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NON-CAPITAL PROJECT PAPER (PROP)

Country: LA Regional

Project No.: 598-13-920-116

Original

Submission Date: February 17, 1970

Project Title: Credit Union National Association

U.S. Obligation Span: FY 1963 - FY 1975

Physical Implementation Span: FY 1963 - FY 1975

Gross-Life-of-Project Financial Requirements: $5,423,000

Through	FY 1969 -	$1,574,000
	FY 1970 -	$ 701,000
	FY 1971 -	$ 819,000
	FY 1972 -	$ 794,000
	FY 1973 -	$ 707,000
	FY 1974 -	$ 573,000
	FY 1975 -	$ 255,000

Rev 1. 5/1/70 to this.
Where?

SUMMARY

The general inadequacy or absence of small credit mechanisms in Latin America has often been cited as one of the prime factors impeding the growth and development of small and medium-scale farms and businesses. National and foreign banks and other established financial institutions are either incapable or unprepared to extend the small, high risk credit that these groups require. As a result, they are forced to turn to financial middlemen and money lenders for their credit needs, always at usurious rates of interest. Since the cost of credit is often prohibitively expensive, needed business improvements are often not made and new farming techniques not adopted.

Based upon the successful experiences of credit unions in the United States, Canada, and Europe, AID began in 1958 to undertake limited support of credit union development on a bilateral basis in Peru. It was soon realized, however, that the critical shortage of credit institutions far transcended national boundaries, and it was decided that the problem could best be approached on a regional level. As a result, in 1966, the Latin American Regional Office (LARO) of CUNA International was established in Panama to coordinate AID's strategy for credit union development in Latin America.

The primary role of the LARO program is to give competent technical support to USAID Mission programs of credit union development, and where no such bilateral programs exist, to give direct technical assistance to the local credit unions and national credit union federations. LARO currently operates in 17 Latin American countries.

At the present time LARO is staffed by 8 U.S. and third country national technicians and 9 local Panamanian employees. Under this proposal, the staff would be increased to 17 U.S. and third country national technicians and 22 local employees.

Quantitative Results to Date

Although the true value of credit unions - their impact on the life and attitudes of the members - is difficult if not impossible to measure, some of current growth indicators of the credit union movement in Latin America suggest the success of the LARO project.

Through 1969, CUNA/AID in Latin America was primarily involved in establishing and organizing local credit unions and national credit union federations. During this period the number of local credit unions in Latin America increased 450%, from 605 in 1962 to 2,729 in September, 1969.

Membership in these credit unions increased 478%, from 160,000 to 770,000. Credit union assets increased from US$6,000,000, or $44 per member, to US$61,000,000, or $79 per member. Loans outstanding to members rose from US$37,000,000 in 1966 to US$64,000,000 in 1969, nearly doubling in three years. And as of September, 1969, the total accumulated loans extended by Latin American credit unions had exceeded US$222,000,000. Considering all of the technical assistance costs of AID-sponsored credit union development programs, including Mission-level programs:

1. The ratio of the cost of technical assistance to new capital mobilized is 1:15;
2. The ratio of the cost of technical assistance to total current assets is 1:18;
3. The ratio of the cost of technical assistance to amount loaned and collected through September, 1969, is 1:56.

Institution Building Results to Date

The process of establishing and organizing credit unions is one of building local democratic institutions. The 2,729 local credit unions that have been established are affiliated with national credit union federations (also organized by LARO) in all Latin American countries except Paraguay and Brazil. (A federation will be established in Paraguay in 1971 or 1972, and Brazil has a small credit union league covering the Rio de Janeiro area.). These federations perform two essential functions. On one level they provide services and financial assistance to local credit unions, thereby strengthening and increasing the effectiveness of these units as credit institutions. On a second level they operate as nationally oriented interest groups for their affiliated local credit unions and members, mobilizing active support among the members and representing them on national issues that affect their well-being. The emergence of such institutions, representing groups that traditionally have not possessed a legitimate access to the policial system, can be expected to increase popular participation in the political processes of the Latin American countries.

Current Goals and Targets

CUNA/AID strategy in Latin America during the five-year life of this project is to financially and managerially strengthen the national federations and local credit unions. In pursuit of this general goal, LARO will be involved in four major areas of technical assistance, each with its operational subgoals:

1. Self-Supporting National Federations. LARO will be working to make the national federations more self-supporting, so they can provide adequate services to their member credit unions without external subsidies.

> a) The techniques for financial self-supporting will be the establishment of a Centralization of Funds and Accounting system in each of the national federations (see pages 22 to 32). This system should eventually provide each national federation with up to 50% of its total income. It is estimated that by 1975, Centralization of Funds and Accounting systems should be income generating in all CUNA/AID countries except Paraguay, the Dominican Republic, Nicaragua, and Brazil.

2. Increased Mobilization of Local Savings. As a result of this program, it is projected that, by 1975, the accumulated savings of the credit union movement will reach $313,000,000, or an average of $104 per member, compared to the present $79 per member. Although all of the LARO activities are indirectly related to this goal, three specific activities are directly involved with mobilizing local savings:

> a) Directed Agricultural Production Credit. DAPC is aimed at moblizing and increasing the effectiveness of rural credit. (see pages 32 to 39). By 1975, LARO plans to have extended DAPC programs to a total of 607 rural credit unions.

> b) Urban Consolidation. Many of the existing urban credit unions are too small to effectively operate as credit institutions. LARO will be working with the national federations to consolidate them into larger units so that they will attract more local savings and increase their lending activities.

> c) Under the COFAC system members will be encouraged to invest their savings in time deposits and the purchase of investment certificates, which will increase the assets of the local credit unions.

3. Management Improvement. Two LARO activities are designed to improve the managerial capabilities of local and national credit union leaders:

a) Training. LARO plans to establish national management training programs in each of the national federations, which will be capable of providing training to nearly 70,000 local credit union leaders during the five-year life of the project. This training will reach over 50% of local credit union leaders.

b) LARO will conduct periodic evaluations of the national credit union movements, determine managerial and operational weaknesses, and work with the federations to overcome these weaknesses. As part of this service LARO plans to establish programs of revolving paid manager contracts in those federations which do not currently have such programs. This will permit better management of the local credit unions.

4. Increased Awareness on the part of the membership. LARO plans to work through the federations to increase the awareness of credit union members of the vital issues affecting their lives. Credit, money management, savings, productive uses of credit, family planning, national legislative issues, education, population and environment are all vital issues, yet credit union members normally are people who are not tied in to traditional media systems relating to these topics. To reach these people on these subjects, LARO proposes to publish a small magazine, based on Everybody's Money, which will be distributed without charge to credit union members. It is estimated that this publication will be able to reach nearly 70,000 members within one year of its initial publication, and by 1975, could reach as many as 500,000 members. Such a publication could greatly increase their awareness of social issues, their commitment to their credit unions, and their desire and ability to participate in their national political and social systems.

Table I on the following page summarizes the financial inputs required to carry out this program. A more detailed presentation of these financial inputs appears in Appendix A.

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN $000)

PROP DATE Mo/Day/Yr
Original 2/17/70
Rev. No.
Project No.598-13-920-116

COUNTRY: LA Regional Project Title: Credit Union National Association

Fiscal Years	Ap	L/G	Total	Cont 1/	Personnel Serv. AID	Personnel Serv. PASA	Personnel Serv. CONT	Participants U.S. Agencies	Participants CONT	Commodities Dir U.S.Ag	Commodities CONT	Other Costs Dir & U.S.Ag	Other Costs CONT
Prior through Act. FY 69			1,574				1,000		2		4		568
FY 70			701				415				146		140
FY 71			819				549				60		210
FY 72			794				576				58		160
FY 73			707				545				51		111
FY 74			573				470				44		59
All Subs			255				176				14		65
Total Life			5,423				3,731		2		377		1,313

1/ Memorandum (nonadd) column

SETTING AND ENVIRONMENT

The CUNA/AID regional project for Latin America was established as a response to specific credit problems that existed throughout the region, and was designed to benefit those sectors of the economy that were most affected by these problems -- low income agricultural and industrial families, small businessmen, civil servants, and labor groups, among others. For all of these groups the basic credit situation was identical. Because of their low incomes and savings, they were prevented from either expanding their existing enterprises or activities or from branching into new ones through their own resources. Banking institutions in the individual countries were not able to provide the small, high-risk loans that these sectors needed, so to obtain credit they were inevitably forced to turn to money lenders and middlemen for their credit needs, always under usurious conditions. Annual interest rates as high as 30 and 40% for even short term loans were and are still today, not uncommon. This combination of factors prevented them from modernizing production, increasing their income and savings, and becoming effective participants in the national economic systems.

Recognizing this situation, the Congress of the United States, in enacting the Humphrey Amendment to the Foreign Assistance Act, declared that it was the policy of the United States to ". . . encourage the development and use of cooperatives, credit unions, and savings and loan associations...".

Why Credit Unions?

Although there are many ways and many techniques by which this situation could be attacked, the development of credit unions is a logical one, for it is an approach that confronts the problem in its entirity. Credit unions are by their very nature directed at lower socio-economic classes, and because of this, they are involved in making credit available to those people who normally cannot qualify for regular loans from established institutions of credit. Even though credit unions are most aptly suited for making small, short-term loans (e.g., crop and other small agricultural loans, consumer loans, and school loans), one of the results of a successful credit union is that it helps build a credit rating for its membership, which allows them to turn later from credit unions to savings and loan associations, banks, and other financial institutions for larger capital loans. Because of this, credit unions have the feature of bringing marginal populations into the national economies of the developing nations.

