

Proj. No 5240141-
 PA (2) 18f

PD-AAB-147-B1

Appendix 6A, Ch 6
 Page 4 (TM 3:1)

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT PAPER FACESHEET TO BE COMPLETED BY ORIGINATING OFFICE		1. TRANSACTION CODE ("X" appropriate box) <input checked="" type="checkbox"/> Original <input type="checkbox"/> Change <input type="checkbox"/> Add <input type="checkbox"/> Delete	PP DOCUMENT CODE 3
2. COUNTRY/ENTITY NICARAGUA		3. DOCUMENT REVISION NUMBER	
4. PROJECT NUMBER 524-0141	5. BUREAU a. Symbol LA b. Code 3	6. ESTIMATED FY OF PROJECT COMPLETION FY 79	
7. PROJECT TITLE - SHORT (stay within brackets) [Rural Small Merchant Credit Unions]		8. ESTIMATED FY OF AUTHORIZATION/OBLIGATION a. INITIAL 1 77 b. FINAL FY 78	

9. ESTIMATED TOTAL COST (\$000 or equivalent, \$1 =)

a. FUNDING SOURCE	FIRST YEAR FY 77			ALL YEARS		
	b. FX	c. L/C	d. Total	e. FX	f. L/C	g. Total
AID APPROPRIATED TOTAL		75	75		132	132
(Grant)	()	(75)	(75)	()	(132)	(132)
(Loan)	()	()	()	()	()	()
Other						
1.						
U.S.						
2.						
HOST GOVERNMENT						
OTHER DONOR(S) FUNDE and Coops		28	28		62	62
TOTALS						

10. ESTIMATED COSTS/AID APPROPRIATED FUNDS (\$000)

a. Approp-riation (Alpha Code)	b. Primary Purpose Code	c. Primary Tech. Code	FY 77		FY 78		ALL YEARS				
			d. Grant	e. Loan	f. Grant	g. Loan	h. Grant	i. Loan	j. Grant	k. Loan	
F&N	243	110/140	75		57					132	
TOTALS			75		57					132	

11. ESTIMATED EXPENDITURES

12. PROJECT PURPOSE(S) (stay within brackets) Check if different from PID/PRP

[To establish viable rural organizations providing low-cost credit services to rural small merchants and small industry.]

13. WERE CHANGES MADE IN BLOCKS 12, 13, 14, or 15 OF THE PID FACESHEET? IF YES, ATTACH CHANGED PID FACESHEET.

Yes No No PID for ORG

14. ORIGINATING OFFICE CLEARANCE Signature: <i>[Signature]</i> Title: Director, USAID/Nicaragua		15. Date Received in AID/W, or For AID/W Documents, Date of Distribution Date Signed: 11/22/76
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PP FOR RURAL SMALL MERCHANT CREDIT UNIONS (FUNDE OPG)

I. BACKGROUND, PROJECT PURPOSE AND PROJECT DESCRIPTION

A. Background

In January 1975, one of the first OPGs in Latin America was made to the Nicaraguan Development Foundation (FUNDE) to set up twenty credit unions for market women and other small business in rural towns. The experience, as this project nears its conclusion, has been sufficiently successful to have generated spontaneous new demand in towns of similar size and economic activity, and to have encouraged FUNDE to turn to AID once more for financial assistance in establishing credit unions for small business and small industry in the remaining towns in Nicaragua that meet criteria for this type cooperative activity. FUNDE has judged fifteen more towns to have 1) the appropriate size (2,000 - 10,000 inhabitants) and commercial activity to support a self-sufficient credit union, as well as to meet the following additional criteria; 2) no other existing credit union for same target group; 3) roads sufficiently passable for FUNDE staff to enter regularly; and 4) in most cases, a nearby branch of a commercial bank. The latter is usually an indicator of economic and savings capacity of a region and also facilitates deposits and transactions of the credit union, while rarely serving as a truly adequate alternative credit source for individual small borrowers. FUNDE does however go into towns even where branch banks do not yet exist, where other indicators of potential success are strong. The fifteen towns are: La Paz Centro, El Sauce, Telica, Malpaisillo, Catarina, Santa Teresa, Santo Domingo, Boaco, San Isidro, San Rafael del Norte, Ocotal, Camoapa, Jalapa, Quilali and Rama. (See Map). These, together with the original twenty rural credit unions are grouped in microzones, so that FUNDE promoters can be placed in towns close to groups of credit unions, to reduce travel time and thus improve technical assistance. The fifteen towns are considered to complete national coverage for the medium term for Nicaragua. This means that other towns are either too small, too inaccessible, or too negative in terms of interest and cooperation to participate in this type program, or else they are towns which already have a functioning credit institution for the target group.

