 10 años muertos, 3% durante los 30 años siguientes. Se asume que el Préstamo se desembolsa durante 3 años, a razón de dos millones de dólares por año.
2/ Se asume depreciación del peso de 9.5% anual.
3/ Calculado asumiendo una tasa de interés del 7%.
4/ Calculado sumando intereses y pagos al Gobierno al saldo anterior, y restando pagos (en pesos) a AID.
5/ Se asume una tasa de interés de 16%. Calculado sobre saldo del fondo en el año anterior.

FINANCIACOOP

Projected Interest Revenues
From Rural Coop Loans

(Colombian Pesos)

	[illegible]	1977	[illegible]	1979	[illegible]	[illegible]	1982	1983	1984	[illegible]
PART I - RURAL COOPS										
Outstanding Principal 1/1	-0-	34,300,000	[illegible]	172,070,000	172,070,000	172,070,000	172,070,000	172,070,000	172,070,000	172,070,000
Additions to Principal	34,300,000	56,740,000	41,470,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Outstanding Principal 12/31	34,300,000	[illegible]	172,070,000	172,070,000	172,070,000	172,070,000	172,070,000	172,070,000	172,070,000	[illegible]
INTEREST REVENUES										
80% Placed at 9% p.a.	2,469,700	6,525,080	9,509,040	9,509,040	9,509,040	9,509,040	9,509,040	9,509,040	9,509,040	[illegible]
20% Placed at 12% p.a.	823,200	2,176,360	[illegible]	3,169,680	[illegible]	[illegible]	3,169,680	3,169,680	3,169,680	[illegible]
Sub-Total	3,292,800	8,701,440	12,678,720	12,678,720	12,678,720	12,678,720	12,678,720	12,678,720	12,678,720	12,678,720
Less: Education Fund Contribution	68,600	181,280	264,140	264,140	264,140	264,140	264,140	264,140	264,140	264,140
Net Interest Revenues - (AID)	3,224,200	8,520,160	12,414,580	12,414,580	12,514,580	12,514,580	12,514,580	12,514,580	12,514,580	12,514,580
BOR & FINANCIACOOP CONTRIBUTIONS										
BOR - 50% of AID	17,150,000	45,380,000	66,035,000	66,035,000	66,035,000	66,035,000	66,035,000	66,035,000	66,035,000	66,035,000
FINANCIACOOP - 25% of AID	8,575,000	22,690,000	33,017,500	33,017,500	33,017,500	33,017,500	33,017,500	33,017,500	33,017,500	33,017,500
Outstanding Loans	25,725,000	[illegible]	99,052,500	99,052,500	99,052,500	99,052,500	99,052,500	99,052,500	99,052,500	99,052,500
INTEREST REVENUES										
80% Placed at 9% p.a.	1,852,200	4,904,560	7,131,780	7,131,780	7,131,780	7,131,780	7,131,780	7,131,780	7,131,780	7,131,780
20% Placed at 12% p.a.	612,400	1,631,520	2,377,260	2,377,260	2,377,260	2,377,260	2,377,260	2,377,260	2,377,260	2,377,260
Sub-total	2,469,600	6,526,080	9,509,040	9,509,040	9,509,040	9,509,040	9,509,040	9,509,040	9,509,040	9,509,040
Less: Education Fund Contributions	[illegible]	[illegible]	198,105	198,105	198,105	198,105	198,105	198,105	198,105	198,105
Net Interest Revenues	[illegible]	[illegible]	[illegible]	9,310,935	[illegible]	9,310,935	9,310,935	9,310,935	9,310,935	9,310,935
Total Net Int Rev	[illegible]	[illegible]	[illegible]	21,725,515	21,725,515	21,725,515	21,725,515	21,725,515	21,725,515	21,725,515

ANNEX IV
Exhibit 2

F I N A N C I A C O O P
Projected Interest Revenue
From CECORA Loan

(Colombian Pesos)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Outstanding Principal 1/	-0-	52,450,000	79,620,000	79,620,000	79,[illegible],000	79,620,000	79,620,000	79,267,865	74,519,123	72,504,000
Additions to Principal - AID	34,300,000	[illegible],750,000	-0-	-0-	-0-					
Additions to Principal - BOR	17,200,000	[illegible],7[illegible]0,000	-0-	-0-	-0-					
Principal Recoveries - AID	-0-	-0-	-0-	-0-	-0-	1,077,965	1,170,725	1,272,495	1,3[illegible]	1,474,325
Principal Recoveries - BOR	-0-	-0-	-0-	-0-	-0-	515,682	565,282	616,247	672,73[illegible]	732,162
	51,450,000	[illegible]	7[illegible],620,000	79,620,000	[illegible]	78,062,357	76,267,855	74,519,123	72,[illegible]	70,297,225