In addition to increasing production capital and domestic savings for these sectors, credit unions serve other developmental functions as well. Through training programs and practical operations, they build a pool of manpower trained in both the technical and organizational skills of credit union management, usually in a population that has traditionally not had access to acquiring these skills. These skills, once developed in the credit union field, are easily adapted to other areas of civic participation, such as local school administration, small companies, cooperatives, and community development. Thus the skills transmitted by the credit union experience facilitate and complement projects in other areas of social and civic development.

The growth of the credit union movement also involves the creation of democratic institutions in which people learn to share power and responsibility in matters affecting their own welfare. The local credit union that emerges is their own institution: they make the decisions, they decide the strategy, and they share in the immediate tangible benefits of success.

This factor of democratic institution building and popular participation goes far beyond the local credit union itself. The formation of regional and national leagues and federations presents the possibility of the emergence of a powerful institution acting as the vocal interest group of a heretofore non-participating sector of the national societies, influencing governmental decisions and policy. The emergence of an interest group of this magnitude would contribute to a democratization of the Latin American political structure by adding another relevant power contender to the circle of governmental decision-making.

The potential role of the credit union movement in the realization of the goals and objectives of Title IX is real and obvious. Title IX of the Foreign Assistance Act stressed the need to create local and national democratic institutions, develop popular participation, and involve the mass of people that can be referred to as "marginal" in the benefits of economic development. Specifically, Title IX instructed the Agency for International Development to: "...encourage the development of indigenous institutions that meet their particular requirements for sustained economic and social progress; and support civic education and training in skills required for effective participation in governmental and political processes essential to self-government." These objectives are precisely what a strong credit union movement addresses itself to developing. The creation of local and national credit unions and federations by necessity involves the formation of viable democratic institutions of popular participation. And, by developing a higher level of savings among lower socio-economic segments of the population, credit unions extend to these sectors the real benefits of economic development.

Establishment and Objectives of LARO:

In January, 1965, as the outgrowth of three years of background work through global contracts and regional studies, the Agency for International Development established a regional project with the Credit Union National Association (CUNA) for the development and strengthening of the credit union movement in Latin America. This regional project (Basic Contract No. AID/csd-236) established the following goals and objectives:

1. Examine and appraise the problems of thrift and credit as related to the economic conditions of the region and the economic well-being of the people.

2. Advise as to appropriate legislation under which credit unions may operate.

3. Initiate and/or assist in the organization of credit unions and assist in their operations and in the solution to technical problems to assure their success.

4. Train credit union managers, officials, directors, and committee-men, enabling them to successfully operate credit unions.

5. Assist similar associations already established in broadening and improving their operations, education, and training programs.

6. Assist in the establishment of central organizations (federations) of credit unions in various countries when it is possible and advisable to do so, and help them plan their programs to attain self-sufficiency as soon as possible.

7. Provide guidance to integrate the credit union movements of the various Latin American countries into an international organization.

The regional contract was amended in 1966 to provide for the establishment of the Latin American Regional Office (LARO) in Panama. In 1967, Basic Contract AID/csd-236 was replaced by Basic Contract AID/csd-1526, Task Order #7. The objectives stated in this new contract were:

1. To continue the services provided under the established CUNA/AID program to provide technical guidance and assistance to local leadership efforts in developing credit unions in Latin America.

2. To assist prevailing Mission programs in the fields of credit union organization, training and publications in order to expand and strengthen the credit union system in Latin America.

3. To assist in the development of the credit union system in Latin America to a point where it will be self-sustaining on a dues-paying basis.

Results of CUNA/AID Activities:

LARO activities during the past five years have been centered around the organizational aspects of building a base for the credit union movement. Specifically, it has been working on establishing new local credit unions, increasing their membership, increasing their capital assets, organizing and structuring the credit union federations in each country, and establishing the legal foundations for credit union operations throughout Latin America. Looking at each of these areas individually, we can see some of the positive accomplishments of the CUNA/AID strategy for credit union development:

1. Establishment of local credit unions. From only 605 local credit unions in the entire Latin American region in 1962, through the coordinated efforts of regional and country CUNA/AID contracts, there are, as of September, 1969, 2729 local credit unions in Latin America, an increase of 450%.

2. Membership. Membership in these local credit unions has increased from 160,620 in 1962, to 768,810 in September, 1969, an increase of 478%.

3. Mobilization of local savings. In 1962 the mobilized domestic savings of the existing credit unions were US$6,200,000, or $44 per member. By September, 1969, mobilized domestic savings stood at US$60,942,878, or $79 per member. This increase in savings per member was achieved in spite of the fact that most of the new credit unions were formed in rural areas, which have traditionally had lower savings than urban areas.

4. Increased lending capacity. One of the indicators of whether or not credit unions are effective is their ability to make loans. In 1966, loans outstanding totaled US$37,302,272. By 1969 this had risen

to US$64,380,739. During the past seven years, the accumulated total of loans made by the credit unions totaled US$222,766,160.

5. Establishment of national federations. In 1962, there were only five national credit union federations in Latin America. By the end of 1968, there were national federations in all thirteen of the countries that CUNA/AID was involved in.

6. Model by-laws. LARO worked to develop model federation and local credit union by-laws to aid in the establishment of these institutions throughout Latin America on a legally and structurally sound basis.

7. Centralization of Funds and Accounting. It soon became obvious that the financial base of the credit union movement in Latin America would probably not become large enough to maintain effective national federations on a dues-paying basis alone. To provide the federations with an increased source of income, LARO developed a program of centralizing the funds and accounting of local credit unions affiliated with the federations, and conducted a pilot project of this system in Panama. This project was successful, and now LARO has begun to introduce the system in the other Latin American federations. For a more detailed description of the Centralized Funds and Accounting program, see pages 22 to 32.).

8. Directed Agricultural Production Credit. This program, which is designed to increase the productivity of rural loans, was developed in the Ecuador Mission on a CUNA/AID contract. The experience in Ecuador showed that Directed Agricultural Production Credit programs not only increased rural production, but consistently mobilized far greater local savings than did credit unions with no DAPC programs. Because of the success of the program in Ecuador, Directed Agricultural Production Credit was incorporated into the regional project, to extend these services to other areas of Latin America. (For a more detailed description of DAPC, see pages 32 to 39).

The CUNA/AID regional project, LARO, is primarily a service project, and one of its main objectives has been to provide competent technical assistance and information to both CUNA country project personnel (thus backstopping Mission activities) and to the personnel of the national federations that have emerged to help them make their own programs more successful. During 1968, of a total of 2602 mandays of work by the regional office, 845 were spent in the field. In 1969, of a total of 2555 mandays of work, 970 were spent in support of field activities.

Country	Number of Mandays 1968	1969
Regional Conferences	121	188
Costa Rica	64	89
El Salvador	58	41
Guatemala	30	40
Honduras	29	30
Nicaragua	64	23
Panama	35	50
Bolivia	52	52
Brazil	53	37
Chile	0	48
Colombia	73	43
Ecuador	40	42
Guyana	0	0
Paraguay	15	25
Peru	90	29
Uruguay	10	18
Venezuela	22	33
Dominican Republic	41	88
Others	49	94

Present Problems and Obstacles:

As of December, 1969, there are still substantial problems and obstacles that must be overcome if the credit union movements in Latin America are to become strong and effective. These problems can be broken down into four major areas: penetration, consolidation, training, and self-sufficiency.

1. Penetration. Even with the rapid growth in the number and membership of credit unions in the countries where CUNA/AID projects have been operating, current estimates show that less than 1% of the population of these countries belong to credit unions. LARO estimates that the maximum potential penetration for credit union membership is around 15% of the total population. Thus, while membership gains have been substantial during the past five years, the movement can still be expanded significantly to bring the benefits of credit union membership to a greater portion of the population. LARO projections now show that, considering expected population growth rates in Latin America, with this expanded program, the actual penetration could reach 3,000,000 persons by 1975, and 8% of the total population by 1990. (See Project Proposal: Expanded Credit Union Development in Latin America, LARO, April, 1969, p.12). A less concerted effort would yield a much smaller penetration.

2. The extraordinarily rapid increase in the number and size of local credit unions in Latin America (from 605 credit unions in 1962 to 2729 in 1969, and from a total membership of 160,620 to 768,810 in the same time period) has understandably been uneven. Many local credit unions are not really functioning entities, because of a lack of capital or trained manpower. Some are too small to have a sufficient capital base to adequately serve the needs of their members. In these cases there is a real need to either increase the membership and savings of these credit unions, or to encourage their consolidation into more feasible units

3. Self-sufficiency of the national federations. Even though every country now has a national credit union federation, these are largely dependent on external assistance. In only three countries are there indications that the federation might become totally self-sufficient within the near future. (By self-sufficient we mean that the federation must be able to provide to <u>all</u> member credit unions a minimal level of services, below which many or all of the member credit unions would disaffiliate, and that the resources for providing these services must be generated entirely within that credit union system). Here it should be pointed out that in the United States, it took the credit union movement over thirty years to become self-sufficient, and then only after a relatively massive infusion of private and public subsidies. To expect the Latin American federations to become self-supporting in the space of only eight years, with must less resources, is unrealistic. During 1968, the Latin American federations paid a total of $175,000 on their budgetary expenses from internally generated income. No figures are yet available for 1969, but the financial base of the federations must be considerably expanded if they are to become self-supporting.

4. Local capital accumulation. The main reason that the federations have not become more self-supporting is the lack of capital accumulation at the local level. Although the accumulation of US$60,942,878 in savings among the low income members of these credit unions is truly remarkable, this has not been sufficient to provide a high enough turn-over rate to allow the local credit unions to pay substantial dues to the national federations. If the federations are to become self-supporting, the accumulated savings of the local credit unions will have to be substantially increased.

