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ASSESSMENT
PARAGUAY CREDIT UNION PROJECT
AID PROJECT NUMBER 526-0101
VOLUME I: EXECUTIVE SUMMARY

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ACKNOWLEDGEMENTS

CUNA Global Projects would like to express its appreciation for the outstanding cooperation received from all project participants. This assessment represents the results of a joint effort, one requiring long hours and great dedication by all parties, to ensure that a complete and accurate assessment would be obtained. We hope this report is reflective of that considerable effort.

Special appreciation must be extended to the entire staff of CREDICOOP who took time from their pressing responsibilities to provide every possible assistance. The efforts of Dr. Miguel Angel Rivarola, General Manager, and Lic. Juan Peralta P., Director of Finance and Development, were particularly noteworthy and essential to the successful completion of the field study. The participation of Mr. Henry Miles, Capital Development Officer, and Mr. Boris Michailuk, Evaluation Officer, from USAID/Paraguay was also extremely valuable and productive. The efforts of the CUNA Paraguay team, Mr. George Wohanka and Mr. Richard Leigh were equally outstanding.

This cooperation allowed for a feature not always found in studies of this nature, i.e., extemely open and candid discussions about the project, its problems, and the means to resolve them. This style, we believe, provided greater insights for all participants, particularly for the assessment team.

We also extend our gratitude to the staffs and leadership of all the cooperatives visited during the field work. Not only was the information provided most useful, but the opportunity to observe the operations and settings of those institutions was particularly instructive.

The following lists all credit unions visited, plus the principal study participants. Our acknowledgements to the contributions made by each.

CREDIT UNIONS

A. Rural:

Acahay
Coe Pyajhu
Coronel Bogado
Coronel Oviedo
La Barrerena
Promoción
Quiindy
San Ignacio
San Juan Bautista

B. Urban:

Comecipar
Mburicao
San Pablo

Study Participants

A. CREDICOOP

Board:

Presidente:	Sra. Leónidas Páez de Virgili
Vice-Pdte:	Sr. Cirilo Martínez
Tesorero:	Dr. Miguel Angel Britos

Staff:

Dr. Miguel Angel Rivarola, Gerente General
Lic. Juan Peralta, Director de Financiamiento y Desarrollo
Lic. Jorge Talavera, Director del Comercialización
Sr. Jorge Bello, Director de Administración
Lic. Armindo Martinez, Director de Auditoría
Sr. José Villaba, Encargado de Educación
Sra. Delicia E. de Florentín, Promotora-Asesora de Cooperativas
Sr. Juan B. Coghlan, Promotor-Asesor de Cooperativas
Sr. Luis César González, Promotor-Asesor de Cooperativas
Sr. Carlos Gonzalez Vargas, Coordinador de Insumos

B. Banco Nacional De Fomento - Dr. Arsemio Falcón Real

C. Ministerio de Agricultura y Ganadería - Ing. Juan Estigarribia

D. COLAC - Sr. Carlos Dextre

E. USAID/Paraguay

Mr. Henry Miles, Capital Development Officer
Mr. Boris Michailuk, Evaluation Officer

F. CUNA/Paraguay

Mr. George Wohanka, Chief of Party/Financial Advisor
Mr. Richard Leigh, Production Credit Technician

G. CUNA Global Projects

Mr. Mahlon Barash, International Finance Specialist
Mr. Gordon Hurd, Systems and Procedures Specialist
Mr. John Rouse, Agricultural Economist

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I. INTRODUCTION

This report summarizes the major findings, conclusions and recommendations of an assessment carried out in October 1977 of the USAID funded Credit Union project in Paraguay (AID Project Number 526-0101). This is designed to establish a viable central cooperative institution (CREDICOOP) with a number of viable member credit unions.[1] These institutions are to provide savings and credit facilities to the project target group, small farmers, to enable them to raise their net family income by 50 percent over a five-year period.

A. ASSESSMENT PURPOSES

Two principal purposes were intended to be realized by this study. The first focused on the assessment of project progress, using the existing design indicators as the objective criteria. The second purpose was to analyze the institutional capaiblities at both the national and primary levels to identify potential areas for improvement in project design and/or implementation.

In order to accomplish the first purpose, the indicators of inputs, outputs, purpose, and goal contained in the logical framework of the project were used to assess progress. The second study purpose was pursued through the use of an analytical methodology developed by CUNA/Global Projects to more precisely measure the financial and technical self-sufficiency of national and local credit union institutions.

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[1] Two affiliates of CREDICOOP are agricultural cooperatives.

B. PROJECT BACKGROUND

This project was initiated in 1970, based on a three-phase development program prepared by CUNA and AID. The initial phase focused on the formation of a specified number of credit unions principally in the rural areas, encouraging small farmers to become members. After reaching a minimum level of membership and savings, the credit union would be eligible for loans from the National Development Bank.

The second phase called for the formation of a national association of credit unions. With 16 credit unions as charter members, CREDI-COOP was formed in October 1973, and received its charter in May 1974.

The third and current phase of the project is designed to enable the credit union system to become financially and technically self-sufficient, obviating the need for additional external assistance. This phase is scheduled to be completed by June 1980. One of the principal mechanisms for the attainment of this objective is a soft loan of $3 million from AID to CREDICOOP to be used for agricultural credit. It is assumed that the income generated from the loan will enable CREDICOOP to reach financial self-sufficiency by the end of the project.

C. ASSESSMENT METHODOLOGY

Although this project was initiated in 1970, only the third or current phase of the project has been assessed by this study. That phase approximately coincides with the preparation of the first

CAP paper in June 1974.

To measure project progress, two principal documents were used as basic sources, i.e., the revised CAP paper of November 1974 for the years ending June 1975 and 1976, and the Allen projections as contained in the amendment to the Loan Agreement of December 1976, for subsequent years.

To assess institutional capabilities, a process analysis approach was used. All activities performed by most national associations have been identified and defined as processes. A group of processes constitutes a function, which generally corresponds to major services or activities, e.g., accounting, marketing. For each process, a statement of minimal performance has been prepared against which actual performance may be measured. Using this approach, processes requiring improvement can be systematically identified as well as the factor(s) causing the deficiency. This approach is also applicable at the primary level. Technical viability at both levels was examined using these criteria.

