

PD-AAA-920-D1

~~PLEASE RETURN TO
LATIN AMERICA
EVALUATION STAFF
Room 5914 NS.~~

NON-CAPITAL PROJECT PAPER (PROP.)

COUNTRY: GUATEMALA

PROJECT No. 520-15-150-200.1

ORIGINAL X

SUBMISSION DATE: September 10, 1971

PROJECT TITLE: COOPERATIVE DEVELOPMENT
(Savings & Credit)

U.S. OBLIGATION SPAN: FY 1970 through FY 1976

PHYSICAL IMPLEMENTATION SPAN: CY 72 through CY 76

GROSS COST OF PROJECT REQUIREMENTS: (In \$000)

U.S. DOLLARS	745.5
OTHER DONORS (Cooperatives)	494.6
TOTAL	1,240.1

Directed: Michael: Coop. Dev./Agr. Dev. ML

Classified: ASChable/Agr. Dev. ML
EPI/Ag/Controller
EPI/Ag/Off

Approved: ML Director, USAID/G, Harlan A. Harrison ML

A. Rationale and Project Description

1. History and status of the movement

The history of the Guatemalan cooperative movement, beginning in about 1900, has been marked by misunderstanding and government interference. After an initial period of slow but steady growth, the movement was slowed during the 1930's by governmental confusion of the words cooperativismo and comunismo. After the 1945 constitution pledged the government's support to formation of cooperatives, the movement began to grow rapidly, although many of the new "cooperatives" were in reality communes. With the coming to power of Col. Castillo Armas in 1954, all cooperatives in Guatemala were declared illegal, and many of the movement's leaders fled the country or were imprisoned. In 1959 the GOB again began cooperative promotion and has continued its support ever since.

The National Federation of Savings and Credit Cooperatives (FENACCOAC) was formed in 1964 by 6 savings and credit cooperatives with the help of the AID Mission. From that date until the end of 1969, CUNA (Credit Union National Association International), was contracted to both advise and manage the Federation. The development of the Federation and its member cooperatives was limited, however, due to lack of effective services by the Federation and the extremely small size of its member cooperatives. Beginning in 1970, the Federation began offering a wider range of services to members, and the management of the Federation was turned over to Guatemalans. At the same time, FENACCOAC began to emphasize cooperatives consolidation rather than formation. The results of this change are shown below:

FENACCOAC

Growth Figures

	<u>12/31/69</u>	<u>6/30/71</u>	<u>%change</u>
Affiliated Cooperatives	71	75	6
Member families	13,033	20,840	60
Loans Outstanding	\$328,112	\$741,017	125
Savings	\$358,000	\$781,025	118
Average members per cooperative	183	277	51
Average savings per cooperative	\$5,042	\$10,413	106
Average savings per member	\$27.46	\$37.47	36

2. Nature of the Project

While savings and credit cooperatives as found in Guatemala and elsewhere in Latin America are usually compared to credit unions as found in the United States, there exist important differences. Credit Unions in the United States usually have a limited membership, for example, employees of a factory, and their purpose is generally to assist members to accumulate savings for purchase of consumer items. In Guatemala, however, the savings and loan cooperatives work primarily in rural areas and dedicate the majority of their resources to financing productive activities, such as agriculture and small business. Their membership is open so that anyone, irrespective of occupation, religion, or political following, can become a member.

Savings and credit cooperatives in Guatemala are seen as a tool for development. They represent for large numbers of Guatemalans the only sources of credit, due to their more liberal guarantee requirements, and reasonable interest rates. They also represent the only savings institutions available in the isolated, marginal rural areas. In addition, an effective, integrated savings and credit cooperative system, provides an institutional framework for communication of technological innovations from the city to the farmer, and for communication of farmers' needs and opinions to the government. Finally, as the individual cooperatives and the Federation are owned and controlled by members, this system provides genuine experience in working for change through democratic institutions.

This project, together with other AID/COC activities, addresses the goal of an increase in rural income and participation in development of the rural population. It is also directly related to three of the five goals of the Guatemalan Five-year Development Plan, which are:

1. "To increase the private and public investment coefficient during the period 1972-1976;
2. To establish the basic institutional means needed to increase and diversify agriculture and livestock production;
3. To improve income distribution".