5. Training. The lack of trained manpower at both the local and federation levels is critical. Few of the leaders of the local credit unions are paid professionals; most are volunteers from within the local credit unions themselves. Even at the federation level leaders are poorly trained in the techniques of operating viable institutions. The problem

at the local level is compounded by another factor. To fully staff a local credit union requires a minimum of eleven or twelve men. The initial managerial skill level of these volunteer leaders is very low, and to be effective they must be given at least basic training in the techniques of operating credit unions. Moreover, experience has shown that among these volunteer leaders there is a high turnover rate -- about one half of the leadership every two and a half years. This implies that during the next five years, with the projected growth in credit unions, we can expect that there will be between 140,000 and 170,000 new credit union leaders who will need training, but the existing training programs throughout the Latin American federations are inadequate to meet this expected demand for training. If the credit union movement is to become strong, the training capabilities within each country must be substantially strengthened.

Paradoxically, the problems that have just been enumerated can be attributed to the success of CUNA/AID strategy in Latin America. The rapid growth in the number and membership of credit unions has been faster than the growth of their technical skills and financial resources. The fact that over $220,000,000 have been loaned by the credit unions during the past ten years indicates that they are indeed performing the credit function for which they were intended. The ultimate impact that credit unions can make on the Latin American societies and on the lives of their membership depends almost entirely upon the ability of CUNA/AID to help them overcome these problems -- that is, to make the quantitative achievements that we have witnessed so far more meaningful in terms of quality.

TARGETS

From the preceding discussion of the problems that still confront the credit union movements in Latin America, the targets of this credit union development program are obvious. The CUNA/AID program must: (1) continue to expand the membership of the credit union movement; (2) help local credit unions achieve greater levels of savings; (3) help the national federations within each country become more economically self-supporting; (4) help the national federations establish training programs that will be able to meet the expected need for training within each country; and (5) provide technical assistance to improve the operations of both the national federations and local credit unions. The emphasis of the CUNA/AID effort will be to improve the credit union movement internally so that it will be able to sustain its present level of growth effectively and increase the benefits accruing to the members because of their participation. The actual targets can be stated more specifically:

1. Increased membership. The organizational phase of CUNA/AID activities in Latin America is primarily completed. It is felt that increased membership will be a natural result of a successful effort to strengthen the services offered by the credit unions. As belonging to a credit union brings increasing benefits, the membership will rise. On the other hand, membership must be increased if the credit union movements are to become self-supporting, for only with a broad base can sufficient savings and dues be generated to make both the national federations and the local credit unions viable, effective institutions. As a result, LARO will still be involved in helping the federations and local credit unions mount membership campaigns, though to a lesser degree than before. The target of this project is 5,500 local credit unions serving 3,000,000 members by 1975.

2. Increased savings. Additional savings must be mobilized if the credit union system is to have a large enough capacity to make a significant impact on large numbers of people, and if the national federations are to become self-supporting. As a result of the activities of this program, it is projected that by 1975, the accumulated savings of the credit union movement will reach $313,000,000, or an average of $104 per member compared to the present $79 per member.

3. Training. The goal of the CUNA/AID program will be to develop within each federation the facilities and technical capabilities to meet

the future demand for leadership training. This target is complicated by the fact that (1) large numbers of local credit union leaders will need training, (2) credit union leadership is for the most part voluntary, and (3) turnover rates for volunteer leaders are high. Still, adequate training programs must be established within the national federations if local leaders are to learn the management skills necessary for making their credit unions effective. Through this program it is estimated that nearly 70,000 local credit union managers and leaders will receive basic training in managerial operations.

4. Self-supporting federations. It will be impossible to achieve fully self-supporting federations in all fifteen countries in the space of only five years. However, it should be possible to move all of the countries closer to this goal. For example, the Costa Rican federation contributed only $9,000 toward its own support in 1968. In 1969, it contributed $22,000 toward its budget, and in 1970 it is estimated that it will be able to pay $29,000. The other countries in Latin America should show similar improvements. LARO plans to introduce COFAC as an income-producing system in all fifteen countries. By 1975 this system should be fully self-supporting and producing additional income in at least nine of the countries.

5. Managerial skills. Through the program outlined in the "Course of Action," CUNA/AID hopes to substantially increase the managerial capabilities of federation and local credit union leaders, to the point where they would no longer need this type of assistance, or would be able to meet the need with local resources.

STRATEGY

An overall strategy for credit union development involves several alternative approaches and complex interrelationships. Basically, these can be broken down into three general areas of concern: (a) what are the relative merits of credit unions versus other forms of credit institutions and why should AID support credit unions; (b) should credit union development be carried out on a bilateral mission-level basis or on a regional basis to achieve the best results; and (c) how does a strong, successful credit union movement relate to other programs and areas of development.

1. Credit Unions versus Alternative Credit Mechanisms

a. Government-sponsored Credit Programs. Several countries in Latin America have alternative means of getting credit into rural areas. For example, in Costa Rica and El Salvador, there are governmental agencies--Juntas Rurales in Costa Rica, and the Administracion de Bienestar Campesino in El Salvador -- that deal with rural credit. Both of these systems have rather severe drawbacks. In El Salvador the delinquency rates to the ABC have been as high as 33%, and never lower than 17%. In Ecuador, of the 29 DAPC credit unions, only two had delinquency rates higher than 10%. In both El Salvador and Costa Rica the administrative costs associated with the government agencies have been so high that the programs have had to be subsidized by the central banks in order to make capital available to the campesinos. Credit unions, with their largely volunteer leadership, have much lower administrative costs, and are able to keep the interest rates on loans low without extensive subsidies. Finally, there is some question as to whom the government credit agencies reach. It appears that they have been successful in providing credit to middle-sized farmers, but have been less successful in reaching smaller farmers. The DAPC programs and credit unions provide one means of reaching these small farmers who are not serviced by the governmental agencies. USDA-type Production Credit Associations, another form of rural credit organizations, have never been tried in Latin America, and the degree to which they might succeed is speculative.

b. Banks and Savings and Loan Associations. It has been demonstrated in Latin America that credit programs which are government sponsored, or even credit programs administered by private banks, frequently have difficulty recovering loans made to lower socio-economic status persons, principally because the borrower has no real feeling of participation or obligation. The agency or bank from which he borrows is an abstraction and, because he is relatively unsophisticated, he frequently feels inclined to repay a loan only if some sort of external pressure can be brought to bear. It has also been demonstrated in Latin America that collateral is almost impossible to repossess, and that co-signers refuse to be held to the obligation for which they have signed.

Credit unions can help introduce these people to the financial systems. In Latin America, credit unions have had very low delinquency rates, basically because the members are aware that a significant portion of the capital assets of the credit union are really their own funds. Since members of credit unions are usually known to each other, great social pressures can be brought to bear to help recover loans.

Credit unions are not considered as a substitute for banks or savings and loan associations, but as intermediate organizations which will prepare the members for proper use of these other financial institutions. Credit union loans are usually short-term, and are generally small. Members must turn to these other financial institutions for their larger, long-term loans, but through their credit union they have learned the terms of credit, and the obligations associated with it. It is quite conceivable that credit union members will eventually use their credit unions only for their small, short-term borrowing, and banks and savings and loan associations for their larger capital needs.

c. Credit Unions vs. Other Cooperatives. Credit unions are just one type of cooperative organization. In many ways they are easier to establish and manage than other types of cooperatives (they deal in a fairly fixed-price commodity) and provide more immediate real benefits to their members, but they are not substitutes for the other forms of cooperatives, nor are these other forms substitutes for credit unions. The different forms of cooperatives perform different functions and provide different services to their members. In some areas they may overlap somewhat, but never do they substitute for each other, nor are they mutually exclusive. Several different forms of cooperatives are possible within the same community, with much overlapping membership.

2. Alternative Strategies for Credit Union Development

a. Regional and Country-level Credit Union Development Projects. There are essentially three approaches that can be used to provide technical assistance to the credit union movements in Latin America. AID can approach the problem through Mission-level bilateral programs, through a regional project, or through a combination of the two.

Mission-level, single country projects do offer certain advantages. The particular program can be custom designed to meet the particular problems of each country. An advisor who remains in one country for two to five years has a better chance of gaining the confidence of the cooperating country's officials, and of learning in depth the unique problems of that country's credit unions. As a result, he is in a better position to design specific programs to take advantage of local conditions to meet these problems than a regional technician would be. On the other hand, he could be isolated from the experiences and achievements of the other countries in Latin America--experiences and techniques of resolving problems that could make his own program much more effective. Moreover, if a problem is to be approached on anything but a very piecemeal basis, the local technician must be a generalist, and being a generalist, he may lack the technical skills to implement effectively all of the necessary activities to build a strong credit union movement.

In certain cases, maintaining a project on a regional rather than a Mission level can be justified on both economic and operational grounds. The types of programs to be carried out under this program are vastly different, and require quite different technical skills. COFAC is a highly-sophisticated money and banking system of financial management. To be able to supervise and train leaders in COFAC requires a person with these skills. DAPC, on the other hand, is an agricultural lending system. To set up this system does not require the complex accounting skills that COFAC does. Rather, it requires technicians that are skilled in farm management, aware of agricultural extension services, and have some knowledge of agricultural technology. Training requires a person who has the capabilities for establishing and teaching programmed education. As these three skills are quite different, it is unlikely that any one person could carry out more than one of them effectively, to say nothing of the other services that LARO offers. For the Missions to attack the credit union problem on a systems basis, they would each have to hire a minimum of three technicians. Fifteen Missions, each hiring three credit union technicians at $25,000 for one year, would cost AID a total of $1,125,000 per year for nothing more than these technicians' salaries and allowances. On top of this would be travel, relocation costs, equipment, materials, administrative backstopping, and other related expenses. Conducting the credit union development program from a regional basis allows each Mission to receive the benefits of highly skilled technicians in all fields, not merely generalists, and at much lower cost.