The approach to financial analysis involved a re-examination of assumptions and data used to prepare the operational financial projections as contained in the Allen report. Where conditions warranted, new assumptions or estimating techniques were used, resulting in a revised set of projections. These projections update the Allen projections, and presumably, more accurately project CREDI-COOP's future financial status.

Since it was impossible to visit all affiliated credit unions, information at the primary level was obtained primarily through visits to a sample of 12 credit unions, nine rural and three urban. To obtain a fairly good cross-section of the different levels of development, all affiliated credit unions were classified as either well developed, medium, or poorly developed. Three from each classification were chosen at random for rural credit unions, one from each for urban credit unions.

The evaluation design and methodology was prepared in July 1977 by CUNA/Global Projects/Washington for review and comment by the three key participants, CREDICOOP, USAID/Paraguay, and CUNA/Paraguay. This design was then used as the framework for conducting the evaluation, although modifications, agreed to by all participants, were introduced as the fieldwork proceeded. Fieldwork was conducted during the weeks of October 17 to November 9, 1977. A draft report was prepared by CUNA/Global Projects in February 1978 for review by CREDICOOP and USAID/Paraguay. This final report incorporates the comments and clarifications of that review.

II. FINDINGS AND RECOMMENDATIONS

This executive summary is not intended to be all-inclusive, but rather seeks to discuss those aspects of significance to the success of the project. Following a summary of the major project accomplishments, a discussion of shortcomings identified during the study is presented. For each shortcoming, a recommendation is presented for review by the project participants. The last section presents a discussion of the key project issue, requiring special attention by all participants.

The focus of this report then is on the problems and shortcomings that need to be addressed in order to strengthen the project. Presumably, this is of greatest concern to the project participants, as opposed to a lengthy review of all the aspects that are being done well. This focus, however, should not lead the reader to conclude that the problems and shortcomings outweigh the significant project accomplishments. The Comprehensive Report, Volume II which contains a more detailed analysis of the project, CREDICOOP, and the affiliated credit cooperatives, demonstrates the overall high level of performance of the entire project. We should note, in addition, that CREDICOOP management had previously identified nearly all the problems discussed below, and had initiated actions to resolve them.

A. MAJOR FINDINGS

During the course of this study, each member of the CUNA/Global Projects assessment team reached the same general conclusions about the project in general and CREDICOOP in particular: both are most impressive. The project, despite several major obstacles,

has been successful in not only achieving most of its original "*"
objectives but also in building the foundation for an effective savings and credit system. Institutional development, when properly designed and implemented can, as this project demonstrates, be a most effective strategy leading to long term benefits for specified target groups.

A summary of some of the major project accomplishments highlights these conclusions:

1) The project has achieved or surpassed nearly all of the existing output indicators. Particularly impressive has been the amount of share capital mobilized by the primary level cooperatives, about 40 percent higher than projected.

2) The revised financial projections prepared by the study team indicate that CREDICOOP may reach break-even a year earlier. than scheduled. Overall, the financial conditions of CREDICOOP appear to be quite sound.

3) The management and technical capabilities of CREDICOOP staff are uniformly high. They are particularly adept at anticipating problems, developing alternatives, and preparing specific solution strategies.

4) CREDICOOP staff performs all organizational and service functions in an adequate manner. Some functions, e.g., program planning

and evaluation, loan portfolio management, and education are particularly strong.

5) The addition of marketing to CREDICOOP's services has had a significant positive impact. It provides substantial benefits to the farmer, while providing another source of income to CREDICOOP. Most importantly, by marketing through the credit union, loan repayment is practically guaranteed, reducing the perennial problems of loan delinquency. The marketing component developed in Paraguay should be examined for its possible application to agricultural production credit programs in other countries.

6) Although a number of rural credit unions have significant delinquency problems, the financial condition in the majority of rural credit unions, based on the sample, was basically sound, showing positive growth rates for membership, shares, loan volumes, and a consistent surplus of revenues over expenses. All urban credit unions visited were rated as financially sound.

7) The technical capabilities of the staff in the credit unions visited varied substantially; however, all could perform the basic credit union functions adequately. Staff capabilities in the better developed credit unions were quite impressive, able to manage all aspects of the organization's operations, including the fairly complex marketing function, in an outstanding manner.

8) The project has developed an innovative vehicle for meaningful farmer participation in credit union activities, termed "comites por compañia." These farmer groups serve as a means to provide technical assistance on agricultural practices. The "comite" also provides recommendations to the credit union on applications for membership from farmers in their area. They also coordinate arrangements for the transport of produce to market and assist with collection efforts on delinquent loans of farmers in their area.

B. PROGRESS BASED ON PROJECT DESIGN

1. Inputs

The principal project inputs include:

a. AID $3 million soft loan
b. AID budget support to CREDICOOP
c. AID funding of two U.S. technicians
d. Seconded personnel from the National Development Bank and the Ministry of Agriculture

Nearly all inputs have been provided as scheduled and in a satisfactory manner. The only real exception occurred with the delay in approval of the AID loan. As a result, full implementation of the project was effectively delayed for more than a year, requiring a revision of the project output indicators, and a delay in the break-even date for CREDICOOP. Although some problems have been experienced with the provision of some of the other inputs, they have not had a significant effect upon the implementation of the project.

2. <u>Outputs</u>

A set of 17 output indicators were compiled related to specific targets for both rural and urban credit unions, as well as CREDICOOP. (All indicators were either achieved or surpassed. At the primary level, both the number of credit unions and membership targets were achieved as scheduled. The loan volume target was exceeded by a significant margin for rural credit unions. For both types of credit unions, the amount of share capital has exceeded the projected figures by about 40 percent. This trend indicates that total movement share capital is likely to reach approximately \$6.0 million rather than the currently projected \$2.9 millions by the end of the project.

In brief, the project, as measured by the existing output indicators would seem to be progressing very satisfactorily. But, the linkage between these outputs and the stated purpose is quite ambiguous. Positive performance in respect to these indicators is impressive, yet this will not necessarily assure that the viability of CREDICOOP and its affiliates will be attained.

<u>Recommendation</u>: 1

- The existing project design, as contained in the AID logical framework, should be revised. Some of the existing indicators should be modified and additional indicators that measure orgnaizational effectiveness in terms of the planned activities undertaken by CREDICOOP should be developed. These indicators should be tied to the project outputs, i.e., successful realization of a specific activity should lead to attainment of a specific output.