This project is closely coordinated with the agricultural cooperative development subproject (520-15-150-200.2).

The target area of the project includes the entire country, with special emphasis on the Indian Highlands area. Rural Guatemala, and specifically the Highlands area, is characterized by illiteracy, indigenous languages and culture, separation of the Indian and mestizo populations, and a fatalistic world view. Despite these limitations, savings and credit cooperatives have been accepted and have demonstrated their growth potential.

3. Future of the project

As indicated in the Logical Framework matrix, at the conclusion of the project total anticipated membership will be 53,000, and total loans outstanding in the system will approach \$8 million. This, of course, represents the end-of project for AID, not for FENACOAC. FENACOAC's personnel and directors are committed to its continued growth, and provisions such as a forced savings policy that requires an increase in savings equal to 5% of each loan granted, insure future growth. If the projected rate of growth over the next five years continues in the following five, by 1981 the Federation will have 174,000 member-families and total savings of over \$39 million, with total loans outstanding considerably exceeding this amount. By this date, assuming that the present population growth rate and the average family size remain constant, the total membership in the agricultural and savings and credit cooperative systems will represent nearly 20% of the Guatemalan population.

4. Issues

Three aspects of the project brought out during its recent evaluation require special mention. First is the importance of keeping FENACOAC free from unnecessary GOG regulatory pressure to assure the movement of maintaining its private nature. The second is the need to keep the movement apolitical, to prevent the repetition of past errors and problems, as described in section 1 of this rationale. Finally, this project requires the use of \$2.1 million of additional external financing at concessional rates and without GOG guarantee.

B. The Project Goal

1. Statement of Goal

The goal of this project is increased rural incomes. This goal is also addressed by the following actual and proposed AID/GOG projects:

- a. Cooperative Development (Agriculture) 520-11-190-200.2
- b. Agricultural Development Project 520-11-190-197
- c. Rural Development Loan 520-11-018 5200204

2. Measures of Goal Achievement

The direct measure of achievement of this goal will be a net increase in per capita income and the percentage of the country's population participating in the development process. This information can be obtained from the GOG Planning Council and the Bank of Guatemala. An indirect measurement is to indicate the direct effect of the project in terms of cumulative external financing provided to the low-income

population by the project and the percentage of the country's population involved in cooperative projects. Projections for these last two indicators are shown on Table A.

3. Basic Assumptions of Goal Achievement

In order for this project to contribute to the stated goal, it is assumed that it will complement the agricultural cooperative project (520-15-150-200.2). The agricultural cooperatives project is designed to provide the marketing service for the increased production created by this project. The exact nature of this complementary role is presently being worked out in the field by the Savings and Credit Cooperative Federation and the contractor responsible for the agricultural cooperatives project.

C. The Project Purpose

1. Statement of Purpose

The purpose of this project is to develop a viable, effective and producer oriented Guatemalan savings and credit cooperative federation primarily serving rural communities. It is believed that this purpose will contribute directly to the achievement of the project goal by providing a source of credit and an institution for savings within reach of the low-income individual, and by insuring ownership and control of these institutions by the same individuals.

2. Conditions Expected at the End of the Project

If FENACCOAC is to be viable it must be self-sufficient, have investment capital available to meet member needs, accumulate member savings to meet member needs and to make possible borrowing of investment capital, and maintain a low annual bad debt rate to prevent losses. The end-of-project status and intervening year's projections for these factors are shown in Table B.

If this project is to be effective, it must involve a significant number of Guatemalan families, maintain a suitable level of loans outstanding, and maintain a high percentage of these loans dedicated to productive purposes and rural areas. The end-of-project status and intervening year's projections for these factors are shown in Table C.

In addition, due to the past history of cooperatives in Guatemala, it is believed that for this project to be both viable and effective there must be a change of attitude on the part of the decision makers in Guatemala in reference to the value of cooperatives. This change of attitude will be reflected in the news and information media and in legislative and regulatory activities.

