UNCLASSIFIED

OPERATIONS MEMORANDUM

TO: Mr. Dan Chaij, LA/DR/RD-AID/W   DATE: 1/15/76

FROM: B. W. Allen, Financial Analyst SER/FM

SUBJECT: Report on Financial Analysis of the USAID/PARAGUAY CREDICOOP

REF: PD-AAB-331-A1

1. The subject report is attached in draft form for your immediate use since there appears to be a great deal of urgency concerning decisions which need to be made on the project.

2. In order to provide as much information as possible in the time frame needed, very little work could be accomplished on member credit unions of CREDICOOP. To do so would require at the minimum an estimated man-month to accumulate, compare and analyze the data. After review of the situation it was determined that the best course of action would be to start with the know situation of 1974 and 1975 and prepare revised projections based on the actual situation. The 1974 and 1975 figures used in the revised projections are approximate but very close to actual.

3. Section II with Exhibits A and B - Financial Statements of CREDICOOP, Section IV with Exhibits C and D - Delinquency, and Section V with Exhibit E - Revised Projections / Cash Flow are the sections which presents the most important part of the review. The other Sections of the report are primarily informative with opinions formed during the review.

Attachments: a/s

cc: Mr. Allen, AID/W

BWA;ff;

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FORM 9-61 DS-682

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FROM B. W. Allen, Financial Analyst SER/FM Orig'd by

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REPORT ON FINANCIAL ANALYSIS OF

CREDICOOP

USAID/PARAGUAY

I. BACKGROUND - INTRODUCTION - SCOPE OF WORK

USAID Paraguay initiated a credit cooperative program in 1970. In May 1973 the "Central" or CREDICOOP was legally formed under Paraguay law. Previous to the formation of the CREDICOOP the USAID had not only provided ~~promised~~ funds but disbursed and accounted for the funds. Beginning in May 1973, CREDICOOP set up its own records, began handling its own funds and prepared to begin disbursing of USAID grant funds. In June 1973 CREDICOOP issued its first financial statements. In July 1973 the USAID Advanced CREDICOOP funds and CREDICOOP ~~[illegible]~~ became responsible for the entire operations except for contracts and some commodity procurement that of course must continue to be administered by the USAID.

USAID, early in the life of this project, contemplated providing a loan to capitalize the establishment of credit unions and the CREDICOOP. In December 1974 a Capital Assistance Paper was prepared and in June 1975 the Loan Agreement was signed to provide $ 4.7 million for CREDICOOP Capitalization ($ 3) and UNIPACO ($ 1.7) for marketing. Subsequently it was determined that UNIPACO was not capable of continuing operations and this

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along with other questions which had developed caused the loan to be temporarily withdrawn before disbursements began. This, then prompted further review of CREDICOOP to determine if it was a viable organization and if the loan of $ 3 million should go forward. This paper is being presented as a part of a total report prepared by a three member team which concluded that CREDICOOP was a viable organization and that the loan should go forward and that certain recommendations should be implemented it order to strengthen not only CREDICOOP but the total creditcooperative organization.

This financial Analysis was conducted by review of financial statements and information available in CREDICOOP, preparation of consolidated and comparative statements, review of the CREDICOOP loan portfolio and preparation of an exhibit showing the portfolio with delinquency information, obtaining, reviewing and presentation of loan information pertaining to delinquency of the various member credit unions, review of CREDICOOP actions on the high delinquency rates of member credit unions, reviews and discussion with CREDICOOP personnel concerning the adequacy of audit activity of member credit unions, review and discussion of adequacy training, competence and need of CREDICOOP personnel, review of financial and management reporting, and probably most importantly the review of revised combined financial projections and cash flow of both CREDICOOP and the total of the credit unions in the same manner

II. CREDICOOP FINANCIAL STATEMENTS

The Balance Sheet and Income Statement of CREDICOOP were reviewed from inception through November 30, 1975 and put into a format for comparison as presented in Exhibit A . (Balance Sheet) and Exhibit B (Income Statement). It is felt that too much emphasis should not be placed on what these statements might reveal in some respects because they might be misleading since CREDICOOP is a new, developing organization which is a lending/service organization depending upon capitalization in order to lend and perform services and it does not yet have sufficient capital to perform these functions except in a very insignificant manner.

A. Balance Sheet

Review of the Balance not only shows the normal expected grown in the est blishment of CREDICOOP but the following indicators are established:

1. Current Ratio (Gross Liquidity) - current assets including inventory compared to current Liabilities including USAID funds on hand.

$$\frac{\text{Current Assets}}{\text{current Liabilities}} = \frac{6,995,578}{2,393,267} = 2.92$$

2. <u>Acid Test Ratio</u> - (Liquidity) - current assets ~~including~~ excluding inventory compared to current Liabilities including USAID funds on hand.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{5,130,590}{2,393,261} = 2.14$$

3. Working Capital Ratio (Liquidity) - Current Assets minus current liabilities

Current Assets	5, 130, 590
Current Liabilities	2, 393, 261
Working Capital	2, 737, 329

Again, these ratio's do not mean a great deal since funding has primarily been from donated funds, however, it is believed that these indicators, since they are very acceptable, show that management has been and is managing the available reasources in a competent manner.

B. <u>Income Statement</u>

The income statement, as has been prepared by CREDICOOP, in itself is very inconclusive since it has not been including operating expenses paid by the USAID grant funds. It has only presented income and payment of expenses ~~of~~ not covered by USAID from that income.

Exhibit B presents this information showing the net profit as carried in CREDICOOP's records ~~but~~ and then includes a total of the USAID contribution as a reduction of the profit. It is evident from Exhibit E that CREDICOOP has ~~of course~~ not had an operating profit after providing for reserves for depreciation, bad debts and legal reserves. Of course, after including operating expense granted by USAID has sustained losses of $ 61,293 for 1974 and $ 74,276 for 1975 through November before provision for reserves. It is estimated that the total operating loss for CY 1975 will be less than $ 90,000 which is no more than had been estimated.

C. OBSERVATIONS/COMMENTS ON STATEMENT AND FINANCIAL RECORDS.

Review of the records and financial statements and reports reveal that CREDICOOP has not been preparing adequate financial statements for use of Management on a monthly basis. All that has been prepared is a "trial balance" of the accounts month by month, which has not included operating expenses contributed by the USAID nor accrued interest payable or receivable, nor reserves for depreciation, bad debts, and other reserves. Balance Sheets and Income statements including proper accruals and reserves were only prepared at year end. This is understandable at this point in the growth of the organization since it is just being organized and certain expenditures continued to be made by the USAID until beginning of calendar year 1975, however, the organization has reached the point in its growth that financial records and statements must be complete,accurate and provided to Management quickly and in such format and manner that they can be interpreted in a meaningful manner.

Review of the accounting records themselves revealed no significant problems in how financial transactions were handled, however, there could be improvements made which would result in more accurate and meaningful statements which has not been that important in the past but will in all probability take on much more importance as more funds are chanelled into CREDICOOP and the organization grows.

At the present time there are two employees handling the accounting records and financial transactions under the supervision of the CREDICOOP Manager. They appear to be reasonably competent in their jobs. However, as the organization grows and expands and assuming that the loan is granted, there will be need for a Controller. It appears that the time has been reached when serious consideration should be given to adding such a position to the organization in the very near future. Such a person should be experienced enough to not only ~~handling~~ handle the accounting, but be able to assume management duties that the Manager, CUNA advisors or other personnel may now be doing as well as expanded activities. He should be part of a management team.

D. RECOMMENDATIONS.

As a result of the foregoing, the following specific recommendations are made:

1. All income and expense that is received and expended by CREDICOOP from whatever source should be merged into the normal accounting records. Specifically, USAID and other contributions for operating expenses. These incomes and expenses should be accounted for and reflected in all financial statements and presentations.

2. All appropriate income and expense accounts should be accrued monthly, taken into the accounting records and properly reflected in the financial statements. Specifically this would include interest income, interest expense, depreciation expense and reserve, bad debt expense and reserve, other expenses and reserves and other miscellaneous expenses and accounts payable.

3. Prepare complete and separate Balance Sheets and Income Statements on a monthly basis to include the total financial accounts of the organization.

4. Prepare comparative financial statements on a monthly basis such as comparison to budgets, comparison to previous months and/or years. This can be expanded or contracted as needed and certain comparisons may not be needed each month.

5. Cash flow projections should be prepared on a yearly basis with at least quarterly comparison reports and possibly monthly when activity warrents the use and need.

6. Monthly report on Loan Portfolio with aged delinquency report.

7. Monthly Accounts Receivable report with aged delinquency report.

8. These various reports recommended above should be presented to Management, Board of Directors and USAID with necessary explanations, if needed on a monthly basis.

9. Consider hiring a Controller in the near future.

10. Consider ~~hiring~~ bringing in an expert in cooperative accounting to assist in establishing and implementing the above recommendations and train the staff to use and apply ~~it~~ the accounting tools efficiently.

III. FINANCIAL REPORTING OF CREDIT UNIONS TO CREDICOOP

Reporting by member Credit Unions to CREDICOOP is minimal. The only required report is a monthly "trial balance" of their financial accounts for the month and accumulated for the current year. On the back of this report is a reconciliation of the Loan, Share and Deposit Accounts with the subsidiary ledgers, an aging of the loan balance as well as other loan information and other statistical information pertaining to membership, savings, etc.

This report is not received in a timely manner. September 1975, reports are presently the last monthly reports which ~~has~~ have been more or less considered totally received and analyzed with statistical information abstracted for CREDICOOP use. Out of 35 Credit Unions, 28 reports had been received for October and 2[illegible] reports for November and of course December reports had not had time to be prepared and transmitted. Some Credit Unions apparently have a hapharzard attitude about submitting reports while others do not fully prepare the reports. One of the problems in getting the reports submitted to CARDICOOP appears to be poor methods of being able to transmit the reports, however, it would appear that this may be an excuse in some instances.

No other information or report other than this above mentioned report is required on a regular basis. Any other information needed or required is obtained by special request or the CARDICOOP employees make trips to prepare the information themselves.

For an ongoing, thriving, well managed and financed organization the information submitted would be sufficient and in most respects it probably has been sufficient due to size and activity of the present organization. However, with the contemplated loan and the recommended financial expert, it would be well to review this area of reporting and improve the system.

Upon receipt of the reports from the Credit Unions, personnel of CARDICOOP reviews them for problem areas on which action should be taken and a statistical report is prepared for use of CARDICOOP Management and CUNA Advisors. In order to get a better overall financial picture of the complete organization and to be able to pin-point problem areas it would be well to periodically prepare consolidated statements of all member Credit Unions. A great deal of analysis could be accomplished from such a report.

RECOMMENDATIONS

A. Efforts, probably best through training, should be made to get more timely and better prepared reports from the Credit Unions.

B. The recommended credit cooperative financial expert should review this area and make recommendations for improvement.

C. CREDICOOP should begin to prepare quarterly consolidated financial reports on the Credit Unions for information and analytical purposes.

IV. LOAN DELINQUENCIES

Delinquent loan rates have been and is a matter of grave concern for the Credit Unions and in fact is one of the major, if not the major, problem at the present.

A. CREDICOOP LOAN DELINQUENCY

Exhibit C has been prepared presenting the total loan portfolio of CREDICOOP as well as showing the delinquent loans and including various delinquency rate computations. These various delinquency rates have been computed to give a more complete picture because of the many arguments which can be made for defining what constitutes a delinquency rate.

If the assumption that the total amount of the unpaid loan balance becomes due the moment a payment is missed (when a loan is amortized by more than one payment) and this is the assumption CREDICOOP uses, then two methods of computing the delinquency rate constitutes the norm. One is the ratio of the total delinquent loan amount to total loans made over a period of time which is computation A. in Exhibit C., and shows that the delinquency rate is 10.8%. The other is the ratio of the total delinquent loan amount to total loans outstanding at any given time which is computation B. ~~in exhibit C.~~ and ~~which~~ shows that the delinquency rate is 13.2%.

If the assumption is made that only the payments which have not been made constitute the amount that is delinquent then the ratios to total loans made and total loans outstanding is 1.7% and 2.3% respectively.

All of these methods are indicators. However, in this instance it is felt that computation A. is the best indicator since it covers a specific period of time, roughly two years, and meets loan requirements. It is not believed that computation B. will ever be a good indicator for this total organization since there is not, and will not, be, a static loan outstanding balance over a period of time to develop a reliable ratio.

Even though the ratio is high and over the long term unacceptable, there is strong evidence that it is decreasing. CREDICOOP is ~~X~~ fully aware of the problem and is taking steps to combat it. The rates have already decreased due to payments having been received in January.

In addition, in ~~at~~ the final analysis CREDICOOP has some leverage on the credit unions, to not make additional loans when a credit union has a delinquent loan and could recover the loan through reduction of the credit unions shares. From another stand point the amount of delinquent payments is only $ 179,875 or 2.3% of the total loans outstanding with payments constantly being collected, therefore it is felt that there should be little concern for what appears to be an unacceptable delinquency rate at this time.

B. CREDIT UNION LOAN DELINQUENCY

The delinquency rates of the member Credit Unions are much more serious than those of CREDICOOP. The Credit Unions will in all probability suffer a high loss rate, at least over the short term. Exhibit D. presents the total figures by member Credit Unions. The presentation for the Credit Unions is different from that of CREDICOOP due to nonavailability of complete data. However, the same overall picture is presented. Two methods of computation are shown. First, the ratio of delinquent loan balances to total loan balances outstanding which is 48.1%. Second, the ratio of delinquent loan balances to total loans made which is 17.6%. Again it is felt that the second method or a 17.6% delinquency rate is the better method for the reasons previously stated, although recognizing that it is clearly unacceptable.

There are various reasons which ~~has~~ have contributed to this unacceptable delinquency rate.

1. Loans being made by the bank to the Credit Union when they already had delinquent loans and against advise of CREDICOOP.

2. Faulty lending practices on the part of the Credit Union.

3. Lack of training in good business practices.

4. Lack of any or forceful collection practices and procedures.

5. Credit Unions having no control over crop harvests.

There could be more listed, however, these are probably the major reasons.

It is believed that these rates will decrease since forceful action is being taken by CREDICOOP to collect the delinquent loans and the

Credit Unions have seemed to realize the seriousness of the problem. The following actions have been taken by CREDICOOP.

1. ~~Eight~~ Ten of the member Credit Unions have been denied further loans until they have drastically improved their delinquency rates.

2. The bank is now accepting CREDICOOP's advise on the granting of loans.

3. An Attorney has been retained by CREDICOOP to collect the delinquent loans and he has had considerable success to date. He has already put some cases into the courts and there is a consensus that this effort with and by the Attorney will prove to be sucessful, realizing of course with the magnitude of delinquency there will still be a heavy loss sustained by some Credit Unions.

4. According to findings during visits to some Credit Unions, the Managers and Board of Directors have been made much more aware of the problem and that it must be corrected.

5. CREDICOOP plans intensive training on the subject of the granting and collection of loans and overall management of the Credit Unions.

Even though the high rate of delinquency is a serious problem, it has been recognized, and intensive, and in cases drastic action, is being taken to prevent it in the future and to correct the present situation to the maximum ~~intent~~ extent. Therefore, it is believed that this should not keep the loan from going forward. Projections which have been revised will be presented in a later section and will reflect a different assumption by increasing loss rates over a period of time but continuing to project a viable project.

V. REVISED PROJECTIONS/COMBINED CASH FLOW

To assist in the financial evaluation of the viability of the Credit Unions and CREDICOOP in view of events that have taken place and additional experience gained over the past 18 to 24 months since the projections were made in the CAP, the CUNA Advisor prepared new projections. These projections were made in the same format as those in the CAP for ease of comparison.

These projections were reviewed closely with the CUNA Advisor as well as USAID Mission personnel. It was the consensus that these projections were very conservative and practical while the CAP projections were possibly more optimistic than what in reality was the case. These new projections have taken into consideration the events which have actually come to pass and those which are ~~knew~~ known for the future and are intentionally very conservative. There is also a consensus between the CUNA Advisor, the USAID Mission and the Financial Analysist that in all probability the real results of operations of CREDICOOP and the credit unions will be somewhat better than evidenced by the new projections and in actuality be somewhere between the CAP projections and the new projections.

The new projections are presented in EXHIBIT E and the original CAP projections are presented in EXHIBIT F for easy comparison. Explanation of the revised assumptions concerning the revised projections are presented as part of EXHIBIT E.

EXHIBIT E with its revised assumptions are generally self explanatory, however, the highlights of the revision ~~is~~ are as follows:

A. Urban Credit Unions

Operating income of urban credit unions has actually increased in 1980 from the original projection of $11,534 to $45,111 and in fact shows projected profits in excess of the CAP projections except in 1975 and 1978. Whereas they were originally showing losses or barely breaking even in 1978 and 1979 they now show substantial profits in 1978 and 1979. Therefore the urban credit unions would appear to be in much better condition than originally envisioned.

B. Rural Credit Unions

The revised projection for rural credit unions show a [redacted] less optimistic picture than for the urban credit unions. They do not break even under the revised projections until 1979 whereas the original projections had them breaking even in 1977. However, with a delay in the disbursing of the loan of one year, that means that they are only one year later in breaking even since the loan was to be 50% of the borrowing. Eventhough the breakeven point is in reality delayed one year, the credit unions are projected to suffer substantial losses through 1978. This to a great extent is caused by the high loss rate. However, in the opinion of the CUNA Adviser, no more than two credit union might have to cease operations due to decapitalization as a result of these losses. In addition to this optimism one must remember that the loss rates in the future will in all probability be less than has been projected since much greater caution is being exercised over losses as discussed under other sections.

C. CREDICOOP

CREDICOOP under the revised projections does not breakeven until 1980 rather than 1978 as originally projected. Again the year delay in the loan is primarily responsible for one year while a general overall slow down in activity and a slower loan disbursement rate would account for the loss of another year in breaking even. Considering that the revised projection is the minimum which can be expected, it is anticipated that the projected loss will be less than projected and that 1979 will be much nearer the breakeven point than now shown.

VI. AUDITING SERVICES PROVIDED BY CREDICOOP TO CREDIT UNIONS

The CREDICOOP as a "Central" for Credit Unions provides audit services to member Credit Unions on a request basis and those Credit Unions which borrow funds from CREDICOOP can be audited unilaterally by CREDICOOP as a requirement under the loan agreement.

At the present time CREDICOOP has two auditors and the Peace Corps has provided two volunteers to work with them. In CY 1975 nine audits were performed on nine different Credit Unions. These audits were reviewed and they appeared to be quite comprehensive in their coverage of all Credit Union activities. The reports were of a professional quality and quite polished. In fact considering the coverage that CREDICOOP should be making in their audits the reports could be considered too comprehensive and polished. Not meaning that a good job shouldn't be performed.

In order to increase the number of audits being performed each year, probably at least two more auditors or needed on the staff as well as some internal changes in audit procedures and methods to get anywhere near the coverage needed.

According to discussions, CREDICOOP is only recovering or charging the Credit Unions approximately 10% of the cost of performing an audit. The estimated cost of performing an audit is approximately $400 or ₡.50,000. Certainly CREDICOOP cannot continue to perform audits and absorb a 90% loss of this magnitude even though under the circumstances it is realized that some breaks must be given, especially to new organizations. In the revised projections, consideration is given to increasing the recovery cost to \$200 or \$.25,000 which would amount to approximately 50% recovery of cost.

RECOMMENDATIONS

1. In view of the above, it is recommended that one additional auditor be hired as soon as funding can be made available and consideration be given to hiring another within one year.

2. Methods and procedures of performing audits and publishing reports should be reviewed closely with the view of cutting time required to perform audits in order to increase the number of audits performed.

3. Charges to Credit Unions which are in a financial position to absorb higher costs should be charged more in order to lower the loss to CREDICOOP for performing the audits.

VII. PERSONNEL

A detailed study of personnel was not performed, however, in discussions, dealings and review of work performed an opinion was formed of the overall attitudes and competency of the CREDICOOP employees.

It is the opinion of the Financial Analysist that the personnel of CREDICOOP are competent, dedicated and capable of carrying out the intended purposes and functions of the CREDICOOP. The same opinion was formed of the present CUNA Advisors.

Where there may be weaknesses, or in areas where weaknesses may develop, further training should be provided.

VIII. Conclusion

It is evident from the foregoing that the credit unions have problems which in turn reflects back to CHADICOOP. Nevertheless, the foregoing has not only attempted to discuss some of these problems but also to recognize that intensive effort has been and is being devoted to solving these problems. Since CHADICOOP itself appears to be a financially viable organization over the short term of its existence and that it also appears that the problems of the credit unions have been recognized in time to keep them from decapitalizing themselves, there is no reason for not proceeding with disbursement of the loan.

CREDICOOP
Balance Sheet
Cumulative 7/1/73
Thru 11/30/75

Exhibit A

ASSETS	7/1/73 to 12/31/73 3/	3/31/74 3/	6/30/74	9/30/74	12/31/74	3/31/75	6/30/75	9/30/75	11/30/75
Current Assets									
1. Cash & Checks in Transit	-	-	-	57,255	418,724	-	-	-	4,250
2. Revolving Cash Fund	-	-	100,000	-	50,000	54,615	50,000	50,000	50,000
3. Cash in Banks	28,815	124,579	20,817	197,607	153,364	157,875	734,444	1,135,778	2,441,590
4. Bank Savings Accounts	-	-	443,055	343,087	572,624	450,836	145,687	300,420	330,410
5. Accounts Receivable	237,034	225,846	337,237	400,043	848,988	876,412	2,503,281	2,462,478	2,197,820
6. Advances	-	-	-	-	13,850	158,000	179,211	57,014	106,520
Total Current Assets:	265,849	350,425	901,109	997,992	2,057,550	1,697,738	3,603,623	4,005,690	5,130,590
Fixed Assets									
8. Office Equip. & Machines	-	-	-	1,747,699	1,747,699	1,798,666	1,798,666	1,858,078	1,863,078
9. Furniture & Fixtures	-	-	-	331,720	432,520	432,520	432,520	432,520	432,520
Total Fixed Assets:	-	-	-	2,079,419	2,180,219	2,231,186	2,231,186	2,290,598	2,295,598
Other Assets									
11. Loans Receivable	-	105,000	3,055,000	3,687,238	3,911,674	6,402,028	6,386,175	7,679,440	7,494,220
55. Interest Receivable	-	-	-	-	17,986	17,986	17,986	17,986	-
12. Unpaid Share Certif. Subscribed	1,151,000	991,933	566,133	518,241	958,859	275,650	149,650	410,150	249,000
13. Required Bank Deposit	-	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
14. Inventory	-	-	-	1,009,358	2,255,631	2,518,756	2,108,257	2,036,538	1,864,988
15. Shares-Certificate COLAC . -	-	-	-	-	-	-	-	126,000	126,000
16. Shares-Banco de Trabajadores	-	-	-	-	-	10,000	10,000	10,000	10,000
Total Other Assets:	1,151,000	1,104,933	3,629,133	5,222,837	7,152,100	9,232,420	8,680,068	10,288,114	9,752,208
Total Assets:	1,416,849	1,455,358	4,530,242	8,300,248	11,389,869	13,161,344	14,514,877	16,584,402	17,178,396
	$11,245	$11,550	$35,954	$65,875	$90,396	$104,455	$115,197	$131,622	$136,336

3/ Taken from CAP-All other from statements.

