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LOAN COMPLETION REVIEW AND REPORT

Loan No.: 525-L-037  
Title: Federation of Credit Unions  
Borrower: Federation of Credit Unions  
of Panama (FEDPA)  
Amount: \$1,900,000  
Date of Loan: June 26, 1971  
Terminal Disbursement Date: June 30, 1974 \*  
Total Disbursed: \$1,900,000  
Terms: 25 years  
7 years grace period  
2% interest per annum during  
grace period  
3% interest per annum after  
grace period

\* As stated in loan agreement. Final disbursement actually made in August, 1973.

1. Background

Traditionally in Panama, private credit institutions have pursued very conservative lending policies. Strict collateral requirements make it difficult for the lower income groups in either the urban or rural areas to obtain loans from banking institutions. Even when collateral is available, banks are reluctant to satisfy demands for small loans because of the high risks and administrative costs involved and the resultant small profit margins. As a result lower income groups have had to turn to moneylenders who charge a rate as high as 10% per month.

It is the role of the credit union system to serve as a source of credit geared to the needs of the small borrower, who is not eligible for a regular bank loan, or who may hesitate to go outside his immediate community to obtain money.

## II. Loan Purpose

The purpose of the loan was to build FEDPA, the Federation of Credit Cooperatives of the Republic of Panama, into a viable institution servicing the credit union movement and to expand and fortify the movement in Panama. As described in the CAP, "the loan is considered to be seed capital which will assure self-sustaining growth of the Federation and of the credit union system in Panama. The benefits to be derived are: (a) Increased saving and investment; (b) An increase in the real income of credit union members; (c) Increased capacity of lower income groups to participate in capital markets; (d) Social development; individual learning how to work together, community institutions; preparation for other type of cooperatives."

With the loan proceeds, FEDPA made sub-loans to its affiliated credit unions for relending to members for agriculture, small industry and commerce, and supplemental working capital (includes loans for housing, debt cancellation, consumer goods, and family necessities). As detailed in the loan agreement, agriculture sub-loans were expected to utilize 28.3% of the loan funds, industry 14.0% and supplemental working capital 57.5%.

## III. Results

The entire \$1.9 million was disbursed by August, 1973, just two years after initiation of the loan and more than a year earlier than anticipated in the loan agreement. Of this amount, agriculture received 24.7%, small industry and commerce 28.1% and supplemental working capital 47.2%. This represents an improvement over the estimates shown in Part II above insofar as larger than expected amounts went to the priority sectors of agriculture and small industry and commerce rather than the supplemental working capital area.

The loan was instrumental in developing FEDPA into a viable institution and in strengthening the credit union movement. Between December 31, 1970 and August 31, 1973, the total capital and reserves of FEDPA rose \$187,000, an increase of 23%. Most striking, not a single cooperative defaulted on a FEDPA loan during the disbursement period of the A.I.D. loan.

While the number of affiliated cooperatives only increased by 5% from December 1970 - August 1973, the number of individual credit union members jumped from 12,162 to 18,629, a gain of 6,467 or 53%. Member savings registered an 85% increase to a level of \$3.6 million.

A major thrust of this loan was to re-direct the loan emphasis away from the more affluent urban areas and into the poorer rural areas of the country. This was decisively accomplished. As of October 31, 1973, 38 (48%) of the 79 affiliated credit unions were located in the rural or interior zones of Panama. Of the total 18,629 coop members, 10,647 (57%) belonged to rural zone cooperatives. Also by the end of October, 1973, savings of rural coop members had soared to \$2.1 million. These achievements by far exceed the projections made in the capital assistance paper.

Rural or urban, however, the lending activity of FEDPA has been directed at the lower income members of Panamanian society. In the absence of precise data, it is estimated that credit union members generally have an income of less than \$200 per month. While no figures have been collected on increases in income resulting from loans, it can be assumed that loans would not be granted unless there was a reasonable expectation that they would result in an improvement of either the standard of living or an opportunity for increased income.

Because of FEDPA's proven success and the increasing demand of the lower income groups in Panama for increased credit resources, AID is proposing a second cooperative loan during the current fiscal year which would include \$2.0 million for FEDPA. Emphasis will continue to be directed to the small farmer or rural community dweller in the poor, primarily interior areas.

#### IV. Covenants of the Loan Agreement

##### A. General

1. Section 4.01 - Execution of the Project: Full compliance.
2. Section 4.02 - Funds and Other Resources to be Provided by Borrower: Full compliance.
3. Section 4.02 - Continuing Consultation: Full compliance.
4. Section 4.04 - Management: Full compliance.
5. Section 4.05 - Continuity: Full compliance.
6. Section 4.06 - Taxation: Full compliance.

7. Section 4.07 - Utilization of Furds, Goods and Services: Full compliance.
8. Section 4.08 - Disclosure of Material, Facts and Circumstances: Full compliance to date. This is a continuing covenant until the loan is fully paid off.
9. Section 4.09 - Commission, Fees, and Other Payments: Full compliance.
10. Section 4.10 - Maintenance and Audit of Records: Full compliance.
11. Section 4.11 - Reports: Implementation letter No. 1 of July 27, 1971 requires that Quarterly Progress Reports be made to the Mission. Instead, FEDPA has regularly submitted monthly progress reports since the project's initiation. While these reports do not contain all of the information requested for the quarterly reports in Implementation Letter No. 1, the Mission Project Manager considers them entirely satisfactory. Mission requests for additional information from FEDPA are met promptly and fully. No further action is needed. It should be noted that with the anticipated second AID loan to FEDPA as mentioned under Part III above, regular reporting by FEDPA to the Mission will continue.

#### V. Reporting Requirements

FEDPA is required to submit quarterly progress reports to A.I.D. until one year after the date of the last disbursement and annual audit statements, prepared by an external audit firm, for five years after the last disbursement. As noted under section IV A 11, monthly rather than quarterly reports are received by the Mission. An audit of FEDPA is prepared annually by Buron y Asociados of Panama.

#### VI. Monitoring Responsibilities

In view of the nature of the loan there exists a continuing need for active monitoring of the loan until August, 1974, i.e., one year after the final AID disbursements. This monitoring includes review of reports submitted by FEDPA, regular contact with FEDPA administrative officials, and field visits to credit unions affiliated with FEDPA.