Achievement of these end-of-project conditions will be verifiable through monthly and annual reports and fiscal audits of FENACOAC, a management audit of FENACOAC, and by review of media and actions of the legislature and regulatory agencies.

3. Basic Assumptions

In order to achieve the project purpose it is assumed that four conditions will be met. First, that a \$2.1 million concessional loan can be negotiated by 1973 to meet the requirement for capital availability projected in Table B. This loan must be at concessional interest rates to allow the Federation an additional interest margin during the period when its volume of operations is relatively low.

Second, that no widespread natural disasters or civil disorders interrupt the project's development.

Third, that the percentage of production oriented loans remains the same after AID support for the project ends, and finally that the loans made are not substitutes for other forms of available credit.

D. Outputs

1. Statement and Magnitude of Project Outputs

A list of anticipated project outputs and yearly projections of their magnitude is given in Table B. The achievement of these output levels will result in achievement of the project purpose.

Output achievement can be verified through the records of the Federation and the USAID Mission.

2. Basic Assumptions

In projecting the outputs shown in Table D, the following assumptions were made:

- a) That the savings and credit cooperative system will maintain its political independence, implying that it be both apolitical and free from unnecessary GOG regulatory pressure;
- b) That all new charters granted to savings and credit cooperatives will continue to be sponsored by FENACOAC; and,
- c) That the trend toward merger of small, local cooperatives will continue along with the increase in the total number of cooperatives.

E. Inputs

1. Statement and Magnitude of Inputs

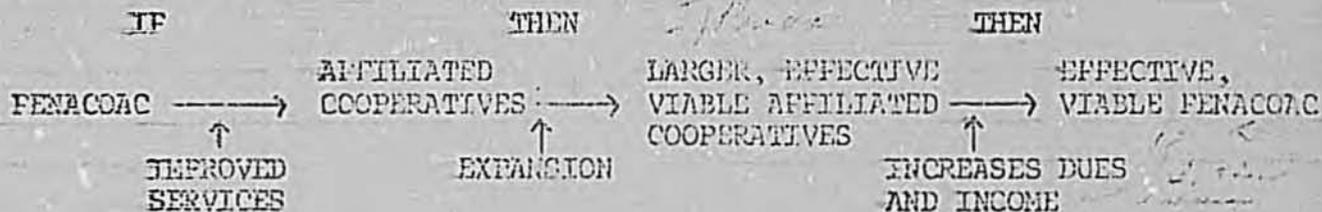
The inputs which will be required to achieve the outputs referred to in the previous section are indicated in Table E. Verification of both the timing and level of these inputs can be made through the records of the USAID Mission.

2. Basic Assumptions

It is assumed that the \$800,000 loan assigned to FENACOAC as part of the AID Rural Development Loan will be available for use early in FY'72.

COURSE OF ACTION

The course of action for this project involves a number of elements of varying importance which must be conducted simultaneously in order to achieve the end-of-project status. This course of action is summarized below:



The course of action therefore involves the first step in the equation shown above; i.e., the improved services which FENACOAC supplies to its affiliates. These services are:

- a. Extension: The extension department consists of five extension agents and a director of extension. Their duties are to assist affiliated cooperatives with any problems that develop and provide training to directors and administrative personnel; monitor accounting and control procedures; assist in planning, budgeting and evaluation; help member cooperatives submit loan requests to FENACOAC, and represent the Federation to the Cooperatives.
- b. Education: The education department offers a series of seminars from basic courses for new directors to advanced courses for managers.
- c. Credit: The Loan Department of FENACOAC is responsible for contracting funds from external sources, recommending loan priorities, analyzing loan requests from member cooperatives, and the timely collection of loans outstanding.