> CREDICOOP: Good management according to Drucker asks what is the minimum information needed to understand and control a situation.
>
> In the early years of the project, utilization of an excessive number of indicators reduced focus on important critical issues. CREDICOOP believes that additional indicators other than those already included in the loan agreement and present project paper would not be of more than marginal benefit.

3. Purpose

To attain the project purpose, a viable national credit association (CREDICOOP), and a network of strong affiliated primary credit institutions must be established. Unfortunately, the indicators used to measure purpose achievement, are nearly identical to the output indicators, which constitutes an illogical use of the logical framework. No definitive conclusions can be derived using those indicators.

Recommendation: 2

- The purpose indicators should be revised and made separate and distinct from the output indicators and should more adequately indicate whether the stated purposes have or have not been achieved.)

4. Goal

The project goal calls for a 50 percent increase in net farm income of project participants by the end of the project. Sample surveys of small farmers conducted by AID in 1972-1973 and in 1977 were to have provided the data required to measure this increase. However, technical problems related to both surveys have prevented use of the data to perform this analysis. (At this point, project impact on small farmer income cannot be ascertained.)

In addition, it was noted that previous project documents did not differentiate between the increase in income for project participants and non-participants. The goal statement contained in the project paper of October 1977 does, however, indicate that there should be "a statistically significant increase over non-participating families."

Recommendations: J

- AID should take special efforts to resolve the technical problems related to the survey data to allow for the necessary analysis to be undertaken to measure project impact on small farmer income. This analysis should be prepared in a separate report and distributed to all project participants.

4 - The goal statement should more precisely define relative achievement, since the term "statistically significant" has little operational meaning. A quantifiable measure, e.g., a 20 percent increase in participant income over non-participant income, should be used.

5 Other useful indicators of project impact, e.g., yields, expansion of cultivated land, prices, member capitalization, etc., should also be included.

C. FINANCIAL VIABILITY OF CREDICOOP

As noted above, the projected net income position of CREDICOOP may be more favorable than originally indicated. If the key assumptions on loan demand and operating expenses made are valid, financial break-even will occur in the year ending June 1981. Included in the assumptions is that CREDICOOP will meet the same portion of total farmer loan demand as contained in the Allen Report. This assumes that personnel and operating expenses will increase by 10 percent annually, break-even will still occur by the end of the project. A major factor in this analysis is the increased revenues resulting from the recent rise in the interest rate from 9 to 10 percent that CREDICOOP charges to its affiliates.

Interest income would be still higher if CREDICOOP were able to finance a large proportion of the total farmer loan demand. For the year ending June 1981, our projections show CREDICOOP financing less than 43 percent of this demand. Lifting the restriction on the use of AID funds to finance cotton and tobacco (see below) would allow CREDICOOP to finance a greater share of farmer loan demand until the $3 million was fully disbursed.) Thereafter, additional capital funds, presumably from non-concessional sources, would be required to be able to respond to the ever-increasing volume of farmer loan demand.

It is important to note that the $3 million AID concessional loan is the principal factor in CREDICOOP's self-sufficiency projections. CREDICOOP earns a margin of 8 percent on the use of these funds. Capital funds from non-concessional sources would reduce this margin considerably. With a 3 percent margin a deficit of approximately $144,000 would recorded in the final year of the project, instead of the currently projected surplus. By using concessional monies, the time required to build a viable savings and credit system has been greatly compressed, an obvious but nevertheless important conclusion that may be pertinent to the design of similar projects elsewhere.

There are two issues that could possibly affect CREDICOOP's financial viability which merit discussion:

<u>Restrictions on Use of AID Funds for Cotton and Tobacco</u>:
U.S. Department of Agriculture policies governing foreign assistance for crops also produced in the U.S. and in surplus on the world market have prohibited CREDICOOP from utilizing any portion of that $3,000,000 in loan funds to finance the production of either cotton or tobacco, both of which are produced in the United States and protected from foreign competition by existing legislation.

These restrictions continue to represent a hindrance to CREDICOOP's rapid attainment of self sufficiency.

The immediate impact is measured in a significant loss of potential interest income for CREDICOOP plus a significant increase in interest expenses for the borrowing rural credit unions. For example, using information contained in the current year's global investment plan, the interest income lost to CREDICOOP because of the restriction amounts to $48,977. Net interest income for the credit unions is likewise reduced by $25,929. The net loss to the entire system is thus, $74,906.

Losses of this magnitude have an obvious effect upon attainment of the project purposes, i.e., financially viable national and primary level credit institutions. Because this source of income is unavailable, U.S. government support must be extended longer than would otherwise be the case. Similarly, attainment of the project goal, i.e., increases in small farmer income is made more difficult. Two of the principal cash export crops, accounting for nearly 40 percent of total farmer loan demand, must be financed from alternative, more expensive, and less reliable sources of credit.

Recommendation:

- This issue should be re-examined in depth by USAID/Paraguay and AID Washington in order to determine whether a case can be made before the U.S. Department of Agriculture for handling this project on an exception basis. Request for such a ruling might be framed in terms negligible impact that production under the project would have upon U.S. cotton and tobacco producers.

Membership Expansion/Membership Selectivity

As a result, in part, of the high delinquency in several rural credit unions, CREDICOOP has been encouraging that great selectivity be exercised in admitting new members. Yet, on the other hand, the project calls for significant increases in membership over the next three and a half years. Total membership is projected to increase by nearly 11,000 to almost 19,000 by June 1981. The number of farmer borrowers should increase to nearly 8,000 from its present level of 2,000. The latter statistic is important, since it relates to farmer loan demand and subsequently, to the amount of interest income earned by CREDICOOP. Financial self-sufficiency for CREDICOOP could be largely determined by this factor. These objectives could conflict; yet a rational balance between the two can probably be established.

Recommendations: 7

CREDICOOP staff and leadership should examine ~~this~~ issue to determine how they should proceed in pursuing these two potentially conflicting objectives in order to allow for optimum attainment of each. This statement should be prepared as a guide for all staff, particularly for use by the field promotors in their regular contacts with the credit unions.

D. TECHNICAL VIABILITY OF CREDICOOP

The following provides a brief profile of CREDICOOP's technical capabilities in a number of the more significant functional areas. Overall, the assessment team was impressed with the competence of both the senior management and technical staff of CREDICOOP. Additionally, their obvious commitment towards the successful realization of the project objectives allows them to effectively address and resolve problems and difficulties as they arise.