Specific results of project 524-13-140-108

The End of Project Status of the original project is stated and progress toward this status noted. The project is 22 months old, and will end in September 1977.

1. Twenty communities will have viable credit unions, totalling 6,000 members with \$70-100 in savings per member generated.

Nineteen credit unions are functioning to date, and the twentieth will be organized by December 1976. Membership totals 2,657

(about 60% women) and total savings C\$1,370,000, or US\$73.65 per member. (See Annex A for list of towns with credit unions formed).

2. Credit unions are self-sufficient (covering operating costs) at the end of two years.

The subsidy of manager's salary was reduced from 24 to 18 months and those five credit unions which have been functioning for 18 months or more are self-sufficient.

3. Adequate Coordination between the credit unions should be maintained through an efficient Central FUNDE Office.

In addition to the Central FUNDE Office and staff, which sponsors regular training seminars where credit union managers are brought together, FUNDE established in mid 1975 a regional office in Matagalpa, easily accessible to Northern Zone credit unions.

4. An association of credit unions would be initiated for exchange of information.

A formal Association exists.

5. C\$1,750,000 seed capital lent by FUNDE

C\$1,255,000 lent in first 22 months.

B. Project Purpose

The purpose of this project would be to establish fifteen viable rural organizations providing low-cost credit services to rural small merchants and small industry.

C. Project Description

This project would function similarly to project 108. Small merchants and small industry in rural towns of 2,000 to 10,000 population would be organized into credit unions by FUNDE promoters, through open meetings to discuss cooperativism, savings principles, organization and simple management. Committees of Administration, Credit and Surveillance would be elected among members and a local manager selected, hired and trained by FUNDE. Savings (at 7% interest) and further promotional work would continue during the first several months, while legal status is sought from the Ministry of Labor. The first loans to members are usually made in the third or fourth month, in amounts related to the member's savings (usually limited to C\$3 or 4 for each C\$1 of savings). Interest rates, set by the credit union, are usually 2% per month on the balance (an effective annual rate to the borrower of 18%, compared to as much as 240% annually to loansharks), and loan periods vary from six to nine months. Normally, loans are limited to such purposes as working capital, physical improvements of shops, or purchase of capital

equipment or tools. The more established credit unions also occasionally lend for general home improvement.

Standardized systems of control are established by FUNDE through use of preprinted forms (see Annex B), regular audits and careful, continuous accounting training of the manager. FUNDE makes loans of seed capital to the credit unions at 12% interest when the credit unions reach the point of sufficient demand. Office equipment for each credit union is donated under the AID grant, as is 18 months of subsidy for the manager's salary, while the credit union supports rent and provides for additional furniture. General Assemblies are held annually for re-election of officers, under the Nicaraguan Cooperative law, and regular training sessions are sponsored by FUNDE.

II. PROJECT ANALYSES

A. Social Analysis (Beneficiaries):

As in the case of project 108, the rural "market" woman is a prime target of the lower credit services and increased participation in local decision making of this project. Project 108's experience indicates that rural towns rarely have the crowded central markets that larger cities do; rather, commerce is often run out of the front room of merchants' homes. Women dominate small commerce, while small industry and services, also included as a target group, may be equally divided between men and women or slightly dominated by men. In any case, it is the rural family that benefits from improved income resulting from lower interest rates and expanded business. An average of 250 members after two years is estimated for the fifteen credit unions or a total of 3,750 beneficiaries. An average of 300 members, estimated for project 108, was more likely for the somewhat larger towns under the project.

With regard to social attitudes, rural towns often have virtually no organized community group, other than the Mayor's Office and the Alcoholics Anonymous. Thus, the credit union, once organized, sometimes becomes a lobby for community improvements. Experience shows that, whatever constraints exist on spontaneous community organization (such as a tradition of very centralized national government) do not seem to stand in the way of a successful community credit union, where direct benefits can be quickly realized.