Operationally, keeping technical assistance at the regional level allows a more effective use of technician time, and enhances the value of the technical assistance to the national federations. Taking COFAC as an example, the skills that must be learned are very complex, and cannot be assimilated in one intensive session (See pages 22 and 32). It has been found that the best way to introduce these techniques is through many separate sessions. Between sessions the leaders have the opportunity to work with the concepts they learned during the previous training session. Then the COFAC technician returns, checks to see what errors or problems have arisen, clarifies doubts and misinterpretation of information and basically retrains the local leader in the more complex aspects of the COFAC system. This method of technical assistance, which applies equally well to DAPC and Training as well, offers several advantages over the constant supervision of an in-country technician: (1) it allows the trainer to make sure that all of the concepts are fully understood, because he can observe the unhindered activities of the person he has trained; (2) by allowing the local person to carry on in the absence of the technician it increases his own capabilities and self-confidence in his abilities to manage the program; and (3) it avoids the over-paternalism that is inherent in many of AID's technical assistance programs.

A regional project is feasible only in a certain set of circumstances; (1) there must be a fairly homogeneous problem existing in all of the countries that can be approached with a fairly homogeneous set of techniques; and (2) the nature of the problem must be such that its solution does not require the constant presence of a technical advisor. These are the conditions that exist in Latin America in regard to the credit union movement.

Given the limitations and advantages of the regional and bilateral approaches to credit union development, it becomes apparent that the two approaches complement each other--the strengths of one are the weaknesses of the other. Where individual Missions employ a country director for credit union development, the activities of the LARO project backstop the activities of this individual, filling in the specialized technical assistance that he lacks. In the other countries, the regional project, by strengthening the credit union movements, can complement Mission activities in community development, agricultural sector programs, extension services, and even rural education, and help to make these programs more successful.

b. CUNA, CLUSA, and OCA. All three of these are concerned with cooperative development in Latin America. CUNA is limited to only credit unions, while CLUSA primarily services the other forms of cooperatives. In a sense, the two organizations parallel each other, with little overlap or duplication. OCA is primarily conceived of as a diplomatic organization, representing the cooperative movement on a hemispheric level. It is conceivable that a Latin American confederation of credit unions will eventually be affiliated with OCA, but this is neither certain, nor a target of the CUNA/AID project.

3. Implications of Strong Credit Union Movements for Other Programs

a. Community Development. Authors writing on diverse aspects of community development have repeatedly pointed to the unavailability of credit as one of the prime obstacles to the success of USAID and other community development projects. The correlation seems to be fairly well established: where credit has been available to the local level, community development projects have succeeded; where credit has been unavailable these projects have met with only limited success. Not only do credit unions provide the means for developing the financial resources of a community, but they provide stable, community-oriented institutions through which community development projects can take on increased significance.

b. Agricultural Sector Loans. A successful credit union movement will greatly enhance programs for agricultural development. PARs from Ecuador, El Salvador, and Guatemala have all pointed to the lack of rural credit facilities as the prime factor limiting the success of their agricultural development programs. (PARs on agricultural development: Ecuador, 6/30/69; El Salvador, 6/30/69; and Guatemala, 12/31/68). Several countries have realized the extreme importance of small credit in agriculture. Honduras, Guatemala, El Salvador and Costa Rica are all preparing (or have prepared) agricultural sector loans which earmark certain funds for rural credit union development. In Guatemala, El Salvador, and Honduras, at least, the programs are based on the assumption that LARO will provide significant technical assistance.

c. Agricultural Extension Services. One of the prime goals of the DAPC component of CUNA/AID strategy is to develop strong linkages between small farmers and agricultural extension services. Credit unions serve two functions in this area: first, they make credit available to small farmers at reasonable rates of interest so that they have the financial capabilities to take advantage of the new techniques introduced by the extensionist; second, they create institutionalized groups that are more visible to agricultural extension units. Often, individual small farmers are not helped by extensionists. Through the credit union their chances for receiving extension services are greatly increased.

d. Institutional Development. Title IX of the Foreign Assistance Act instructs AID to participate in the development of democratic institutions of popular participation. Credit unions, because they are local organizations whose members share in its decisions and strategy, are excellent examples of this type of institutions.

e. Peace Corps. In several countries Peace Corps Volunteers have been assigned to work in the establishment and operations of local credit unions. LARO has been called on during the past three years to give short courses to Peace Corps Volunteers who were to work with credit unions. In replies to a suggestion that the Peace Corps and AID work more closely together in Title IX activities, several of the Missions have mentioned credit union development as one area where such a collaboration might be feasible.

f. Cooperating Country Leadership. Since this project is an attempt to build local and national institutions, the existence of competent country leadership is essential. For the most part, this leadership already exists in the countries CUNA/AID has been working in in the form of the leaders of the national federations and local credit unions. The CUNA/AID regional project will be working closely with these leaders, helping them to develop programs that will meet the needs of their own movement, increasing their awareness of the problems other countries in Latin America have experienced and the techniques they used to overcome them, and developing the technical skills that will enable them to successfully manage their own credit unions and credit union movement without the need for future external assistance.

COURSE OF ACTION

To achieve the stated goals and objectives, LARO will undertake a comprehensive program of specialized technical assistance to the national federations and local credit unions. This program consists of four basic interrelated components, designed to produce a balanced strengthening - financially and managerially - of each national credit union movement, and supported by adequate publications.

I. Centralization of Funds and Accounting

The Centralization of Funds and accounting component (COFAC) of CUNA/AID strategy in Latin America is one of four essential programs upon which the eventual financial self-sufficiency of the national credit union federations depends. At the present time, it appears that relatively small memberships and low savings levels preclude the possibility that the federations could soon become self-supporting on dues income alone. A COFAC system is an effective means by which federations will be able to generate greater income at the national level to provide working capital to finance growth impact projects such as DAPC (which is described in the following section), paid management contracts, training and interlending. Effective services in these areas should bring about a faster rate of growth in members and savings at the local credit union level, and greatly strengthen the overall credit union movement.

Originally conceived of as a system that would allow affiliated credit unions to centralize their separate checking accounts into one central account in one bank -- thus permitting a greater flow of funds within the credit union system -- COFAC was developed by LARO, and an experimental pilot project conducted in Panama. The national federation established the minimum cash-flow requirements of the central account that would adequately meet the daily cash needs of the credit unions operating in the system. Excess funds were then placed in time deposits in that same bank, in other forms of investments, or relent to credit unions that were in need of short-term liquidity. In this way, the movement could derive the maximum utilization of its working funds as opposed to leaving approximately 7-10% of its assets lie dormant in individual bank checking accounts.

Since that initial project, the conceptualization of COFAC has been expanded, to include the incorporation of time deposits in the federation itself, investment certificates, and similar instruments as means of mobilizing longer term funds. The effects of this change has been that federations now have available to them a more financially sound and balanced interlending program through a mixture of fixed short and medium term funds with the volatile funds that are mobilized through the centralized checking system. It is estimated that this financial system could eventually provide each federation with up to 50% of its total income, thereby greatly expanding the abilities of the federations to provide adequate services to their member credit unions.

A. How COFAC Works:

The precise way in which a COFAC system works varies from country to country, depending on the particular legal and structural organization of the credit unions in the country. In Bolivia, where the federation exists as a central credit union servicing the member credit unions, the COFAC system operates much like the Federal Reserve system in the United States. In Honduras, the federation and the COFAC system will function as the Cooperative Bank for the entire cooperative movement in Honduras.

In Panama, however, exists the structure that will probably be legally acceptable, and imitated in most of the Latin American countries. All of the affiliated local credit unions maintain their accounts in one bank -- the Banco Central de Panama -- and the accounting and auditing services are performed by the federation. By a legal agreement among the participating credit unions, the federation is granted the use of: (1) temporary float capital (money that exists for a short time between the moment the local credit union writes a check and the moment that check is cleared); and (2) the permanent unused cash reserves of the local credit unions, which are also made available to the federation through time deposits which the member credit unions deposit into the federation's account, and through the purchase of investment certificates by the local credit unions in the federation.

These centralized funds are then used to: (1) establish a liquidity reserve pool to help local credit unions meet heavy demands for credit and savings withdrawals by credit union members; (2) finance revolving paid manager contracts; (3) relend to credit unions upon demand; (4) provide production capital for DAPC credit unions; and (5) provide revolving loans for the establishment of local credit union facilities. Centralizing these funds, then, helps to maximize the cash-flow capabilities of the entire system, and greatly increases the mobility of available funds throughout the system. The interest charged on these relending activities provides income to the federation, which is used first to pay for the operational costs of COFAC. Later, surplus income is used to subsidize other non-income producing activities of the federation (such as training, evaluation of activities, and establishing DAPC credit unions).

B. Feasibility:

A feasibility study carried out in Venezuela in June, 1969, indicated that if the savings level increased at its present rate, and if only 7% of the total savings of the affiliated credit union movement were centralized, and if the federation received only a 2% margin annually over the cost of funds, the COFAC system could be self-supporting within two years. At that time it would begin producing revenue for other federation activities. These projections were very conservative, for it was estimated that the federation would actually be able to centralize as much as 10% of the savings of the affiliated member credit unions, that the savings level would increase more rapidly than at the present time, and that the federation could be reasonably expected to receive up to 3½% over the cost of these centralized funds.