INTEREST REVENUES

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
AID Portion	3,087,000	4,777,200	4,777,200	4,777,200	4,777,200	4,777,200	4,683,840	4,582,070	4,472,150	4,350,240
BOR Portion	1,543,500	2,388,600	2,388,600	2,388,600	2,388,600	2,388,600	2,341,920	2,291,035	2,236,075	2,175,120
Total Interest Revenues	4,630,500	7,165,800	7,165,800	7,165,800	7,165,800	7,165,800	7,025,760	6,873,105	6,70[illegible]	6,5[illegible]

FINANCIACOOP
DEBT SERVICING REQUIREMENT
BOR/FINANCIACOOP LOAN
(Colombian Pesos)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
		[illegible]	[illegible]	-0-	-0-	-0-				
[illegible] to Principal-AID	[illegible]	75,[illegible]	[illegible]	-0-	-0-	-0-	-0-	-0-	-0-	-0-
[illegible] to Principal-BOR	[illegible]	37,[illegible]	[illegible]				-0-	-0-	-0-	-0-
[illegible] Principal	[illegible]	[illegible]	277,725,000	277,725,000	277,7[illegible],000	[illegible]	[illegible]	[illegible],765	[illegible],265	257,674,015
Principal Repayments-AID	-0-	-0-	-0-	-0-	-0-	[illegible],015	[illegible],190	[illegible],170,420	[illegible],250	[illegible],912,615
Principal Repayments-BOR	-0-	-0-	-0-	-0-	-0-	[illegible]	-0-	-0-	[illegible]	-0-
Outstanding Principal	[illegible]	215,580,000	277,725,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	251,754,400
Interest Payments-AID	4,802,000	10,060,400	[illegible]	[illegible]	12,960,500	[illegible]	[illegible]	[illegible]	[illegible]	11,5[illegible]
Interest Payments-BOR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Interest Paid	[illegible]	15,090,600	[illegible]	19,440,750	19,440,750	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Debt Servicing Requirements (Lines 4,5 & 9	7,203,000	15,090,600	19,440,750	19,440,750	19,440,750	2[illegible],956,795	23,956,795	23,956,795	23,956,795	[illegible],955,795

[illegible]down of Outstanding Principal (Line 6)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
[illegible] Loan	68,600,000	142,720,000	185,150,000	185,150,000	185,150,000	180,633,955	175,801,765	170,631,765	165,099,015	159,179,400
[illegible] Counterpart	34,300,000	71,860,000	92,575,000	92,575,000	92,575,000	92,575,000	92,575,000	92,575,000	[illegible],575,000	92,575,000
Outstanding Principal (Line 6)	102,900,000	215,580,000	277,725,000	277,725,000	277,725,000	273,208,955	[illegible]	263,206,265	257,674,015	251,754,400

ANNEX IV
Exhibit 3

FINANCIACOOP
PROJECTED INTEREST REVENUES THROUGH COMPOUNDING
(Colombian Pesos)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Projected Interest Revenues Resulting from Original Lending and Roll-overs										
Part I - Rural Coop	5,642,350	14,910,280	21,725,515	21,725,515	21,725,515	21,725,515	21,725,515	21,725,515	21,725,515	21,725,515
Part II - C[illegible]A	4,630,500	7,165,800	7,165,800	7,165,800	7,165,800	7,165,800	7,0[illegible],700	6,[illegible],105	6,[illegible],725	6,[illegible]
Total Interest Revenues	10,272,850	22,076,080	28,891,315	28,891,315	28,891,315	28,891,315	28,711,[illegible]	28,[illegible]	28,4[illegible]	28,[illegible],875
C[illegible]A Principal Recoveries	-0-	-0-	-0-	-0-	-0-	1,[illegible],365	[illegible]	[illegible]	1,[illegible]	1,[illegible],725
Available for Debt Servicing	10,272,850	22,076,080	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Debt Servicing Requirements	7,203,000	15,090,600	[illegible]	[illegible]	19,[illegible]	[illegible],795	[illegible]	[illegible]	[illegible]	[illegible],795
Balance Available for Relending to Coops	3,069,850	6,985,480	[illegible]	[illegible],410,[illegible]	[illegible],410,[illegible]	[illegible],855	5,[illegible]	5,[illegible]	5,[illegible]	5,758,4[illegible]

Assuming the above can be lent to Rural Cooperatives at 9% p.a. interest, the following additional interest revenues can be expected.