Organizational Functions

1. Organizational Goals and Policies

CREDICOOP's goal and policies statements are contained in the organizational bye-laws or "estatutos." This document adequately defines the basic objectives of the organization, identifies the services to be rendered, and describes the basic strategies for obtaining those objectives. No significant weaknesses exist for this functional area.

2. Institutional Development

The strategy for CREDICOOP's institutional development has been largely described and defined in terms of the various project documents prepared over the years for AID funding consideration. To some extent, then, CREDICOOP's development strategy may have been determined by AID's priorities and objectives. There may be other areas outside AID's immediate focus that CREDICOOP may consider to be appropriate development objectives. This can only be realized through a comprehensive institutional development process undertaken by CREDICOOP itself, resulting in the definition of specific long-term objectives. The institution has not formalízed this process, although it does anticipate and develop strategies for specific long-range problems.

Recommendation: 8

- CREDICOOP should establish its own institutional development strategy, resulting from a long-term analysis of member needs and institutional capabilities.

  CREDICOOP: Candor, intellignece and flexibility on both sides has resulted in CREDICOOP's determining its own objectives to the maximum extent possible.

3. Program Planning and Evaluation

With respect to short-term planning, CREDICOOP does a commendable job. However, the action plans and activities reports filed by each staff member are not particularly useful, since, for the most part, they do not relate to the identified organizational objectives. Thus, it may be difficult for management to determine at any point in time if the current use of staff resources will in fact lead to achievement of the given objectives.

Recommendation: 9

- The action plans and activities report formats should be revised to ensure that information reported can be related to the organizational plan, such that progress toward attainment of the plan's objectives can be effectively monitored.

4. Accounting

CREDICOOP's own accounting system fulfills an adequate record-keeping function. CREDICOOP's accounting system was converted to computer processing in January 1978. Before this changeover, the financial statements were not very useful for management purposes. Accounts were not grouped logically, nor were sub-totals provided. Since the conversion, complete balance sheets and income/expense statements are prepared monthly, using a format that presents the information in a readily accessible manner.

> CREDICOOP: Due to the highly seasonal nature of operation, where most income is received following the close of the agricultural year, statements prepared on a monthly basis are of marginal usefulness. Only the end-of-year statement following receipt of income is truly significant.

5. Budgeting

Overall the budgeting function is performed quite adequately. CREDICOOP's budget details expenses by purpose and department on a monthly basis. Overhead and administrative expenses are allocated to each department based on an established allocation formula which would allow for adoption of a complete program budgeting approach if CREDICOOP so desired. A budget control form is prepared monthly detailing expenses to date by purpose and department, and the percentage this represents of the budgeted figure. Income is similarly projected and controlled on a monthly basis by sources. Since most of CREEICOOP's income results from loans to credit unions that are repaid once a year, the monthly control on income is not particularly meaningful.

6. Capital Funds Mobilization

Most of the processes related to this function are being performed satisfactorily. CREDICOOP has been successful in mobilizing both internal (to the credit union movement) and external capital. However. with the anticipated increase in marketing activities, CREDICOOP will probably need additional funds to finance marketing advances, as well as for the continued increase in production credit demand beyond the life of the project.

Recommendations: lo

- More emphasis should be placed on the mobilization of additional internal capital (both shares and deposits) as an alternative or at least a substantial supplement to external loans. (The planned development of deposit programs may help meet this objective.)

- !! CREDICOOP should investigate potential non-concessional sources of external credit and begin to phase these into its capital mobilization efforts. This will serve as preparation for the time when concessional sources are no longer available.

7. Loan/Investment Portfolio Management

CREDICOOP is particularly strong in credit management, which involves loan portfolio planning, loan policies and procedures, and loan analysis. Funds available in excess of loan requirements are productively invested in credit unions, banks, and savings and loans, earning interest, on at least one account, two percent higher than the standard rate because of the account's importance.

Cash budgeting at CREDICOOP presently includes only the sources and uses of loan funds; it is not a global plan of total receipts and payments.

Recommendations: 12

CREDICOOP should prepare an overall annual projection (cash flow) for all anticipated receipts and payments. (This is planned for 1978.)

8. Communications System

Communications between CREDICOOP and its affiliated credit unions is handled quite effectively. However, the routing of communications within CREDICOOP could be made more efficient. Nearly all communications are routed through the general manager, unnecessarily increasing his time for this activity.

Recommendation: 13

- The internal flow of communications should be examined to increase its efficiency, particularly to relieve direct involvement of the general manager. At some point, a system which identifies and routes all information essential for management decision-making purposes should be established.

Services to Affiliates

The following functions relate to services provided to the affiliated credit unions by CREDICOOP.

1. Accounting

Although this service is generally adequate, the financial reports prepared based on this system are less than adequate. The credit union accounting system provides all information necessary for financial reporting, however, the format is somewhat cumbersome and does not provide information in a readily accessible format.

Recommendations:

The monthly financial statement should be modified to:

- Include lines for total assets and total liabilities
- Include lines for total income and expenses which should include the marketing component
- ~~Sales, cost of goods sold and gross margin on sales should be indicated~~
- Marketing costs should be itemized along with administrative and financial costs

Note: Most of these format problems will likely be resolved with the changeover to the computerized system to prepare credit union level financial statements.

2. Financial Planning

Overall, this service provided by CREDICOOP is satisfactory except for one important deficiency - (lack of compatibility between the accounting system and the budget format.)

The budget form allows for the preparation of a complete annual month-by-month operating budget and control, but only a partial cash budget (cash flow). More importantly, the items on the form do not correspond with general ledger income and expense accounts, nor with the monthly financial statement form. Therefore, it is difficult both to project from past results without substantial recalculations, and to compare monthly results with those projected.

Recommendations:

- A separate form should be developed so that credit unions can prepare a complete cash flow.

- The budget form should be made compatible with the credit union general ledger accounts. The accounts on the form should be placed in the same order as on the monthly statement.

3. Credit Administration

All processes related to this service function are being performed quite adequately. No areas for improvement have been identified.