Conditions vary for each country, and the length of time required for COFAC to become self-supporting varies according to: (1) the amount of savings generated at the local credit union level; (2) the percentage of these credit union savings that can be centralized; (3) the margin which the federation can obtain over the cost of money; and (4) the availability of loan funds from external sources.

Additional feasibility studies designed to determine if overall conditions were favorable to make COFAC a success have been carried out in Colombia, Costa Rica, Nicaragua, El Salvador, Guatemala, Honduras, Ecuador, the Dominican Republic, and for one federation in Mexico. Several of these studies are now out of date, and would have to be updated before the implementation of a COFAC program could begin. The findings of these initial studies, or a report of the status of existing projects follows:

Bolivia -- has an essential COFAC program underway through the Central Credit Union, and was the first country in Latin America to establish liquidity reserve systems. USAID/Bolivia has provided funds for its lending activities. This program has a high potential for expansion into the other aspects of COFAC, but will need considerable support from LARO to reach its full potential.

Costa Rica -- established a COFAC system in March, 1969, but it is still on a small scale. The Costa Rican federation still needs considerable support and technical assistance if the program is to become effective and self-supporting. Original projections were that the federation should be able to centralize nearly $100,000 during the next two years, but recent developments indicate that this can be accomplished by midyear 1970.

Nicaragua -- Nicaragua already has an ongoing COFAC program, but the federation has severe managerial problems that are hampering its expansion. For LARO efforts there to be successful, this internal problem will have to be overcome.

Panama -- was the original test program for COFAC. The program is well established and effective, but needs to be expanded.

Honduras -- In Honduras the credit union federation (FECACH) is acting as the cooperative bank for the entire cooperative system. It now has access to $2,200,000 which is to be used as operating capital for the COFAC program. This program has great potential, and USAID/Honduras is hiring a full-time financing specialist to assist the program.

Venezuela -- initiated a COFAC program in April, 1969, which has been making some steady progress. The feasibility study initiating this program indicated that it should become totally self-supporting by the end of 1971, or 1972 at the latest.

Colombia -- UCONAL, the federation, is decentralized into four regions, and an initial COFAC program has been established in one of them (Bucaramanga). Plans for the future are to expand the COFAC program to the other regional offices and eventually merge them into a national interlending program under the structural umbrella of UCONAL. The Instituto Nacional de Financiamiento Cooperativo (INFC) was recently instituted to channel government and international development funds to the various sectors of the Colombia cooperative movement. Conceivably, a national COFAC program could assume the responsibility of channeling funds made available by INFC to the credit union movement.

Guatemala -- The feasibility study carried out in June, 1969, did not show a sufficient volume to justify a COFAC program. Since that time, however, USAID/Guatemala has prepared a $1,500,000 loan proposal, and the Penny Foundation and PADF have offered loans to the federation which could make this program feasible and give it a high potential.

Mexico -- The feasibility study carried out in Mexico indicated that it would not be feasible to initiate a COFAC program at this time.

El Salvador -- has one of the best potentials in Central America due to the availability of a $200,000 line of credit from the Central Reserve Bank of El Salvador, and the support the credit union movement is receiving from USAID/El Salvador. The initial implementation work was completed in November, 1969, and the COFAC program should be fully staffed and operative by March or April, 1970. LARO assistance to FEDECACES, the federation, could make this a very strong and effective program.

Paraguay -- the credit union movement in Paraguay needs to develop more before COFAC can be implemented. A federation is expected to be established in 1971, and LARO contemplates the initial implementation work on a COFAC system to begin in 1973.

Chile -- No feasibility study has yet been conducted.

Dominican Republic -- The feasibility study indicated that the Dominican Republic would have a good potential for a successful COFAC program. However, the federation has rather severe internal financial difficulties that make it impractical to establish COFAC at the present time.

Brazil -- LARO plans to begin extensive work in Brazil in 1971. A COFAC program here could ultimately benefit up to 1,000,000 people.

Peru -- has a very unstable and uncertain credit union situation at the present time. There is a project to integrate the credit unions' present interlending mechanism, the Peruvian Credit Union Central, with a cooperative bank. Many of the largest credit unions, however, are uncertain about their support for this project. LARO's plan for a COFAC system in Peru in the future will depend upon the final decision that is made on this possible merger.

No programs are contemplated for Argentina or Uruguay at the present time.

C. Process for establishing COFAC in a country:

To establish a successful COFAC program in a country requires the development of highly sophisticated skills and concepts in a population that has never had access to these skills before. Far different from the DAPC, urban consolidation, and training components of the strategy that will be discussed later, the realm of organizational finance is something that they have had virtually no experience with before. As a result, the procedure for building a successful COFAC system must be extensive, thorough, and carefully designed. Basically, this procedure can be broken down into a pre-implementation and an implementation phase.

1. Pre-implementation Phase

   a) For three weeks, the LARO staff undertakes a feasibility study in the country, trying to determine if the human and economic resources are sufficient and general conditions are favorable, to give the program a chance of succeeding. Wherever possible, this study is carried out in coordination with the national federation to develop local skills in evaluation.

   b) For a second three weeks the LARO team analyzes the results of the feasibility study, and draws up a set of projections that show the rate at which the program could proceed.

   c) LARO then approaches the federation that requested the program and presents the results of the projections and analysis, and, if it is considered feasible, proposes a program.

   d) To continue, the federation must select a man who will be the COFAC specialist for the federation. In some cases this individual's salary may have to be partially subsidized, but the stipulation must be that as the COFAC program becomes more self-supporting, the federation assumes a larger, and ultimately total percentage of the cost of maintaining this person on staff.

   e) In a two-week intensive session, LARO trains this person in the theory and techniques of COFAC and works out a six-month plan of action program with him.

   f) After three months there is a review of his progress and of the six-month development plan. Problems are worked out, misconceptions are cleared up, and the person is basically retrained in COFAC processes.

g) After another three months there is a final review of the progress made under the six-month plan. If all of the goals of the six-month plan have been accomplished (training of local personnel, establishment of administrative structure, arrangements with the central banking system, legalization of the system, etc.) the local COFAC representative and the LARO team work out an implementation plan and schedule.

h) The federation and LARO then proceed to establish the priorities and structure of the COFAC system.

2. Implementation Phase

a) Establishment of time deposits and investment certificates.

b) Establishment of centralized accounting procedures.

c) Establishment of centralized checking system.

d) Establishment of liquidity reserve fund.

e) Commence lending operations.

f) Mobilization of funds campaign.

The preliminary phase of the establishment of COFAC takes between nine and thirteen months to accomplish, with the difference due primarily to the length of time it takes the federation to select the person who will administer the COFAC program. Once the preliminary phase is completed, the groundwork and the administrative structures necessary for the success of the program have been established. What remains is the time and continued push to make sure that the various programs take hold and become effective. The actual establishment of time deposits, investment certificates, and centralization of funds can be completed and operative within a couple of months. It will require a much longer period of time for these programs to generate large pools of available capital. The centralized checking system takes about two years to reach its maximum potential in a country, and the liquidity reserve system generally requires about two years to become large enough to be an effective tool of the credit union movement. During this time there is a continued need for trouble shooting and technical assistance. Shortcomings need to be spotted and corrected immediately so that the system does not collapse. But if the program is set up carefully and soundly, and if the technical backstopping is available and effective, COFAC, as a system, can become self-supporting within two or three years. By self-supporting we mean that all personnel, all activities, and all facilities required to sustain the system can be paid for out of the income generated by COFAC itself. This is, of course, dependent upon the amount of savings that can be generated at the local credit union level.

D. Implementation of COFAC Development:

From previous experience, CUNA/LARO estimates that to establish a stable, operative COFAC system in a country would take about eight months or 180 mandays of intensive work. Because of the complexity and sophistication of the skills and concepts that must be developed, because of the scheduling necessary to develop these skills prior to the actual establishment of a COFAC system, and because of the need for extensive follow-up and trouble shooting, it has been found to be preferable to extend the technical assistance for each country over the life of the project at a fairly even rate rather than place a heavy emphasis in a country at one period of time and then discontinue it. A model flow chart for the establishment of a COFAC system in any one country appears on page 30, and an estimated schedule of mandays per country per year appears on page 31