- d. Insurance and Bonding: This department offers three types of group insurance policies to cooperatives. First, a policy covering loans insures repayment of the loan in the case of death or total disability of a member. Secondly, a savings insurance policy pays beneficiaries, in the case of death of a cooperative member, up to twice the amount of his savings, depending on his age. Finally, the bond policy protects the cooperative in case of embezzlement and theft. In conjunction with its insurance services, this department audits the books of affiliated cooperatives to validate claims.
- e. Materials Production Center (MPC): This Center is fully equipped to produce all of the educational, promotional, and administrative materials needed by the Federation and member cooperatives. In addition, it is expected to produce materials for other development programs and thereby generate an income for the Federation. Also, the Director of the MPC is in charge of the public relations activities for FENACOAC.
- f. Supply of Office Equipment: The Federation maintains a stock of office equipment for sale to affiliates at wholesale prices.

Presently, FENACOAC is adding the following activities to the services listed above:

1. Model Cooperatives - A system of model cooperatives is planned jointly by the education and extension departments to serve as training centers for directors and personnel of other nearby cooperatives.
2. Branch Offices - Rather than promote new cooperatives, FENACOAC is stressing the development of strong regional cooperatives with branch offices. This system enables the extension of services to small communities where a separate cooperative would have limited economic potential.
3. Professional Management - The Federation is stressing the need for professional managers and office personnel in the local cooperatives and has a special high priority program, designed to train and support these personnel.
4. Capital Mobilization - In its plan to reach financial self-sufficiency, capitalization is being stressed both by the local cooperatives and the Federation. This will supply the capital base for future external financing, and replace it as their own capital accumulates.

At the same time that FENACOAC supplies the elements listed above, the AID Mission will be responsible for those listed below:

A. Institutional Development at the Federation and Local Levels

While the growth within the movement has been substantial, few cooperatives have reached the stage of development where they contribute significantly to the support of their Federation. FENACOAC's income will come primarily from two sources; interest from loans to affiliated cooperatives, and annual dues based on 10% of the gross income of the member cooperatives. Substantial income will be generated from the margin on the \$800,000 which FENACOAC will receive as part of the AID Rural Development loan. As the affiliated cooperatives become stronger and gain the capacity to support their Federation, and as external financing increases, AID financial support will diminish as shown in Section VII of this document.

B. Assistance in Obtaining External Funds

The \$800,000 in external financing already mentioned represents 28% of the projected external financing requirements through 1976. AID assistance will be given in the planning and contracting of funds. In looking for sources of these funds, first priority will be given to Guatemalan financial sources, and secondly, to external sources of development capital, i.e., IDB, CABEI, IBRD and AID.

C. Personnel Training and Introduction of New Services

AID assistance will concentrate during the remaining life of this project on developing new services, such as mechanized accounting, and on training the personnel of the Federation so that they can meet the expanding needs of the growing cooperatives.

D. Relations with GOG Officials and the Public at Large

As the Federation and its member cooperatives become stronger, it is possible that misunderstandings may occur with the GOG that could result in certain interest groups and government officials feeling threatened. It is felt that if effective communications are maintained, these individuals will see the project for what it is, a program of development which will increase the productivity of the low and medium income groups of the country and thereby benefit all sectors of the economy and the Government. The need for communications with the Government will be stressed to the leaders of the system, and assistance will be given to them in maintaining contacts with the Government.

E. Coordination with Other Development Programs

Complementing its assistance to FENACOAC, AID is supporting an agricultural cooperatives project, as well as its rural primary education, municipal, family planning, special development and other projects. The agricultural cooperative program will directly complement

this project by supplying agricultural production inputs (fertilizer, insecticides, etc.), marketing, mechanization, transportation, and technical assistance in agriculture. The exact working relationship will vary from one of the country's regions to the next and assistance will be given in promoting and defining this working relationship. In addition, emphasis will be placed on coordination with other programs of the Mission and of the GOG, to take advantage of the resources available.

In order to develop FENACOAC's administrative capabilities, public relations, coordination with other programs, planning and utilization of external financing, and to provide training to the Federation's employees, the services of a technician will be required during CY '72 and CY '73. The technician will be contracted through the Latin American Confederation of Savings and Credit Cooperatives (COLAC), and will probably be a Guatemalan.