4. Stabilization Fund

Since CREDICOOP's stabilization fund was only established in 1977, it has not been operational long enough to assess adequately. In fact, no funds had been set aside for the stabilization fund, and it is not listed in the current plan of accounts. The allocation to the fund beginning in December 1977, will be tied in two ways to credit union membership (allocation of dues income based on savings and a fixed charge per member). Although some limited policies and procedures have been established, more need to be developed on the management and investment of the fund.

Activities normally undertaken by a stabilization fund, e.g., buying credit union loans, repaying member shares, etc., will eventually be performed. However, the immediate objectives of the fund relate to a strategy designed to revitalize those credit unions with serious delinquency problems (see Section I).

Recommendations:

- Establish policies and procedures for management and investment of the fund.

- Allocation to the fund should be tied to savings rather than membership growth, since the growth rate for savings is higher, and since savings protection is one potential use of the fund.

CREDICOOP: The total amount of dues for all programs is already quite burdensome. It is estimated that on a per capita basis, credit union members in Paraguay pay three times more in dues than U.S. members. Money paid in for dues reduces the amount of funds available for income-producing loans for each credit union. Thus, it is currently infeasible to increase dues assessments either for stabilization or other purposes.

In addition, part of annual dues income, of which 25 percent is allocated to the Stabilization Fund, is based on movement savings. Each credit union pays .5 percent of its savings for annual dues to CREDICOOP.

5. Institutional Development

This functional area is being perfomred effectively and apparently producing the desired results. Staff and leadership at the primary level demonstrated competence in at least the basic aspects of credit union operations, and many demonstrated fairly advanced managerial skills. The fact that the marketing function, a fairly complex managerial activity, was introduced and is now quite adequately managed at the primary level, is further evidence of CREDICOOP's effectiveness in institutional development. No significant weakness is readily apparent in this area.

6. Monitoring

This service activity which includes the monitoring and auditing of credit unions is performed adequately, although some weaknesses were noted. Although some monitoring is provided by fieldworker monthly visit reports and the credit unions' own monthly financial reports, the development of an inspection guide for fieldworkers would greatly enhance the performance of this function.

An extensive auditing system, tailored to meet credit union needs, is in effect. The audits performed are comprehensi... in scope covering all areas of credit union operations including marketing and the sale of input supplies. Nonetheless the very thoroughness of the audits has lengthened the time required to perform them (about 30 days) and has precluded CREDICOOP from meeting its goal of one audit per year per credit union.

Recommendations:

- An inspection guide for fieldworkers should be prepared using the supervisory committee guide as a basis.

- A review of the audit system should be conducted to determine what areas are most crucial to credit union development. (One possible approach is to eliminate the administrative portion as the formal audit. Administrative audits could be done less frequently.)

E. EFFECTIVENESS OF FARMER SUPPORT SERVICES

CREDICOOP regards the provision of farmer support services as an integral part of their agricultural credit activities. At present it furnishes farmer participants with technical assistance, agricultural supplies and marketing support through a variety of mechanisms.

In the opinion of the assessment team, these services have been performed satisfactorily, especially in the area of marketing and agricultural supplies. The only service which appears to be notably deficient is that of agricultural technical assistance.

1. Marketing

The marketing services provided by CREDICOOP to participating rural credit unions were generally well executed. The strategies employed were adapted to both the federation's and the credit union's manpower and resource constraints. Moreover, both responsibilities and risks were spread evenly throughout the organization from CREDICOOP down to the farmer rather than being concentrated at one level or the other.

Finally, marketing activities at all levels appeared to be well coordinated and orchestrated so as to achieve an integrated or global marketing approach, thus improving the benefits that could be secured through group marketing.

The two major weaknesses affecting the provision of marketing services appear to be product shrinkage and over specialization in cotton. (Although the team was unable to accurately measure the degree of product loss in the marketing process, it is believed to be around 15 percent.) The major causes of shrinkage appear to be the inadequacy of existing storage facilities at the credit union level and the improper handling and stroage techniques used at both the farm and credit union levels.

Over-specialization in cotton was rated as a weakness for two major reasons: Firstly, since 85 percent of the value of marketed production is in cotton, the marketing system is more susceptible to price and output fluctuations affecting cotton crops. Secondly, the strategy may tend to encourage over concentration of this at the farm level to the detriment of a more balanced cropping strategy which could better address the nutritional and other needs of farm families and perhaps reduce the need for importing particular food staffs at the national level.

Recommendations:

- CREDICOOP should devote greater resources to developing proper storage facilities at the local level and training farmer and credit union personnel in improved handling and storage techniques.

- CREDICOOP should re-assess its current marketing strategy with the thought of developing a more balanced market portfolio which would reduce risk exposure while at the same time ensuring that small farmers receive a wider range of benefits during the agricultural year involving several, rather than a single agricultural year involving several, rather than a single agricultural activity.

> CREDICOOP: CREDICOOP believes that the shrinkage at the level should not be combined into an analysis of weaknesses which affect the provision of marketing services. At the very least CUNA should explain how farm level shrinkage which would occur regardless of the marketing system affects the provision of marketing services.

2. Technical Assistance

The federation provides a variety of technical support services to credit unions and farmers participating in the project. The ultimate purpose of this additional technical assistance is to ensure that the credits supplied under the program are used productively and provide the farmer with the best possible return on his investment.

It was quite apparent from our field investigations that this assistance has been generally well received at both levels. Yet it was also quite apparent that not all of the recommended technologies had been successfully adopted. This was especially true in production technology.

Although the introduction of certain land-augmenting technologies had allowed many farmers to increase the area under cultivation, they had not contributed to higher per hectare yields. With some exceptions, per hectare yields had remained virtually stagnant. While not all of the reasons for this poor yield performance are clear, it appears that a major cause lies in the extension approach currently in use. Under the present system technologies are disseminated in a top-down fashion through the agricultural field assistant to the farmer. Little emphasis is placed on monitoring the performance of those technologies (especially in terms of actual yields and costs of production) at the local farm level. The technologies appear to be accepted as "givens" and almost no efforts are made to test the appropriateness of the practices to specific farm conditions through some sort of simplified trial experimentation which could be implemented with a minimum of credit union and/or Ministry of Agriculture supervision.