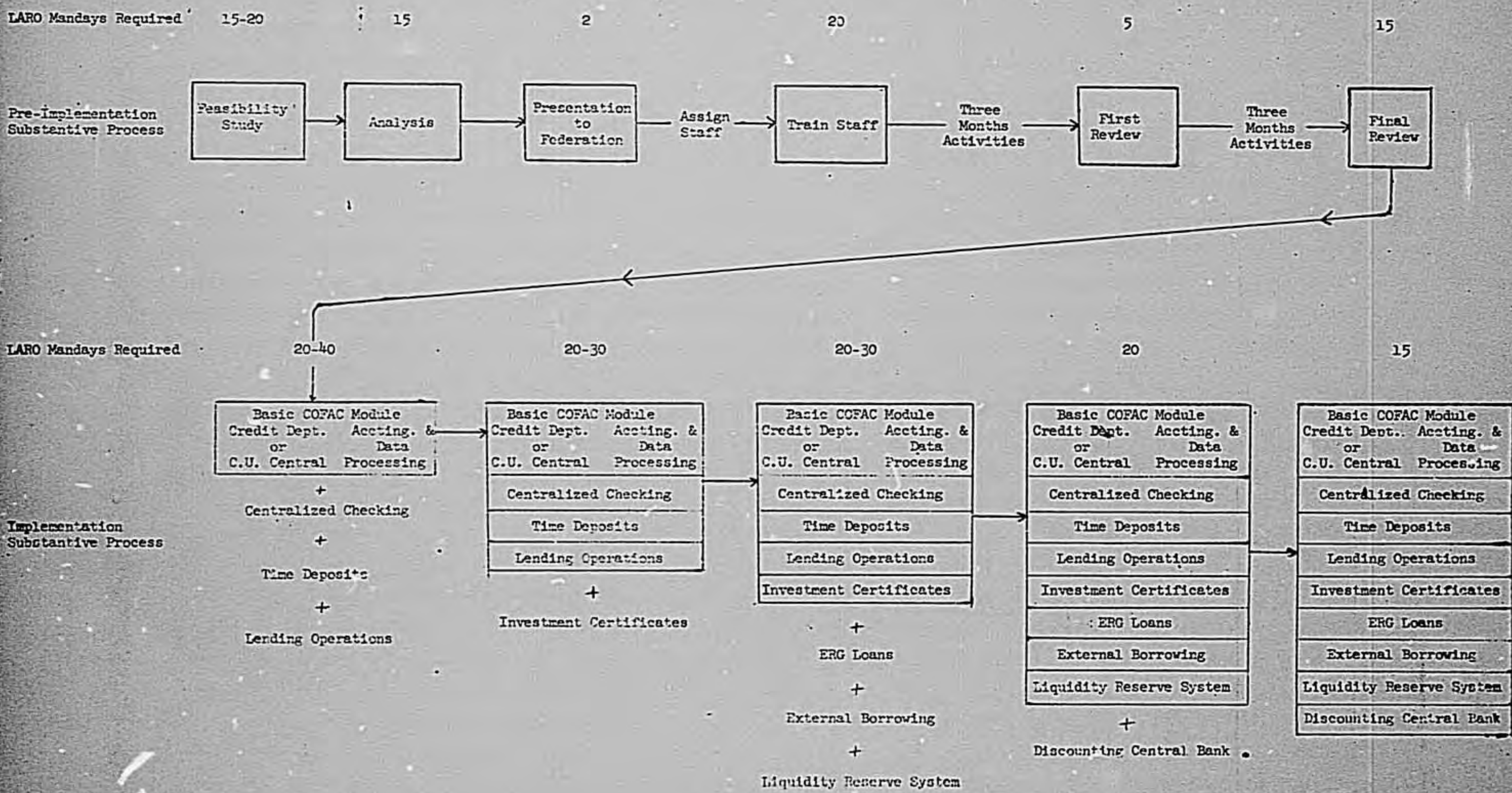
E. AID/LARO Inputs:

As indicated on page 31, to carry out the COFAC program specified here would require the employment of four (4) U.S. or third country technicians over the five-year life of the regional project. One of these, the director of COFAC, is already on board. Two additional COFAC specialists would be added to the staff during the first year of the project, and a credit management specialist would be taken on during the second year. The credit management specialist would terminate at the end of the fourth year, and one of the COFAC specialists midway through the fifth year, leaving the director and one technician to phase out the program.

Each of these technicians will spend a minimum of 170 mandays per year in the field, giving technical assistance and support to the establishment of these programs in the national federations. Much of this time in the field will be spent training and preparing the local staff so that they will be able to completely and competently manage the COFAC programs without further outside technical assistance.

In addition to the U.S. and third country personnel hired for the LARO office, the successful realization of the COFAC programs will require the employment of a number of local administrators. The purpose of this

COFAC PROGRAM IMPLEMENTATION FLOW CHART



COFAC - Mandays Per Year Per Country

Country	1970	1971	1972	1973	1974	1975
Panama	10	30	30	30	10	5
Costa Rica	20	40	40	30	10	5
Nicaragua	20	40	40	30	10	5
Honduras	20	40	30	30	10	5
Venezuela	30	60	60	50	40	20
Colombia	35	75	60	60	50	20
Bolivia	25	60	60	50	40	20
Guatemala	25	50	40	40	30	10
El Salvador	20	60	60	40	20	10
Paraguay	-	15	40	50	40	20
Chile	10	40	60	60	50	20
Brazil	30	90	90	90	50	20
Dominican Republic	15	40	40	40	30	10
Number of Mandays	260	640	650	600	390	180
Number of men required	$1\frac{1}{2}$	4	4	4	$2\frac{1}{2}$	1

employee would be to have a stable well-trained manager of the COFAC system within the federation, and to have a person who can be held responsible for the program. Where the federation is able, or partially able to assume the cost of this manager, they would do so. In many cases, however, the present resources of the federation are not sufficient to allow this. As the federation is financially able to assume the support of this person it will do so, and in no case is it envisioned that the direct AID support of this manager will exceed two years. At the present time it is estimated that local staff will have to be supported in: Colombia (2), Nicaragua (1), Venezuela (1), Dominican Republic (1), Brazil (2), and Paraguay (1).

The total cost to AID over the five-year life of this project for establishing successful COFAC programs in the fourteen Latin American countries will be $484,000. (See Appendix A).

II. Directed Agricultural Production Credit

Directed Agricultural Production Credit (DAPC) is the second of the essential components in the overall strategy to move the Latin American credit unions and credit union federations closer to economic self-sufficiency. It was developed and first introduced in 1964 at the request of USAID/Ecuador by CUNA International. The initial pilot project was organized and began to function in 1965 at Julio Andrade in Northern Ecuador. The operation of the pilot project was successful, and the technique copied and applied in other rural credit unions throughout Ecuador. Because of the success of the project in Ecuador, federations in other countries began to request that similar projects be established in their countries. To meet these requests, DAPC assistance was established as a regular technical service administered through the CUNA regional office in Panama.

DAPC is a key factor in the success of the Centralization of Funds and Accounting programs. To be effective, COFAC depends on the ability to mobilize substantial savings at the local credit union level. Since over 50% of the credit unions in virtually all of the Latin American countries are rural credit unions, a substantial portion of these local savings must be generated in the rural sector. Experience, primarily in Ecuador, has shown that rural DAPC credit unions generate much greater savings than do non-DAPC credit unions. As a result, a large, effective DAPC program in a country could provide the margin of income that would make that country's COFAC program a success.

A. What DAPC is:

Technically speaking, DAPC amounts to coupling credit with technical assistance and training, and its immediate goal is to change borrowing patterns from primarily consumer-oriented to primarily production-oriented. Two hypothetical situations can serve to illustrate the effect DAPC can have on the small farmer and his thinking:

1. If a member seeks a loan to buy a radio, the credit union will lend him the money to raise, say, ten hogs for six months. At the same time it provides him with, or makes available to him, the technical assistance necessary to ensure that he will be successful, so that at the end of the six months he will be able to sell the hogs, pay off his loan, and buy his radio.

2. A farmer may feel that to enter into cattle raising he must have long-term funds, which are usually not available to small farmers. But he can borrow short-term funds (up to twelve months) from his credit union, purchase three milk cows, keep the offspring, and then fatten and re-sell the cows to pay off his loan.

In each of these cases, the farmer has been able to enter into production on a small scale and to learn how to handle credit. With DAPC, then, it is not only a matter of extending credit, or even of just increasing production; it is a program for educating the small producers in the ways and means of handling credit, and in the relationship between credit and production.

B. How DAPC works:

As a DAPC program is established in a rural credit union, a feasibility study is conducted to determine the amount of capital that is needed to adequately supply the credit needs of the community and sustain the local credit union. In the case of Ecuador, for example, it was determined that local self-sufficiency could be attained when the credit union reached the point of having 250,000 sucres worth of loans outstanding to its members. This would give the credit union sufficient interest income (at 12% per annum) to enable it to run an office, purchase its equipment, pay for full-time management, pay interest on capital employed, and maintain a small amount on reserve. Based on the particular local conditions, a goal is then set for the amount of local savings that must be mobilized by the members of the credit union prior to initiating the DAPC program. This initial mobilization of savings is important because it helps instill confidence in the local credit union by increasing its lending capabilities and effectiveness at the beginning of the program. This in turn allows more immediate tangible benefits. The pilot project in Ecuador began with 38,000 sucres of member capital in 1965. By 1969 this credit union had member-owned savings amounting to 750,000 sucres.

Three additional features add to the rapid capitalization of DAPC programs. First, the credit unions are involved exclusively in short-term lending. Farmers endeavor to place short-term money in the most productive effort they can encounter, and the rapid turn-over of short-term loans allows the credit union to make more loans during a given period of time. Second, DAPC programs normally include policies of "forced savings." Ten percent of a farmer's loan is issued to him in the form of share certificates instead of cash. Since he repays the entire loan, this means that the DAPC credit union increases its capital assets by 10% of each loan granted. Third, since loans are granted for short-term productive purposes, the chances that the farmers will be able to repay their loans when they become due are increased, thus guaranteeing the continued capitalization of the credit union. In Ecuador once again, only two of the twenty-six DAPC credit unions had delinquency rates higher than 10%, compared with overall delinquency rates as high as 33% in El Salvador under non-credit union administered rural loan programs.