OBJECTIVELY VERIFIABLE INDICATORS

MEASURES OF GOAL ACHIEVEMENT

EXTERNAL FINANCING

	1971	1972	1973	1974	1975	1976
Cumulative	\$3,034,000	\$4,971,000	\$7,952,000	\$12,539,000	\$18,462,000	\$26,359,000
% of population reached directly (per year)**	2.5%	3.1%	4.0%	5.0%	6.1%	7.2%

* Assume 1970 population at 5,100,000 and annual population growth of 3.1%. These figures represent the percentage of population reached directly by the two complementary programs, agricultural and savings-and-loan cooperatives.

OBJECTIVELY VERIFIABLE INDICATORS

I. VIABILITY *

(Calendar Years)

	1971	1972	1973	1974	1975	1976
1. Self-sufficiency						
a) Total operating income	\$ 16,118	\$ 36,042	\$ 55,236	\$ 88,061	\$ 127,021	\$ 169,616
b) Total operating expenses	\$ 118,618	\$ 138,542	\$ 143,091	\$ 150,178	\$ 154,269	\$ 158,612
c) Percentage of self-sufficiency	14%	26%	39%	59%	82%	107%
2. SCHRODAG Investment Capital Availability:						
a) Own Capital	\$ 433,000	\$ 731,000	\$ 1,181,000	\$ 1,837,000	\$ 2,577,000	\$ 3,297,000
b) External resources	\$ 77,000	\$ 120,000	\$ 181,000	\$ 237,000	\$ 323,000	\$ 397,000
	\$ 556,000	\$ 603,000	\$ 1,000,000	\$ 1,600,000	\$ 2,254,000	\$ 2,900,000
3. Total member savings (at the local cooperative level)	\$ 890,000	\$ 1,340,000	\$ 2,000,000	\$ 3,000,000	\$ 4,000,000	\$ 5,000,000
4. Annual bad debt rate (System wide)	1%	1%	0.5%	0.5%	0.5%	0.5%

* Inflation has not been a significant factor in Guatemala

TABLE C

Cooperative Development (Savings & Credit)
520-25-150-200.1

OBJECTIVELY VERIFIABLE INDICATORS

III. EFFECTIVENESS

(Calendar years)

	1971	1972	1973	1974	1975	1976
1. Affiliated member families	20,000	25,000	31,000	38,000	45,000	53,000
2. Total loans outstanding in the System	\$1,234,000	\$1,937,000	\$2,980,000	\$4,587,000	\$5,923,000	\$7,897,000
3. % of value loans for productive purposes****	65%	65%	65%	65%	65%	65%
4. % of value of loans granted by the System in rural areas	80%	80%	80%	80%	80%	80%

**** Productive purposes are defined as: Any income generating activities such as agriculture, livestock, handicrafts, small business and institutionalization of the cooperative movement. Specifically not acceptable as part of this definition are loans made for activities such as home improvements, education, medical care, consumer purchases, payment of interest, dues to the federation and dividends to members.

OBJECTIVELY VERIFIABLE INDICATORS

OUTPUTS

	(Calendar Years)					
	1971	1972	1973	1974	1975	1976
1. No. (cumulative) of affiliated cooperatives ^{FIRA}	75	80	85	90	95	100
2. No. (cumulative) of full time trained managers	27	55	80	87	95	100
3. No. of regional fieldmen	5	6	6	6	6	6
4. No. of Federation technical support staff (credit analyst, auditors, agronomist, insurance services, etc.)	7	11	15	15	15	15
5. Federation services to member cooperatives						
a. credit services		8	8	15		
b. insurance agreements						
c. other services						
6. No. of cooperatives	75	80	85	90	95	100
a. active	25	25	25	25	25	25
b. inactive	50	55	60	65	70	75
7. Financial resources available	\$25,000	\$75,000	\$1,181,000	\$1,587,000	\$2,321,000	\$3,247,000

non-quantifiable

This year represents the maximum number of cooperatives which FENCOAG anticipates in the year 1976. The number of cooperatives in 1976 represents the total.