> CREDICOOP: Cost of production is "known" since it is being financed. Yield information also reaches the top through marketing data and information contained on each loan application.
>
> Local experimentation is not regarded as a good idea. CREDICOOP cannot be expected to nor can its member credit unions, to run local experiments on crops with validity and reliability. Valid experimentation would have to separate out the effects of a large number of variables including climate and soil type. Far from being a do nothing attitude this recognizes that the small farmer already has his own technology which is relatively risk free. The belief that local experimentation will come up with a better technology is not always correct. One reason many Agricultural Departments are unable to do sufficient experimentation is due to lack of adequate resources.
>
> If the team means to use the term demonstration in place of experimentation, the statement would be more correct.

Recommendations: 2'

CREDICOOP should establish a new performance evaluation system for monitoring the effectiveness of its technical assistance activities. Such improvements could be achieved by shifting from the present system of evaluating performance based on "activities fulfilled" e.g., visits made, courses given, etc. to a system based also on results obtained, e.g., increase in yields and product quality, reduction in costs, etc. Since it would focus more on the farmer, it would hopefully allow for better informational feedback on the effectiveness of certain technologies and provide data which could be used to modify these strategies to better fit the farmers' unique physical and behavioral environment.

- CREDICOOP should continue to develop the comite por compania concept and gradually extend it to other credit unions.

3. Agricultural Supplies

CREDICOOP's agricultural supplies service is relatively new and it was not until 1977 that it began to operate on a wide scale. According to our data, the majority of the sales in the first year of full-scale operation (1977), which reached a volume of $250,000, were for labor-saving farm implements such as plows, sprayers, and tractors. The remainder was for such items as improved seeds, insecticides and chemical fertilizers.

Given the newness of the service, the performance has been generally satisfactory. In the opinion of the assessment team, the only major weakness in the supply operation concerned the lack of data presently being compiled on farmer orders and purchases. Although records are kept of farmer purchases, CREDICOOP has not yet utilized this type of sales data for analytical purposes, for instance, to analyze seasonal changes in input consumption patterns between one credit union another or the movements as a whole, or to examine the distribution of various types of input technologies among farmer sub-groups (categorized by farm size or tenure size) of project participants, all of which might provide useful data on how to improve this service.

Another problem, not related directly to CREDICOOP's performance, concerns the supplies provided by the BNF. (Several credit unions complained that the expiration data on many of the supplies such as fertilizers, pesticides, etc. had been surpassed and that the supplies were ineffective, thus leading to lower yields and lower incomes.) The BNF, on the other hand, contends that independent tests of those supplies have demonstrated their effectiveness. While these results may indeed be true, they have not convinced small farmers; and since these supplies are handled through the credit union, it has led some to believe that they are being exploited by the project and the credit union.

Recommendations:

- CREDICOOP should institutionalize a system for gathering information on the changing level of small farmer demand for and consumption of agricultural supplies. Periodically, this data would be aggregated and analyzed by CREDICOOP staff to give a clearer picture of fluctuations in farmer demand, changes in consumption and investment patterns, and other variables.

> CREDICOOP: There are no meaningful monthly variations since almost all farmers are planting only one cash crop per year not two, all purchases are made during a compressed well defined time period. Quantities of

supplies and implements are determined and purchased in advance of the planting season and distributed to the farmer as part of his loan. Thus, compiling individual purchases of inputs would only waste time, since there are really only fractions of a total figure already available to CREDICOOP because it either purchased the total or arranged delivery by another supplier.

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- CREDICOOP should arrange for an independent analysis of the BNF supplies. If the results are positive, then this information should be disseminated to all involved. If the results prove negative, then the distribution of the supplies in question should be discontinued and higher quality replacement inputs acquired at the earliest possible moment in order to avoid delays in the scheduling of farmer planting and harvesting operations. While trying production loans to in-kind purchases of inputs is common practice in many bank-sponsored farmer loan programs, it is in the best interest of small farmers for credit unions to be given the option of purchasing these supplies from other sources if the original source of supply proved more costly and/or less dependable.

F. FINANCAIL STATUS OF AFFILIATED CREDIT UNIONS

Our analysis of the credit union level is primarily based upon the visits made to the 12 sample credit unions. The financial conditions of four of the nine rural credit unions were rated as good. All of these credit unions showed positive growth rates for membership, shares, and loans, had relatively low delinquency rates, and had a surplus of revenues over expenses. Two other credit unions were listed in fair financial condition. For these, most indicators were positive, except for high delinquency in one credit union and consistent deficits in the other.

The remaining three rural credit unions had significant problems, principally caused by high delinquency, resulting in slow growth rates for membership, shares, and loans, and consistent deficits. One of these credit unions is essentially insolvent because of its high delinquency.

All three urban credit unions were in sound financial condition, although there was considerable variation shown. One urban credit union has experienced dramatic increases in shares capital and loan volume in recent yeras, such that it now represents a signifcant asset for the entire movement.

If one can generalize about the conclusions reached from this sample to all affiliated credit unions, we would conclude that all 13 urban credit unions are essentially sound and will attain financial self-sufficiency by the final year of the project, if not sooner.

For the 26 rural credit unions, we would conclude that seven are in good condition, seven are fair, and 12 are in poor condition.

This implies that nearly half of those credit unions have significant problems that may preclude them from attaining financial self-sufficiency. Many of those credit unions were seriously affected by previous loan policies that encouraged use of large amounts of borrowed funds. CREDICOOP has undertaken a series of activities to assist these credit unions. It is important to the entire movement that those efforts succeed in rehabilitating a substantial number of those credit unions; the impact resulting from the liquidation of one credit union on member confidence may severely dampen the projections for growth in membership, savings, and loan volume. (See Section I for a discussion of this key issue.)

In addition to this issue, another problem surfaced that affects credit union level financial soundness if only temporarily. Several of the credit unions visited indicated that rather lengthy delays, e.g., three to four months, were experienced in processing loan applications through the BNF. In October, well past the land preparation, planting, and initial weeding phases for many crops, the BNF loans had still not been received. Some credit unions had exhausted their own resources in order to provide the needed capital to their farmer members, and as a result, could no longer attend to their non-farmer members. Agricultural credit must be timely. If it is not, an unnecessary burden is placed on both the credit union and the farmers.

Recommendation: 27

CREDICOOP and BNF should examine the current system for processing loans to identify existing bottlenecks and other causes for the delay. Quite possibly, the entire loan processing system could be simplified and streamlined, perhaps involving joint CREDICOOP/ BNF participation in some phases such as loan analysis. A definite schedule for the entire process, from application submission to initial disbursement should be developed, circulated to the credit unions so they are aware of the schedule, and rigidly adhered to. A method for monitoring the system should also be developed to insure the desired results are being obtained.