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Totals
1977	276,256	-0-									276,256
1978	301,151	628,695	-0-								929,846
1979	228,214	685,275	850,550	-0-							1,864,079
1980	357,796	7[illegible],349	[illegible]	850,550	-0-						2,552,[illegible]
1981	[illegible]	814,174	1,0[illegible]	[illegible],090	850,550	-0-					3,[illegible]
1982	4[illegible]	[illegible]	[illegible]	1,010,537	[illegible],090	[illegible],459					4,[illegible],125
1983	[illegible]	[illegible]	1,[illegible]	1,[illegible],465	1,010,537	[illegible]	[illegible]	-0-			5,662,444
1984	[illegible]	1,054,[illegible]	[illegible]	[illegible]	1,[illegible],405	[illegible]	[illegible]	576,258	-0-		6,[illegible],218
1985	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible],601	[illegible]	572,657	-0-	[illegible],478
Totals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,[illegible]	1,[illegible]	[illegible]	-0-	[illegible]

Above compounding takes into consideration a reduction of funds available for additional lending caused by debt servicing.

ANNEX IV
Exhibit 4

ANNEX IV
Exhibit 5

FINANCIACOOP
Amortization Schedule
FINANCIACOOP/CECORA Loan
AID Loan Portion

Year	Total Payment	Interest Paid	Principal Paid	Principal Balance
1976	3,087,000	3,087,000	-0-	34,300,000
1977	4,777,200	4,777,200	-0-	53,080,000
1978	4,777,200	4,777,200	-0-	53,080,000
1979	4,777,200	4,777,200	-0-	53,080,000
1980	4,777,200	4,777,200	-0-	53,080,000
1981	5,814,565	4,777,200	1,037,365	52,042,635
1982	5,814,565	4,683,840	1,130,725	50,911,910
1983	5,814,565	4,582,070	1,232,495	49,679,415
1984	5,814,565	4,471,150	1,343,415	48,336,000
1985	5,814,565	4,350,240	1,464,325	46,871,675
1986	5,814,565	4,218,450	1,596,115	45,275,560
1987	5,814,565	4,074,800	1,739,765	43,535,795
1988	5,814,565	3,918,220	1,896,345	41,639,450
1989	5,814,565	3,747,550	2,067,015	39,572,435
1990	5,814,565	3,561,520	2,253,045	37,319,390
1991	5,814,565	3,358,745	2,455,820	34,863,570
1992	5,814,565	3,137,720	2,676,845	32,186,725
1993	5,814,565	2,896,805	2,917,760	29,268,965
1994	5,814,565	2,634,205	3,180,360	26,088,605
1995	5,814,565	2,347,975	3,466,590	22,622,015
1996	5,814,565	2,035,980	3,778,585	18,843,430
1997	5,814,565	1,695,910	4,118,655	14,724,775
1998	5,814,565	1,325,230	4,489,335	10,235,440
1999	5,814,565	921,190	4,893,375	5,342,065
2000	5,822,850	480,785	5,342,065	-0-

Assume 25 year repayment period at 9% interest per annum, with 5 year grace period on principal repayment.

ANNEX IV
Exhibit 6

FINANCIACOOP
Amortization Schedule
BOR/FINANCIACOOP Loan
AID Loan Portion

Year	Total Payment	Interest Paid	Principal Paid	Principal Balance
1976	4,802,000	4,802,000	-0-	68,600,000
1977	10,060,400	10,060,400	-0-	143,720,000
1978	12,960,500	12,960,500	-0-	185,150,000
1979	12,960,500	12,960,500	-0-	185,150,000
1980	12,960,500	12,960,500	-0-	185,150,000
1981	17,476,545	12,960,500	4,516,045	180,633,955
1982	17,476,545	12,644,375	4,832,170	175,801,785
1983	17,476,545	12,306,125	5,170,420	170,631,365
1984	17,476,545	11,944,195	5,532,350	165,099,015
1985	17,476,545	11,556,930	5,919,615	159,179,400
1986	17,476,545	11,142,560	6,333,985	152,845,415
1987	17,476,545	10,699,180	6,777,365	146,068,050
1988	17,476,545	10,224,765	7,251,780	138,816,270
1989	17,476,545	9,717,140	7,759,405	131,056,865
1990	17,476,545	9,173,980	8,302,565	122,754,300
1991	17,476,545	8,592,800	8,883,745	113,870,555
1992	17,476,545	7,970,940	9,505,605	104,364,950
1993	17,476,545	7,305,545	10,171 000	94,193,950
1994	17,476,545	6,593,575	10,882,970	83,310,980
1995	17,476,545	5,831,770	11,644,775	71,666,205
1996	17,476,545	5,016,635	12,459,910	59,206,295
1997	17,476,545	4,144,440	13,332,105	45,874,190
1998	17,476,545	3,211,195	14,265,350	31,608,840
1999	17,476,545	2,212,620	15,263,925	16,344,915
2000	17,489,060	1,144,145	16,344,915	-0-

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS
A.1 Program Goal Increase incomes of rural poor associated with integrated rural project.	A.2 Measure of Goal Achievement Increases in income of members greater than that of non-members.

MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
A.3 Means of Verification of Goal A base line study will be undertaken at the projects outset, measuring income of members and non-members of the integrated rural credit program. After two years of implementation a follow up study will be made of the income of all members and non-members to determine if the project has been successful in increasing members income at a rate greater than that of non-members.	A.4 -No national disasters (floods, droughts)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS
B.1 Project Purpose A viable cooperative system assisting small farmers with credit and marketing services.	B.2 Conditions indicating purpose has been achieve No. of new rural coops established 200 No. of new members of rural coops 80,000 Savings at credit coops:[illegible].4 million Annual profist of CECORA feed project: 6 million New marketing projects developed for small farmers by coop movement per year: 10 Percentage of all rural coops belonging to federations: 75% No. of first-time borrowers: 14,000

MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
B.3 -Regular audits -Monthly and quarterly reports -Frequent meeting of members and administrators	B.4 -Credit available in the amount of US$5,000,000 -Government Support for cooperative efforts. -Growth of established coops will be a result of improved organization and improved services.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS
C.1 Project Output a) No. of Production loans to target group b) Amount of Production credit c) Amount of marketing loans d) No, of community Leaders reached	C.2 Magnitude of Outputs 76 / 77 / 78 a) 8,000 / 20,000 / 28,000 b) 2 million / 3 million / 2 million c) 2 million / 1 million / -- d) 3,000 / 7,000 / 11,000

MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
C.3 USAID Records Financiacoop Records	C.4

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS			
D.1 Project Inputs	D.2 Implementation Target	CY76	CY77	CY78
a) Credit -Production -Marketing	a)	2 million	2 million	1 million
b) Technical assistance -Production -Marketing	b)	36 m.m. (64,000)	36 m.m. (64,000)	12 m.m. (10,000)
c) Commodities -Equipment for Coops and UCONAL -Vehicles	c)	36,000	57,000	61,000
d) Other Costs -Administration of Coops -New Coop Development	d)	88,000	72,000	66,000
-Marketing Project Development	e)	4,000	4,000	4,000

MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
D.3	

RESPONSE TO IRR CABLE

REF: STATE 67241 DATED MARCH 25, 1975

A. Project Purpose

The CAP sets out the purpose of the strengthening of the small farmer rural cooperative system as the preferred vehicle for reaching and affecting the small farmer target group. This purpose is consistent with the AID/W guidance.

B. Target Group

The target group is small farmers borrowing for agriculture production purposes, per AID/W guidance. The target group, see Section I B of the CAP, is more precisely defined as owners of less than 10 hectares and recipients of less than $800 net annual income, who are therefore in the lower 40% of the income distribution.

C. Lending Terms

Issue #4 and Annex III describe how lending to Financiacoop in pesos is preferable to their direct assumptinn of AID loan terms in dollars. Section II D, Financial Aspects, describes the interest rate spread at each relending step and the uses to which the funds will be used. Section II B, The Policy Environment, discusses interest rate policy and the rationale for a minimum 18% interest rate for final borrowers. An annual review of interest rate policy will be required in the Loan Agreement.

D. Federation vs. Cooperative Borrowing

Eighty percent of the funds in the credit part of the project have been assigned to federations.

E. Institutional Assessment

Section II A of the CAP summarizes the assessment of all the institutions participating in the project.

F. Credit Demand

Section II B of the CAP analyzes the effective demand for agricultural credit and the administrative capacity of rural cooperatives. It is concluded that project funds plus a possible availability of $1.6 million through COLAC can be usefully absorbed during the three-year period of implementation.

G. Relending Criteria

Loan funds are to be used only for agricultural purposes and only by small farmers, per AID/W guidance (see Section I C 3, Subloan Criteria).

H. Ag Marketing Element - CECORA

The rationale of this project element is to facilitate small farmer access to market services through an expansion of CECORA activities in small farmer areas (Section I C, Project Description). The analysis of CECORA as an institution is presented in Section II A of the CAP.

I. Counterpart Contributions

Local cooperatives and Financiacoop will each match 25% of loan funds under the credit part of the project and CECORA will match 50% of loan funds under the marketing part. The Central Bank will match 50% of loan funds under both parts of the project.

J. Progress Indicators

Section III C, Evaluation, sets out progress indicators and an evaluation plan for the project.

K. Role of Women

As discussed in Section II E, women play an important role in administering the cooperative movement.