B. Financial Analysis

The rural credit unions to be formed under this project are expected to become self-financing after 18 months of subsidized existence. Following are the calculations which indicate what costs are, and how a credit union will meet them:

Fixed Costs:

Full-time manager	C\$1,200/mo x 12	14,400
Assistant	400/mo x 12	4,800
Rent, utilities	160/mo x 12	1,920
Office supplies	100/mo x 12	1,200
Transport, per diem	200/mo x 12	2,400
Communications, other	50/mo x 12	600
Annual Total		<u>25,320</u>

Cost of Capital:

By 18 months, the lending capital mix is expected to be 60% from savings and 40% from external sources:

Savings	.60 x 7% interest	4.2% weighted
Bank loans	.40 x 12% interest	4.8% "
	Total average cost of capital	<u>9.0%</u>

Earnings:

The Credit Union charges 2% monthly on the balance, which generates 24% annual interest on the portfolio of loans. After subtracting the cost of capital, (i.e. after paying dividends to members and interest to the bank) the remaining earnings are 15% of portfolio, (24-9=15).

Self-sufficiency is reached when this 15% covers the C\$25,320:

$$\frac{25,320}{0.15} = \text{C\$168,800 amount of portfolio needed.}$$

Of the twenty credit unions established, five are already over this level of lending, one having achieved it in only 11 months. Thus, eighteen months is considered an appropriate average for attaining economic self-sufficiency.

III. DIRECTNESS OF IMPACT AND POTENTIAL FOR INSTITUTIONALIZATION

Membership in the credit unions to be formed under this project is open to all small tradespeople and artisans and to those who run home industries and home services in the rural towns of Nicaragua. As mentioned earlier, slightly over half of these people are women. While there is not a strict definition of what is "small", since membership selection is left up to the credit union itself, experience has shown that members are generally those marginal borrowers who would generally not go as individuals to a commercial bank office but would either go

without the credit or would turn to a loanshark ("prestamista") at more than ten times the interest rate. Thus USAID considers the impact to be direct on rural low-income groups. Institutionalization of this system of community credit unions will occur in two ways: First, the credit union itself will reach economic self-sufficiency, covering its operating costs with its earnings, as described in the Financial Analysis. Secondly, FUNDE proposes to create a mechanism whereby technical assistance services can be sold to credit unions on a need basis, thereby institutionalizing the FUNDE advisory role without requiring additional donations. A team of four advisors -- two cooperative experts and two auditors will be employed by FUNDE, and credit unions will be able to tap these resources for, for instance, auditing, additional training, or orientation of new members. Reimbursement to FUNDE would be made by the credit unions, using the Education fund that each will be establishing, with the set-aside of a regular percentage of their profits before profits are divided among members. FUNDE estimates that the fifty-five cooperatives/credit unions that would exist following the conclusion of this project (40 original and 15 new) would generate enough demand to cover salaries and transportation costs for this team of advisors.

IV. PROJECT IMPLEMENTATION

A. Financial Plan

<u>ITEM</u>	<u>CY 1977</u>			<u>CY 1978</u>		
	<u>AID</u>	<u>FUNDE</u>	<u>CU's</u>	<u>AID</u>	<u>FUNDE</u>	<u>CU's</u>
Manager's Salaries (15 x \$177 x 18 mos)	24,000	-	-	23,790	-	2,675
<u>FUNDE Personnel</u>						
2 Promoters (\$6,000/yr)	12,000	-	-	12,000	-	-
2 Auditors (\$6,000/yr)	12,000	-	-	12,000	-	-
1 Secretary (\$3,600/yr)	3,600	-	-	3,600	-	-
2 PT Advisors	-	6,000	-	-	6,000	-
Social benefits	1,800	390	-	1,800	390	-
<u>Operations Costs</u>						
Office Rent, services	-	4,000	3,000	-	4,000	3,000
Per diem, gasoline (staff)	-	10,000	-	-	10,000	-
Local Seminars	-	2,500	-	-	2,500	-
Other Costs, incl. Evaluation	1,500	2,000	-	810	1,000	2,000
<u>Equipment</u>						
Jeep*	6,100	-	-	-	-	-
Loudspeaker	500	-	-	-	-	-
Portable Generator	1,500	-	-	-	-	-
Office equipment**	12,000	-	-	3,000	-	-
T o t a l s	75,000	24,890	3,000	57,000	24,890	7,675

- * Jeep donated under 108 will continue in Northern Zone; New Jeep will replace old FUNDE vehicle in Southern Zone.
- ** Each credit union will receive typewriter, adding machine, desk and file cabinet at \$1,000 per credit union.