G. TECHNICAL STATUS OF AFFILIATED CREDIT UNIONS

All credit unions visited could perform at least the basic credit union functions in a satisfactory manner. In terms of the more complex activities there was considerable variation, as might be expected. The better developed credit unions could manage all routine and some non-routine functions on their own, while the lesser developed credit unions required continuing assistance from CREDICOOP for even the routive activities. We would expect, however, that by the end of the project, all established credit unions would be able to independently manage the routine activities, most of them in a more-than-adequate manner.

We did note some areas where CREDICOOP's attention should be directed:

1. Planning

All credit unions prepare an annual plan of activities, following CREDICOOP's proposed format. Target figures are established for membership, savings, loan volume, etc., and a set of objectives related activities for the credit union are established. However, the linkages between activities, objectives, and the established targets are usually quite tenuous. Greater specificity would also be useful. Beyond the mechanics of the process though, it would appear that CREDICOOP's first task is to demonstrate the value of planning to its affiliates. There exists some skepticism at the primary level that planning can make much difference in the success of the credit union.

Recommendations:

- CREDICOOP should place additional emphasis on planning in its education program, assisting participants to prepare more useful planning documents that will demonstrate the benefits that will accrue if the process is effectively performed.

- To the degree possible, CREDICOOP field promoters should be available to provide assistance when each credit union is preparing its annual plan.

2. Accounting/Budgeting

Two main deficiencies were noted above in the discussion of CREDICOOP services to affiliates: a) the monthly financial statement form prepared by the credit unions does not include all the commonly used accounts, nor does it provide information in a form useful for management purposes; and b) the budgeting format proposed for the credit unions is not precisely compatible with the accounting system, making monitoring and control a more difficult task. Recommendations to remedy these deficiencies have been noted in the discussion on CREDICOOP's service functions. In addition, we should note that, similar to the planning process, the value of the budgeting process as a management tool had not been fully recognized by credit union level staff and leadership. Many credit unions apparently made little use of the budget once it had been prepared.

Recommendation:

- CREDICOOP should emphasize the uses the budget should serve to credit union management, through its educational programs, and through the regular contacts of the field promotors.

3. Loan Portfolio Management

The loan policies of most credit unions, adopted from CREDICOOP's model policies, are quite adequate. It was noted that the application of these policies is not always consistent. In many, the recommended loan analysis procedures were apparently not always applied, preferring instead to rely solely on the Credit Committee's personal knowledge of the loan applicant. Additionally, we found that the specific procedures to be followed in order to collect on delinquent loans were not sufficiently detailed in most credit unions.

Recommendations:

- CREDICOOP should continually monitor the lending policies of its affiliates to ensure they conform to sound financial practices. It should continue its efforts to improve the loan analysis procedures among its affiliates.

- CREDICOOP should document the procedures to be followed in the collection of delinquent loans for dissemination to its affiliates. Field promotors should provide special assistance to those credit unions with serious delinquency problems.

H. IMPACT ON SMALL FARMERS

Judged solely from an analysis of credit union records and a limited number of small farmer interviews conducted, the impact of the project on small farmer well-being appears to have been positive. The average savings per farmer member increased by 20 percent in seven of the credit unions surveyed during the 1975-1977 period. In those four receiving external capital support from CREDICOOP, the increase in farmer savings was much higher, increasing from $65 to $121 per farmer, a rise of 86 percent.

Although we are confident that the project had a positive effect on raising the net farm real incomes of farmers by promoting better crop prices through group marketing and cost savings through wholesale purchasing of inputs, we were unable to estimate the magnitude of that effect due to certain technical problems that continue to effect due to certain technical problems that continue to affect the validity of the results of two detailed AID-sponsored small farmer surveys conducted in 1972-1973 and 1976. It is hoped that once these problems are solved by AID, a more detailed analysis of the impact of the project on small farmer incomes, crop yields and credit behavior.

As it now stands, the performance data collection requirements outlined in original project documents have not been fully implemented either by AID or CREDICOOP.

Recommendations:

- AID/Paraguay should resolve the technical problems affecting the two small farmer surveys conducted in 1972-1973 and 1976 so that the results can be analyzed in detail and inferences be drawn as to the impact of the project on small farmer incomes, crop production, credit behavior and on the distribution of project benefits to the various sub-groups of this population. Once these problems are resolved and the analysis performed by the contracting parties, a separate report should be published indicating the findings and recommending any additional action to be taken.

- CREDICOOP should seek to establish a more comprehensive farmer reporting system of its own for internal management and project evaluation purposes so that it can eventually take over the performance data collection responsibilities presently exercised by AID. Such a system would necessarily require more accurate information on farmer resource and ownership characteristics, the level of consumption of farm inputs, growth in capitalization and savings, and the volume of marketed production, and include a practical, yet easy to implement sampling system for estimating changes in per hectare crop yeilds, costs of production, etc. Such a system need not be complicated and could be established through the collection of a set of base data at the time of the farmer's entry into the credit union, or when the farmer applies for a project loan. Data on recurring farmer activities could be collected on many of the remaining variables simply by institution of a "transaction slip system" which could be used to stroe information on each participant.

CREDICOOP: CREDICOOP maintains a non complicated system for gathering the basic data indicated. It consists of collection of basic data at the time of entry and subsequent information on crop yields and production cost when new loans are made.

What is not generally realized is that the information required is in reality far more complex than we are willing to admit. For example, questions asking for a farmer's estimated yearly income lead to the following complications: Is the figure given gross or net income? Does it include the value of all crops and animals raised for home consumption? Is the farmer's own labor considered a cost? If it is, should it be deducted to obtain net income or ignored since it may be a cost but it is a wage paid to the farmer himself.

Inventory list of animals also frequently asked for prove of no value when one discovers that increases or decreases from one year to the next do not indicate measurable changes in wealth but rather static animal inventories with no information at all on interim purchases, sales deaths, etc.

For all these reasons it was determined that any meaningful attempt to address the issue of small farmer real income must be done through a well designed survey which would be carried out by AID. The internal cost of attempting to have the credit unions gather data which will be accepted as meaningful is at least equal to that of running a credit union.