CREDICOOP
Balance Sheet
Inception to Present

	7/1/73 to 12/31/73 1/	3/31/74 1/	6/30/74	9/30/74	12/31/74	3/31/75	6/30/75	9/30/75	11/30/75
Liabilities & Net Worth									
Current Liabilities									
17. Accounts Payable	-	-	-	77,371	146,489	638,118	1,800	823,733	485,207
18. Salaries Payable	-	-	-	-	-	-	-	-	36,201
19. Social Security Benefits	-	-	-	-	-	-	-	-	118,456
20. Fidelity Bonds/CUMIS-Collect.	-	-	-	-	-	-	-	47,177	48,487
21. Retention-Marketing Expenses	-	-	-	-	-	-	290,769	831,649	941,834
22. Utilities-ANTELCO	-	-	-	-	-	-	-	-	31,254
Total Current Liabilities:	-	-	-	77,371	146,489	638,118	292,569	1,702,559	1,661,439
Other Liabilities									
23. Reserve for Fidelity-CUMIS	-	-	-	-	-	-	-	143,876	144,276
24. Loans Payable	-	-	-	-	1,220,000	1,850,000	3,252,000	2,213,089	1,952,000
25. Depreciation-Fixed Assets	-	-	-	-	58,263	58,263	58,263	58,263	58,263
26. Reserve for Bad Debts	-	-	-	-	-	*[/] 125,545	125,545	125,545	125,545
27. Other Reserves	-	-	-	-	-	22,153	58,753	58,753	58,753
28. AID Payable-Contributions	-	-	-	(22,241)	618,159	199,446	390,071	560,534	731,822
56. Interest Payable	-	-	-	-	10,295	10,295	-	-	-
Total Other Liabilities:	-	-	-	(22,241)	1,906,717	2,265,702	3,884,632	3,160,060	3,070,659
Net Worth									
29. Suspense Account	-	-	500	-	-	-	-	-	-
30. Subscribed Capital	1,173,000	1,180,500	1,180,500	1,603,500	2,433,500	2,560,000	2,627,000	2,987,000	3,126,000
31. Donated Capital	237,034	259,218	3,389,856	6,624,660	6,755,465	7,617,538	7,746,006	8,507,418	9,040,418
Retained Earnings Prof. & Loss 3/	6,815	15,640	(40,614)	16,958	147,698 2/	79,994	(35,330)	227,365	279,880
Total Net Worth 3/	1,416,849	1,455,358	4,530,242	8,245,118	9,336,663	10,257,524	10,337,676	11,721,783	12,446,298
Total Liabilities & Net Worth:	1,416,849	1,455,358	4,530,242	8,300,248	11,389,869	13,161,344	14,514,877	16,584,402	17,178,396
	$ 11,245	$ 11,550	$ 35,954	$ 65,975	$ 90,369	$ 104,455	$ 115,197	$ 131,622	$ 136,336

*/ 3.2% of Loans outstanding at 12/31/74

1/ Taken from CAP-All other from statements.

2/ Reserve for Bad Debts and Legal Reserves (Other) required by law established from this total figure in 1/75.

3/ Profit & loss and Net Worth does not reflect the USAID Operating Expense contribution, however, the figures would not change since Donated Capital does not include the Operating expense contribution either.

Exhibit B

CREDICOOP

Income Statement

INCOME	7/1/73 to 12/31/73 3/	1/1/74 to 3/31/74 3/	4/1/74 to 6/30/74	7/1/74 to 9/30/74	10/1/75 to 12/31/74	1/1/75 to 3/31/75	4/1/75 to 6/30/75	7/1/75 to 9/30/75	10/1/75 to 11/30/75
Sales									
32. Printed Materials	237,034	33,434	-	-	-	5,596	8,945	24,876	29,971
33. Office Equipment	-	-	-	-	-	-	39	39	39
34. Agriculture Implements	-	-	-	-	-	191,000	211,422	229,422	247,422
35. Containers	-	-	-	-	13,360	-	-	168,381	168,381
36. Seeds	-	-	-	-	9,500	-	-	43,125	43,125
Total Sales:	237,034	33,434	-	-	22,860	196,596	220,406	465,843	488,938
Other Income									
37. Interest Earned	-	1,209	2,135	14,633	32,757	12,372	122,598	147,037	169,741
38. Commission on Loans	-	750	750	5,509	6,149	25,330	30,733	36,948	41,623
39. Audit Fees Earned	-	-	48,452	66,179	82,559	23,602	65,741	120,495	152,997
40. Fees-Education	-	-	8,400	36,900	46,700	21,200	25,950	36,600	53,400
41. Dues	-	-	-	71,700	308,120	-	-	184,285	279,245
42. Fidelity Bonds Commis.	-	-	-	-	-	-	-	8,327	8,567
43. Other Income	6,815 1/	7,920 1/	29,323	55,827	94,648	3,973	41,865	78,654	105,152
Total Other Income:	6,815	9,879	89,060	250,748	570,933	86,477	286,907	612,346	810,725
Total Income:	243,849	43,313	89,060	250,748	593,793	283,073	507,313	1,078,189	1,299,663
Expense									
44. Bonus paymts. to employees on loan from other Agencies	--	-	34,000	11,000	-	99,000	198,000	330,000	418,000
45. Travel Expenses of above	-	-	85,820	189,811	293,640	97,098	211,203	316,795	394,675
46. Representation Expenses	-	-	-	-	-	860	3,105	6,605	9,155
47. Other expense	237,034 2/	33,434 2/	8,800	8,800	35,318	6,121	11,076	17,076	17,076
48. Interest on Loans	-	1,054	1,054	1,054	11,349	-	106,259	167,348	167,827
49. ~~Commissions~~ (33,849) on Loans	-	-	-	-	24,400	-	13,000	13,000	13,000
51 & 52. Misc. Exp. not paid by AID	--	-	-	23,125	23,125	-	-	-	-
53. Depreciation Expense	-	-	-	-	68,263	-	-	-	-
Total Expenses:	237,034	34,488	129,674	233,790	446,095	203,079	542,643	850,824	1,019,783
50. Net profit (Loss) Exclud. AID Contrib. to Op. Exp.	6,815	8,825	(40,614)	16,958	147,698	79,993	(35,330)	227,365	279,880
	($ 54)	($ 70)	($322)	($ 135)	($ 1,172)	($ 635)	($ 280)	($ 1,804)	($ 2,221)
USAID Contrib. to Oper. Exp	4/	1,372,151	3,634,979	5,301,931	7,870,661	2,035,633	4,275,[illegible]	8,138,074	9,638,645
Net Profit (Loss) Includ. USAID contrib. Exp.	-	(1,363,326)	(3,675,593)	(5,284,973)	(7,722,963)	(1,955,639)	(4,310,660)	(7,910,709)	(9,358,765)
		($ 10,820)	($ 29,171)	($ 41,944)	($ 61,293)	($15,521)	($ 34 212)	($ 62,783)	($ 74,276)

1/ Miscellaneous unidentified services to credit unions.
2/ Costs of sales to credit unions.
3/ Taken from CAP-All others from statements
4/ Not readily available.

Exhibit C

CREDICOOP
LOAN PORTFOLIO AND DELINQUENCY
INCEPTION TO 12/22/75

COOPERATIVE	1 (2 + 3) Total Loans	2 Amt. Paid	3 (4 + 5) Bal. Due	Total Amount Delinquent	4 Bal. not yet Due	5 Pmts. Due
Loans Receivable Equip.:						
From 1/2 to 3 years						
Cnel. Oviedo Ltda.	112,000	48,000	64,000	64,000[1/]	23,000	41,000[1/]
Yaguarón Ltda.	70,000	13,000	57,000	57,000	-	57,000
Del Norte Ltda.	112,000	15,000	97,000	97,000	82,000	15,000
Cnel. Bogado Ltda.	112,000	30,000	82,000	-	82,000	-
Paraguarí Ltda.	196,400	15,000	181,400	181,400	166,400	15,000[2/]
San Pedro del Yucá M. Ltda.	151,400	18,000	133,400	-	133,400	-
San Ignacio Ltda.	67,000	18,000	49,000	-	49,000	-
Yuty Ltda.	112,000	17,000	95,000	95,000	82,000	13,000
La Rosarina Ltda.	151,400	18,000	133,400	-	133,400	-
Carmena Ltda.	67,000	18,000	49,000	-	49,000	-
Juan E. O'Leary Ltda.	67,000	18,000	49,000	-	49,000	-
Gral. Artigas Ltda.	105,500	-	105,500	-	105,500	-
La Barrereña Ltda.	105,500	-	105,500	-	105,500	-
Ypané Ltda.	10,045	-	10,045	-	10,045	-
Quiindy Ltda.	21,105	-	21,105	-	21,105	-
Sub-Total:	1,460,350	228,000	1,232,350	494,400	1,091,350	141,000
Loans Receivable-Various:						
From 1 Mt. to 3 years						
Itacurubí Ltda.	433,740	-	433,740	433,740[1/]	392,640	41,100[1/]
Coomecipar Ltda.	840,000	315,000	525,000	-	525,000	-
Cnel. Bogado Ltda.	348,037	140,087	207,950	-	207,950	-
Carmeña Ltda.	276,361	185,027	91,334	-	91,334	-
San Ignacio Ltda.	965,380	419,380	546,000	-	546,000	-
Quiindy Ltda.	69,000	20,700	48,300	-	48,300	-
Mburicaó Ltda.	105,000	44,454	60,546	-	60,546	-
Ñeembucú Ltda.	315,660	126,660	189,000	-	189,000	-
Coé PHajhú Ltda.	175,469	-	175,469	-	175,469	-
San Pedro del Ycuá Mandyyú Ltda.	348,370	-	348,370	-	348,370	-
Universitaria Ltda.	368,000	92,001	275,999	-	275,999	-
Sub-Total:	4,245,017	1,343,309	2,901,708	433,740	2,860,608	41,100
Loans Receivable-Agr. Production						
6 months						
Cnel. Bogado Ltda.	1,072,503	886,093	186,410	-	186,410	-

...

	1	2	3		4	5
COOPERATIVE	(2 + 3) Total Loans	Amt. Paid	(4 + 5) Bal. Due	Total Amount Delinquent	Bal. not Yet Due	Pmts. Due
Loans Receivable-Admin.						
7 years						
Itacurubi Ltda.	240,000	30,000	210,000	-	210,000	-
Carapegua Ltda.	240,000	-	240,000	240,000	210,000	30,000
Cnel. Oviedo Ltda.	240,000	30,000	210,000	-	210,000	-
Yaguarón Ltda.	240,000	-	240,000	240,000	210,000	30,000
Coé Pyajhú Ltda.	240,000	30,000	210,000	-	210,000	-
Del Norte Ltda.	240,000	-	240,000	-	240,000	-
Cnel. Bogado Ltda.	240,000	-	240,000	-	240,000	-
Paraguarí Ltda.	240,000	10,105	229,895	229,895	210,000	19,895 2/
San Ignacio Ltda.	240,000	-	240,000	-	240,000	-
Yuty Ltda.	240,000	-	240,000	-	240,000	-
La Rosarina Ltda.	240,000	-	240,000	-	240,000	-
Carmeña Ltda.	240,000	-	240,000	-	240,000	-
Juan E. O'Leary Ltda.	240,000	-	240,000	-	240,000	-
San Juan Bautista Ltda.	240,000	-	240,000	-	240,000	-
Ypané Ltda.	102,480	-	102,4[illegible]	-	102,480	
La Barrereña Ltda.	102,480	-	102,480	-	102,480	
Quiindy Ltda.	51,240	-	51,240	-	51,240	
Mburicaó Ltda.	27,000	-	27,000	-	27,000	
Santaní Ltda.	51,240	-	51,240	-	51,240	
Gral. Artigas Ltda.	51,240	240	51,000	-	51,000	-
Sub-Total:	3,745,680	100,345	3,645,335	709,895	3,565,440	79,895
TOTALS:	10,523,550	2,557,747	7,965,803	1,638,035	7,703,808	261,995
Pmts. made to Bank prior to reflection in records. 1/	-	82,100	(82,100)	(497,740)	(82,100)	(82,100)
Adjusted Totals:	10,523,550	2,639,847	7,883,703	1,140,295	7,621,708	179,895

1/ Paid into bank prior to date of entering records, therefore, these amounts not in fact delinquent.
2/ Collected in January - Therefore, with these payments the delinquency rates will be even less than the below calculation.

A. Delinquency rates established assuming total amount of remaining loan falls due when one payment is delinquent.

B. Due to delays in banking system records may reflect a delinquency when in fact, payment has been made. See footnote 1/

Delinquency Computations:

A. $\dfrac{\text{Total Delinquent Loan Amount}}{\text{Total Loans made}} = \dfrac{1,140,295}{10,523,550} = 10.8\%$

B. $\dfrac{\text{Total Delinquent Loan Amount}}{\text{Total of Loans Outstanding}} = \dfrac{1,140,295}{7,883,703} = 13.2\%$

C. $\dfrac{\text{Total Payments Due}}{\text{Total of Loans Made}} = \dfrac{179,895}{10,523,550} = 1.7\%$

D. $\dfrac{\text{Total Payments Due}}{\text{Total of Loans Outstanding}} = \dfrac{179,895}{7,883,703} = 2.3\%$

Exhibit D

LOAN DELINQUENT REPORT
RURAL CREDIT UNIONS
as of September, 1975

Name of Cooperative	Total Loans Granted	Loan Balances	Delinquent Loan Balances	1/ Delinquency rate p/Loans Outstanding	2/ Delinq. Rate per Total Loans Granted
1. Cnel. Bogado 4/	¢15,343,000	¢ 7,067,000	¢ 2,000,000	28,3	13,0
2. Itacurubí	30,821,000	9,103,000	618,000	6,8	2,0
3. San Pedro	3,979,000	2,153,000	226,000	10,5	5,7
4. Cnel. Oviedo	39,256,000	9,770,000	2,195,000	22,5	5,6
5. Yaguarón	16,439,000	6,564,000	1,668,000	25,4	10,1
6. Paraguarí	10,726,000	5,605,000	259,000	4,6	2,4
7. Coé Pyajhú 5/	26,018,000	11,975,000	6,030,000	50,3	23,2
8. Carapeguá 4/	15,027,000	6,747,000	3,000,000	44,5	19,9
9. Promoción 4/	38,040,000	10,951,000	8,000,000	73,0	21,0
10. Del Norte 4/	9,506,000	3,85[illegible],000	1,241,000	32,2	13,0
11. San Ignacio 4/	51,491,000	21,862,000	20,000,000	91,5	38,8
12. Yuty	11,183,000	4,207,000	2,429,000	57,7	21,7
13. La Rosarina 4/	5,043,000	2,226,000	1,800,000	80,9	35,7
14. Carmeña 4/	12,152,000	2,936,000	800,000	27,2	6,6
15. Ypané 4/	1,406,000	539,000	141,000	26,1	10,0
16. J. E. O'Leary 4/	12,768,000	4,310,000	2,392,875	55,5	18,7
17. San Juan	8.959,000	3,607,000	2,207,000	61,2	24,6
18. Acahay	1,183,000	721,000	290,000	40,2	24,5
19. La Barrereña 4/	2,660,000	966,000	225,000	23,3	8,5
20. Santaní 3/	1,236,000	1,137,000	Not reported	-	Not reported
21. Gral. Artigas 4/	1,453,000	432,000	163,700	37,9	11,3
22. Quiindy	1,412,000	220,000	30,000	13,6	2,1
TOTALS:	¢316,101,000	¢ 115,814,000	¢ 55,715,575 6/	48,1	17,6

1/ This rate becomes less useful as loans for crop production are paid off and the remaining balance due distorts the actual situation. A credit union such as Quiindy N° 22 has only 3 delinquent borrowers and collected all but ¢ 30,000 on loans of ¢ 1,412,000 made in 75.

2/ The inverse of this rate provides the percentage of loans recuperated out of all loans made. The average life of all credit unions is around 3 yrs.

3/ Not used in totals since balances not reported.

4/ Represents amount reported as delinquent when cooperative submitted loan application to B. N. F.

5/ Amount reported as of October, 1975 by the cooperative.

6/ All or most all of the loans making this total are mature loans & are not considered delinquent due to non payment of a due payment.

EXHIBIT E
Page 1

REVISED ASSUMPTIONS

The below revised assumptions are presented in the same format as those in the CAP. Only those assumptions which cause a relatively major change in the projections or method used are discussed.

PART A. 1 PROJECTED NUMBER OF CREDIT UNIONS

The 74 and 75 figures are actual figures and very close to the original figures. However, beginning in 1976 the number of credit unions added each year has ~~have~~ been reduced so that by 1980 the total projected has been reduced from 70 to 56. However, note that the rural credit unions have only been reduced from 40 to 38. This reduction in the pace of opening new credit unions has come about in order to be able to consolidate efforts in improving quality of the ~~C~~redit ~~U~~nions and being able to make sure that they can operate efficiently with less problems.

PART A.2 PROJECTED GROWTH OF MEMBERSHIP

The projected growth of credit union members is reduced significantly. This is caused by several factors primarily the slow down ~~done~~ in adding credit unions and being more selective in membership.

The important figure in the projection is the reduction in the number of farmers qualified for loans. This also is caused by several factors: (1) slow down ~~done~~ in pace of opening credit unions, (2) being more selective in making loans (3) decision to simple slow down loaning process in order to consolidate the credit unions and CREDICOOP's position and (4) most importantly the disqualification of ten credit unions to borrow until their delinquency rates are ~~were~~ acceptable and they have ~~has~~ show they can ~~could~~

manage their loaned funds. This reduction in members is reflected in 1975 and is carried throughout the projection. It is felt, that in fact, six of these credit unions will again become eligible to borrow funds within one year, two more within two years and two probably never will be eligible. Therefore if these members do come back in as contemplated the situation will in fact be considerably better than projected.

The [illegible] urban credit unions ~~have~~ [illegible] also changed since original projections contained data on credit unions that were not members of CREDICOOP which is still reflected in the 1974 figures. In 1975 and onward these figures are eliminated. Also the projection was changed to increase existing credit unions membership by 70 per year and add 100 per year in a new credit union.

PART B. PROJECTED SAVINGS

(B.1) The urban credit union member is now assumed to save $10 per year rather than $8. New members are still assumed to save $25 his first year.

(B.2.b) This item of savings of new borrowing farmer members was dropped from the new projection since it has proved to be insignificant.

(B.2.d) CAP

(B.2.b) Revised

The projection was changed from that presented in the CAP, which was complicated and possibly impractical, to the borrowing farmer saving 10% of his loan amount thru 77 and 5% of his loan amount thereafter.

PART C. DEMAND FOR LOANS

Basis for projections has changed little in this section except that the number of borrows affects the total demand.

The number of hectares per farmer borrower has been decreased a small amount so that by 1980 the number of hectares per borrower is 4.9 rather than 5.

PART D. FUNDING AND OPERATING INCOME AND EXPENSES: URBAN CREDIT UNIONS

(D.1.b) This item which stated that operating profits which were not needed for repayment of borrowing or were not distributed would be available for lending the following year. The new projections eliminated this assumption and assumed that it would be used in the credit unions for other purposes until the positions of the credit unions were much improved. However, this is a general assumption because some credit unions are already in a position to go along with the original assumption. Nevertheless it is not considered a source of funds in the new projections which intensives the conservative aspect of the projection.

(D.2.b) Original projection that dues to credit unions per member is $.32 per year is incorrect. This is a one time payment per new member. The revised projections reflect this correction in D.2.b.

(D.3.a.) In original projections the 2% loan commission was shown separately, however, it was combined into total interest rate in the new projection line D.3.a.

(D.3.a) CAF

(D.3.a) Revised

Interest charged by credit unions has been increased from 12 percent plus two percent commission to 14½ percent plus 2 percent commission. Not all credit unions have yet went to this increased rate, however, approximately 50% have and it is anticipated that the other 50 percent will within the next year.

(D.4.c.) CAP

(D.3.e.) Revised

The original projection assumed operating costs of $4,000 per year thru 1980. The revised projection assumes $4,000 per year plus 5% additional each year beginning in 1975. This takes inflation into consideration plus possible expansion.

(D.4.d.) CAP

(D.3.f.) Revised

The original projection assumed loss on uncollectable loans at 1% of the value of loans allowing for a one year lag.

The new projections provide for a 3% loss and is taken in the same year of the loan. This new rate is high, but probably is more closer to reality since the urban credit union loans are consumer type which do not produce any revenue.

(D.4.e.) CAP

(D.3.d.) Revised

There was difficulty in determining basis for original projection of audit and education fees. However new projections are $200 per audit for 50% of the credit unions per year plus $500 total education fee each year.

EXHIBIT E
Page 5

(D.4.H.) CAP

(D.3.H.) Revised

Dividends to members was changed from 4% during 1973 to 1975 and assumed to be nothing. From 1976 to 1978 they were assumed to be 4%.

PART E. FUNDING AND OPERATING EXPENSE RURAL CREDIT UNIONS

(E.1) Profit and loss again is not considered a source of capital funds in the new projections as they were in the original projections.

(E.2.c.) CAP

(E.1.c.) Revised

In the original projections farmers were assumed to repay loans in the calendar year after they were made and the average loan was assumed to be seven months.

The new projections assumes farmers will repay loans in the same year loans were made since the projections are changed from a calendar year to a fiscal year (7/1 to 6/30) and that the average loan is for 11 months. The loan time is extended to make it better fit the yearly cycle and it takes the additional time for crops to be harvested, marketed and payment received.

(E.2.e.) CAP

This assumption is eliminated. The loans are no longer perpetual because CREDICORP has an exemption from the stamp taxes of 1 1/2 % on loans.

(E.6.b.) CAP

(E.6.b.) Revised

Dues are not $2.38 per member per year, but $2.38 per new member, one time only.

(E.6.c.) CAP

(E.6.a.) Revised

Interest and commission has been revised from 14% total to 16% total and is assumed to be all paid in same year borrowed.

(E.7.b.) CAP

(E.7.b.) Revised

Original Projection was $4,000 a year for operating cost. New projection is $4,000 per year plus 5% additional each year beginning in 1975 in order to meet inflation and possible expansion costs.

(E.7.c.) CAP

(E.7.d.) Revised

The original projections assumed a 1% bad debt loss each year. The new projection has taken into consideration what has actually happened and revised its projections upward drastically. The losses are now assumed to be as follows:

1974 - 15%
1975 - 5%
1976 - 4%
1977 & 1978 - 3%
1979 & 1980 - 2%

These rates of course are extreamly high and to a large extent are responsible for the credit unions not reaching a break even point much quicker than they are projected to.

(E.7.[illegible]) CAP

(E.7.h.) Revised

The new projection is that Audit and Education charges or $200 per audit of 50% of the credit unions plus $500 for education per year.

(E.7.e.) CAP

(E.7.e.) Revised

The original interest payments to CREDICOOP were assumed at 9% to be paid half in the year of the loan and half the following year.

The new projection assumes 9% plus 1/2 of one percent commission all to be paid in the year of the loan.

(E.9) CAP

The original projections assumed payment of 4% dividend on saving beginning in 1979. The new projections do not assume any divident payments, however, some credit unions may very well be able to pay dividends.

PART 7. FUNDING AND OPERATING INCOME AND EXPENSES: CREDICOOP

The original projections presented three plans which had different assumptions, however, when the loan was authorized "Plan C" was the plan used. Basically this plan was that CREDICOOP would receive successive disbursements of AID loan funds up to the full disbursement of the $3,000,000. These funds would be passed by the NDB to CREDICOOP with no commission. Since this was the plan in the loan authorization, it is the assumption used in the new projections.

There are no significant changes in the new projections of sources of capital funds or use of funds that is not self explanatory in EXHIBIT E or that has not been explained in previous comments on the same subject except as follows:

(F.4.c.) Interest income on AID deposited .

Funds ~~has~~ have changed from a deposit period of four months at 6% annual interest to one month at 8% annual interest. This is due to credit union loans being changed from eight to eleven months. The change in interest rate is an estimate but probably more nearly correct.

(F.5.b.) This interest expense is assumed to be on borrowing by CAMDICOOP to meet loan demand in 1980 over and above funds available from the AID loan and other available funds.

(F.7.c.) CAP

(F.5.b.) Revised

The original projection assumed a loss on delinquent loans of 1/2 of one percent. The new projection to be conservative is one percent.

(F.5.a.) CAP

(F.5.d.) Revised

The cost of operations, personnel and other, was increased 10% per year over the original costs to provide for inflation, possibly some expansion, and to be additionally conservative.