B. Administrative Capabilities

The central role for implementation will again be FUNDE's with USAID playing the role of financier, with occasional observation visits by USAID staff to credit union sites. FUNDE will contract, pay and train managers (agreeable to credit union administration) until self-sufficiency is reached. FUNDE will recruit any additional central office staff not now on board under other projects. Some of Project 108 personnel are expected to assume positions under the new project. A goal of ten credit unions will be set for the first year's organizational work, leaving five for the second year, with some flexibility if needed.

FUNDE has developed many innovations to improve the control system, simplify accounting, and generate confidence among members. Preprinted forms used are included in Annex B. In addition, monthly balances are prepared and posted for the public to read at each credit union office, as well as being sent to FUNDE for collection and analysis of data related to overall progress. FUNDE personnel are in general well-prepared and motivated. Some discontinuities occurred in project 108, due to several changes in project directors, although FUNDE maintains that reassignment of promoters permits broader experience for new credit unions, as well as serving to keep promoters "on their toes". One of the two full time promoters under this project will be assigned overall director responsibility for the project, although supervision will also be maintained by senior FUNDE personnel.

C. Evaluation

A subcontract will be financed under this grant to permit FUNDE to employ a local consulting firm to undertake an evaluation of the economic improvements experienced by members of the credit unions.

V. LOGICAL FRAMEWORK

(next page)

VI. CONDITIONS

See letter from GON (Annex C).

NICARAGUA

LOGICAL FRAMEWORK

RURAL SMALL MERCHANT CREDIT UNIONS

Goal

To improve living conditions of families of rural small merchants and small industry, and to lower costs of marketing by improving efficiency of the process.

Project Purpose

To establish fifteen viable rural organizations providing low cost credit services to rural small merchants and small industry.

Statement of Project Outputs

- Promotional and organizational activity carried on by FUNDE in fifteen sites in rural Nicaragua.
- Fifteen managers recruited and trained.
- FUNDE accounting system installed in each new credit union and regular auditing take place.
- Office facilities are set up and equipped in each site.
- \$12,500 seed capital lent by FUNDE to each credit union.

Indicators

An increase in personal income due to increased economic activity generated by members of credit unions.

EOPS

- Fifteen communities have viable credit unions, totalling 3,750 members, with savings averaging \$70-100 per member.
- Credit Unions are self-sufficient
- FUNDE maintains coordination and reimbursable technical assistance capacity.

Output Indicators

- FUNDE receipts documenting staff visits to each site.
- USAID site inspection, interviews with managers.
- Review of monthly balances prepared by credit unions.
- Bimonthly progress reports submitted by FUNDE.

Assumptions

No drastic, offsetting change will occur due to natural disaster or emergency, (e.g. drought or flooding).

Assumptions

Among rural small towns, demand continues for credit union type organization.

Assumptions

- Credit available from private sector for seed capital.
- Efficient FUNDE administration.

Inputs

- AID grant covering central FUNDE staff salaries, managers salaries and equipment. AID: \$132,000
FUNDE: \$49,780
- FUNDE counterpart for operating costs and additional TA. FUNDE/Private Sector
\$187,500 loans
- FUNDE-channelled seed capital from private sector.
- Credit union contributions in form of personal savings, and interest, generating earnings that cover increasing amounts of operating costs. Credit Unions: \$10,675

ANNEX A

TOWNS WITH CREDIT UNIONS ORGANIZED BY FUNDE
UNDER PROJECT 524-13-140-108

<u>Town</u>	<u>Date</u>
Santo Tomas*	February 1975
Ciudad Dario	March 1975
Sebaco	June 1975
Matiguas	June 1975
Muy Muy	May 1975
Jinotega	April 1975
Masatepe	March 1975
Nandasmo	August 1975
San Rafael	September 1975
San Marcos	September 1975
Nendaime	October 1975
Yali	December 1975
Nindiri	March 1976
Dixiomo	April 1976
Esquipulas	April 1976
Niquinohomo	May 1976
La Trinidad	June 1976
Juigalpa	March 1976
(Moyogalpa)	(November 1976)

*Santo Tomas opened two "branches" in Villa Somoza and Accoyapa in August 1976.