The most important factors accounting for low delinquency rates among DAPC credit unions are that loans are only granted for productive purposes, and that technical assistance is both made available to the farmer and required as a condition of the loan. Loans are only made to farmers who have had at least ten hours of DAPC training -- that is, training in subjects directly related to their proposed use of the loan, whether it be in the use of fertilizers, planting and harvesting techniques, better seeds, irrigation, etc. During the course of the loan, the farmer is encouraged to consult local agricultural extensionists and utilize other sources of agricultural technical assistance. By making these stipulations the DAPC program minimizes the chances that a loan will become delinquent, and at the same time teaches the farmer a new relationship between credit and production and a new set of values that will facilitate his entry into the national market economy. One of the ultimate objectives of this program is to encourage farmers to become part owners of commercial enterprises which are extensions of his farm requirements by becoming shareholders in creameries, abattoirs, canning plants, feed mills, and fertilizer plants. In this way the farmer shares proportionately in the general economy and can identify himself with progress and the economy as a whole.

C. Establishing DAPC:

The DAPC program is an aggressive system of placing credit as a tool in the hands of small producers. It calls for a competent source to administer the credit, to render financial counseling, and to assist the small producers in obtaining the specialized technical knowledge necessary to make a success of whatever projects are undertaken.

It is, therefore, imperative to take steps to train, develop and employ full-time professional management in every credit union. It is also necessary to provide guidelines to enable the people or institutions rendering the technical assistance to design the various projects or "investment plans" which the local credit unions will recommend to their members to increase production and/or to diversify it. These projects or investment plans should not only include the specific techniques of how to obtain better production, but should be market-oriented as well, to avoid "flooding" the market with a given commodity or to encourage farmers to switch from low return traditional crops to more profitable ones.

DAPC is established on a project-by-project basis within existing rural credit unions. Thus, to establish DAPC programs does not require the creation of new credit unions, but takes advantage of existing organizations and structures and works to reorient their operations to more productive ends. To establish DAPC in a country requires three basic steps:

1. Background work within the country to develop the institutional framework within the federation and to train the initial people for a demonstration project.

2. Establish and maintain a demonstration project(s).

3. Expand the program by establishing additional DAPC programs in other rural credit unions, working toward a predetermined goal

LARO begins the background work within a country by training leaders at the federation level in the skills necessary for establishing and administering DAPC programs. This training is usually carried out in connection with the demonstration project(s), as the federation leaders participate in selecting the site, carrying out the basic feasibility research, promoting the idea, establishing DAPC priorities and policies, organizing the demonstration project, carrying out the campaign for raising local funds, training local leaders (usually 25-30) to assist in the operations of the program, training the local credit union manager in DAPC techniques, and preparing the training materials to be used in classes for the farmers. Through active participation in these activities, the federation leaders gain the experience in both theory and operations of DAPC that will eventually enable them to proceed without additional LARO assistance.

The actual establishment of the demonstration project involves three processes that are begun during the background phase. First, it involves a promotional campaign that is designed to: (a) develop enthusiasm among the local population for DAPC, and motivate them to participate; and (b) educate them as to what is expected of them through the DAPC program, and what benefits they can expect to obtain through participating. Second, it requires the development of the DAPC structure within the local credit union, and the training of the local staff so that they will be capable of administering the program. Third, it requires the mobilization of sufficient local savings to provide the base capital for the DAPC lending activities. This is usually accompanied by supplementary capital support, such as a line of credit from the federation or a bank, or as part of an agricultural sector loan. These three steps must be completed before the program is established. Once the demonstration project is established, it must be closely supervised to assure that loans are being made as prescribed, that technical assistance is both available and being used, and that the program is functioning properly. This supervision is carried out by LARO personnel in conjunction with federation staff.

The publicity associated with the successful operation of the demonstration project, and the success of the project itself, result in requests to the federation from other communities and regions within the country to implement this technique in other credit unions. At this point, LARO works out with the federation a long-term DAPC development program, and helps the federation plan its role in the promotion, organization, and administration of DAPC credit unions. Overall strategy, priorities and techniques are developed and reinforced, and the administrative structure for encouraging and implementing DAPC development are worked out.

The DAPC component of CUNA/AID strategy in Latin America has built-in constituents which work to phase it out. At the local level, the two factors are efficiency and increased production. As these two factors increase, the technical assistance a local credit union needs decreases, and can be fulfilled by the federation. At the federation level, the establishment of each new DAPC program reinforces and improves the pool of skilled DAPC technicians within the federation. As this group gains increased experience in the establishment and administration of DAPC programs, the needs for direct LARO assistance decreases, and the regional project can be phased out in the country.

The countries that LARO is working in differ considerably in their development of DAPC programs, due primarily to the level of prior CUNA/AID activity. Those countries in which no work has been done previously are:

Paraguay	Venezuela
Uruguay	Brazil
Chile	Nicaragua
Colombia	Honduras

Those in which the background work prior to establishing the demonstration project is currently underway are:

Peru   Guatemala

Those in which the pilot demonstration projects are currently in operation are:

Panama   Dominican Republic

And those which have begun to establish additional DAPC credit unions are:

Ecuador (26)   Bolivia (9)
Costa Rica (3)   El Salvador (9)

From this, it is easy to see that the objective of the CUNA/AID regional project is to move all of these countries further along into the latter category. The specific goals, in terms of numbers of DAPC credit unions can be seen in the following table:

Number of DAPC Credit Unions

Country	Current	1970	1971	1972	1973	1974
Bolivia	9	18	29	40	50	60
Brazil		1	5	15	30	50
Colombia		3	10	25	40	55
Costa Rica	3	6	10	14	18	22
Chile		1	10	20	30	40
Dominican Republic	2	6	15	20	25	30
Ecuador	26	32	37	42	47	55
Guatemala		1	10	20	30	40
Panama	2	6	12	18	21	25
Paraguay		1	10	20	30	40
Peru		1	10	20	30	40
Uruguay		1	5	10	15	20
El Salvador	9	21	25	30	35	40
Venezuela		1	10	20	30	40
Honduras		1	10	15	20	25
Nicaragua		1	10	15	20	25

The estimated field time necessary to carry out this program and realize these goals appears on the following page.

DAPC--Man Days Per Country Per Year

Country	1970	1971	1972	1973	1974	1975
Bolivia	25	64	60	60	36	15
Brazil	20	64	60	60	36	15
Colombia	45	36	44	44	36	15
Costa Rica	25	40	40	30	36	5
Chile	35	36	40	45	36	15
Dominican Republic	30	52	48	45	36	5
Ecuador	25	42	42	42	36	15
El Salvador	25	30	30	30	36	5
Guatemala	20	36	36	36	36	10
Panama	20	35	35	35	36	5
Paraguay	40	45	45	50	36	15
Peru	35	35	35	40	36	15
Uruguay	25	45	45	45	36	5
Venezuela	35	45	45	45	36	15
Honduras	20	35	35	35	36	5
Nicaragua	20	35	35	32	36	5
Totals	425	675	675	672	564	165
No. of men required	2½	4	4	4	3	1

D. AID Inputs:

To successfully carry out the program outlined in this section would require the full-time activities of four DAPC specialists. Two of these, the director and one staff member, are currently on board. This expanded program provides for two additional staff members -- either U.S. or third country - one of whom would be a trained farm management specialist, and the other a rural credit specialist. Each of these four men would spend a minimum of 170 mandays per year in the field, providing on-the-scene technical assistance to ensure the success of the DAPC programs. They would coordinate their activities closely with agricultural extensionists, other credit institutions within the host countries, host country governmental agencies concerned with rural development, and local and national credit union leadership. The program budget for this component of the regional credit union strategy over the five-year life of the project would be $536,500 of which $422,750 would be for the salaries and travel expenses of the four DAPC technicians. (See Appendix A).

III. Training

A. Current Situation:

Though both the DAPC and COFAC programs contain the particular training inputs related to the success of their own programs, the responsibility for developing a sufficiently large pool of trained managers to direct and operate the 5,500 projected credit unions, and for developing the set of attitudes necessary for a working credit union system in each country rests primarily with the training component of the LARO project in Latin America.

At the present time there are 2,729 local credit unions in Latin America. In order for these credit unions to operate properly, each one needs a minimum of twelve volunteer leaders, so there are approximately 32,750 local credit union leaders in Latin America. By 1975, it is estimated that there will be 5,500 local credit unions, which means that 66,000 volunteer leaders and managers will be needed to operate the credit unions. Considering the high turnover rate for these volunteer leaders (one-half every two and a half years), we can estimate that by 1975 there will have been nearly 150,000 local leaders. Most of these leaders will be relatively unskilled persons coming out of the local credit unions themselves. To adequately manage their local credit unions, virtually all of them will need some form of management training.

The current training capabilities of the federations are inadequate to meet this demand and provide adequate training. Only half of the federations have at least one person assigned to education and training activities. Normally this person carries the full training load himself. At the present time, the fifteen CUNA/AID countries in Latin America can only provide training to some 5,000 volunteer leaders and elected officials per year, a rate far below the anticipated need.

Moreover, the education and training programs that do exist do not provide the technical training needed to run the movement. Most of the educational programs deal primarily with the philosophy and doctrine of the credit union movement, its origins and its accomplishments to date. Most of the training programs are geared to explaining the accounting system and the duties and responsibilities of the various committees that make up the credit union.

B. Objectives of the Regional Project:

1. Strengthen the service capabilities of the Latin American federations in training and education programming to increase their effectiveness in training local credit union leaders, and to provide the federations with an education program that has high probability of becoming truly national, continuous and self-supporting.

2. Provide direct training to 1,200 instructors who will carry out the training on a local level.

3. Provide indirect basic training in credit union management techniques to nearly 65,000 local credit union leaders, to increase their abilities to competently manage credit unions.

4. Provide indirect intermediate level training to 4,500 local and federation leaders.

5. Provide direct advanced training to 800 local and federation leaders.

6. As a result of the above:

a) Substantially strengthen the managerial capabilities of credit unions in Latin America.

b) Develop credit union leaders who are national in their thinking, capable of problem-solving and known to the credit unions in their country.

c) Change local attitudes toward the involvement and use of credit unions within the national economy; guide them toward unified participation in national economic planning and toward serving as a spokesman for their members whenever government action might affect them.