Exhibit E Page 9

FINANCIAL PROJECTIONS (REVISED) CREDICOOP & MEMBER CREDIT UNIONS: 1974-1980
(IN EQUIVALENT U.S. DOLLARS)

PART A- MEMBERSHIP

	FISCAL YEARS RUN FROM 1 July to 31 June						
	74	75	76	77	78	79	80
1. Numbers of Credit Unions & Precoops	30	37	38	42	46	51	56
a. Rural	18	24	24	27	30	34	38
b. Urban	12	13	14	15	16	17	18
2. Credit Unions Members							
a. Rural	5,543	6,725	8,250	10,500	13,090	15,920	19,060
(1) Farmer Members	3,033	4,125	5,550	7,530	9,820	12,320	15,100
(1. a.) " " qualified f/loans	3,000	2,000	2,000	3,050	4,500	6,300	9,000
(2) Non farmers	2,510	2,600	2,700	2,970	3,270	3,600	3,960
b. Urban Credit Union-Members	6,800	4,600 */	5,600	6,680	7,830	9,050	10,340
c. Total (a + b):	12,343	11,325	13,850	17,180	20,920	24,970	29,400

PART B - PROJECTION OF SAVINGS

	74	75	76	77	78	79	80
1. Annual Savings of Members of Urban CU's							
a. Existing members $ 10 per yr. p/mmb.	40,000	46,000 */	46,000	56,000	66,800	78,300	90,050
b. New members (first yr.) X $ 25 p/mmb.	45,000	- (1)	25,000	27,000	28,750	30,500	32,250
c. Total (a + b = c)	85,000	46,000	71,000	83,000	95,550	108,800	122,300
2. Annual Savings of members of Rural CU's							
a. non Farmer members							
(1) existing members $ 8 p/yr.	19,728	20,080	20,800	21,600	23,760	26,160	28,800
(2) New members $ 25 p/yr. (1st. yr.)	1,100	2,250	2,500	6,750	7,500	8,250	9,000
(3) Total (1) + (2) = (3)	20,828	22,330	23,300	28,350	31,260	34,410	37,800

*/ INCLUDES ONLY MEMBERS OF CREDIT UNIONS WHO ARE MEMBERS OF CREDICOOP-73, 74 FIGURES INCLUDE NON MEMBER DATA.
(1) ADJUSTMENT FOR ELIMINATION OF NON MEMBER CREDIT UNIONS.

FINANCIAL PROJECTIONS (REVISED) CREDICOOP & MEMBER CREDIT UNIONS: 1974-1980
(IN EQUIVALENT U.S. DOLLARS)

	74	75	76	77	78	79	80
(Loans to farmers) Cld.	1377000	600000	1000000	1730000	2875000	4540000	7060000
b. Borrowing Farmers 10% of loans through 1977 5% of loans thereafter)	137700	60000	100000	173000	143750	227000	353000
c. Total Rural CU's	158528	82330	123300	201350	175010	261410	390800
3. Cumulative Savings	1974 & prior yrs.						
a. Urban CU's	505000	500000 */	571000	654000	749550	858350	980650
b. Rural CU's							
(1) non farmer members	133328	155658	178958	207308	238568	272978	310778
(2) Borrowing Farmer Members	241706	311706	411706	584706	728456	955456	1308456
(3) Total	375034	467364	590664	792014	967024	1228434	1619234
c. Total (a + b + c)	880034	997364	1191664	1476014	1746574	2116784	2629884

PART C-DEMAND FOR LOANS

	74	75	76	77	78	79	80
1. Farmer Demand(Rural)							
a. Hectares p/farmer Borrower	3.5	3.8	3.8	4.1	4.4	4.7	4.9
b. Loan Demand p/Hect.	125	131	131	138	145	152	160
c. No. of Farmer Borrowers	3,150	2,000	2,000	3,050	4,500	6,300	9,000
d. Farmer Demand(axbxc rounded)	1377000	600000	1000000	1730000	2875000	4540000	7060000
e. Loan Repayments	228002	895313	800000	1181687	1830000	2875000	4540000

*/ Includes only members of Credit Unions who are also members of Credicoop. 74 figure includes non member data.

	74	75	76	77	78	79	80
2. Non-Farmer Loan Demand							
a. Cumulativa Savings (B. 3. b. 1)	133328*	155658	178958	207308	238568	272978	310778
b. Demand (150% Line c. a)	199992*	100000	268437	310962	357852	409467	466167
c. Repayments (1) Loans made same year (. 36)	71997	36000	96637	111946	128827	147408	167820
(2) Loans made previous yr. (. 57)*	64125	113995	57000	153009	177248	203976	233396
(3) Loans made 2 yrs. prior (. 07)*	3500	7875	13999	7000	18790	21767	25050
(4) Total	139622	157870	167636	160009	324865	373151	426266
d. Available Savings (B. 2. a. 3.)	20828	22330	23300	28350	31260	34410	37800
e. Total Supply (2. c4 + d)	160450	180200	190936	188359	356125	407561	464066
3. Urban Demand							
a. Cumulative Savings	505000	500000	571000	654000	749550	858350	980650
b. Demand (150% c. 3. a.)	757500	750000	856500	981000	1124325	1287525	1470975
c. Repayments							
1. Loans made same yr. (. 36)	280275	270000	308340	353160	404757	463509	529551
2. Loans made previous yr. (. 57) *	342000	431775	427500	488205	559170	640865	733889
3. Loans made 2 yrs. prior (. 07) *	35000	42000	53025	52500	59955	68670	78703
4. Total	657275	743775	788865	893865	1023882	1173044	1342143
d. Available Savings (B. 1. c.)	85000	46000	71000	83000	95550	108800	122300
e. Total Supply (c + d).	742275	789775	859865	976865	1119432	1281844	1464443

Exhibit E Page 12

PART D - FUNDING AND OPERATING INCOME AND EXPENSES

URBAN CREDIT UNIONS

	74	75	76	77	78	79	80
1. Supply and Demand of Funds							
a. Loan Demand (3b)	757500	750000	856500	981000	1124325	1287525	1470975
b. Supply of Funds	742275	789775	859865	976865	1194432	1281844	1464443
c. (Borrowing) or Savings	(15225)	39775	3365	(4135)	(4893)	(5681)	(6532)
2. Operating Revenues							
Interest 18% on repayments line 3.E.4.	15150						
a. 1974-75 2% of demand + 12%	78873	89253	141996	160896	184299	211148	241586
b. New member joining Fee $ 2.38	4284	-	2380	2570	2737	2904	3070
Total	98307	8925'	144376	163466	187036	214052	244656
3. Operating Expenses							
a. Due per member .32	2176	1472	1792	2138	2506	2896	3309
b. 1/2 of 1% of Savings 75 onward	-	2500	2855	3270	3748	4292	4903
c. Total Credicoop Dues	2176	3972	4647	5408	6254	7188	8212
d. Audit & Educ. Exps. [redacted]	228	1800	1900	2000	2100	2200	2300
e. Operating cost $ 4000 + 5% thereafter	48000	54600	617'0	69458	77792	86787	96486
f. Loss on Delinquent Loans 3%	27725	22500	25695	29430	33730	38626	44129
g. Interest on Borrowed Funds 15%	2284	-	-	620	734	852	980
h. Interest & or Dividends to Members 4% 76-80 of line C. 1. a.	-	-	22840	26160	31582	34334	39226
Total	75413	86844	121469	138484	158446	177175	199545
4. Operating Profit or Loss	22894	2409	22907	24982	28590	36877	45111

Profit is assumed saved in Credicoop to meet capitulation requirements and maintained in checking accounts. (i.e. these funds to not produce extra income for the C. Unions).

Exhibit E

PART E - FUNDING & OPERATING INCOME & EXPENSES: RURAL CREDIT UNIONS

	74	75	76	77	78	79	80
1. Sources of Capital Funds							
a. Member Savings	1,585.28	823.30	1,233.00	2,013.50	1,750.10	2,614.10	3,908.00
b. Payment of Loan from BNF & Credicoop prior years	(360.00)	(6,021.53)	(8,474.87)	(12,066.75)	(18,045.91)	(27,075.68)	(43,474.74)
c. Loan Repayment (2.1.c + 2.2.c.4.)	3,676.24	10,331.63	9,676.36	13,416.96	21,548.65	32,481.51	49,662.66
d. Borrowing from Credicoop annual	30.00	800.00	5,000.00	8,650.00	14,375.00	22,700.00	35,300.00
e. Borrowing from BNF + other Banks	10,538.40	5,674.87	5,249.88	8,395.91	12,700.68	18,774.74	27,865.75
f. Total Borrowing (d + e)	10,568.40	6,474.87	10,249.88	17,045.91	27,075.68	41,474.74	63,165.75
g. Total Supply (a + b + f)							
2. Uses of Capital Funds							
a. Savings in Credicoop 5% of line 1.1.a.	1.50	40.00	250.00	432.50	718.75	1,135.00	1,765.00
b. Capitalization dues 2.5% of 1.1.a.	39.63	20.58	30.83	50.34	43.75	65.35	97.70
c. Loans to members	15,709.92	7,000.00	12,684.37	20,409.62	32,328.52	49,494.67	75,261.67
3. Interest Payments to Credicoop 9% - 1/2%							
a. Interest 11/12 of fiscal yr. .0825	—	66.00	412.50	713.63	1,185.94	1,872.75	2,912.25
b. Commission .005	—	4.00	25.00	43.25	71.88	113.50	176.50
c. Total Credicoop	—	70.00	437.50	756.88	1,257.82	1,986.25	3,088.75
4. Interest Payments to BNF 12% - 1%							
a. Interest 11/12 of fiscal yr. .0917	993.88	520.39	481.41	769.90	1,164.65	1,721.64	2,555.29
b. Commission .01	108.38	56.75	52.50	83.96	127.01	187.75	278.66
c. Total BNF	1,102.26	577.14	533.91	853.86	1,291.66	1,909.39	2,833.95
5. Total Interest	1,102.26	674.14	971.41	161 074	254,948	3 89564	592270
6. Operating Revenues							
a. Total loan charges 16% X 11/12=.1467 7% at 14% X 11/12 .1283 .1467 X line 2.2.c. (excl. Fund included)	2,023.28	1,026.90	1,860.80	2,994.09	4,742.59	7,260.87	11,040.89
b. Dues $ 2.38 new members only	35.70	27.70	36.30	53.55	56.14	67.35	74.73
Total	2,058.98	1,054.60	1,897.10	3,047.64	4,798.73	7,328.22	11,115.62

1978 arbitrary CUs

* Includes projected utilization of reserve funds.

	74	75	76	77	78	79	80
7. Operating Expenses							
a. Capitalization Dues - 1/2% one percent of savings	-	23.37	29.53	39.60	48.35	61.42	80.96
b. Credicoop Dues .37 per member	17.73	21.52	26.40	33.60	41.88	50.94	60.99
c. Staff $ 4,200 = 5% per yr. per C.U.	720.00	1,008.00	1,058.40	1,250.10	1,458.60	1,735.36	2,036.80
d. Loss on delinquent Loans 15% 1974, 1975 5% 76-4% 77-78-3% 79-80-2%	2,365.49	350.00	507.37	612.29	969.86	989.89	1,505.23
e. Interest to BNF & Credicoop Line C 6	1,102.26	647.14	971.41	1,610.74	2,549.48	3,895.64	5,922.70
f. Audit & Education $ 200 per audit 1/2 of the balance = education 7% onward	100 ~~300.00~~	15.00	25.00	30.00	35.00	40.00	45.00
g. Total	4,210.48	2,065.03	2,618.11	3,576.33	5,103.17	6,773.25	9,651.68
8. Operating Results: Profit or Loss	(2,151.50)	(1,010.43)	(721.01)	(528.69)	(304.44)	554.97	1,463.94
9. Dividends = None	-	-	-	-	-	-	-

The credit unions may however pay interest to attract savings at less cost than other borrower funds.

PART F - FUNDING AND OPERATING INCOME AND EXPENSES: CREDICOOP

	74	75	76	77	78	79	80
1. Sources of Capital Funds							
a. Capitalization and other dues							
(1) Urban CU's	21.76	39.72	46.47	54.08	62.54	71.88	82.12
(2) Rural	17.73	44.89	55.93	73.20	90.23	112.36	141.95
(3) Total	39.49	84.61	102.40	127.28	152.77	184.24	224.07
b. Savings of Credit Unions	21.25	11.50	17.75	20.75	23.89	27.20	30.58
(1) Urban 2.5% of savings 5% of loans	7.61	-	-	2.07	2.45	2.84	3.27
(2) Rural 2.5% of savings increase	33.63	20.58	30.83	50.34	43.75	65.35	97.70
(3) Rural 5% of loans	1.30	40.00	250.00	432.50	718.75	1,135.00	1,765.00
(4) Total	63.39	72.08	298.58	505.66	788.84	1,230.39	1,896.55
c. Borrowing of CREDICOOP	-	15.39	4,399.02	8,017.06	13,433.39	21,285.37	33,179.38

	74	75	76	77	78	79	80
2. Uses of Funds							
a. Loans to Rural CU's	30.00	800.00	5,000.00	8,650.00	14,[illegible]5.00	22,700.00	35,300.00
b. Deposits in banks & other misc. uses	141.30	273.38	213.38	213.38	213.38	213.38	213.38
3. Cumulative							
a. All dues	59.49 *	144.10	246.50	373.78	526.55	710.79	934.86
b. Savings of all CU's	181.81	253.89	552.47	1,058.13	1,846.97	3,077.36	4,97[illegible]
c. Borrowing of Credicoop		15.39	4,614.41	12,631.47	26,064.86	47,350.23	80,529.61
d. Reserves grant fully invested		700.00	700.00	700.00	700.00	700.00	700.00
e. Available for loans to rural CU's	241.30	1,113.38	6,113.38	14,763.38	29,138.38	51,838.38	87,138.38
f. Loans to Rural CU's	100.00 *	900.00	5,900.00	14,550.00	28,925.00	51,625.00	86,925.00
4. Operating Revenues							
a. Annual Dues F.1.a.3.	39.49	84.61	102.40	127.28	152.77	184.24	224.07
b. Program Revenues (Audit & Education)							
(1) Urban CU's	2.28	1[illegible].00	19.00	20.00	21.00	22.00	23.00
(2) Rural CU's	5.00	15.[illegible]	25.00	30.00	35.00	40.00	45.00
(3) Total	7.28	3[illegible].00	44.00	50.00	56.00	62.00	68.00
c. Interest & Commission Income from Rural CU's	-	[illegible]	437.50	756.88	1,257.82	1,986.25	3,088.75
d. Interest on Deposited AID funds 1/12 of yr. 1 yr. lag.	-	-	-	22.99	58.02	67.17	106.42
e. Total Operating Revenues (a+b3+c)	46.77	187.61	583.90	957.15	1,524.61	2,299.66	3,487.24
5. Operating Cost							
a. Interest cost AID funds	- **	1.54	91.90	160.34	268.67	425.71	600.00
b. Interest on other funds 8% X 11/12	-	-	-	-	-	-	228.65
c. Loss on Delinquent Loans .01	-	8.00	50.00	86.50	143.75	227.00	353.00
d. Personnel and Special Education 15.000 75 - 76	1,012.25	1,420.00	1,547.00	1,536.70	1,690.37	1,859.41	2,045.35
e. Total	1,012.25	1,4[illegible].54	1,688.90	1,783.54	2,102.79	2,512.12	3,227.00
6. Operating Results	(965.48)	(1,241.93)	(1,105.00)	(826.39)	(578.18)	(212.46)	260.24

* Includes 73

** Cost of BNF funds 75 only.

526-113

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

NITED STATES COORDINATOR

ALLIANCE FOR PROGRESS

Ref: AID/DLC/P-2041/2

LOAN AUTHORIZATION

A.I.D. Loan No.: 526-T-027

Provided from: Section 103, Food and Nutrition

For: PARAGUAY, Small Farmer Development

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, ("The Act") and the delegations of authority issued thereunder, I hereby authorize the establishment of a Loan pursuant to Section 103 of said Act, and in furtherance of the Alliance for Progress, to the Government of Paraguay ("Borrower") of not to exceed four million, seven hundred thousand United States dollars ($4,700,000) to assist in financing the United States dollar and local currency costs of an integrated program to provide credit, technical assistance and marketing services designed to institutionalize two cooperative centrals, the Union Paraguaya de Cooperativas (UNIPACO) and the Central Cooperativa Nacional de Ahorro y Credito (CREDICOOP), in order to increase the net income and productivity of small-scale Paraguayan farmers ("Project"). The Loan shall be subject to the following terms and conditions:

1. <u>Interest and Terms of Repayment</u>

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

2. <u>Other Terms and Conditions</u>

   a. Except for ocean shipping, goods and services financed under the Loan shall have their source and origin in Paraguay or countries included in A.I.D. Geographic Code 941, provided, however, that marine insurance may be financed under the Loan only if it is obtained on a competitive

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basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in A.I.D. Geographic Code 941, not including Paraguay.

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

c. Prior to the first disbursement, or the issuance of any commitment documents under the Loan to finance engineering services and related procurement, Borrower shall submit in writing to A.I.D. satisfactory evidence of contracts for the final design and location study of the UNIPACO feed mill grain storage facilities and related infrastructure to be financed under the Loan.

d. Prior to any disbursement or the issuance of any commitment documents under the Loan, other than for engineering services and related procurement, Borrower shall submit to A.I.D., in form and substance satisfactory to A.I.D.:

(i) Executed written agreements between Borrower and CREDICOOP and Borrower and UNIPACO setting forth the terms and conditions under which loan funds are to be relent by the Borrower to UNIPACO and CREDICOOP, including provisions that A.I.D. funds and the roll-over thereof shall be limited to the production and marketing of commodities eligible for A.I.D. financing.

(ii) Executed agreements between Borrower and UNIPACO and Borrower and CREDICOOP setting forth the capitalization requirements established under the loan agreements and the policy designed to implement said requirements.

(iii) Except as A.I.D. may otherwise agree in writing, executed agreements between Borrower and UNIPACO and Borrower and

CREDICOOP setting forth their mutual goals and purposes, the policies designed to implement the same, and verifiable performance indicators designed with particular emphasis upon the implementation of the policies designed to reach farmers with land holdings of less than twenty (20) hectares with special emphasis on farmers with less than five (5) hectares.

(iv) An executed agreement between Borrower and CREDICOOP setting forth limitations on the financing of annual crops to a fixed percentage of the expected value of the harvested crop with the said percentage to be approved by A.I.D. in writing prior to commencement of lending operations for each crop year during the first five years after initial disbursement under the loan.

(v) An executed agreement between Borrower and UNIPACO providing that prior to disbursement of funds for the construction of any facilities UNIPACO will provide to the National Development Bank (BNF) and to A.I.D. final design and Location studies satisfactory to A.I.D. for each facility to be constructed.

(vi) Except as A.I.D. may otherwise agree in writing an executed agreement between Borrower and UNIPACO providing that UNIPACO shall establish a reserve fund to provide for increased capitalization, which UNIPACO shall augment annually by the GUARANI equivalent of either $100,000 or twenty percent (20%) of the disbursed amount of the $500,000 allocated to the Loan for working capital, whichever is less.

c. Borrower shall covenant as follows:

(i) Borrower shall subordinate its claim to UNIPACO's assets so UNIPACO can pledge them to obtain additional working capital.

(ii) Borrower shall not require mortgages on real property to secure the subloans made to CREDICOOP with crop liens, personal property liens, and cosigners sufficient to guarantee said subloans.

(iii) Except as A.I.D. may otherwise agree in writing, Borrower shall make disbursements to CREDICOOP based upon annual investment plans prepared by CREDICOOP and approved by the National Development Bank and will permit CREDICOOP to relend loan repayments without Borrower's approval; except that rollover funds from the Loan will not be used for financing production of commodities ineligible for A.I.D. financing, and Borrower shall reserve the right to perform regular audits of CREDICOOP to insure that the funds are being administered properly.

(iv) Except as A.I.D. may otherwise agree in writing, Borrower shall assure that UNIPACO has first priority to borrow for working capital purposes any funds that CREDICOOP might have on deposit in an interest bearing account at the National Development Bank with said funds also being available when needed by CREDICOOP.

(v) Except as A.I.D. may otherwise agree in writing, Borrower shall provide the services of the Agricultural extension personnel required to provide adequate technical assistance to the farmer-members of the CREDICOOP credit unions.

(vi) Except as A.I.D. may otherwise agree in writing, Borrower shall to the best of its ability provide agricultural production credit through CREDICOOP at its most favorable rate of interest for credit requirements of farm borrowers for commodities not eligible for A.I.D. financing to CREDICOOP-affilated rural credit unions.

(vii) Except as A.I.D. may otherwise agree in writing, Borrower shall not request disbursement from A.I.D. until it has approved specific disbursement requests from UNIPACO or CREDICOOP and upon receipt of funds from A.I.D., Borrower shall disburse such funds to UNIPACO or CREDICOOP within thirty days.

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

Deputy U. S. Coordinator

12/31/1974
Date

526-113 central files proposed loan

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

MEMORANDUM

September 18, 1974

TO: LA/DR:Howard Sharlach

FROM: Capital Development/USAID/Paraguay:Henry Miles

SUBJECT: Justification for Financing Soybeans in the Paraguay Small Farmer Project

1. BACKGROUND:

USAID/Paraguay initiated a credit union project in 1970 with the assistance of the Credit Union National Association (CUNA). The project progressed well, especially among small farmers and in 1971 Ministry of Agriculture (MAG) extension agents provided assistance through the credit union system to 100 small farmers. These farmers also received technical advice from credit union field workers. The credit unions with the aid of the CUNA staff, borrowed $20,000 from the National Development Bank (NDB) in 1971 and relent it to their small farmer members.

In 1973 the credit unions with CUNA assistance borrowed $100,000 from the NDB which was relent to about 700 small farmers. These farmers also received technical assistance from the credit field workers and MAG extension agents. During that year the 32 credit unions being assisted by CUNA, 24 rural and 8 urban, decided to take the next step in developing the credit union system: form a national credit union federation.

The credit union representatives with the help of CUNA developed a federation model which appeared to be best suited to Paraguay's needs. Its services included lending money to credit unions. After agreeing upon the design the representatives held a national assembly in October 1973 and the federation, CREDICOOP, received its legal charter in 1974.

The charter includes authority to make loans to member credit unions and during the development of CREDICOOP, its promotors asked AID if it could make a concessional term loan to the federation and CUNA prepared a financial analysis showing that the loan would capitalize CREDICOOP. At this time UNIPACO, a marketing cooperative federation, which AID had reoriented to perform marketing services for small farmers, solicited an AID loan to purchase a grain storage and shipping facility and a cotton gin. Therefore, the Mission combined both projects into one IRR and submitted it to AID/W.

After receiving approval to proceed, USAID/Paraguay began preparing the CAP. The financial analysis indicated that a $3,000,000 loan was necessary to capitalize CREDICOOP and that UNIPACO required $1.5 million to purchase the grain facility and cotton gin. The data analyzed showed that the small farmers would use the proceeds of the CREDICOOP loan principally to finance cotton, tobacco and soybeans because these crops generate two-to-three times as much profit per hectare as other crops which can be grown and marketed feasibly by small farmers.

The CAP was disapproved because a waiver could not be obtained for financing cotton and tobacco and a team of AID specialists was sent to Paraguay to examine the cash crop options available to the small farmers. The team concluded that cotton, soybeans and tobacco are the most feasible cash crops presently available to the small farmer. While small farmers could also produce animals and vegetables obstacles now exist which make both unfeasible. Vegetables can be exported only two months of the year during winter time in Argentina. Additionally, the farmers would also need time and experience in producing both before a significant credit demand could be developed. As for swine, our pilot program has shown that some further improvement in breeding stock is still necessary and a technical assistance package for increasing the protein in hog rations is needed. The team noted, however, that soybeans provide a good base for entering swine production.

The results of the analysis performed by the team show that a farmer with 5-10 hectares of land could increase his net income by over 50 percent in five years by producing cotton, tobacco, soybeans and swine together or by combining the production of either cotton, tobacco or soybeans with swine. (Swine financing would begin in the second year of the loan.)

The next question is whether CREDICOOP would capitalize itself in a reasonable time period if cotton and tobacco financing were excluded from the AID loan, its only source of concessional funds. (CREDICOOP would continue to finance cotton and tobacco with funds borrowed from the NDB which, because of the high interest rate charged, are relent without a margin and therefore do not assist in capitalizing CREDICOOP.) This is most critical because CREDICOOP's expenses are financed mainly by AID grants. CREDICOOP's role is crucial to assisting small Paraguayan farmers because it establishes and maintains credit unions, the only institutions in Paraguay capable of channeling credit and technical assistance to the smallest farmers. (The NDB lends to small farmers, less than 20 hectares, through CREDICOOP: it does not lend to them directly.) The computer projection model demonstrates that: (1) CREDICOOP would break-even three years after receiving an AID loan if it were allowed to finance soybeans, tobacco and cotton, (2) excluding the financing of cotton and tobacco CREDICOOP could break-even four years after receiving a $3,000,000 loan, and (3) if financing all three crops is excluded, CREDICOOP would be able to disburse about $1,500,000 in five years and would generate about half the revenue needed to cover its expenses. Besides, CREDICOOP is not able to obtain concessional financing from other sources. Neither the IDB nor the IBRD is interested in lending to it because of its infant status. Therefore, the project would die if soybean financing were excluded.