TABLE D
Page 2

(Calendar Years)

	1973	1974	1975	1976	1977
Federation Outputs	a. Life insurance				
	(1) No. of member cooperative subscribers	81	84	85	85
	(2) % of affiliates	85%	85%	85%	85%
	(1) No. of member cooperative subscribers	81	85	85	85
	(2) % of affiliates	85%	85%	85%	85%
Quantity purchase of office equipment, supplies and publications, (Approx. % of yearly increase with 1971 as base year)					
	100%	300%	500%	700%	900%
6. Publications & activities in public relations	Non-quantifiable				
7. Man-years of technical assistance:					
a. Contract	1	1	1		
b. Direct Hire	1	1	1	1	1
8. Participant training (No. of people trained - cumulative)**	5	12	13	28	38

** GOG technicians
Cooperative managers
Federation Technical Staff

14

OBJECTIVELY VERIFIABLE INDICATORS

INFUTS (\$000)

(Fiscal Years)

	1971	1972	1973	1974	1975	1976	Totals 1971-76
Participants	7.5	7.5	7.5	12.5	12.5	12.5	60.0
Facilities	11.5	---	---	---	---	---	11.5
Primary Services:							
(a) Contract	48.0	34.0	34.0	---	---	---	116.0
(b) Direct Hire	24.0	30.0	30.0	30.0	30.0	30.0	174.0
(c) Costs	104.5	102.5	87.9	62.1	27.2	---	384.0
	176.2	174.0	159.4	104.6	69.7	42.5	745.5

PROJECT LOGICAL FRAMEWORK

- 16 -

Project Title: Cooperative Development (Savings & Credit) 520-15-1500200.1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS
<p><u>Program or Sector Goal:</u></p> <p>Net increase in income and participation in development of low income population</p>	<p><u>Measures of Goal Achievement:</u></p> <ol style="list-style-type: none"> 1) Net increase in per capita income 2) External financing (See Table A) 3) % of population reached (See Table A)
<p><u>Project Purpose:</u></p> <p>To develop a viable, effective and producer oriented Guatemalan savings and credit cooperative federation primarily serving rural communities</p>	<p><u>Conditions Expected at End of Project:</u></p> <ol style="list-style-type: none"> 1) <u>Viability</u> <ol style="list-style-type: none"> a. Op. Income (See Table 1) b. Op. Expenses (See Table 1) c. Inv. Capital (" ") 2) <u>Effectiveness</u> Reaching production oriented rural citizen (See Table C) 3) <u>Attitudes</u> <ol style="list-style-type: none"> a) Media b) Legislative & regulatory activities
<p><u>Outputs:</u></p> <p>Number of viable cooperatives Total Guatemalan Technical Soc. Federation Services Contract Management Advisory Service Publications (P.R.)</p>	<p><u>Magnitude of Outputs:</u></p> <p>See Table</p>
<p><u>Inputs:</u></p> <p>Participatory process Government Advisory services</p>	<p><u>Implementation Schedule (Target Dates)</u></p>

BEST AVAILABLE COPY

PROJECT LOGICAL FRAMEWORK

-17 -

Date Prepared: Sept. 10, 1972

MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>GOC Planning Council</p> <p>Bank of Guatemala Statistics</p> <p>ENACOAC Records</p> <p>ISAID Economist</p>	<p>Complements agricultural cooperatives project</p>
<p>1) Monthly and annual reports</p> <p>Fiscal audit</p> <p>2) Management Audit</p> <p>3) Review of media volume</p> <p>Actions of legislature and regulatory agencies</p>	<p>-Need additional \$2.1 million concessional loan by 1973</p> <p>- Maintenance of % of production oriented loans after IOP</p> <p>-No widespread natural disasters or civil disorders</p> <p>-loans made are not substitutes of other forms of credit</p>
<p>Federation Records (See Table D) (Nos. 1-6)</p> <p>ISAID Records (Table D) (Nos. 7 & 8)</p>	<p>Political independence (apolitical and freedom from GOG unnecessary regulatory pressure.)</p> <p>All new charters will be sponsored by FENACOAC</p> <p>Trend toward merger of small local cooperatives will continue along with increase in total number of cooperatives</p>
<p>ISAID Records</p>	<p>Loan of \$800,000 during FY '72</p>