I. LOAN DELINQUENCY IN 10 RURAL CREDIT UNIONS

This problem has become one of paramount concern not only to affected credit unions, but to CREDICOOP and the other project participants. If it remains unresolved, the impact could seriously weaken CREDICOOP's efforts to expand in the rural sector, and eventually weaken CREDICOOP's own viability. A great deal of time and attention has been devoted to this problem since it has first surfaced nearly three years ago, during which time the situation in a number of credit unions has become increasingly critical. To avoid liquidation of these credit unions, the project participants must agree upon, and implement, a rehabilitation plan. Since prompt action is required, due to the severity of the situation, we provide below a brief description of the problem, CREDICOOP's actions in response, and a set of recommendations to begin to return the situation around.

Description of the Problem

Prior to 1975, the project encouraged the practice of high leveraging. Using funds from the BNF, rural credit unions were able to borrow up to 10 times (in at least one case, 13 times) the value of their share capital to relend to farmer members for production credit loans. The implications regarding the credit union's solvency caused by this large external debt, when combined with even a modest rate of loan delinquency, apparently went unrecognized. A poor agricultural year, resulting in a large number of members being unable to repay their large loans, in turn precluded the credit union from repaying its large loan to the BNF. Member savings, which serve as collateral for the external loan, were effectively reduced to zero in those credit unions.

Altogether, 13 rural credit unions were seriously affected by the combination of high leveraging and high delinquency, and were cut off from external credit. Currently, four credit unions are in critical financial condition, at the brink of insolvency. Another six still have very high delinquency rates, although four of these have made sufficient progress to be able to receive external credit. The other three credit unions have made significant progress and have apparently defeated this problem.

As this problem unfolded, CREDICOOP responded with a number of changes in policies and practices resulting in an improved delinquency situation in most of these credit unions. Just as importantly, however, these changes prevented this problem from occurring in any new credit unions formed after the problem was first identified. The changes now in effect include:

1) No member credit union can receive a production loan greater than three times its share capital.

2) In order to receive a loan, the total amount of a credit union's external debt may not exceed five times its share capital.

3) Loans to an individual member cannot exceed five times his/her savings.

4) Delinquency calculation by credit unions must take into account the total remaining balance of the delinquent loan, not just the portion that is in arrears.

5) Legal collection procedures are being enforced by credit unions, using lawyers contracted through CREDICOOP.

6) A simplified delinquency report is being used by credit unions to stimulate the recording and reporting of delinquent accounts to CREDICOOP.

7) Coordination between the BNF and CREDICOOP has been instituted to improve the quality of loans being made.

8) Marketing income from sale of crops is applied first to loan repayment.

9) A positive incentive plan has been instituted for managers of credit unions where recuperation rates on loans increase above a stated amount.

In spite of these measures, the difficulties faced by the above mentioned 10 credit unions continues. To further assist these credit unions, CREDICOOP established a stabilization fund in 1977. This fund is designed to make interest loans to the credit unions allowing them to make loans to their members, and to finance operating expenses. This would allow the credit unions to generate income to begin to repay the loans owed to the BNF. However, the maximum amount that could be generated in five years is $16,400 using the current formula, based on the revised projections of savings and membership, is far short of estimated requirements. Without additional resources the immediate critical problems faced by those credit unions cannot be resolved. Special efforts, involving the participation of the key project participants is required.

Recommendations:

- CUNA Global Projects should work jointly with CREDICOOP and USAID/Paraguay to mobilize the resources necessary to allow CREDICOOP to assist the 10 seriously affected credit unions to solve their immediate operating problems. Global Projects should use its contacts to seek funding (grants or long-term loans) from sources such as the Worldwide Credit Union Foundation, and CUNA Mutual Insurance Society. USAID/

Paraguay should provide funding for initiating action to revitalize the affected credit unions.

- The initial disbursement of these funds to CREDICOOP should be contingent upon:

  1) BNF agreement to waive interest payments and accept transfer of all individual member loans above $800.

  2) BNF agreement to long-term repayment plan for each affected credit union which is consistent with the credit union's ability to pay.

  3) Projection of funds needed on an annual basis including proposed disbursement schedules both to credit unions and globally to CREDICOOP.

- Disbursement of these funds by CREDICOOP to the credit unions should be contingent upon:

  1) Evidence of plans for improved management in the affected credit unions.

  2) Evidence of plans for improved collection methods and action in these credit unions.

  3) Evidence of credit union loan policies which are adequate to determine the credit worthiness of the individual member emphasizing in priority order:
     - Character
     - Capacity to pay
     - Collateral

- Additional disbursement of funds to CREDICOOP should be contingent upon:

  1) Evidence that credit union debt to the BNF is being reduced.

  2) Evidence that the actions called for in the third item are in fact taking place.

  3) Receipt of report on how funds have been used and plans for submission of future periodic reports.

- Less reliance be placed on collateral of members for recuperation and emphasis on meaningful and careful pre-loan analysis.

- The use of "Comites por compania" be encouraged as a means to reduce loan delinquency both in education/analysis prior to loan disbursement and as a follow-up form of social pressure.

- The provision in the model credit union loan policy that denies new loans to members with existing delinquent loans should be reviewed. Additional credit may be essential if the member is to generate sufficient income to repay the delinquent loan.

  CREDICOOP: Granting new loans to members with existing delinquent loans will have a detrimental effect on existing non-delinquent members and will encourage new members to join to obtain loans with no intention of repayment. Only a small number of exceptions should be made for members who were delinquent due to factors beyond their control, and had no alternative sources of income.

Note: Some of the above recommendations are no longer applicable. These were prepared as part of the draft report based upon the approach that was then contemplated. An alternative approach has been developed since then, which is about to be implemented. Under the new plan, stabilization fund loans at 2 percent interest would be made to credit unions to allow them to repay their outstanding debt to the BNF. The payment would equal 75 percent of the outstanding principal. The Bank would forgive 25 percent of the principal, plus all fines and interest. CREDICOOP's Stabilization Fund will be capitalized by a $35,000 loan from the CUNA International Stabilization Fund, and by an Operational Program Grant from AID.

FINAL OBSERVATIONS

We would like to reiterate our recommendation that the Comprehensive Report, Volume II, be consulted for a more complete understanding of the project strengths and weaknesses. This volume provides the necessary information and analysis to both support these conclusions and more fully illustrate the overall impressiveness of the project.