CREDICOOP

On the UNIPACO side of the project, USAID/Paraguay asked the team to analyze the feasibility of operating a soybean oil extraction plant and a feedmill which would replace the cotton gin proposed in the CAP for UNIPACO and to determine the amount of operating capital needed by UNIPACO. The team economist did the analysis and concluded that such a system would not only be feasible but would have an inhibiting effect on Paraguay's soybean exports because part of the oil and most of the meal would be consumed locally*, whereas UNIPACO now exports most of the beans it purchases. The analysis also showed that UNIPACO should have $500,000 for working capital in addition to the loans it can obtain from local banks.

2. CONCLUSION:

(a) CREDICOOP, a national credit union federation created with AID financial and technical assistance to provide credit and technical assistance to the smallest Paraguayan farmers, will not be able to achieve its purpose unless it receives an AID concessional loan to finance soybeans and other small farmer activities except cotton and tobacco production.

(b) The oil extraction plant and feedmill to be included in the revised CAP will enable the soybeans to be processed into oil and animal feed and used for internal consumption. Therefore, this project would have an inhibiting effect on the export of soybean products from Paraguay.

3. RECOMMENDATION:

That USAID/Paraguay be authorized to develop a revised Small Farmer CAP to include: (1) a loan to CREDICOOP with a four year disbursement period to finance soybeans and other small farmer activities except cotton and tobacco; and (2) a loan to UNIPACO to finance operating capital, a grain facility, soybean oil extraction plant and feedmill.

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*Excerpt from IDB Reports: Analysis of Industrial and Agricultural Development Program 1974 and IBRD Appraisal of the Small Farmer Credit Program 1974 Edited by Michael De Metre, AID/LA/DR.

526-0108

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

526-113

ALLIANCE FOR PROGRESS

AID-DLC/P-2041/2

LOAN AUTHORIZATION AMENDMENT NO. 1

A.I.D. LOAN NO. 526-T-027

Provided From: Section 103, Food and Nutrition

FOR: PARAGUAY - Small Farmer Development

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby amend the Loan Authorization dated December 31, 1974, with respect to A.I.D. Loan No. 526-T-027 to read in its entirety as follows:

"Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, ("The Act") and the delegations of authority issued thereunder, I hereby authorize the establishment of a Loan pursuant to Section 103 of said Act, and in furtherance of the Alliance for Progress, to the Government of Paraguay ("Borrower") of not to exceed three million United States dollars ($3,000,000) to assist in financing the United States dollar and local currency costs of an integrated program to provide credit, technical assistance and marketing services designed to institutionalize the Central Cooperativa Nacional de Ahorro y Credito (CREDICOOP), in order to increase the net income and productivity of small-scale Paraguayan farmers ("Project"). The Loan shall be subject to the following terms and conditions:

1 Interest and Terms of Repayment

Borrower shall repay the Loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United

States dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and unpaid interest.

2. Other Terms and Conditions

a. Except for ocean shipping, goods and services financed under the Loan shall have their source and origin in Paraguay or countries included in A.I.D. Geographic Code 941, provided, however, that marine insurance may be financed under the Loan only if it is obtained on a competitive basis, and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in A.I.D. Geographic Code 941, not including Paraguay.

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

c. Prior to any disbursement, or the issuance of any commitment documents for credit under the Loan, Borrower shall submit to A.I.D., or cause to be submitted to A.I.D., in form and substance satisfactory to A.I.D.:

(1) a signed agreement (or agreements) between the Borrower and CREDICOOP setting forth the terms and conditions under which Loan funds are to be relent to CREDICOOP, including provisions that:

(a) CREDICOOP will undertake a management upgrading program and offer qualified credit union managers to member cooperatives on a contract basis;

(b) CREDICOOP will lend only to cooperatives having full-time, qualified managers;

(c) CREDICOOP will participate in a joint annual evaluation of the Project by the Borrower, CREDICOOP and A.I.D.;

(d) CREDICOOP, starting twelve months after the first disbursement to it of Loan funds, will make no loan to any cooperative having more than the equivalent of $30,000 in total assets unless such cooperative has been audited within twelve months of such Loan;

(e) Loan funds and funds relent from the repayments thereof (continuing rollovers) shall be limited to the production and marketing of commodities eligible for A.I.D. financing;

(f) CREDICOOP shall meet stated capitalization requirements and implement stated policies designed to attain said requirements;

(g) Describe Borrower's and CREDICOOP's mutual goals and purposes, the policies designed to implement them, and verifiable performance indicators designed with particular emphasis upon the implementation of the policies designed to reach farmers with land holdings of less than twenty (20) hectares with special emphasis on farmers with less than five (5) hectares;

(h) Set forth limitation on the financing of annual crops to a fixed percentage of expected value of the harvested crop with said percentage to be approved by A.I.D., in writing prior to commencement of lending operations for each crop year, during the first five years after initial disbursement under the Loan; and

(i) Require CREDICOOP to require all borrowing cooperatives and employees thereof having access to funds of any such cooperatives to be covered by adequate fidelity bonding, if available;

(2) A marketing services plan demonstrating that CREDICOOP possesses adequate financial and management resources to carry out marketing services necessary to the Project;

(3) A management upgrading plan under which CREDICOOP will meet its obligations under the Borrower-CREDICOOP agreement described herein above;

(4) A Project evaluation plan (prepared in cooperation with A.I.D.) including evaluation criteria and financial development goals for CREDICOOP.

d. Except as A.I.D. may agree in writing, no disbursement shall be made following each anniversary date of the first disbursement of the Loan unless the joint evaluation of the Project held each year demonstrates progress, satisfactory to A.I.D., in attainment of CREDICOOP's financial development goals.

e. Borrower shall covenant:

(1) to abide by and enforce the contractual obligations entered into with CREDICOOP;

(2) to participate with CREDICOOP and A.I.D. in annual evaluation of the Project;

(3) that it will not require mortgages on real property for subloans made to CREDICOOP that are secured with crop liens, personal property liens or cosigners sufficient to guarantee said subloans;

(4) to make disbursements to CREDICOOP based upon annual investment plans prepared by CREDICOOP and approved by the National Development Bank and that it will permit CREDICOOP to relend Loan repayments without Borrower's approval, provided, however, that Loan funds relent (rollover funds) will not be used for financing production of commodities ineligible for A.I.D.

financing and that the Borrower shall reserve the right to perform regular audits of CREDICOOP to insure that funds are being administered properly;

(5) to assure that any funds on deposit by CREDICOOP at the National Development Bank shall bear interest and be available when needed by CREDICOOP;

(6) to provide services to agricultural extension personnel required to provide adequate technical assistance to farmer-members of CREDICOOP credit unions;

(7) that it will to the best of its ability provide agricultural production credit through CREDICOOP at its most favorable rate of interest for credit requirements of farmer borrowers for commodities not eligible for A.I.D. financing to CREDICOOP-affiliated rural credit unions; and

(8) not to request disbursement from A.I.D. until it has approved specific disbursement requests from CREDICOOP and upon receipt of funds from A.I.D., Borrower shall disburse, or cause to be disbursed, such funds to CREDICOOP within thirty (30) days of their receipt by Borrower.

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

Clearances:
GC/LA,JKessler ________ Date ____
LA/APU,NKockler ________ Date ____
LA/DR,Weinberg ________ Date ____
LA/DR,Hasan ________ Date ____
PPC/DPR,EBHogan ________ Date ____
SER/FM/C,TBlacka ________ Date ____

____
Deputy U.S. Coordinator

____
Date

GC/LA,LLLundy:lb:8/13/76

PD-AAB-331-G1

526-113
3p.

10 NOV 1977

INFORMATION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LA)

FROM: LA/DR, Charles B. Weinberg

Subject: Issues Paper - Paraguay Credit Unions PP

A DAEC review of the PP requesting a $625,000 increase of the Paraguay Credit Unions grant project has been scheduled for Thursday, November 10, 1977, at 2:30 p.m.

The purpose of the proposed grant project is to enable the CREDICOOP system of cooperatives to be financially self-sufficient while providing credit, technical assistance and marketing services to small farmers in rural member cooperatives. The project paper for the Credit Unions project was approved in December 1974 for FY 75 through FY 77 funding. This grant would extend this on-going project by three years and increase its funding level by $625,000. Cumulative obligations to date total $1.303 million ($451,000 for consultant services, $160,000 for commodities, $20,000 for participant training, and $672,000 for operating and other expenses).

The FY 75 grant project was approved at the same time that $4.7 million was authorized in loan funds to the two central cooperatives CREDICOOP ($3.0 million) and UNIPACO ($1.7 million) under the Small Farmer Development loan (526-T-027). This loan project was revised, however, after UNIPACO, the marketing cooperative, was withdrawn from participation in the project. The revised loan agreement was signed in December 1976 for $3.0 million in loan funds to CREDICOOP. As anticipated in the revised loan agreement, an extension and increase in grant support is needed because of the two year delay in disbursing the seed capital loan under the Small Farmer Development Project and the need to establish a marketing capability within CREDICOOP to compensate for the withdrawal of UNIPACO from the project.

Grant funds will provide $246,000 for consultant services, $135,000 for commodities, $52,000 for training, $162,000 for CREDICOOP's operating expenses and $30,000 for contingency costs. The services of consultants are needed to provide guidance to the cooperative system and commodities are needed to support CREDICOOP's expanding marketing activities. Training will be provided to cooperatives' directors and their staffs in cooperative administration, and salaries and certain operating costs will be financed on a declining scale. The local contribution to the grant project is 53% of total project costs over the next three fiscal years which exceeds the counterpart requirements of Section 110(a) of the FAA.

AID grant funds (and loan funds under the Small Farmer Development Project) are restricted to CREDICOOP activities involving only the rural cooperative those cooperatives which lend for agricultural production. Project benefits are directed toward relieving the production and marketing constraints of the small farmer members of rural cooperatives.

Based on an Initial Environmental Examination, your office has reached a threshold decision indicating a negative determination.

This project was included in the FY 78 Congressional Presentation and therefore, no Advice of Program Change will be required.

The DAEC will examine the following issues:

(1) Financial Viability

The purpose of the project is to enable CREDICOOP to be financially self-sustaining while providing a range of services to its member cooperatives. The Mission projects that revenues will exceed expenses by $26,000 for the year ending June 1981 from a negative annual income of $104,000 for the year ending 1977. The assumed annual growth rates underlying these revenues appear somewhat high (e.g., farmer members - 36%, CREDICOOP's volume of crops marketed - 55%, cooperative member savings in CREDICOOP - 61%, etc.) The DAEC will examine the basis of these projections and the impact of failure to meet these projections would have on CREDICOOP's financial viability. In light of previous projections and growth rates to date, the DAEC will also examine the appropriateness of the proposed level of grant support.

(2) Justification for Increase in Grant Support

The Mission states in the PP that the increased grant support over the original projections is required because of the delay in disbursing the seed capital loan to CREDICOOP and the need to establish a marketing capability within CREDICOOP. The DAEC will ask the Mission to provide additional information on CREDICOOP's plans for developing a marketing capability and the linkage between marketing services and the commodities being funded under this grant.

(3) Training

Part of the increase in grant funds ($52,000) will finance short courses in cooperative administration for the staff and directors of the various rural cooperatives. The DAEC will ask the Mission to provide additional information on training efforts to date, the content of the courses, selection procedures, out-of-country participant training, a break-down of the budget, and plans for the training program, if any, once grant funds are exhausted.

(4) Measures to Strengthen CREDICOOP's Reserves

The Mission points out that three measures will be undertaken to build up CREDICOOP's reserves: (a) no dividends will be paid as long as AID budget support funds are being received under this project; (b) if CREDICOOP's performance on its current account is better than anticipated, AID will still pay the agreed upon amounts of budget support to CREDICOOP and payments in excess of operating costs will be used to build up reserves; and (c) CREDICOOP will covenent not to reduce the bad debt reserve below the level existing at the end of this project for any reason other than to pay the actual charges for bad loans until the outstanding balance of the AID loan is equal to the reserve. The DAEC will seek clarification that these three measures will be included in the Project Agreement.

526-113 file

CONFORMED

PD-AAB-331-A1

A.I.D. Loan No. 526-T-027

ALLIANCE FOR PROGRESS

LOAN AGREEMENT

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY

AND

THE UNITED STATES OF AMERICA

FOR

SMALL FARMER DEVELOPMENT

Dated: 30 June 1975

LOAN AGREEMENT dated 30 June 1975, between the GOVERNMENT OF THE REPUBLIC OF PARAGUAY ("Borrower") and the UNITED STATES OF AMERICA, acting through THE AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

ARTICLE I

The Loan

SECTION 1.01. The Loan. A.I.D. agrees to lend to Borrower in furtherance of the Alliance for Progress and pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, an amount not to exceed FOUR MILLION SEVEN HUNDRED THOUSAND UNITED STATES DOLLARS ($4,700,000) ("Loan") to assist Borrower in carrying out the Project referred to in Section 1.02 ("Project). The Loan shall be used exclusively to finance foreign exchange costs of goods and services required for the Project ("Dollar Costs") and local currency costs of goods and services required for the Project ("Local Currency Costs"). The aggregate amount of disbursements under the Loan is hereinafter referred to as "Principal".

SECTION 1.02. The Project. The Loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. Specifically the Loan will: (i) finance facilities in the amount of $1,200,000 required by the Unión Paraguaya de Cooperativas ("UNIPACO") to market crops of the small farmers and to provide them with farm inputs, such facilities are described in Annex I; (ii) provide credit in the amount of $3,000,000 to Paraguayan small farmers through the Central Cooperativa Nacional de Ahorro y Crédito (CREDICOOP) and (iii) provide working capital for UNIPACO in the amount of $500,000.

The total project will consist of two other elements: (i) technical assistance to UNIPACO and CREDICOOP to strengthen these institutions and their cooperatives organizationally, this element will be financed by an A.I.D. grant project; and (ii) technical assistance to the small farmer to provide him with new farming technology and to introduce him to the grading and classifying of his production. This element will be financed by the Ministry of Agriculture, the credit unions and UNIPACO.

The Project is more fully described in Annex I attached hereto. Said Annex may be modified in writing by mutual agreement of the parties. The goods and services to be financed under the Loan shall be listed in the implementation letters referred to in Section 9.03 ("Implementation Letters").

ARTICLE II

Loan Terms

SECTION 2.01. Interest. Borrower shall pay to A.I.D. interest which shall accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance shall accrue from the date of each respective disbursement (as such date is defined in Section 7.04) and shall be computed on the basis of a 365-day year. Interest shall be payable semiannually. The first payment of interest shall be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

SECTION 2.02. Repayment. Borrower shall repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semiannual installments of Principal and interest. The first installment of Principal shall be payable nine and one-half (9 1/2) years after the date on which the first interest payment is due in accordance with Section 2.01. A.I.D. shall provide Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 2.03. Application, Currency and Place of Payment. All payments of interest and Principal hereunder shall be made in United States dollars and shall be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, all such payments shall be made to the Agency for International Development, Cashier, (SER/FM), Washington, D.C. 20523, United States of America. Payment shall be deemed made when received.

SECTION 2.04. Prepayment. Upon payment of all interest and refunds then due, Borrower may prepay, without penalty, all or any part of the Principal. Any such prepayment shall be applied to the installments of Principal in the inverse order of their maturity.

SECTION 2.05. Renegotiation of the Terms of the Loan. In light of the undertakings of the United States of America and the other signatories of the Act of Bogota and the Charter of Punta del Este to forge an Alliance for Progress, the Borrower agrees to negotiate with A.I.D., at such time or times as A.I.D. may request, an acceleration of the repayment of the Loan in the event that there is any significant improvement in the internal and external economic and financial position and prospects of Paraguay, taking into consideration the relative capital requirements of Paraguay and of the various signatories of the Act of Bogotá and the Charter of Punta del Este.

ARTICLE III

Conditions Precedent to Disbursement

SECTION 3.01. Conditions Precedent to Initial Disbursement. Prior to the first disbursement or to the issuance of the first Letter of Commitment under the Loan, Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of the Attorney General of Paraguay, or other counsel satisfactory to A.I.D. that this Agreement has been duly authorized and/or ratified and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the names of the persons holding or acting in the office of Borrower specified in Section 9.02, and a specimen signature of each person specified in such statement.

SECTION 3.02. Condition Precedent to Disbursement for Engineering Services and Related Procurement. Prior to the first disbursement, or the issuance of any commitment documents under the Loan to finance engineering services and related procurement, Borrower shall submit in writing to A.I.D. satisfactory evidence of contracts for the final design and location study of the UNIPACO facilities and related infrastructure to be financed under the Loan.

SECTION 3.03. Condition Precedent to Disbursement for Other than Engineering Services and Related Procurement. Prior to any disbursement or the issuance of any commitment documents under the Loan, other than for engineering services and related procurement, Borrower shall submit to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An executed agreement providing for the National Development Bank to act as Borrower's agent for this loan.

(b) Executed written agreements between Borrower and CREDICOOP and Borrower and UNIPACO setting forth the terms and conditions under which Loan funds are to be relent by the Borrower to UNIPACO and CREDICOOP, including provisions that A.I.D. funds and the roll-over thereof shall be limited to the production and marketing of commodities eligible for A.I.D. financing (see Annex I).

(c) Executed agreements between Borrower and UNIPACO and Borrower and CREDICOOP setting forth the capitalization requirements established under the agreements and the policy designed to implement said requirements.

(d) Except as A.I.D. may otherwise agree in writing, executed agreements between Borrower and UNIPACO and Borrower and CREDICOOP setting forth their mutual goals and purposes, the policies designed to implement the same, and verifiable performance indicators designed with particular emphasis upon the implementation of the policies designed to reach farmers with land holdings of less than twenty (20) hectares with special emphasis on farmers with less than five (5) hectares.

(e) An executed agreement between Borrower and CREDICOOP setting forth limitations on the financing of annual crops to a fixed percentage of the expected value of the harvested crop with said percentage to be approved by A.I.D. in writing prior to commencement of lending operations for each crop year during the first five years after initial disbursement under the Loan.

(f) An executed agreement between Borrower and UNIPACO providing that prior to disbursement of funds for construction of any facilities UNIPACO will provide to the National Development Bank (NDB) and to A.I.D. final design and location studies satisfactory to A.I.D. for each facility to be constructed.

(g) Except as A.I.D. may otherwise agree in writing an executed agreement between Borrower and UNIPACO providing that UNIPACO shall establish a reserve fund to provide for increased capitalization, which UNIPACO shall augment annually by the GUARANI equivalent of either $100,000 or twenty percent (20%) of the disbursed amount of the $500,000 allocated to the Loan for working capital, whichever is less.

SECTION 3.04. Terminal Dates for Meeting Conditions Precedent to Disbursement.

(a) If the conditions specified in Section 3.01 shall not have been met within sixty (60) days after the execution of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by giving written notice to Borrower. Upon giving of such notice, this

Agreement and all obligations of the parties hereunder shall terminate.

(b) If the conditions specified in Section 3.02 shall not have been met within sixty (60) days and in Section 3.03 within one hundred and twenty (120) days after the execution of this Agreement or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan and/or may terminate this Agreement by giving written notice to the Borrower. In the event of a termination, upon the giving of notice, Borrower shall immediately repay the Principal then outstanding and shall pay any accrued interest and, upon receipt of such payments in full, this Agreement and all obligations of the parties hereunder shall terminate.

SECTION 3.05. Notification of Meeting of Conditions Precedent to Disbursement. A.I.D. shall notify the Borrower upon determination by A.I.D. that the conditions precedent to disbursement specified in Section 3.01, 3.02 and 3.03, have been met.

ARTICLE IV

General Covenants and Warranties

SECTION 4.01. Execution of the Project.

(a) Borrower shall carry out the Project with due diligence and efficiency, and in conformity with sound engineering, construction, financial, administrative, planning and management practices. In this connection Borrower shall cause to be employed suitably qualified and experienced consultants and other personnel for the Project.

(b) Borrower shall cause the Project to be carried out in conformity with all of the plans, specifications, contracts, schedules, and other arrangements, and with all modifications therein, approved by A.I.D., pursuant to this Agreement.

SECTION 4.02. Funds and Other Resources to be Provided by Borrower. Borrower shall provide promptly, as needed, all funds in addition to the Loan, and other resources required for the punctual and effective carrying out of the Project.

SECTION 4.03. Continuing Cooperation. Borrower and A.I.D. shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, Borrower and A.I.D. shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by Borrower of its obligations under this Agreement, the performance of the consultants, contractors, and suppliers engaged in the Project, and other matters relating to the Project. Without limitation upon the foregoing, Borrower and A.I.D. will carry out an annual review of the Project during the period of disbursement under the Loan.

SECTION 4.04. Management. The Borrower shall cause to be provided qualified and experienced management, acceptable to A.I.D. for the Project, and it shall cause such staff to be trained as may be appropriate for carrying out the Project.

SECTION 4.05. Taxation. This Agreement, the Loan, and any evidence of indebtedness issued in connection herewith shall be free from, and the Principal and interest shall be paid without deduction for and free from, any taxation or fees imposed under the laws in effect within Paraguay. To the extent that (a) any contractor, including any consulting firm, any personnel of such contractor financed hereunder, and any property or transactions relating to such contracts, financed hereunder and (b) any commodity procurement transaction financed hereunder, are not exempt from identifiable taxes, tariffs, duties, and other levies imposed under laws in effect in Paraguay, Borrower shall, as and to the extent prescribed in and pursuant to Implementation Letters, pay or reimburse the same under Section 4.02 of this Agreement with funds other than those provided under the Loan.

SECTION 4.06. Utilization of Goods and Services.

(a) Goods and services financed under the Loan shall be used exclusively for the Project, except as A.I.D. may otherwise agree in writing. Upon completion of the Project, or at such other times as goods financed under the Loan can no longer be usefully employed for the Project, Borrower may use or dispose of such goods in such manner as A.I.D. may agree to in writing prior to such use or disposition.

(b) Except as A.I.D. may otherwise agree in writing, no goods or services financed under the Loan shall be used to promote or assist any foreign aid project or activity associated with or financed by any country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION 4.07. Disclosure of Material Facts and Circumstances. Borrower represents and warrants that all facts and circumstances that it has disclosed or caused to be disclosed to A.I.D. in the course of obtaining the Loan are accurate and complete, and that it has disclosed to A.I.D. accurately and completely all facts and circumstances that might materially affect the Project and the discharge of its obligations under this Agreement. Borrower shall promptly inform A.I.D. of any facts and circumstances that may hereafter arise that might materially affect the Project or the discharge of Borrower's obligations under this Agreement.

SECTION 4.08. Commissions, Fees, and Other Payments.

(a) Borrower warrants and covenants that in connection with obtaining the Loan, or taking any action under or with respect to this Agreement, it has not paid, and will not pay or agree to pay nor to the best of its knowledge has there been paid nor will there be paid or agreed to be paid by any other person or entity, commissions, fees, or other payments of any kind, except as regular compensation to the Borrower's fulltime officers and employees or as compensations for bona fide professional, technical, or comparable services. Borrower shall promptly report to

A.I.D. any payment or agreement to pay for such bona fide professional, technical, or comparable services to which it is a party or of which it has knowledge (indicating whether such payment has been made or is to be made on a contingent basis), and if the amount of any such payment is deemed unreasonable by A.I.D., the same shall be adjusted in a manner satisfactory to A.I.D.

(b) Borrower warrants and covenants that no payments have been or will be received by Borrower, or any official of Borrower in connection with the procurement of goods and services financed hereunder, except fees, taxes, or similar payments legally established in Paraguay.

SECTION 4.09. Maintenance and Audit of Records. Borrower shall maintain, or cause to be maintained, in accordance with sound accounting principles and practices consistently applied, books and records relating both to the Project and to this Agreement. Such books and records shall, without limitation, be adequate to show:

(a) the receipt and use made of goods and services acquired with funds disbursed pursuant to this Agreement;

(b) the nature and extent of solicitation of prospective suppliers of goods and services acquired;

(c) the basis of the award of contracts and orders to successful bidders; and

(d) the progress of the Project.