COOPERATIVA DE AHORRO Y CREDITO LA ESPERANZA, R. L.
BLUEFIELDS, ZULAYA

CHEQUE

No. 01000

DIA	MLS	AÑO
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PAGARSE A
O AL ORDEN DE:

ANULADO
Fecha:

CS	CORDOBAS
----	----------

A SUMA DE:

BANCO

CUENTA No.

FIRMAS AUTORIZADAS

COMPROBANTE DE PAGO

CUENTAS	DEBE	HABER

HECHO POR:	REVISADO POR:	AUTORIZADO POR:	RECIBI ESTE CHEQUE:	FECHA
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COOPERATIVA DE AHORRO Y

CREDITO _____ R.L.

SOLICITUD DE PRESTAMO:

SOLICITUD # _____

SALDO A LA FECHA QUE TENGO PENDIENTE \$ _____

CANTIDAD ADICIONAL QUE NECESITO \$ _____

POR LA PRESENTE SOLICITO UN PRESTAMO DE \$ _____

POR ESTE PRESTAMO PAGARE UN INTERES MENSUAL DE \$ _____

ME COMPROMETO A CANCELARLO EN UN PLAZO DE _____

CON ABONOS _____ DE \$ _____ MAS UN AHORRO DE \$ _____

ESTE PRESTAMO ES CON EL PROPOSITO DE _____

ADEMAS DE MIS AHORROS OFREZCO LA GARANTIA SOLIDARIA DE LOS SIGUIENTES ASOCIADOS:

FIRMA DEL SOLICITANTE

LUGAR Y FECHA DE SOLICITUD

PARA USO DEL ASOCIADO

NOMBRE DEL SOLICITANTE: _____

FECHA EN QUE INGRESO A LA COOPERATIVA: _____

DIRECCION DE SU NEGOCIO: _____

DIRECCION DE SU CASA: _____

CONDICIONES DE SU CASA:

PROPIA _____ ALQUILADA _____ AMORTIZA _____

NOMBRE Y DIRECCION DEL PARIENTE MAS CERCANO: _____

TIEMPO DE TRABAJAR EN ESTE LUGAR: _____

INGRESO MENSUAL: _____ EDAD: _____

ESTADO CIVIL: _____

INFORME DEL TESORERO-GERENTE

APORTACIONES AL _____ DE _____ DE 197 _____ \$ _____

SALDO PRESTAMO AL _____ DE _____ DE 197 _____ \$ _____

A la fecha es fiador de los siguientes préstamos:

<u>NOMBRE DEL DEUDOR</u>	<u>TOTAL DEL PRESTAMO</u>	<u>SALDO DEL PRESTAMO</u>
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____

OBSERVACIONES: _____

<u>NOMBRES:</u>	<u>FIADOR</u>		
	<u>SALDO DE FIANZA PENDIENTE</u>	<u>CAPITAL AHORRADO</u>	<u>SALDO A PRESTAMOS</u>
_____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____

EL RECORD CREDITICIO HA SIDO:
BUENO _____ REGULAR _____ MALO _____

PARA USO DEL COMITE DE CREDITO

EL COMITE EN SESION CELEBRADA EL DIA _____ DE _____ DE 197_____
ACTA # _____.

ESTUDIO LA PRESENTE SOLICITUD Y ACORDO:

Presidente.-

Secretario.-

Vocal.-

Fecha:

ARQUEO DE CAJA

COOPERATIVA DE AHORRO Y CREDITO _____ R. L.

AL _____ DE _____ 1976

	<u>DENOMINACION</u>	<u># SUB-TOTAL</u>	<u>T O T A L E S</u>
BILLETES	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
MONEDAS	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
CHEQUES	<u>LIBRADOR</u>	<u>B A N C O</u>	<u>FECHA</u>
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____

OTROS

TOTAL \$ _____

DEL RECIBO DE INGRESO # _____ AL # _____ \$ _____

DEL RECIBO INGRESO # _____ AL # _____ \$ _____

T O T A L \$ _____

DIFERENCIA \$ _____

CERTIFICACION

Certifico que el dinero antes detallado, fue devuelto a mi persona conforme después de ser verificado por el Sr. _____, Auditor de Cooperativas de FUNDE.

Gerente."