Such books and records shall be regularly audited, in accordance with sound auditing standards, for such period and at such intervals as A.I.D. may require and shall be maintained for five years after the date of the last disbursement by A.I.D. or until all sums due A.I.D. under this Agreement have been paid, whichever date shall first occur.

SECTION 4.10. Reports. Borrower agrees to furnish to A.I.D. such information and reports relating to the Loan and to the Project as A.I.D. may reasonably request, including a report on Project progress to be furnished at least on a quarterly basis during the period of disbursement under the Loan.

SECTION 4.11. Inspections. The authorized representatives of A.I.D. shall have the right at all reasonable times to inspect the Project, the utilization of all goods and services financed under the Loan, and

Borrower's books, records, and other documents relating to the Project and the Loan. Borrower shall cooperate with A.I.D. to facilitate such inspections and shall permit representatives of A.I.D. to visit any part of Paraguay for any purpose relating to the Loan.

ARTICLE V

Special Covenants and Warranties

SECTION 5.01. Without limitation with respect to obligations otherwise incurred under this Agreement, Borrower hereby specifically covenants and warrants:

(i) To subordinate its claims to UNIPACO's assets so that UNIPACO can pledge them to obtain additional working capital.

(ii) Not to require mortgages on real property for subloans made to CREDICOOP that are secured with crop liens, personal property liens, and cosigners sufficient to guarantee said subloans.

(iii) That except as A.I.D. may otherwise agree in writing, Borrower shall make disbursements to CREDICOOP based upon annual investment plans prepared by CREDICOOP and approved by the National Development Bank and will permit CREDICOOP to relend Loan repayments without Borrower's approval; except that rollover funds from the Loan will not be used for financing production of commodities ineligible for A.I.D. financing, and Borrower shall reserve the right to perform regular audits of CREDICOOP to insure that funds are being administered properly.

(iv) That except as A.I.D. may otherwise agree in writing, Borrower shall assure that UNIPACO has first priority to borrow for working capital purposes any funds that CREDICOOP might have on deposit in an interest bearing account at the National Development Bank with said funds also being available when needed by CREDICOOP.

(v) That except as A.I.D. may otherwise agree in writing, Borrower shall provide the services of agricultural extension personnel required to provide adequate technical assistance to farmer-members of CREDICOOP credit unions.

(vi) That except as A.I.D. may otherwise agree in writing, Borrower shall to the best of its ability provide agricultural production credit through CREDICOOP at its most favorable rate of interest for credit requirements of farm borrowers for commodities not eligible for A.I.D. financing to CREDICOOP-affiliated rural credit unions.

(vii) Except as A.I.D. may otherwise agree in writing, Borrower shall not request disbursement from A.I.D. until it has approved specific disbursement requests from UNIPACO or CREDICOOP and upon receipt of funds from A.I.D., Borrower shall disburse, or cause to be disbursed, such funds to UNIPACO or CREDICOOP within fifteen (15) days of their receipt by Borrower.

ARTICLE VI

Procurement

SECTION 6.01. Selected Free Worldwide Procurement. Except as A.I.D. may otherwise agree in writing, and except as provided in Subsection 6.08(c with respect to marine insurance, disbursements made pursuant to Section 7.01 shall be used exclusively to finance procurement for the Project of goods and services having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book in effect at the time orders are placed or contracts are entered into for such goods and services ("Selected Free World Goods and Services"). All ocean shipping financed under the Loan shall have both its source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book in effect at the time of shipment.

SECTION 6.02. Procurement from Paraguay. Disbursement made pursuant to Section 7.02 shall be used exclusively to finance procurement for the Project of goods and services having both their source and origin in Paraguay.

SECTION 6.03. Eligibility Date. Except as A.I.D. may otherwise agree in writing, no goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement.

SECTION 6.04. Goods and Services Not Financed Under Loan. Goods and services procured for the Project but not financed under the Loan, shall have their source and origin in countries included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time orders are placed for such goods and services.

SECTION 6.05. Implementation of Procurement Requirements. The definitions applicable to the eligibility requirements of Sections 6.01, 6.02 and 6.04 will be set forth in detail in Implementation Letters.

SECTION 6.06. Plans, Specifications and Contracts.

(a) Except as A.I.D. may otherwise agree in writing, Borrower shall furnish to A.I.D. promptly upon preparation, all plans, specifications, schedules, bid documents and contracts or other arrangements relating to the Project, and any modifications therein, whether or not the goods and services to which they relate are financed under the Loan.

(b) Except as A.I.D. may otherwise agree in writing, all plans, specifications and schedules furnished pursuant to subsection (a) above shall be approved by A.I.D. in writing.

(c) Except as A.I.D. may otherwise specify, all bid documents and documents related to the solicitation of proposals relating to goods and services financed under the Loan shall be approved by A.I.D. in writing prior to their issuance. Such documents shall be in terms of United States standards and measurements, except as A.I.D. may otherwise agree in writing.

(d) Except as A.I.D. may otherwise agree in writing, the following contracts financed under the Loan shall be approved by A.I.D. in writing prior to their execution:

(i) contracts for engineering, consultant and other professional services;

(ii) contracts for such other services as A.I.D. may specify; and

(iii) contracts for such equipment and material as A.I.D. may specify.

In the case of contracts for services, A.I.D. shall also approve in writing the contractor and such contractor personnel as A.I.D. may specify. Material modifications in any of such contracts and changes in any of such personnel shall also be approved by A.I.D. in writing prior to their becoming effective.

(e) Consulting firms or other technical assistance used by Borrower for the Project, but not financed under the Loan, as well as the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, shall be subject to the written approval of A.I.D.

SECTION 6.07. Reasonable Prices. No more than reasonable prices shall be paid for any goods or services financed in whole or in part under the Loan, as more fully described in Implementation Letters. Such items shall be procured on a fair and, except for professional services, on a competitive basis in accordance with procedures therefor prescribed in Implementation Letters.

SECTION 6.08. Shipping and Insurance.

(a) Selected Free World Goods financed under the Loan shall be transported to Paraguay on flag carriers of any country included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

(b) At least fifty percent (50%) of the gross tonnage of all Selected Free World Goods financed under the Loan (computed separately for dry bulk carriers, dry cargo liners, and tankers) which shall be transported on ocean going vessels shall be transported on privately owned United States flag commercial vessels unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for United States flag commercial vessels. In addition, at least fifty percent (50%) of the gross freight revenue generated by all shipments financed under the Loan and transported on dry cargo liners shall be paid to or for the benefit of privately owned United States flag commercial vessels, unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for United States flag commercial vessels. No such goods may be transported on any ocean vessel or aircraft: (i) which A.I.D., in a notice to Borrower, has designated as ineligible to carry A.I.D.-financed goods or (ii) which has been chartered for the carriage of A.I.D.-financed goods, unless such charter has been approved by A.I.D.

(c) Marine insurance on Selected Free World Goods may be financed under the Loan with disbursements made pursuant to Section 7.01, provided (i) such insurance is placed at the lowest available competitive rate in Paraguay or in a country included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of placement, and (ii) claims thereunder are payable in freely convertible currency. If in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, Paraguay, by statute, decree, rule or regulation, favors any marine insurance company of any country over any marine insurance company authorized to do business in any state of the United States of America, Selected Free World Goods financed under the Loan shall, during the continuance of such discrimination, be insured against marine risk in the United States of America with a company or companies authorized to conduct a marine insurance business in any state of the United States of America.

(d) Borrower shall insure or cause to be insured all Selected Free World Goods financed under the loan against risks incident to their transit to the point of their use in the Project. Such insurance shall be issued upon terms and conditions consistent with sound commercial practice, shall insure the full value of the goods, and shall be payable in the currency in which such goods were financed or in any freely covertible currency. Any indemnification received by Borrower under such insurance shall be used to replace or repair any material damage or any loss of goods insured or shall be used to reimburse Borrower for the replacement or repair of such goods. Any such replacements shall have their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts are entered into for such replacements, and shall be otherwise subject to the provisions of this Agreement.

SECTION 6.09. Notification to Potential Suppliers. In order that all United States firms shall have the opportunity to participate in furnishing goods and services to be financed under the Loan, Borrower agrees to furnish to A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Implementation Letters.

SECTION 6.10. United States Government-Owned Excess Property. Borrower will utilize, with respect to goods financed under the Loan to which Borrower takes title at the time of procurement, such reconditioned United States Government-owned Excess Property as may be consistent with the requirements of the Project and as may be available within a reasonable period of time. Borrower shall seek assistance from A.I.D. and A.I.D. will assist Borrower in ascertaining the availability of and in obtaining such Excess Property. A.I.D. will make arrangements for any necessary inspection of such property by Borrower or its representative. Costs of inspection and of acquisition, and all charges incident to the transfe to Borrower of such Excess Property, may be financed under the Loan. Prior to procurement of any goods, other than Excess Property, financed under the Loan and after having sought such A.I.D. assistance, Borrower shall indicate to A.I.D. in writing, on the basis of information then available to it, either that such goods cannot be made available from reconditioned United States Government-owned Excess Property on a timely basis or that the goods that can be made available are not technically suitable for use in the Project.

SECTION 6.11. Information and Marking. Borrower shall give publicity to the Loan and the Project as a program of United States aid in furtherance of the Alliance for Progress and mark goods financed unde the Loan, as prescribed in Implementation Letters.

ARTICLE VII

Disbursements

SECTION 7.01. Disbursements for United States Dollar Costs - Letters of Commitment to United States Banks. Upon satisfaction of conditions precedent, Borrower may, from time to time, request A.I.D. to issue Letters of Commitment for specified amounts to one or more United States banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers through Letters of Credit or otherwise, for Dollar Costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement. Payment by a bank to a contractor or supplier will be made by the bank upon presentation of such supporting documentation as A.I.D. may prescribe in Letters of Commitment and Implementation Letters. Banking charges incurred in connection with Letters of Commitment and Letters of Credit shall be for the account of Borrower and may be financed under the Loan.

SECTION 7.02. Disbursement for Local Currency Costs. Upon satisfaction of conditions precedent, Borrower may, from time to time, request disbursement by A.I.D. of local currency for Local Currency Costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement by submitting to A.I.D. such supporting documentation as A.I.D. may prescribe in Implementation Letters. A.I.D. shall make such disbursements from local currency of Paraguay owned by the United States Government and obtained by A.I.D. with United States dollars. The United States dollar amount of the Loan disbursed under this Section will be the United States dollar equivalent of local currency disbursements determined at the rate of exchange established by the Government of Paraguay for official transactions as of the date of each respective disbursement as defined in Section 7.04(b).

SECTION 7.03. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as Borrower and A.I.D. may agree to in writing.

SECTION 7.04. Procedure for and Date of Disbursement. Disbursements by A.I.D. shall be deemed to occur, (a) in the case of disbursements pursuant to Section 7.01 on the date which A.I.D. makes a disbursement to Borrower, to its designee, or to a banking institution pursuant to a Letter of Commitment and (b) in the case of disbursements pursuant to Section 7.02 on the date which A.I.D. disburses the local currency to Borrower or its designee.

SECTION 7.05. Terminal Date for Disbursement. Except as A.I.D. may otherwise agree in writing, no Letter of Commitment, or other commitment document which may be called for by another form of disbursement under Section 7.03, or amendment thereto, shall be issued in response to requests received by A.I.D. forty two months after date of this Agreement and no disbursement shall be made against documentation received by A.I.D. or any bank described in Section 7.01 after forty eight months from the date of this Agreement. A.I.D., at its option, may at any time or times after such date, reduce the Loan by all or any part thereof for which documentation was not received by such date.

ARTICLE VIII

Cancellation and Suspension

SECTION 8.01. Cancellation by Borrower. Borrower may, with the prior written consent of A.I.D. cancel any part of the Loan (i) which, prior to the giving of such notice, A.I.D. has not disbursed or committed itself to disburse, or (ii) which has not then been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letters of Credit.

SECTION 8.02. Events of Default; Acceleration. If any one or more of the following events ("Events of Default") shall occur:

(a) Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement;

(b) Borrower shall have failed to comply with any other provision of this Agreement, including, but without limitation, the obligation to carry out the Project with due diligence and efficiency; and

(c) Borrower shall have failed to pay when due any interest or any installment of Principal or any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between Borrower or any of its agencies and A.I.D., or any of its predecessor agencies.

Then, A.I.D. may, at its option, give the Borrower notice that all or any part of the unrepaid Principal shall be due and payable sixty (60) days thereafter, and, unless the Event of Default is remedied to the satisfaction of A.I.D. within such sixty days:

(i) such unrepaid Principal and any accrued interest hereunder shall be due and payable immediately; and

(ii) the amount of any further disbursements made under then outstanding irrevocable Letters of Credit or otherwise shall become due and payable as soon as made.

SECTION 8.03. Suspension of Disbursement. In the event that at any time:

(a) An Event of Default has occurred;

(b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that Borrower will be able to perform its obligations under this Agreement; or

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.

Then, A.I.D. may, at its option:

(i) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letters of Credit, in which event A.I.D. shall give notice to the Borrower promptly thereafter;

(ii) decline to make disbursements other than under outstanding commitment documents;

(iii) decline to issue additional commitment documents;

(iv) at A.I.D.'s expense, direct that title to goods financed under the Loan shall be transferred to A.I.D., if the goods are from a source outside Paraguay, are in a deliverable state, and have not been offloaded in ports of entry for Paraguay. Any disbursement made or to be made under the Loan with respect to such transferred goods shall be deducted from Principal.

SECTION 8.04. Cancellation by A.I.D. Following any suspension of disbursement pursuant to Section 8.03, if the cause or causes for such suspension of disbursements shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, A.I.D. may, at its option, at any time or times thereafter, cancel all or any part of the Loan that is not then either disbursed or subject to irrevocable Letters of Credit.

SECTION 8.05. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursement, or acceleration of repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal then due and any accrued interest hereunder.

SECTION 8.06. Refunds.

(a) In the case of any disbursement from funds received under this Agreement not supported by valid documentation in accordance with the terms of this Agreement, or of any such disbursement not made or used in accordance with the terms of this Agreement, A.I.D. notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require Borrower to refund to A.I.D. such amount in United States dollars or local currency as specified by A.I.D. within thirty (30) days after receipt of a request thereof. Such amount shall be made available first for the cost of goods and services procured for the Project hereunder to the extent justified, the remainder, if any, shall be applied to installments of Principal in the inverse order of their maturity thereby effecting a reduction of the amount of the loan by the amount of such remainder. Notwithstanding any other provision of this Agreement, A.I.D.'s right to require a refund with respect to any disbursement under the Loan shall continue for five (5) years following the date of such disbursement.

(b) In the event that A.I.D. receives a refund from any contractor, supplier, or banking institution, or from any other third party connected with the Loan, with respect to goods or services financed under the Loan, and such refund relates to an unreasonable price for goods or services or to goods that did not conform to specifications, or to services that were inadequate, A.I.D. shall first make such refund available for the cost of goods and services procured for the Project hereunder, to the extent justified, the remainder to be applied to installments of Principal in the inverse order of their maturity thereby effecting a reduction of the amount of the Loan by the amount of such remainder.

SECTION 8.07. Expenses of Collection. All reasonable costs incurred by A.I.D. other than salaries of its staff, in connection with the collection of any refund or in connection with amounts due A.I.D. by reason of the occurrence of any of the events specified in Section 8.02 may be charged to Borrower and shall be reimbursed to A.I.D. by the Borrower in such manner as A.I.D. may specify.

SECTION 8.08. Nonwaiver of Remedies. No reasonable delay in exercising or omission to exercise any right, power, or remedy accruing to A.I.D. under this Agreement shall be construed as a waiver of any such rights, powers, or remedies.

ARTICLE IX

Miscellaneous

SECTION 9.01. Communications. Any notice, request, document, or other communication given, made, or sent by Borrower or A.I.D. pursuant to this Agreement shall be in writing or by telegram, cable, or radiogram and shall be deemed to have been duly given, made, or sent to the party to which it is addressed when it shall be delivered to such party by hand or mail, telegram, cable, or radiogram at the following address:

TO BORROWER:

For Loan Servicing

Mail Address:	Ministry of Finance Asunción, Paraguay
Cable Address:	MINHACIENDA Asunción, Paraguay

For Project Implementation

Matters pertaining to MAG

Mail Address:	Ministry of Agriculture (MAG) Asunción, Paraguay
Cable Address:	MINAGRICULTURA Asunción, Paraguay

Matters pertaining to NDB

Mail Address:	National Development Bank Asunción, Paraguay
Cable Address:	PYXIBO Asunción, Paraguay

TO A.I.D.:

Mail Address:	USAID Mission to Paraguay Asunción, Paraguay
Cable Address:	USAID/Paraguay Asunción, Paraguay

Other addresses may be substituted for the above upon the giving of notice. All notices, requests, communications, and documents submitted to A.I.D. hereunder shall be in English, except as A.I.D. may otherwise agree in writing.

SECTION 9.02. Representatives. For all purposes relative to this Agreement, Borrower will be represented by the individual holding or acting in the office of Minister of Finance and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID Mission to Paraguay. Such individuals shall have the authority to designate additional representatives by written notice. In the event of any replacement or other designation of a representative hereunder, Borrower shall submit a statement of the representative's name and a specimen signature in form and substance satisfactory to A.I.D. Until receipt by A.I.D. of written notice of revocation of the authority of the duly authorized representatives of the Borrower designated pursuant to this Section, it may accept the signature of any such representative or representatives on any instrument as conclusive evidence that any action effected by such instrument is duly authorized.

SECTION 9.03. Implementation Letters. A.I.D. shall from time to time issue Implementation Letters that will prescribe procedures applicable hereunder in connection with the implementation of this Agreement.

SECTION 9.04. Promissory Notes. At such time or times as A.I.D. may request, Borrower shall issue promissory notes or such other evidence of indebtedness with respect to the Loan, in such form, containing such terms and supported by such legal opinions as A.I.D. may reasonably request.

SECTION 9.05. Termination Upon Full Payment. Upon repayment in full of Principal and payment of all accrued interest, this Agreement and all obligations of Borrower and A.I.D. thereunder shall terminate.

SECTION 9.06. Difference in Meaning. The English language version of this Agreement shall be used to resolve differences in meaning between the English version and the Spanish version.

IN WITNESS WHEREOF BORROWER AND THE UNITED STATES OF AMERICA, each acting through its respective duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of 30 June 1975.

FOR THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY

César Barrientos
Minister of Finance

Hernando Bertoni
Minister of Agriculture

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

George W. Landau
Ambassador

Oliver L. Sause
Director, USAID Mission to Paraguay

ANNEX I

THE PROJECT

A. OVERVIEW

The goal of the project is to increase the productivity and income of Paraguayan farmers who cultivate less than 20 hectares of land. The operations of CREDICOOP and UNIPACO are complementary and support this overall goal. Although these two beneficiaries of the Loan to the Borrower will continue to require some grant assistance during the implementation phase of the Project, the financial benefits derived from this Loan should permit phasing out the grants over a four-year period.

Credit unions will be established in 40 rural population concentrations of 10,000 and above; therefore, they eventually could serve all the small farmers located in a rural population of 400,000 even though the credit unions will only be serving an estimated 13,500 farmers and 4,500 other rural dwellers by the end of the project in 1979. In addition, as these credit unions mature, they plan to open branch offices in rural concentrations of as few as 3,000 people.

By the end of the project, UNIPACO plans to have 12,000 members and the capacity to service 20,000 small farmers. Since UNIPACO earns money on each unit of farm produce or farm input handled, providing service to groups which are not yet members does not upset its profit picture. For this reason, UNIPACO was able to market crops profitably for about 6,000 small farmers in 1973, even though its membership was about 2,000. Since in the future UNIPACO will pay patronage refunds to members only, there will be an incentive for farmers to join a marketing cooperative as soon as one is serving their vicinity.

As mentioned above the Loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. The total program consists of five elements: (a) technical assistance to UNIPACO and CREDICOOP to strengthen these two young institutions and their member cooperatives organizationally; (b) technical assistance to the small farmer to provide him with new farming technology and to introduce him to grading and classifying of his production; (c) facilities required by UNIPACO to market crops of the small farmers and to provide them with farm inputs; (d) credit and (e) working capital for UNIPACO. The first element will be financed by an A.I.D. grant project, (b) will be financed jointly by the Ministry of Agriculture (MAG), CREDICOOP, UNIPACO and their cooperatives, and elements (c), (d) and (e) will be financed by the Loan.

B. INSTITUTION BUILDING

The purpose of this project is to further develop, strengthen and institutionalize two national-level cooperative centrals which deliver services to Paraguayan small farmers. CREDICOOP, a credit union central, and UNIPACO, a marketing cooperative central, are both relatively new and will use A.I.D. Loan funds to improve their financial base so they can multiply the number of cooperatives available to the small farmer. To assist UNIPACO and CREDICOOP improve their financial base, the Borrower through a trustfund arrangement with the National Development Bank (NDB) will make available the funds to them at the same interest rates received by the Borrower. The repayment provisions will differ somewhat for UNIPACO as noted below.

Each cooperative central will be responsible individually for repaying its principal and interest to the Borrower. CREDICOOP will repay its loan to the Borrower in 40 years in accordance with the lender's amortization schedule which will include a ten-year grace period on repayment of the principal. UNIPACO, on the other hand, will repay its loan over a 20-year period in accordance with an amortization schedule to be developed by the Borrower which will include a five-year grace period on repayment of the principal. The resulting difference in funds will be available to the Borrower to finance eligible loans made to the agriculture sector.

The establishment of the credit union movement in Paraguay has enabled the Borrower to serve small farmers effectively. The procedure used to pass credit to small farmers begins with CREDICOOP assisting the credit unions to prepare an annual investment plan for each farmer. These plans, in turn, are aggregated into what has been termed the credit union's annual "global investment plan." CREDICOOP presents to the NDB for its approval a global investment plan for each credit union. The NDB disburses funds directly to the credit union in accordance with the plan once it has been approved.

The procedure used to pass Loan disbursements to small farmers will be similar. The credit unions will continue to prepare global investment plans and present them to CREDICOOP. However, these plans will not be presented separately to the NDB. Rather, CREDICOOP will merge them into one blanket credit request for all the credit unions before submitting it to the NDB. The NDB will review credit requests and will approve Loan disbursements only for financially sound projects containing only crops eligible for A.I.D. financing. Then the NDB, after approving the request, will make Loan disbursements to CREDICOOP and CREDICOOP will be responsible for making subloans to the credit unions. CREDICOOP will make available the money to the credit unions directly, through the branch offices of the NDB, or in the form of physical inputs, whichever is most appropriate.

CREDICOOP, with this Loan and the technical assistance provided by A.I.D. and the Borrower, is to become a financial institution specializing in lending to small farmers. To achieve this objective it must begin making the final decisions regarding the loans it awards. Therefore, a different lending procedure, one that increases CREDICOOP's responsibility, will be employed with respect to the use of subloan repayments. CREDICOOP will be allowed to relend the repayments for subloans financed hereunder without the approval of the NDB; however, NDB approval is required for subloans financed with Loan disbursements. Nevertheless, subloans financed with these repayments will be analyzed by consultants who will be made available to CREDICOOP during the disbursement period of the Loan. In addition, the Borrower will have the right to perform regular audits of CREDICOOP to insure that these funds are being administered properly and are not financing crops ineligible for A.I.D. financing. Such ineligible crops are the nonfood commodities in world surplus, cotton and tobacco.

The Loan proceeds for UNIPACO will be used to finance working capital and to purchase facilities that are strategic to its operations. These will include a grain elevator, a storage complex, a grain exporting facility (river barge loading unit) and a feed mill. UNIPACO needs these facilities, currently rented from competitors, to carry out its business. Two types of costs will be financed with UNIPACO's funds for purchasing facilities: costs of a final design and location study for the facilities, and the costs of the facilities. UNIPACO will be allowed $500,000 of the Loan to assist in financing its short-term working capital requirements for the marketing of commodities eligible for A.I.D. financing.

The loan disbursements to UNIPACO will be made upon the presentation of documentation to be agreed upon at a later date by the NDB and A.I.D.

C. FINANCIAL PLAN

Total Project Funds (CY 1975-1979)

(1) A.I.D. Loan

a. Credit	CREDICOOP	$3,000,000
b. Working Capital	UNIPACO	500,000
c. Facilities	UNIPACO	1,200,000
		$4,700,000

(2) A.I.D. Grant UNIPACO

a.	Contract Advisors	$ 284,500
b.	Participant Training	12,000
c.	Commodities	100,000
d.	Other (including budget support)	146,000
		$ 542,500

(3) A.I.D. Grant CREDICOOP

a.	Contract Advisors	$ 298,000
b.	Participant Training	42,000
c.	Commodities	61,000
d.	Other (including budget support)	287,000
		$ 688,000

TOTAL A.I.D. $5,930,500

(4) GOP Contribution

a.	Extension Services	$ 214,500
b.	Coop Promotion	4,000
c.	Credit Advisor	12,600
d.	NDB Lendings	2,274,400
e.	NDB Admin. Costs	94,000
f.	Budget Support	40,000
		$2,639,500

(5) CREDICOOP System

A. CREDICOOP

1.	Operating Expenses	$ 243,900
2.	Undistributed Profits	17,000

B. Credit Unions (Rural)

1.	Member Savings	1,325,900
2.	Operating Expenses	504,000
		$2,090,800

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A.I.D. Loan No. 526-T-027 15 p.

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PD-AAB-331-D1

ALLIANCE FOR PROGRESS

AMENDMENT TO

LOAN AGREEMENT

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY

AND

THE UNITED STATES OF AMERICA

FOR

SMALL FARMER DEVELOPMENT

Dated: 7 December 1976

WHEREAS, a Loan Agreement dated June 30, 1975, was entered into between the GOVERNMENT OF THE REPUBLIC OF PARAGUAY ("Borrower") and THE UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D."),

WHEREAS, it is provided in said Loan Agreement that a part of the loan may be cancelled under circumstances described therein upon agreement of the parties or if it becomes improbable that an objective of the Loan can be attained (see Sections 8.01 and 8.03), and

WHEREAS, the Borrower and A.I.D. wish to reduce the amount of the Loan and, in view of said reduction, effect certain changes in the Project being financed thereunder,

THE PARTIES HEREBY amend and modify said Loan Agreement as follows:

I. ARTICLE I is amended as follows:

a. SECTION 1.01 is modified by deleting therefrom the words and figures "FOUR MILLION SEVEN HUNDRED THOUSAND UNITED STATES DOLLARS ($4,700,000)" and inserting in their place the words and figures "THREE MILLION UNITED STATES DOLLARS ($3,000,000)".

b. SECTION 1.02 is deleted in its entirety and the following inserted in its place:

> "SECTION 1.02. <u>The Project</u>. The Loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. Specifically the loan will provide credit resources in the amount of $3,000,000 to Paraguayan small farmers through the Central Cooperativa Nacional de Ahorro y Crédito ("CREDICOOP").
>
> "The total Project will consist of two other elements: (i) technical assistance to CREDICOOP to strengthen this institution and its cooperatives organizationally. This element will be financed by an A.I.D. grant project; and (ii) technical assistance to the small farmer to provide him with new farming technology and to introduce him to the grading and classifying of his production. This element will be financed by the Ministry of Agriculture and the credit unions.
>
> "The Project is more fully described in 'Annex I-Modified' attached hereto. Said Annex may be modified in writing by mutual agreement of the parties."

2. ARTICLE III is amended as follows:

a. SECTION 3.02 is deleted in its entirety and the following inserted in its place:

"SECTION 3.02. Conditions Precedent to Disbursements for Credit Program. Prior to any disbursement or the issuance of any commitment documents for credit under the Loan, Borrower shall submit to A.I.D., or cause to be submitted to A.I.D., in form and substance satisfactory to A.I.D.:

(a) A signed agreement providing for the National Development Bank to act as Borrower's agent for the Loan;

(b) A signed agreement (or agreements) between the Borrower and CREDICOOP setting forth the terms and conditions under which Loan funds are to be relent to CREDICOOP, including provisions that:

(i) Relate to interest, repayment and other basic terms;

(ii) CREDICOOP will undertake a management upgrading program and offer qualified credit union managers to member cooperatives on a contract basis;

(iii) CREDICOOP will lend only to credit unions having full-time, qualified managers;

(iv) CREDICOOP will participate in a joint annual evaluation of the Project by the Borrower, CREDICOOP and A.I.D.;

(v) CREDICOOP, starting twelve months after the first disbursement to it of Loan funds, will make no loan of such funds to any cooperative having more than the equivalent of $30,000 in total assets unless such cooperative has been audited within twelve months before such loan;

(vi) Loan funds and funds relent from the repayments thereof (continuing roll-overs) shall be limited to the production and marketing of commodities eligible for A.I.D. financing (see 'Annex I-Modified');

(vii) CREDICOOP shall meet stated capitalization requirements and implement stated policies designed to attain said requirements;

(viii) Describe Borrower's and CREDICOOP's mutual goals and purposes, the policies designed to implement them, and verifiable performance indicators designed with particular emphasis upon the implementation of the policies designed to reach farmers with land holdings of less than twenty (20) hectares with special emphasis on farmers with less than five (5) hectares;

(ix) Set forth limitations on the financing of annual crops to a fixed percentage of expected value of the harvested crop with said percentage to be approved by A.I.D. in writing prior to commencement of lending operations for each crop year during the first five years after initial disbursement under the Loan; and

(x) Require CREDICOOP to require all borrowing cooperatives and employees thereof having access to funds of any such cooperatives to be covered by adequate fidelity bonding if available.

(c) A marketing services plan demonstrating that CREDICOOP possesses adequate financial and management resources to carry out marketing services necessary to the Project.

(d) A management upgrading plan under which CREDICOOP will meet its obligations under the Borrower-CREDICOOP agreement described in subsection (1) above.

(e) A Project Evaluation Plan (prepared in cooperation with A.I.D.) including evaluation criteria and financial development goals for CREDICOOP."

b. SECTION 3.03 is deleted in its entirety and the following inserted in its place:

"SECTION 3.03. Condition Precedent to Further Disbursement After Each Twelve Month Period. Except as A.I.D. may agree in writing, no disbursement shall be made following each anniversary date of the first disbursement of the Loan unless the joint evaluation of the Project held each year demonstrates progress, satisfactory to A.I.D., in attainment of CREDICOOP's financial development goals."

c. SECTION 3.04, subsection (b), is modified by deleting therefrom the words, "within sixty (60) days and in Section 3.03 within one hundred and twenty (120) days after the execution of this Agreement", and inserting in their place the words, "by August 25, 1976".

3. ARTICLE V is amended as follows:

a. SECTION 5.01 is deleted in its entirety and the following inserted in its place:

"SECTION 5.01. Enforcement of CREDICOOP Agreements. Borrower hereby specifically covenants and warrants that it will abide by and enforce the contractual obligations entered into with CREDICOOP in compliance with Section 3.02 of this Loan Agreement".

b. A new section is added as follows:

"SECTION 5.02. Annual Evaluations. Borrower covenants and warrants that it will participate with CREDICOOP and A.I.D. in an annual evaluation of the Project."

c. A new section is added as follows:

"SECTION 5.03. Implementation Covenants. Borrower covenants and warrants that it will:

(a) Not require mortgages on real property for subloans made to CREDICOOP that are secured with crop liens, personal property liens, or cosigners sufficient to guarantee said subloans;

(b) Make disbursements to CREDICOOP based upon annual investment plans prepared by CREDICOOP and approved by the National Development Bank and will permit CREDICOOP to relend loan repayments without Borrower's approval, provided, however, that Loan funds relent (roll-over funds) will not be used for financing production of commodities ineligible for A.I.D. financing and that the Borrower shall reserve the right to perform regular audits of CREDICOOP to insure that funds are being administered properly;

(c) Assure that any funds on deposit by CREDICOOP at the National Development Bank shall bear interest and be available when needed by CREDICOOP;

(d) Provide services of agricultural extension personnel required to provide adequate technical assistance to farmer-members of CREDICOOP credit unions;

(e) To the best of Borrower's ability provide agricultural production credit through CREDICOOP at its most favorable rate of interest for credit requirements of farmer borrowers for commodities not eligible for A.I.D. financing, to CREDICOOP-affiliated rural credit unions; and

(f) Not request disbursement from A.I.D. until it has approved specific disbursement requests from CREDICOOP and upon receipt of funds from A.I.D., Borrower shall disburse, or cause to be disbursed, such funds to CREDICOOP within fifteen (15) days of their receipt by Borrower".

5. ANNEX-I attached to the Loan Agreement is hereby modified as provided in "ANNEX I-Modified" attached hereto and incorporated herein by this reference.

Except as expressly amended or modified hereby all provisions of the Loan Agreement as originally signed remain in full force and effect.

IN WITNESS WHEREOF BORROWER AND THE UNITED STATES OF AMERICA, each acting through its respective duly authorized representatives, have caused this Amendment to Loan Agreement to be signed in their names and delivered as of 7 December 1976.

FOR THE GOVERNMENT OF THE REPUBLIC OF PARAGUAY

César Barrientos
Minister of Finance

Hernando Bertoni
Minister of Agriculture

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

George W. Landau
Ambassador

Abe M. Peña
Director, USAID/Paraguay

ANNEX I - Modified

THE PROJECT

A. OVERVIEW

The goal of the project is to increase the productivity and income of Paraguayan farmers who cultivate less than 20 hectares of land. The operations of CREDICOOP support this overall goal. Although CREDICOOP will continue to require some grant assistance during the implementation phase of the Project, the financial benefits derived from this Loan should permit phasing out the grants over a four-year period.

Cooperatives will be established in 38 rural population concentrations of 10,000 and above; therefore, they eventually could serve all the small farmers located in a rural population of 400,000 even though they will only be lending to an estimated 9,000 farmers; total membership of the rural cooperatives will be 19,000 by the end of the project in 1980. In addition, as these cooperatives mature, they plan to open branch offices in rural concentrations of as few as 3,000 people.

The loan will finance an essential part of an integrated program to provide credit, technical assistance and marketing services to small-scale Paraguayan farmers. The total program consists of four elements: (a) technical assistance to CREDICOOP to strengthen CREDICOOP and its member cooperatives organizationally; (b) technical assistance to the small farmer to provide him with new farming technology and to introduce him to grading and classifying of his production; (c) credit; (d) marketing.CREDICOOP will market the principal products produced by the small farmer members of its affiliated cooperatives. The first element will be financed by an AID grant project, "(b)" will be financed jointly by the Ministry of Agriculture (MAG), CREDICOOP and its cooperatives, "(c)" will be financed by the loan and "(d)" will be financed mainly by CREDICOOP and its cooperatives.

B. INSTITUTION BUILDING

The purpose of this project is to further develop, strengthen and institutionalize a national level cooperative central, CREDICOOP, which delivers services to Paraguayan small farmers. CREDICOOP which will provide credit, marketing and other services, is relatively new and will use AID loan funds to improve its financial base so it can increase its services to cooperatives serving greater numbers of small farmers. To assist CREDICOOP in this effort the Borrower, through a trust fund arrangement with the National Development Bank (NDB), will make funds available on the same terms received by the Borrower.

CREDICOOP will repay its loan to the Borrower in 40 years in accordance with the lender's amortization schedule which will include a ten-year grace period on repayment of the principal.

The establishment of the credit cooperative movement in Paraguay has enabled the Borrower to serve small farmers effectively. The Borrower has been able to reduce the cost of lending to the small farmer by an agreement through which the NDB would make larger loans to the credit cooperatives which would in turn make loans to each individual small farmer. The procedure presently used to pass credit to small farmers begins with CREDICOOP assisting the credit cooperatives to prepare an annual investment plan for each farmer. These plans, in turn, are aggregated into what has been termed the credit cooperatives' annual "global investment plan". CREDICOOP presents to the NDB for its approval a global investment plan for each credit cooperative. The NDB disburses funds directly to the credit cooperatives in accordance with the plan once it has been approved. This procedure will continue to be used for those crops which cannot be financed with A.I.D. funds.

The procedure to be used to pass loan disbursements to small farmers will be similar. The credit cooperatives will continue to prepare global investment plans and present them to CREDICOOP. However, these plans will not be presented separately to the NDB. Rather, CREDICOOP will merge them into one blanket credit request for all the credit cooperatives before submitting it to the NDB. The NDB will review credit requests and will approve loan disbursements only for financially sound projects containing only crops eligible for A.I.D. financing. The NDB, after approving the request, will make loan disbursements to CREDICOOP who will be responsible for making subloans to the credit cooperatives. CREDICOOP will make funds or physical inputs, whichever is appropriate available to the credit cooperatives directly or through branch offices of the NDB.

CREDICOOP, with this loan and the technical assistance provided by A.I.D. and the Borrower, is to become a financial institution specializing in lending to and marketing for small farmers. To achieve this objective it must begin making the final decisions regarding the loans it awards and how marketing services will be performed. (A marketing plan is required as a condition precedent to disbursement of A.I.D. Loan funds).

Therefore, a different lending procedure, one that increases CREDICOOP's responsibility, will be employed with respect to the use of subloan repayments. CREDICOOP will be allowed to relend the repayments for subloans financed hereunder without the approval of the NDB.

Nevertheless, subloans financed with repayments will be analyzed by AID contracted consultants who will be made available to CREDICOOP during the disbursement period of the loan. The purpose of such analysis shall be to review the soundness of the analysis performed by CREDICOOP and make recommendations for improved analysis when appropriate. In addition, the Borrower and A.I.D. will have the right to perform regular audits of CREDICOOP to insure that these funds are being administered properly and are not financing crops ineligible for A.I.D. financing. Such ineligible crops are two non-food commodities in world surplus, cotton and tobacco.

To further the building of a strong financial institution the Borrower will cause CREDICOOP to do the following:

A. To offer qualified managers on a contract basis to its member cooperatives and to agree to lend only to cooperatives which have full time, qualified managers. Cooperatives may from time to time require a new manager and will have the opportunity to recruit new personnel keeping in mind that eligibility for borrowing depends upon having a qualified manager. A cooperative can request recruiting assistance from CREDICOOP or contract directly with CREDICOOP for a qualified manager. Managers will be judged to be qualified on the basis of both objective and subjective factors. The term "qualified" must be related to various aspects such as location, size and potential of the cooperative. It is important to keep in mind that one of the goals of the project is to develop qualified managers and that a manager upgrading program is planned to help accomplish this goal. Nonetheless on the job experience is expected to be the more effective development tool and use of borrowed funds is an important element in providing complete experience.

A qualified manager would be able to satisfy most of the following objective indicators:

1. Prepare financial statements on a monthly basis.
2. Prepare loan recuperation reports on a monthly basis.
3. Have attended CREDICOOP educational programs available and applicable to managers.
4. Prepare annual projections and budgets with a minimum of help.
5. Close books on an annual basis with a minimum of outside help.
6. Capitalization of the managed cooperative increasing by a minimum of 3% per year.

7. Individual share and loan records of the managed cooperative are in balance with General Ledger accounts, or differences if any are of minor nature and stabilized for the past three months.

8. Must have high school education.

A qualified manager would also satisfy most of these subjective indicators:

a) Follows recommendations of CREDICOOP.
b) Active and effective in recuperation of loans.
c) Able to make worthwhile loan analysis and recommendations to the credit committee.
d) Contributes significantly to the Board of Directors understanding of the operations of the cooperative.
e) Uses own initiative.
f) Helps set reasonable growth goals for the cooperative.
g) Is active in assuring that the necessary technical assistance in agriculture is provided to the small farmers.

In some cases a manager would be "qualified" to manage a loan of for example $10,000 but not "qualified" to manage $100,000. This will remain a judgement area and be acceptable as part of the normal learning process for CREDICOOP personnel and personnel of the member cooperatives.

B. To agree that starting 12 months after first disbursement no loan will be made to a member cooperative with over $30,000 assets unless it has been audited within the 12 months preceeding such loan.

C. To assure that all borrowing cooperatives and employees are covered by a blanket fidelity bond or an acceptable substitute if such a blanket bond is not available.

D. To present evidence acceptable to AID that satisfactory progress has been made towards meeting its financial and development goals. (These financial and development goals are, with the cooperation of AID, in the process of being developed and will be completed early on to be used as an on-going or continuous indicator of performance. The goals already established for the agricultural years 1976 through 1980 include among other things, the number of cooperatives, membership in the cooperatives, share capital, loans made, percent of loans charged off by CREDICOOP, the number of farmer borrowers, classification of borrowers by hectares owned and by funds received by each classification, savings of cooperatives in CREDICOOP, operating revenues of CREDICOOP, operating profit and etc.

Loan disbursements 12 months after first disbursement and each 12 months thereafter will be conditional upon an AID review of such progress).

E. A joint annual evaluation of the project will be performed by the Borrower, CREDICOOP and A.I.D.

(This evaluation will concern itself with accomplishment of results in meeting output goals and where not met will attempt to explain why not and offer suggestions for better meeting such goals. The results of this evaluation will be available to all three parties and in the case of conflict in opinion the conflict will be explained and the reasoning behind each point of view included as an integral part of the evaluation report).

F. CREDICOOP shall submit a marketing plan accepetable to A.I.D. prior to first disbursement, showing that CREDICOOP has adequate financial and management resources to carry out the necessary marketing services.

C. FINANCIAL PLAN

The financial plan, set forth in the following five pages, consists of projections of CREDICOOP operating revenues, operating cost, operating results, balance sheets and cash flow (source of funds, use of funds) projections. All projections are through 1980.

CREDICOOP

PROJECTED BALANCE SHEETS

In U.S.$

Assets	75 Dec 31 (000) actual	76 Dec 31 (000)	77 Dec 31 (000)	78 Dec 31 (000)	79 Dec 31 (000)	80 Dec 31 (000)
Cash in banks	12	41	21	51	56	168
Loans receivable	79	500	865	1438	2270	3530
Fixed assets less dep.	31	47	63	73	85	115
Other assets	2	7	10	20	20	30
Total Assets	124	595	959	1582	2431	3843
Liabilities and Capital						
Current liabilities	10	25	61	55	70	75
Loans payable	12	460	802	1343	2128	3318
Share capital	22	55	106	185	308	497
Reserves	4	74	76	78	80	82
Donated capital	72	88	104	114	114	114
Profit and Loss (1)	4	(107)	(190)	(248)	(269)	(243)
Total Liabilities	124	595	959	1582	2431	3843

(1) Shown to reflect situation without USAID contributions for operating expenses. Since the contributions are being made the asset side of the balance sheet would be increased or decreased by the difference.

CASH FLOW

MEMBER COOPERATIVES (RURAL)
AGRICULTURAL YEAR

Source of Funds	1975 1/July/75 30/June/76	1976 1/July/76 30/June/77	1977 1/July/77 30 June/78	1978 1/July/78 30/June/79	1979 1/July/79 30/June/80	1980 1/July/80 30/June/81
Member savings	82,330	123,300	201,350	175,010	261,410	390,800
Collection of loans	1,053,183	967,636	1,341,696	2,154,865	3,248,151	4,966,266
Interest and dues income	105,450	189,710	304,767	479,873	732,822	1,111,562
Borrowing CREDICOOP/BNF	647,487	1,024,988	1,704,591	2,707,568	4,147,474	6,316,575
	1,888,460	2,305,634	3,552,401	5,517,316	8,389,857	12,785,203
Utilization of Funds						
Loan to members	700,000	1,268,437	2,040,962	3,232,852	4,949,467	7,526,167
Repayment of borrowings	602,153	847,487	1,206,675	1,804,591	2,707,568	4,147,474
Interest Expense	64,714	97,141	161,074	254,948	389,564	592,270
Cash operating expenses	106,789	113,933	135,330	158,383	188,772	222,375
Savings in CREDICOOP	6,058	28,083	48,284	76,250	120,035	186,270
Investments in fixed assets	24,000	24,000	27,000	30,000	34,000	38,000
Inventories supplies	10,000	12,000	13,500	15,000	17,000	19,000
Increase (Decrease) in working capital	374,746	(85,447)	(80,424)	(54,708)	(16,549)	(53,647)

The cooperatives which received three to four year extensions from the BNF are collecting and projected to collect at a faster rate from their own member.

CREDICOOP CASH FLOW

Source of Funds	1975	1976	1977	1978	1979	1980
Member savings Urban/Rural	7,200	29,858	50,566	78,884	123,039	189,655
Collection of loans	5,000	79,200	495,000	856,350	1,423,125	2,247,300
Operating revenues	18,761	58,390	95,715	152,461	229,966	348,724
AID Loan (net new)	-	459,902	341,804	541,633	785,198	871,463
Other borrowing	1,539	-	-	-	-	317,938
Grant funding expense	124,193	110,500	82,639	57,818	21,246	-
Grant funding commodities	25,002	6,000	20,000	15,000	10,000	-
Grant reserves	70,002	-	-	-	-	-
	251,701	743,850	1,085,724	1,702,146	2,592,574	3,975,080

CREDICOOP CASH FLOW
(cont.)

Utilization of Funds						
Loans	80,000	[illegible]	365,000	1,437,500	2,270,000	3,530,000
Repayments of loans	-	1,539	-	-	-	-
Interest	154	[illegible]	16,830	28,867	42,571	60,000
Cash operating expenses	142,000	154,700	153,670	169,037	185,941	204,555
Investments in fixed assets	15,000	10,000	10,000	15,000	10,000	5,000
Inventories	4,000	10,000	10,000	15,000	10,000	15,000
Funded reserve SNF	-	5,000	8,550	10,375	22,700	35,200
Total	241,154	799,829	1,163,354	1,677,779	2,546,219	3,849,835
Increase in working capital	10,547	38,021	22,570	24,367	46,362	125,245

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USAID/Paraguay

SMALL FARMER CREDIT LOAN

INTENSIVE REVIEW REQUEST

X. ISSUES

A. Loan Terms and Grant Funding Support
B. Guarantee

XI. INTENSIVE REVIEW PROCEDURES

XII. PROJECT COMMITTEE

I. Borrowers

The proposed project entails two separate loans, one to the Credit Union Central of Paraguay (CREDICOOP) and the other to the Paraguayan Cooperative Union (UNIPACO). Because of the coordinated activities of the two Borrowers, the Mission opted to use one IRR to cover both loans.

II. Amount and Terms

The total amount of the loans will be $3,000,000, of which $2,000,000 will be for CREDICOOP and $1,000,000 will be for UNIPACO.

The terms of both loans will be the same: a 40-year repayment period, a 10-year grace period with two percent interest during the grace period and three percent thereafter. A discussion of these terms is included in the Project Description below.

III. Goal and Purpose

A. Goal

The goal of this project is to increase the net income of Paraguay's small farmers. This goal is shared by the GOP who states in its Economic and Social Development Plan for 1971-75 that one of its priorities is to raise the income level of the rural dwellers. Also, the Minister of Agriculture is keenly interested in the welfare of small farmers. The experience of the Ministry with government-promoted small farmer programs in recent years has been unsatisfactory, but he is impressed, however, with the results of both the credit union and marketing/services cooperatives and has fought a successful battle to get the credit union Central, CREDICOOP, legalized.

B. Purpose

The purpose of this project is to ensure the financial viability of two cooperative Centrals*: one to establish and strengthen credit union cooperatives, the other to establish and strengthen marketing/services cooperatives.

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*Under Paraguayan law a Federation's membership is limited to cooperatives of the same type, such as soybean cooperatives, but the law is silent as to whether it can perform the functions of a financial institution. A Central's membership, on the other hand, may include cooperatives of different types and undertake financial operations. UNIPACO and CREDICOOP adopted the Central legal entity for the membership and financial features respectively.

C. Project Objectives

1. Forty viable rural credit unions;

2. Sufficient marketing/services cooperatives to service the small farmer members of the rural credit unions;

3. Twenty thousand small farmers receiving credit, farm supplies and marketing/services through cooperatives;

4. Small farmers receiving an increased return of 25% on the sale of products because of services provided by the marketing/services cooperatives; and

5. Small farmers' income increased at least 50% after five years participation in this project.

D. Restraints to Progress of Project

1. The small farmer's inexperience in using modern farm technology and formal credit;

2. The small farmer's conservative attitude toward changing his production function because his subsistence situation leaves little margin for failure;

3. The lack of small farmers with the management skills required to administer the affairs of a cooperative;

4. The relatively short time that both cooperative institutions and their Centrals have been in existence.

E. Critical Assumptions

1. The technical assistance provided to this project will produce local managers who can effectively administer the cooperatives and Centrals (supported by experience);

2. The market services cooperatives can operate more efficiently than the merchants, truckers, informal producer's committees and other marketing organizations upon which the small farmer must now depend (supported by experience);

3. The small farmer desires to improve his income (supported by experience);

4. The small farmer will use credit from a formal credit institution if he receives technical assistance (supported by experience);

5. The small farmer's income will increase by 25% due to savings on inputs and higher prices for outputs (supported by experience);

6. The small farmer will adopt sufficient new farm techniques in five years to increase his annual productivity by 5%. (The Paraguayan small farmer's increase in productivity for the 1963-72 period averaged 0.8% per year. Productivity increases of participants in the grant projects have not been measured.);

7. The small farmer, in return for the promise of a future loan, will place his money on deposit with a credit union at a rate far below that paid by other savings institutions (supported by experience); and

8. Rural credit unions, composed of farmer and non-farmer members, will take advantage of AID funded credit which is available only to farmer members.

F. Target Group

The target group is farmers who cultivate less than 20 hectares. This group has been virtually excluded from GOP agricultural programs even though it numbers an estimated 165,000 and produces 60 percent of Paraguay's agricultural products and 40 percent of her agricultural exports.

G. Desired Income Increase

The desired increase in net income after five year's participation in the project is at least 50%. (This objective would be reduced in the case of a small farmer who is using modern technology before entering the project.)

H. Sufficiency of Project to Produce Desired Income Increase

The small farmer should increase his income by about 25% during his first year's participation in the project even without changing his production methods. This increase will result from savings on inputs and higher prices for outputs. During 1973, the marketing cooperatives purchased cotton from their members at prices averaging 25% more than could be obtained from cotton merchants and truckers. For soybeans the cooperatives offered average prices of 40% above competitors. The members also saved an unknown amount on the inputs purchased from the cooperative. The 50% objective can be achieved only if the small farmers increase their productivity.

It is speculated that the small farmer's positive experience of increasing his income merely by participating in the project should build his confidence in it and lead him to adopt the new techniques promoted by the project. The small farmer's productivity is currently increasing at a rate of 0.8% annually. Therefore, this project needs to generate an annual productivity increase of about four percent to meet the desired five-year income increase. Since no data are available regarding the time required to transfer technology to small farmers under the conditions of the project, it cannot be stated definitively that the project is sufficient to produce the desired income increase. However, the Mission believes the prospects for success are favorable.

IV. Description of Project

A. Introdution

The operations of CREDICOOP and UNIPACO are complimentary and support the overall project goal of increasing small farm productivity and income. Each institution has an organizational network through which the services will flow to the final beneficiary, the small farmer. Some benchmark data regarding the income of small farmers will be provided in the CAP. This, along with subsequent data collected during the implementation period of the loan, will be used to measure the impact of this AID loan assistance on small farmer income and productivity.

The purpose of the loan is to further develop, strengthen and institutionalize the cooperative and credit union Centrals in Paraguay. Both entities are relatively new and will use the AID loan funds to improve their financial base so they can multiply the number of cooperatives available to serve the small farmer. Although the two borrower organizations will continue to require some grant assistance during the implementation phase of the project, the financial benefits derived from this loan should permit the phasing out of the grants over a four-year period. At the end of the period, both organizations are to be self-financing; however, an additional loan with concessional terms to CREDICOOP would be required to maintain the rate at which it establishes additional rural credit unions.

The objective of reaching 20,000 of the estimated 165,000 small farmers living in Paraguay is admittedly modest; however, it is realistic and would reach about 10 times more farmers than any previous Paraguayan program of this nature. In addition, this project will build the structure needed to reach many more. Credit unions will be established in 40 rural population concentrations of 10,000 and above; therefore, they would have the potential to serve all the small farmers located in a rural population concentration of 400,000. (Paraguay's total rural population is 1,473,496). In addition, as these credit unions mature, they plan to open branch offices in rural concentrations as small as 3,000 people.

By the end of the project UNIPACO plans to have 4,000 members and the capacity to service 20,000 small farmers. Since it earns money on each unit purchased or sold, providing "free" services does not upset its profit picture. For this reason UNIPACO will have marketed crops for about 6,000 small farmers in 1973, even though its membership is about 2,000. Free services, however, are to be discontinued after a couple of crop seasons if their recipients do not join the cooperative.

As set forth in Section 6 of this paper, this project grew out of a dual grant effort to support the development of marketing services and credit union cooperatives. These two grant projects led to the growth over a four-year period of a system of credit unions paralleled by a system of marketing services cooperatives. The Centrals will work to organize marketing cooperatives in the same locales as the credit unions so that, to the maximum extent possible, the same small farmer is targeted by both systems. This is happening now on an ad hoc basis.

The Mission has consistently discouraged the formation of "multiservice" cooperatives because of their high rate of failure in other countries. It seems far more feasible to establish new cooperatives designed to do one thing well, than to overencumber them with diverse activities. Consequently, UNIPACO will make farm supplies available at savings to farmers but not provide production credit, thereby encouraging farmers to use production credit from their credit unions. Their activities, however, are closely coordinated and USAID advisors assigned to these organizations meet at least twice a month for coordination purposes. To ensure that similar coordination continues, the CREDICOOP will have on its Board of Directors at least one member of the Board of UNIPACO.

Since both borrowers are still relatively new, not thoroughly tested and in need of additional management experience and talent, there is an element of risk inherent in this loan proposal. These shortcomings have been addressed consciously by the Mission, and the conclusion reached is that the project is conceptually viable. Considering that the loan will not become operative until mid-1974 at the earliest, there is ample time to continue working with both prospective borrowers to overcome some of the weaknesses noted at present. For instance, both CREDICOOP and UNIPACO will establish training programs where the copperative managers will be acquainted with their operations and taught basic concepts of motivating individuals, developing ideas, and strengthening reporting systems. In addition, those involved in marketing will be trained in the techniques of purchasing all types of crops and in the solution of marketing problems. For AID to delay this loan assistance would result in a loss of the momentum gained to date in developing sound cooperative movements in Paraguay.

B. Credit Union Central - CREDICOOP

The $2,000,000 in AID loan funds will be funneled through CREDICOOP to the small farmer credit unions. During the disbursement period of the loan, the Central is to reach a lending volume that will make it self-sufficient.

In addition, the Central will be capitalized by a one-time charge of five percent of the principal amount of each loan it makes and by requiring each member credit union to deposit 2.5% of its savings with the Central. Other income will be derived from charges for certain services (auditing, selected education courses) provided to credit unions and from small ($0.15) annual membership fees for every individual member of the credit union. The projections indicate that this loan and capitalization strategy will allow CREDICOOP to maintain itself and to expand its operations slowly with nonconcessional loans after the loan is disbursed. Nevertheless, an additional loan with concessional terms would be necessary to maintain the membership growth rate of small farmer credit unions.

The experience to date of the rural credit unions that have operated for an entire year shows that the month of highest credit demand is December and the month of lowest demand is May. The difference in the quantity of credit demanded is over 200%. Because of this large fluctuation, the Central has been searching for a way to regulate its funds so it will be able to optimize earnings and also have funds available for small farmers. It is now studying the possibility of making 90- to 180-day operating capital loans during the slack periods to the artisans and small businessmen who are members of credit unions. The Mission would like to keep the rollovers available to small farmers without interfering with the profitability of the Central's operations. The Mission tentatively plans to earmark loan disbursements for small farmers and in some way try to give them first claim on rollovers.

C. Marketing Services Cooperative Central UNIPACO

The loan funds of $1,000,000 will be used for the construction of the most urgently needed permanent storage and drying facilities for soybeans, corn and wheat so that UNIPACO's operations may reach a sustainable level of growth and activity. A portion of loan funds will also be used to purchase specialized equipment needed for handling and processing the products being marketed. While it is not the Mission's intention to provide funding for all of UNIPACO's anticipated needs at this time/or to push its expansion to any given target size, sufficient funds are included to allow it to expand its operations rapidly in value of products marketed by roughly 300%. This expansion will enable it to adequately service the 20,000 small farmers targeted for this project.

Final studies of equipment to be procured are in progress, but the following appear likely:

1.	6,000-ton grain terminal and dryer	$ 250,000.00
2.	Compact feedmill and warehouse	100,000.00
3.	Fertilizer equipment	50,000.00
4.	Cotton gin and storage equipment	400,000.00
5.	Soybean solvent plant for soybean meal	200,000.00
	TOTAL:	$1,000,000.00

D. Disbursement Period

The disbursement period of the loan will be four years for CREDICOOP and three years for UNIPACO.

V. Financial Plan

A. CREDICOOP

The Mission believes that grant funding, already programmed separately, should be continued for CREDICOOP until 1978 as planned. By that time, with the assistance from the grant and the proposed loan, CREDICOOP should be substantially self-sufficient.

A grant was made to CREDICOOP to finance credit union promotion activities. With this the Central makes an "incentive loan" to a newly-formed credit union so that no member will lose his savings should it fail. If the new credit union survives, and all of them have so far, it repays the loan to the Central and the Central uses it to make another "incentive loan". If the credit union liquidates, it need not pay back the loan. In addition, \$155,000 is required to cover the Central's operating expenses for the first five years. This ranges from 100% the first year to six percent the fifth year.

This budget support and the relending spread on the AID loan is to enable CREDICOOP to pay a dividend on credit union deposits in the fifth year, assuming it receives proper technical assistance.

B. UNIPACO

The financial projections for UNIPACO will be completed during the month of November. The advisor believes that with some grant budget support and the loan-financed fixed assets, UNIPACO will be able to obtain its remaining capital requirements from commercial sources.

C. Technical Assistance - (CREDICOOP)

Grant-financed technical assistance will consist of: one full-time credit union advisor for the life of the project, one financial specialist for two years, and limited short-term assistance as needed. Forty-eight Central and credit union personnel will be trained in such subjects as finance and agriculture credit administration.

Commodity funds will be utilized to provide vehicles for the Central and office equipment for new rural credit unions as they are established. Other local cost funding will cover local training courses, local and invitational travel, and miscellaneous expenses.

SOURCES AND USES OF FUNDS

(US $)

SOURCES OF FUNDS

1. AID		$3,575,000
(a) Loan	$3,000,000	
(b) Grant	575,000	
(i) CREDICOOP	(475,000)	
(ii) UNIPACO	(100,000)	
2. CREDICOOP Contribution		400,000
3. UNIPACO Contribution		300,000
TOTAL:		$4,275,000

USES OF FUNDS

1. CREDICOOP		$2,875,000
(a) Production Credit	$2,000,000	
(b) Operating Expenses	400,000	
(c) Training	475,000*	
2. UNIPACO		1,400,000
(a) Equipment	1,000,000	
(b) Operating Expenses	300,000	
(c) Training Program	100,000	
TOTAL:		$4,275,000

* Includes "Capital Reserve Funds" for loans to credit unions and for initial operation losses.

D. Technical Grant Assistance - (UNIPACO)

AID will finance a cooperative advisor for three years and one marketing advisor for two years. Eighteen UNIPACO personnel will be trained in different aspects of cooperative administration and marketing of agricultural commodities.

VI. Background

A. Summary

Notwithstanding the large number of small farmers in Paraguay and their importance to agricultural production, most of these producers have no source of commercial credit and their productivity is generally very low. Several years before USAID initiated credit programs in 1969, the Credito Agricola de Habilitación (CAH), a GOP program designed specifically to serve the small farmer, was decapitalized because of a combination of political interference and the financing of ill-conceived projects. The National Development Bank was not lending to the small farmer because it was too costly to handle the loans and because most of these farmers were not in possession of the necessary collateral or legal land title required for obtaining credit.

Today CAH continues to be ineffective, lending to about 2,500 small farmers for physical inputs only. However, small farmers are now receiving credit through a new delivery system, the rural credit union. The effectiveness of this new system is demonstrated by the National Development Bank lending to small farmers through rural credit unions established with AID grant assistance.

Today, the small farmer who is participating in UNIPACO activities is beginning to receive effective assistance in the purchase of his inputs and the marketing of his outputs. This assistance is provided through the marketing services cooperatives that have been established with AID assistance. The credit unions and marketing cooperatives have been instrumental in creating what is Paraguay's first self-help development program for small farmers. They, with the participation of extension agents and others, assist the small farmer to analyze his soil, select inputs, sell outputs, develop investment plans, and obtain credit.

B. Credit Union Cooperatives

The credit union advisor arrived in February, 1970. Since then, the credit union movement has progressed as indicated below; and recently, with the strong support of the Minister of Agriculture, a credit union Central was chartered.

	March 1970	June 1973
Total Number of Credit Unions	8	23
Number of Rural Credit Unions	2	15
Total Credit Union Membership	2,992	8,000
Rural Credit Union Membership	292	3,000
Rural Credit Union Savings	$3,300	$103,300
Loans Outstanding in Rural Credit Unions	$3,111	$109,285

(In the preceding tabulation, figures shown for all credit unions include the rural credit unions.)

CREDICOOP, is the legal head of the country's system of credit unions and will be responsible for strengthening existing credit unions and establishing new ones. After CREDICOOP was legalized, the following local technical personnel were transferred to it from CUNA (Credit Union National Association) and are being funded by an AID grant: three credit union promotion specialists, one accountant, one administrative assistant and one education specialist. The Ministry of Agriculture and the National Development Bank are providing CREDICOOP the services of an agricultural technician and a finance specialist, and four Peace Corps volunteers are assisting in credit union promotion work.

In addition to the assistance given to the Central, the Ministry of Agriculture extension office in the vicinity of each credit union provides the services of extension agents to the credit union and its members. These extension agents are available to instruct groups of members and to visit individual farms as requested. Motivating the farmers to pass on the knowledge is programmed into the instruction because they are more apt to try something adopted by their neighbors than what is promoted by an extension agent.

Another element of technical assistance based primarily upon farmer to farmer communication is the demonstration farm. The extension agents and cooperative leadership look for three or four small farmers belonging to each credit union who are willing to try new methods. Cooperative members are invited to visit them and to witness the results. The credit unions and marketing services cooperatives promote the methods used on the demonstration farms and inform their members of the cost of the inputs and the financing arrangements available from the credit union for their purchase.

To complement the technical assistance, the credit unions are now implementing a Directed Agricultural Production Credit (DAPC) program which provides special credit policies to small farmers. These policies include (1) post-harvest loans to support the farmers until their crops have been sold and payment received, (2) a prerequisite that each borrower attend a certain number of class hours given by the credit union or an extension agent, (3) the availability of short-term (less than one year) production credit loans, and (4) special consideration regarding loan collateral.

To date the rural credit unions have limited their lending activities to farmers with less than 20 hectares. This policy appears to have enabled the credit unions to service their members satisfactorily. However, the Mission is not ready yet to define a small farmer as one who farms less than 20 hectares. It will try instead, during the intensive review, to develop lending criteria based upon such factors as the amount and quality of land owned by credit union members, the type of farming in the community, and the consideration of farmers who are not able to obtain credit from other institutions.

The Mission's choice of reaching the small farmer through cooperatives addresses two problems that have arisen in such programs that were government administered: (1) the high costs per farmer assisted and (2) the decapitalization of small farmer credit programs. The cooperative operating costs can be reduced to a minimum because assistance can be given to groups of farmers and, also, a properly functioning cooperative is able to obtain volunteer work from its members. Regarding decapitalization, the client-owned credit union with democratically-elected leaders is essentially free of political influence and has a strong incentive to be responsive to its membership and to keep itself economically viable. Additionally, with respect to this project, the credit union and marketing services cooperatives can coordinate their operations, which is highly desirable but hardly feasible to do with a government agency.

The credit unions charge an annual interest rate of about 14 percent, which is higher than the 12 percent charged by CAH, but much lower than the estimated minimum of three percent per month charged by informal credit sources. This rate is also higher than the 12 percent paid by larger farmers to the NDB and should be a disincentive for their maneuvering into the credit union program. This 14 percent interest rate enables the credit unions to cover their operating costs of five to six percent of outstanding loans when complementing savings with money borrowed from the NDB at eight percent. This rate does not, however, enable the credit unions to pay dividends sufficient to attract "nonborrowing members" to new credit unions during their first four years when they pay no dividends.

C. UNIPACO

UNIPACO was originally organized in December 1971, as a "Federation", but due to changes in the law governing cooperatives, it was reorganized as a "CENTRAL" in January, 1973. It presently consists of 20 member cooperatives with a total membership of about 2,000 farmers. UNIPACO increases its members' income through cost savings on inputs and higher prices for production. It accomplishes this objective through volume purchasing of inputs direct from manufacturers and volume selling to exporters and processors.

Before its reorganization in 1973, UNIPACO operated on an extremely small scale. During 1972, UNIPACO marketed only 2,000 tons of soybeans and assisted a member cooperative in marketing another 2,000 tons. However, with the assistance of a USAID Cooperative Advisor who arrived in late 1972, UNIPACO underwent a significant change and expansion. Through September 1973, UNIPACO had sold 5,000 and 2,000 tons of soybeans, respectively, for export and internal sales, 300 tons of corn, and 2,600 tons of cotton. UNIPACO was able to obtain an export quota for 1973 of 5,000 tons of soybeans, despite this being its first year in the export market. UNIPACO is, in the last quarter of 1973, entering into the sales of agricultural supplies. It has already ordered $50,000 worth of inputs and expects its 1973 volume to reach $200,000.

UNIPACO operates by assisting its member cooperatives and others in marketing their commodities. The prices received from UNIPACO are substantially higher than those offered by local merchants or truckers. For instance, the price generally offered in 1973 to a cotton producer in nonorganized areas, was only ₡ 15-20 per kilogram, but the cooperatives paid ₡ 22-25 per kilogram. A small farmer selling 2,000 kilograms of cotton increased his income by almost 25 percent. Similarly, members were able to obtain a higher price for soybeans and other crops, sometimes 40 percent or more than comparable offers from other sources. On the whole, an average member of the cooperatives was able to increase his crop income by 33 percent, from ₡ 60,000 ($480) to ₡ 80,000($640)--(assuming an average farm size of about eight hectares).

In dollar terms, the current operations will increase 426% from $380,000 in 1972 to about $2,000,000 in 1973. The prospects for future growth are highly encouraging because of the increasing demands for agricultural products, rising world prices and better management of farm operations. UNIPACO has made spectacular gains in its operating capacity, but as a new organization it has experienced considerable difficulties in obtaining the large amounts of operating capital it requires.

Operating capital is needed to maintain an inventory of inputs such as seeds, fertilizers and pesticides, and to make cash payments to farmers for crops. Farmers, understandably, are reluctant to part with their produce unless a cash payment is made at the time of collection. UNIPACO originally requested that its loan cover operating capital and fixed assets. However, UNIPACO now agrees that it can use the loan financed assets as collateral to obtain its operating capital requirements from commercial sources.

VII. Feasibility

One of several aspects of this proposal which requires special attention during the intensive review is whether the borrowers have the technical and financial ability to carry out the project with AID assistance. Another is the question of what impact the AID assistance will have ultimately on the small farmer. How can we insure that there will be some beneficial change in his status?

With regard to the first question, the Mission has been working through grant projects with each borrower for several years and has a good understanding of how far each has developed in an institutional sense since its inception. A CUNA advisor has been working with the credit union movement and another advisor has been working with UNIPACO. Both are aware of the prospects of each borrower organization for the effective use of AID loan assistance, and they and the Mission are confident that the project will be well executed.

UNIPACO is expected to utilize loan funds more rapidly because its portion of the loan program will finance the construction of facilities and equipment procurement, both of which can move quickly. If the growth of UNIPACO is anything like that experienced in 1973, the net returns to the farmers should increase by 25% during their first year's participation in the program. In the process UNIPACO will become more efficient and be able to pass increasingly greater savings on to its members. UNIPACO has sufficient experience to contract for the construction of the facilities required and to procure the equipment to be purchased under the loan.

On the credit union side of the loan, it is felt that the project can be successfully carried out without serious difficulties. A redoubling of effort will be required during implementation to stimulate the formation of new credit unions as well as to attract more members to existing ones. The education of small farmers in the need for and use of credit will be required. Training will be undertaken to ensure proper management of credit unions. All of this will require time so AID loan funds are expected to flow somewhat more slowly on this part of the project.

The second and perhaps most fundamental aspect is the question of determining the effect of the AID loan assistance on the small farmer. As part of the CAP preparation, the Project Committee will be gathering as much data as possible about the small farmer and his farm operation. Unfortunately, very little basic data exist in Paraguay to permit an analysis of how the small farmer might use and benefit from the availability of additional production credit. Data held by the BNF and the credit unions will be examined. Statistics collected by the Ministry of Agriculture on the small farmer seem to be good but only show production data by volume and value. Virtually no data exist on the farm input or cost side to give a reliable profile of the small farm operation as a business. Little data exist on the types, amounts, and values of labor used for a given period. Nevertheless, one farm management study has been done of 30 members of one credit cooperative. Although the sample is quite small, the study is well done from a methodological standpoint and should be useful.

An additional source of data will be a survey of small farms initiated in October, 1973, under an AID/W/TAB contract, by the Paraguayan Center for Sociological Studies. Although this survey was not conceived to serve the purposes of the proposed loan, it will gather economic data at about 500 farms. The Center will be assisted by several U.S. technical advisors, and the Mission intends to coordinate the sampling techniques and content to serve the purposes of this loan as much as possible. Conclusions will be drawn about the impact of credit on the small farmer and included as part of the CAP. At the point of interpreting the available data, some assistance may be requested from the LA/DR analysis group since it has had prior experience in using small farmer credit data from other countries.

Beyond the data to support the CAP, the Mission hopes to gather data on a routine basis as part of the project so as to measure more precisely how the loan funds are being used and what results are being obtained from the project. The credit unions taking part in the project will be the sources of these data since they will be dealing directly with the small farmers we are trying to analyze.

VIII. Environmental Considerations

This project will involve the increased usage of fertilizers, herbicides and insecticides; however, the net effect on the environment will be negligible.

IX. Other International Donor Agency Participants

Lending to the agricultural sector for production credit (including livestock) by the IDB and IBRD has been reasonably extensive, but the amount of money directed specifically to the small farmer has not been great. The NDB is presently implementing a loan for $8,000,000 from the IDB for agricultural credit tied to the purchase of physical inputs for medium and small farmers. However, the National Development Bank is organized primarily to lend to medium and large farmers. It serves small farmers only through loans to credit unions. Because of the NDB's orientation and the IDB's requirement that the loan proceeds be used to finance physical inputs only, most of this loan will go to medium-size farmers.

The IDA has also made three loans for a total of $15,394,700 to the Central Bank of Paraguay principally for livestock production. These loans are being disbursed through the Fondo Ganadero of the Central Bank of Paraguay. They are almost fully utilized and have flowed almost entirely to large ranchers. In addition, the IBRD recently advised AID of its interest in making a new loan in the future for agricultural production which may include small farmers. An FAO/IBRD appraisal team is now making preliminary analyses in Paraguay to determine the need for this loan, the amount, and the Borrower institution.

X. Issues

A. Loan Terms and Grant Funding Support

1. CREDICOOP

A detailed financial analysis was completed for inclusion in PROP number 526-15-110-050.2, which was approved June 20, 1973. This analysis assumes grant support to the Central to cover part of its promotion and operating expenses and access to funds from a $2,000,000, 25-year, three percent loan with a grace period of seven years and interest at two percent during the grace period.

The projections based upon these financial assumptions show that the Central would be able to pay a two-percent dividend during its fifth year. Since this is projected to decrease to one percent two years later, payment of a first dividend of two percent is questionable. The non-payment of dividends on the increasing credit union deposits required to capitalize the Central has a significant effect upon the "effective" interest rate paid by the credit unions for loans from the Central. During the cooperative's first year as a member of the Central it pays an effective interest rate of 6.5% on six-percent loans from the Central. The effective rate increases to 7.5% during its ninth year with the Central.

Two points of concern to the Mission arise from thes financial projections. First, the nonborrower has little incentive to deposit his savings in a new credit union during its first five years. Second, the effective interest rate on the Central's loans approaches the eight percent at which credit unions can obtain loans from the National Development Bank. The Mission would like the Central to increase its dividend paying capacity, which in turn will enable the credit unions to do the same. To achieve this objec tive, the Mission supports an increase in the interest charged by the credit unions and strongly urges that CREDICOOP receive the programmed budget support and a loan on the most favorable terms available.

2. UNIPACO

A detailed financial analysis for this project will b performed during the coming month, so no preliminary financial data are available at present. The technical advisor believes that some budget support will be necessary.

B. Guarantee

During the next few months, the Mission will review the question of a guarantee for this loan. Our preference will be to have the GOP guarantee this loan, but we would also like to determine if the guarantees of the two organizations (CREDICOOP and UNIPACO) would be acceptable to AID if a GOP guarantee is not possibl

XI. Intensive Review Procedures

Immediately upon approval of this IRR by AID/W, the intensive review will be started by the Mission. The project Committee set forth below has been constituted and will carry out the intensive review and prepare the Capital Assistance Paper. It is expected that the review will be completed and the CAP presented to AID/W by April 15, 1974.

The Project Committee will draw on the following outside sour for data or expertise while preparing the CAP:

a. Paraguayan Center for Sociological Studies. A six-month survey funded by AID/W/TAB with U. S. technical support is scheduled to begin in October and provide (among other things) input-output data on the small farmer. The Mission expects to have at least preliminary data available for use in the CAP.

b. The services of a farm management specialist will be provided under the Mission's USDA (PASA). He will visit Asunción for three weeks in December. His report will be used in the preparation of the CAP.

c. Two of the existing studies on farm management in Paraguay prepared in the last two years by the Faculty of Agriculture and the Instituto Interamericano de Ciencias Agrícolas will be reviewed and, where possible, the latest data will be used to determine trends in farm income movements. One of these studies is of a credit cooperative.

d. TDY assistance from LA/DR will be decided upon during the review of this paper in AID/W. However, guidance from the analytical group on the collection and interpretation of farm-level data before February, 1974, would appear useful. Also, one cooperative organizational specialist would be useful to review the CAP prior to final drafting in March, 1974.

Concurrently with the preparation of the CAP, both PROPs which support this project (Credit Union Development and Marketing Cooperative Development) will be revised and updated to reflect their relationships to this loan.

XII. Project Committee

The following Mission personnel have been designated to form the Project Committee:

Henry L. MILES - Capital Development Officer (Committee Chairman)
Julio C. BASUALDO - Assistant Capital Development Officer
Robert W. ADLER - Mission Economist
Lyle F. LAUTENSCHLAGER - USDA (Statistics Advisor)
William P. SCHOUX - Assistant Program Officer
Sanford W. WHITE - Rural Development Officer

Advisors: Carlos FLORES - CUNA Credit Union Advisor (CREDICOOP)
Stanley BEDNARCZYK - ACDI Advisor to UNIPACO

Approved: Oliver L. SAUSE, USAID/Director

ANNEX I

[illegible]

	Initial year of operations	Second year of operations	Third year of operations	Fourth year of operations	Fifth year of operations	Sixth year of operations	Seventh year of operations	Eighth year of operations	Ninth year of operations	Tenth year of operations
Income										
Interest from agricultural loans (12%)	$ 24	$ 723	$2,[illegible]	$5,003	$ 6,137	$11,543	$15,040	$18,657	$22,847	$27,746
Interest from non-agricultural loans (2%)	-0-	1[illegible]	47[illegible]	71[illegible]	9[illegible]	1,2[illegible]	1,5[illegible]	1,885	2,19[illegible]	2,565
Membership fees ([illegible] per member)	203	357	357	230	11[illegible]	1[illegible]	119	119	-0-	-0-
Commission on loans (2%)	25	276	6[illegible]	1,158	1,6[illegible]7	2,2[illegible]	2,[illegible]	3,502	4,2[illegible]	5,014
Dividends on federation shares (average)								521	5[illegible]	521
Total Income	$2[illegible]	[illegible]	$[illegible]	$7,1[illegible]	$10,7[illegible]	$1[illegible],2[illegible]	$19,590	$2[illegible],[illegible]4	$29,[illegible]	$35,7[illegible]
Expenses										
Salary - Manager	$ 95	$ [illegible]	$ 5[illegible]	$ 714	$ 857	$ 9[illegible]	$ 1,047	$ 1,152	$ 1,267	$ 1,394
Salary - Other	-0-	[illegible]	502	1,[illegible]3	1,524	2,[illegible]	2,610	2,[illegible]	3,165	3,435
Fringe benefits (16%)	-0-	1[illegible]	221	2[illegible]	[illegible]	4[illegible]	5[illegible]	5[illegible]5	644	708
13th month salary	-0-	[illegible]	1[illegible]	155	[illegible]	27[illegible]	[illegible]	[illegible]	[illegible]	407
Per diem	-0-	48	[illegible]	[illegible]	18[illegible]	1[illegible]	2[illegible]	2[illegible]	233	286
Interest on borrowed funds	-0-	2[illegible]	9[illegible]	2,6[illegible]	4,[illegible]	6,13[illegible]	7,[illegible]	9,640	11,640	13,800
Life insurance on borrowers	-0-	-0-	[illegible]	[illegible]	[illegible]	84[illegible]	1,098	1,353	1,643	1,977
Fidelity bond insurance	-0-	-0-	[illegible]	[illegible]	7[illegible]	[illegible]	105	1[illegible]	[illegible]	125
Federation dues (1[illegible] per member)	-0-	-0-	[illegible]	7[illegible]	[illegible]7	[illegible]	103	11[illegible]	11[illegible]	1[illegible]
Education expense	-0-	-0-	[illegible]	[illegible]	[illegible]	[illegible]	45	5[illegible]	[illegible]	60
Rent	-0-	40	9[illegible]	9[illegible]	1[illegible]	[illegible]3	143	1[illegible]	1[illegible]	233
Telephone, light and water	-0-	4[illegible]	[illegible]	4[illegible]	57	[illegible]	111	127	[illegible]	159
Office materials	25	5[illegible]	11[illegible]	132	171	1[illegible]	222	25[illegible]	[illegible]	317
Depreciation	-0-	48	95	124	13[illegible]	14[illegible]	143	143	19[illegible]	198
Audit expense	-0-	-0-	15	1[illegible]	[illegible]	2[illegible]	30	35	50	75
Bad debt expense (1% of loans)	16	1[illegible]9	25[illegible]	630	9[illegible]	1,249	1,555	1,9[illegible]	2,3[illegible]	2,735
Miscellaneous expense	10	[illegible]	[illegible]	312	[illegible]1	476	525	55[illegible]	57[illegible]	603
Total Expenses	$146	$1,772	$[illegible]	$6,941	$10,042	$13,866	$16,720	$19,67[illegible]	$23,035	$26,739
Gain or (Loss) on Operations	$[illegible]	$ ([illegible])	$ (12[illegible])	$ 163	$ 902	$ 1,430	$ 2,870	$ 5,0[illegible]	$ 6,763	$ 9,047
Distribution of Gain as per Coop. Law										
Dividends on shares 50%				$ 7	$ 451	$ 715	$ 1,435	$ 2,505	$ 3,3[illegible]	$ 4,524
Patronage refund to borrowers 35%				$ 5	$ 3[illegible]6	$ [illegible]	$ 1,005	$ 1,754	$ 2,[illegible]67	$ 3,155
Education reserve [illegible]				$ 1	$ 45	$ 7[illegible]	$ 143	$ 2[illegible]	$ 3[illegible]	$ 452
General reserve 10%	$20[illegible]	$ (2[illegible])	$ (12[illegible])	$ 155	$ 90	$ 14[illegible]	$ 287	$ 510	$ 6[illegible]	$ 905

Footnotes on following page.

ANNEX II

YEAR-END BALANCE SHEET - TYPICAL RURAL CREDIT UNION
FIRST TO TENTH YEAR OF OPERATIONS

	Initial year of operations	Second year of operations	Third year of operations	Fourth year of operations	Fifth year of operations	Sixth year of operations	Seventh year of operations	Eighth year of operations	Ninth year of operations	Tenth year of operations
Assets										
Cash	$ 447	$ 203	$ 922	$ 1,915	$ 1,021	$ 1,256	$ 1,754	$ 1,623	$ 1,824	$ 1,956
Agricultural loans receivable	1,584	11,669	30,518	55,915	62,949	113,045	140,976	173,923	211,358	251,381
Non-agricultural loans receivable	-0-	3,200	4,760	7,072	9,452	11,900	14,416	17,000	19,534	22,168
Less: Allowance for bad debts (1)	(16)	(149)	(353)	(630)	(924)	(1,249)	(1,555)	(1,909)	(2,300)	(2,735)
Interest receivable	84	809	1,397	2,635	5,350	8,632	12,183	15,829	19,599	23,944
Equipment	-0-	965	965	1,140	1,330	1,430	1,430	1,430	1,980	1,980
Less: Accumulated depreciation	-0-	(49)	(143)	(257)	(390)	([illegible])	(676)	(819)	(1,017)	(1,215)
Shares in federation (2)	-0-	619	1,978	4,376	7,919	12,[illegible]	18,590	25,693	34,217	44,175
Other assets	10	10	10	25	50	100	150	200	250	300
Total Assets	$2,109	$17,277	$40,553	$72,191	$107,565	$147,390	$187,268	$232,921	$285,495	$341,954
Liabilities										
Loans payable	-0-	$ 8,600	$23,000	$42,503	$ 64,953	$ 82,500	$103,000	$132,000	$159,000	$186,000
Interest payable	-0-	253	944	2,636	4,314	6,138	7,900	9,640	11,640	13,800
Other liabilities (3)	-0-	855	865	627	325	-0-	-0-	-0-	-0-	-0-
Total Liabilities	-0-	$ 9,723	$24,809	$46,166	$ 69,592	$ 94,630	$116,900	$141,640	$170,640	$199,800
Capital										
Share capital (savings)	$1,904	$ 7,573	$15,907	$25,022	$ 37,035	$ 52,440	$ 69,696	$ 90,059	$112,777	$139,062
General reserve	205	(19)	(153)	2	92	223	522	1,032	1,709	2,613
Education reserve (4)	-0-	-0-	-0-	1	46	77	150	260	371	479
Total Capital	$2,109	$ 7,554	$15,754	$26,025	$ 37,973	$ 52,752	$ 70,368	$ 91,351	$114,855	$142,154
Total Liabilities & Capital	$2,109	$17,277	$40,553	$72,191	$107,565	$147,390	$187,268	$232,921	$285,495	$341,954

[illegible] on following page.

ANNEX III

PROJECTED FEDERATION INCOME AND EXPENSES, 1973 - 1980

	For 6 months ending Dec. 31, 1973	For 12 months ending Dec. 31, 1974	For 12 months ending Dec. 31, 1975	For 12 months ending Dec. 31, 1976	For 12 months ending Dec. 31, 1977	For 12 months ending Dec. 31, 1978	For 12 months ending Dec. 31, 1979	For 12 months ending Dec. 31, 1980
Income								
Interest earned on loans to credit unions for:								
Agricultural production purposes	-0-	$ 420	$35,970	$ 67,362	$109,440	$162,318	$225,296	$297,644
Non-agricul. production purposes	-0-		541	2,251	4,900	9,457	16,519	26,231
Annual dues	-0-	750	1,822	2,550	3,337	4,305	5,340	6,495
Auditing revenues	$ 90	540	630	1,000	1,000	2,400	2,400	2,400
Revenue from the Education Program	-0-	147	390	610	637	1,160	1,494	1,884
Interest on shares in COLAC (5% beginning in 1977)	-0-	-0-	-0-	-0-	750	812	873	930
Other income (commissions, bank interest, gain on sale of vehicles, etc.)	603	1,521	-0-	-0-	500	750	1,000	1,250
Total Income	$ 693	$ 3,378	$39,353	$ 73,773	$120,854	$181,202	$252,922	$336,834
Less: Total Expenses	[illegible]	54,399	81,193	104,924	128,670	161,264	223,719	292,099
Profit or (Loss) on Operations	([illegible])	($51,021)	($41,840)	($ 31,151)	($ 7,816)	$ 19,938	$ 29,203	$ 44,735
Dividends on shares (50%)						$ 9,969	$ 14,602	$ 22,367
Patronage dividends (35%)						$ 6,978	$ 10,221	$ 15,657
Education reserve (5%)						$ 997	$ 1,460	$ 2,237
General reserve (10%)						$ 1,994	$ 2,920	$ 4,474
Amount of AID Subsidy:	[illegible]	$51,021	$41,840	$ 31,151	$ 7,816	$ -0-	$ -0-	$ -0-
AID subsidy as % of budget	100%	94%	52%	30%	6%	0%	0%	0%
Federation contribution to budget	0%	6%	48%	70%	94%	100%	100%	100%

ANNEX IV

PROJECTED FEDERATION BALANCE SHEET, 1973 - 1980

	Dec. 31, 1973	Dec. 31, 1974	Dec. 31, 1975	Dec. 31, 1976	Dec. 31, 1977	Dec. 31, 1978	Dec. 31, 1979	Dec. 31, 1980
Assets								
Current Assets								
Cash	$11,253	$ 1,772	$ 14,663	$ 30,737	$ 50,165	$ 51,543	$ 74,689	$ 76,419
Loans receivable		14,[illegible]	655,411	1,144,969	1,776,515	2,520,981	3,520,459	4,576,496
Interest receivable		420	36,241	68,488	111,930	167,007	233,556	310,760
Office supplies	100	150	200	250	500	1,000	1,200	1,400
Investments								
[illegible]C shares	1,000	2,500	3,000	18,000	25,000	27,000	29,000	31,000
Long Term Assets								
Office equipment	23(1)	1,025	2,025	3,025	4,025	5,025	6,025	7,025
(Less: Accumulated depreciation)	-0-	(100)	(300)	(600)	(1,000)	(1,500)	(2,100)	(2,800)
Vehicles(2)	4	4	4	4	7,[illegible](4)	10,505(4)	14,002(4)	17,501(4)
(Less: Accumulated depreciation)					(700)	(1,750)	(3,150)	([illegible],900)
Total Assets	$12,[illegible]	$[illegible]	$726,264	$1,254,873	$1,973,[illegible]	$2,8[illegible]	$3,[illegible]73,681	$5,012,901
Liabilities								
Interest payable			$ 6,419	$ 17,441	$ 27,870	$ 44,614	$ 73,195	$ 163,115
Loans payable			641,877	1,102,236	1,684,736	2,366,336	3,147,136	3,907,620
Total Liabilities			$648,296	$1,119,677	$1,712,606	$2,410,950	$3,[illegible]	$4,070,735
Capital								
Share capital	$12,353	$19,602	$ 61,315	$ 130,370	$ 233,965	$ 352,075	$ 550,659	$ 836,223
General reserve						1,994	4,914	9,388
Education reserve						997(5)	1,507(5)	2,303
Bad debt reserve(3)		140	6,624	14,797	25,337	43,764	66,064	94,226
Donations	29	29	29	29	29	28	27	26
Total Capital	$12,382	$19,771	$ 67,968	$ 14 ,196	$ 260,831	$ 428,859	$ 653,351	$ 942,166
Total Liabilities and Capital	$12,382	$19,771	$726,264	$1,254,873	$1,973,437	$2,839,[illegible]	$3,773,681	$5,012,901

(1) Office equipment donated by AID, brought on the books at the nominal rate of $1 per item.
(2) Vehicles donated by AID, brought on the books at the nominal value of $1 per vehicle.
(3) Bad Debt Reserve increases by 1% of outstanding loans each year as a charge for that amount is made to Bad Debt Expense and decreases by 1% of the previous year's Bad Debt Expense, as that is the estimate of uncollectable loans.
(4) Two new $3,500 vehicles are to be purchased in 1977, one in 1978, 1979 and 1980. One old vehicle is to be disposed of in 1978, one in 1979 and one in 1980.
(5) $500 is to be spent out of this amount in 1979 and $1,441 in 1980.

CAPITALIZATION OF THE FEDERATION BY A TYPICAL RURAL CREDIT UNION
FROM ITS INITIAL YEAR OF OPERATIONS THROUGH ITS TENTH YEAR OF OPERATIONS

	Initial year of credit union operations	Second year of credit union operations	Third year of credit union operations	Fourth year of credit union operations	Fifth year of credit union operations	Sixth year of credit union operations	Seventh year of credit union operations	Eighth year of credit union operations	Ninth year of credit union operations	Tenth year of credit union operations
1. Amount of loans from the federation to the credit union:	---	$8,600	$23,000	$42,903	$64,953	$88,500	$109,000	$132,000	$159,000	$186,000
2. 5% capitalized in the federation:	---	5%	5%	5%	5%	5%	5%	5%	5%	5%
	---	$ 430	$ 1,150	$ 2,145	$ 3,248	$ 4,425	$ 5,450	$ 6,600	$ 7,950	$ 9,300
3. Accumulated capitalization of loans received from the federation:	---	$ 430	$ 1,580	$ 3,725	$ 6,973	$11,399	$ 16,849	$ 23,448	$ 31,398	$ 40,698
4. Total savings of the credit union:	---	$7,573	$15,907	$26,022	$37,835	$52,440	$ 69,695	$ 90,059	$112,777	$139,062
5. Capitalization of savings in the federation to be maintained at 2.5% of total credit union savings:	---	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	---	$ 189	$ 398	$ 651	$ 945	$ 1,311	$ 1,742	$ 2,251	$ 2,819	$ 3,477
6. Total accumulated capitalization by the credit union in the federation (3 + 5):	---	$ 619	$ 1.973	$ 4,376	$ 7,919	$12,709	$ 18,590	$ 25,699	$ 34,217	$ 44,175

CAPITALIZATION OF THE FEDERATION BY ALL CREDIT UNIONS, 1973 - 1980

	1973	1974	1975	1976	1977	1978	1979	1980
1. Annual Capitalization of Credit Union Savings:								
Increase in savings - rural credit unions:	$109,143	$132,749	$200,021	$ 290,330	$ 378,952	$ 485,026	$ 580,912	$ 676,656
plus: Increase in savings - urban credit unions:	384,987	129,208	157,700	191,900	231,800	277,400	328,700	385,700
equals: Total savings increase	$494,130 [1]	$261,949	$357,721	$ 472,230	$ 610,752	$ 762,486	$ 909,612	$1,062,356
multiplied by: The rate of capitalization (2.5%)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Annual Capitalization of Credit Union Savings:	$ 12,353	$ 6,549	$ 8,943	$ 11,806	$ 15,269	$ 19,062	$ 22,740	$ 26,559
2. Capitalization of Federation Loans to:								
(a) Rural Credit Unions for Agricultural Production:								
Total loans to rural credit unions for agricultural production:	-0-	$ 14,000 [2]	$641,877	$1,102,236	$1,684,736	$2,426,336	$3,262,136	$4,179,039
multiplied by: Required capitalization rate (5%)		5%	5%	5%	5%	5%	5%	5%
equals: Capitalization of Loans to Rural Credit Unions:	-0-	$ 700	$ 32,093	$ 55,112	$ 84,237	$ 121,317	$ 163,107	$ 208,952
(b) Urban Credit Unions for Production Oriented Loans								
Total loans to urban credit unions:	-0-	-0-	$ 13,534 [3]	$ 42,733 [3]	$ 81,779 [3]	$ 154,645 [3]	$ 258,323 [3]	$ 397,457
multiplied by: Required capitalization rate (5%)			5%	5%	5%	5%	5%	5%
equals: Capitalization of Loans to Urban Credit Unions:	-0-	-0-	$ 677	$ 2,137	$ 4,039	$ 7,732	$ 12,916	$ 19,873
3. Total Annual Capitalization of Federation:	$ 12,353	$ 7,249	$ 41,713	$ 69,055	$ 103,595	$ 148,111	$ 198,763	$ 255,384
4. Accumulated Capitalization of Federation:	$ 12,353	$ 19,602	$ 61,313	$ 130,370	$ 233,965	$ 382,076	$ 580,839	$ 836,223

(1) Total accumulated savings as of 12/31/73
(2) Funds entirely provided out of CUNAC's own capital.
(3) These amounts represent approximately two-thirds of the amount in the share capital account as of January 1. Part of the remaining third is to be used for agricultural production loans and part is to be used for the purchase of shares in COLAC and general liquidity.

ANNEX VII

[illegible] – ALL [illegible] CREDIT [illegible]

	Amount borrowed in each credit union	19[illegible]	197[illegible]	197[illegible]	1976	197[illegible]	[illegible]78	1979	1980
Credit unions in their first year of operations	$[illegible],37[illegible]	$ 9,[illegible]	$ 9,[illegible]	(6) $ 9,5[illegible]	$ 9,[illegible]	[illegible]	---	(0) ---	(0) ---
Credit unions in their second year of operations	$31,845	[illegible]	73,0[illegible]	73,014	7[illegible]	[illegible]	$ 81,0[illegible]	(0) ---	(0) ---
Credit unions in their third year of operations	[illegible]	[illegible]	[illegible]	(3) 183,[illegible]	1[illegible]	(6) [illegible]	1[illegible]	(7) $223,[illegible]	(0) ---
Credit unions in their fourth year of operations	$[illegible]		(3) 167,[illegible]	(6) 335,490	335,49[illegible]	(6) 335,490	(6) 335,490	(6) 335,490	(7) $391,4[illegible]
Credit unions in their fifth year of operations	$[illegible],949			(3) 248,847	(6) 4[illegible],69[illegible]	(6) 497,69[illegible]	(6) 497,694	(6) 497,694	(6) 497,694
Credit unions in their sixth year of operations	$113,045				(3) 339,135	(6) 678,270	(6) 678,270	(6) 678,270	(6) 678,27[illegible]
Credit unions in their seventh year of operations	$140,976					(3) 422,928	(6) 845,855	(6) 845,856	(6) 845,856
Credit unions in their eighth year of operations	$173,9[illegible]						(3) 521,769	(6) 1,043,538	(6) 1,043,[illegible]
Credit unions in their ninth year of operations	$211,35[illegible]							(3) 634,074	(6) 1,268,148
Credit unions in their tenth year of operations	$[illegible]								(3) 754,143
Annual total of borrowings for production credit of all rural credit unions		[illegible]	[illegible]	$[illegible]	[illegible]	$[illegible]	$3,142,07[illegible]	$4,[illegible]	$5,[illegible]

NOTE:
The figures in parentheses [illegible] indicated in the column on the [illegible]

ANNEX VIII

FOOTNOTES TO ANNEX 8, PART 1

(1) Paid Personnel of a Typical Rural Credit Union

	1st yr.	2nd yr.	3rd yr.	4th yr.	5th yr.	6th yr.	7th yr.	8th yr.	[illegible] yr.	[illegible]
Manager	less than half time	half time	1	1	1	1	1	1	1	[illegible]
Loan Officers	0	1	1	1	1	2	2	2	2	[illegible]
Office Assistant	0	0	1	1	1	1	1	1	[illegible]	[illegible]
Secretary	0	0	0	0	1	1	1	1	[illegible]	[illegible]

(2) This account reflects the amounts paid to the federation for [illegible] attended by committee members and paid personnel and [illegible] funds expended on the education of credit union members. [illegible] education is paid for by a direct charge to the education reserve and thus is not reflected in any operating expense account.

(3) According to the Cooperative Law of Paraguay, profits made by any cooperative enterprise must be distributed as follows:

(a) 50% to shareholders as dividends.

(b) 35% to users of the cooperative's services (in the case [illegible] credit unions, the borrowers) as a patronage refund.

(c) 10% to a general reserve account.

(d) 5% to an education reserve account to be used to promote cooperative education among the members.

(4) It is assumed this service will begin half way through the year and therefore the $97 is one half the total yearly premium for that year.

ANNEX IX

UNIPACO's

ACTUAL OPERATIONS FOR 1972 and PROJECTION FOR 1973 and 1978

	(CY'72)	CY'73 Projections	CY'78 Projections
EXPORT:			
Soybeans	2,000	5,000 MT	8,000 MT*
Cotton		2,600	5,000
Tobacco			300
Mint Oil		15	30
Petit Grain (bitter orange)		15	30
INTERNAL MARKETING:			
Soybeans		2,000	5,000
Cotton			2,000
Corn		300	4,000
Rice		300	2,000
Grapefruit		500	3,000
SUPPLIES TO MEMBER COOPS:			
Fertilizer		500	3,000
Insecticides		50	400
Seeds - Soybeans		500	2,000
- Cotton		50	400
- Corn		50	500
Small Equipment		Øs.10,000,000	Ø40,000,000

* Totals here will depend upon the Ministry of Agriculture export quotas issued to UNIPACO