C. Establishing the Training Programs:

Extensive training programs will be begun in five Latin American countries as early in CY 1970 as possible. These five countries (Bolivia, Colombia, Costa Rica, and El Salvador) were chosen for the first year because in each there is a reasonably strong, knowledgeable federation that is interested in, and will commit resources to establishing these training programs. In other words, because they are strong and committed they would be easiest to work with, and the programs could be set up immediately. Also, the background work in each of these countries has already been accomplished. In 1971, training programs would be extended to Chile, Guatemala, Paraguay, and Honduras; and in 1972 and 1973 to the other six countries. It is doubtful that national training programs will be undertaken in Mexico, Argentina, or the Dominican Republic during the life of this project, though some assistance will be given to these federations as requested.

To develop a successful national program in training should require around 65 mandays of intensive IARO activity over a two-year period, preceded and followed by less intensive activity. In the five countries selected to begin training programs immediately, the preliminary work has for the most part been completed, and the programs could be started immediately. A representative time-sequence chart can be seen on page 42, which illustrates the general relationship between preliminary, intensive, and follow-up time.

The process for establishing a stable program of training in a country would be as follows: IARO, responding to a request from that country's federation, would begin to help the federation establish the administrative structure necessary for establishing the training. This would require the federation to select a person who would remain in the position for several years to oversee the administration of the training program and to head the instruction of teachers. This person would probably have to be subsidized during the two years of the intensive training program in that country. Hopefully, by that time the COFAC and DAPC programs will have made sufficient progress to allow the federation to take over the expenses of this person, although in some instances it may be necessary to partially subsidize his expenses past that date. IARO then assists this person and the federation to establish and understand the training techniques that are to be used, and works toward establishing the first course for training the instructors themselves, which will begin approximately ten weeks later. The bulk of the work, however, will actually be carried out by the local person and the education department of the federation. This initial instructor training

Training - Mandays Per Year Per Country

Country	1970	1971	1972	1973	1974	1975
Bolivia	45	25	5	5	5	5
Colombia	45	25	5	5	5	5
Costa Rica	45	25	5	5	5	5
Ecuador	45	25	5	5	5	5
El Salvador	45	25	5	5	5	5
Chile	5	45	25	10	5	5
Guatemala	5	45	25	10	5	5
Paraguay	5	45	25	10	5	5
Honduras	5	45	25	10	5	5
Peru	3	5	45	25	10	5
Venezuela	3	5	45	25	10	5
Panama	3	5	45	25	10	5
Brazil	3	5	45	25	10	5
Uruguay	2	3	5	45	25	10
Nicaragua	2	3	5	45	25	10
Dominican Republic) Mexico) Argentina)	limited technical assistance as requested					
Number of Mandays	261	331	315	255	135	85
Number of U.S., Puerto Rican or 3rd country technicians required	2	3	3	2	2	1

In addition to these totals, the LARO technicians would be spending an additional 900 mandays during the five-year life of this project in the field conducting the advanced training courses.

course lasts for six weeks, and is closely supervised and directed by LARO. Both LARO and local personnel (though mainly LARO in this first session) conduct the actual classes. The course is designed to give the instructors indepth training in credit union accounting, functions of committees within the local credit union and techniques for making them function, collection procedures, and management skills. Twenty instructors will be trained in this first session, of which five will probably not finish, or be unsuited for teaching. Each instructor will be taught one specialty and two sub-specialties which they will be able to teach to local credit union leaders.

While these instructors are receiving their instruction, the federation makes arrangements for the initial classes they are to teach. This involves determining what subjects the individual credit unions need, and programming the instructors to be able to provide these subjects. Immediately after the six-weeks session, the instructors begin to teach the local credit union leaders. The local sessions normally run for two weeks, after working hours, and it should be possible for these fifteen instructors to conduct a minimum of 40 sessions during the first year, working in teams of three. This means that, if thirty credit union leaders attend each session, the program should be able to reach at least 1,200 local credit union leaders in the first year, with a basic course in management techniques. Of these, about 90 would be encouraged to take a more intensive intermediate course, and of these, approximately 30 will take an advanced course.

At the end of ten months, a second training session for instructors will be conducted, and twenty more instructors trained, with about five not being suited for teaching. At this point, the original fifteen teachers will be dropped from the active teaching list, though they will be available for special teaching assignments and will assist with training the new instructors. During the first two years of intensive LARO activity in the country, four of these instructor training sessions will be held, with the LARO input in each session becoming less and less. The better instructors will be encouraged to remain active in the instructor-training sessions and in the intermediate and advanced courses. During the second year in any country, the program should be able to reach 1,500 local leaders with the basic course, approximately 100 with the intermediate course, and another 30 with the advanced course.

If this program is carried out as outlined over the five-year life of the project, it should be able to make a significant impact on the leadership and management capabilities of the Latin American credit unions.

How the training capabilities of this program relate to the anticipated needs of the credit union movement can be seen below:

Country	Anticipated Number of credit unions	Number of local leaders	Number who will receive training
Bolivia	376	11,280	6,000
Colombia	700	21,000	10,000
Costa Rica	249	7,470	4,000
Ecuador	414	12,420	6,000
El Salvador	151	4,530	2,000
Chile	305	9,150	5,000
Guatemala	178	5,340	3,000
Paraguay	125	3,750	3,000
Honduras	141	4,230	2,000
Peru	707	21,210	10,000
Venezuela	273	8,190	4,000
Panama	196	5,880	2,500
Brazil	226	6,780	3,000
Uruguay	114	3,420	2,000
Nicaragua	148	4,440	2,000
Dominican Republic) Mexico) Argentina)	Assistance will be given as requested.		

Thus, this training program should be able to provide basic credit union training to almost half of the local credit union leaders. In addition, some 7,500 of these local leaders should have received intermediate-level training as a result of this program, and another 1,500 should have received advanced credit union training. Just as important, however, will be the instructors themselves. In the cases of Bolivia, Colombia, Ecuador, Costa Rica, and El Salvador, this will mean at least 150 men who will have received intensive instruction in credit union techniques, and who will have had extensive experience in teaching these techniques. These men will be highly skilled, and will be very important to the success of the credit unions in these countries.

In addition to establishing the training programs within the national federations, the IARO training technicians will be involved in three complementary activities:

1. Correspondence Course. The most active and well-supported training programs at all levels cannot and will not reach all those who want and need training. Through a correspondence course, the functional training courses will be made available for administration by the national

federation in each country. This will enable the federation to reach more people with its training programs.

2. Management Tips. This will be a small pamphlet to be distributed to participants in the management training courses, and to those who take the correspondence courses. It will serve as a constant reference source for local credit union leaders.

3. Management Surveys. The LARO training technicians will help the national federations study the strengths and weaknesses of their local movement, and help them plan their training strategy to overcome the weaknesses.

D. AID Inputs:

To carry out this program will require the full-time services of three U.S. or third country national training technicians. One of these, the director, is already on board, so under the expanded program, two new men would have to be added. Each of these technicians would spend a minimum of 170 mandays per year in the field, helping to establish the overall training programs and backstopping them, teaching and working directly with the advanced courses, and helping the federations plan their national programs. The total cost of this component of the overall CUNA/AID program for the five-year life of the program would be $401,250. (See Appendix A.).

IV. <u>Management Improvement, Urban Consolidation, and Insurance</u>

This component of CUNA/AID strategy is intended to provide two services to the Latin American federations: first, it helps to spot weaknesses in the movement and works with the federations to plan strategies for overcoming those weaknesses; and second, it introduces bonding and insurance programs to the federations, which will help strengthen the movement financially. It involves three specific elements:

A. Federation Surveys. These surveys are carried out by two LARO technicians in coordination with leaders of the federation, and are designed to evaluate past performance in growth, penetration, services, structure, administration, finances and management, training and legislation. Any weaknesses that are noticed are taken up with the federation, and together strategies and techniques for overcoming the problems and shortcomings are worked out. The actual implementation of the corrections are the sole responsibility of the federation.

To date LARO has conducted such studies in Colombia, El Salvador, Nicaragua, Honduras, and Costa Rica. During the five-year life of this project, the survey will be repeated in these five countries, conducted once in Panama and Paraguay, and carried out twice in the remaining countries. Each survey requires the work of one man for six to eight weeks, including preparation of a final written report in Spanish. It is estimated that such studies will be carried out in the following countries during the next five years:

<u>1970</u> -- Peru, Venezuela, Bolivia, Ecuador

<u>1971</u> -- Guatemala, Chile, Brazil, Mexico, Dominican Republic

<u>1972</u> -- Costa Rica, Panama, El Salvador, Honduras, Nicaragua, Colombia

<u>1973</u> -- Paraguay, Peru, Venezuela, Brazil, Bolivia

<u>1974</u> -- Ecuador, Guatemala, Chile, Mexico, Dominican Republic

B. Urban Consolidation. One of the major problems confronting the credit union movement, particularly in the urban areas, is that many of them do not have a sufficiently large membership or capital base to become strong units. Through this part of the CUNA/AID strategy, LARO will work closely with the federations and local credit unions, trying to consolidate the smaller, inefficient credit unions into larger, more viable units. The principal example that will be used as a model to work toward is the Santa Elisa Credit Union in Peru, which serves over 100,000 members and has assets in excess of US $10 million.

To carry out its part of this program, LARO will conduct detailed studies in the countries where such consolidations are deemed possible, analyze the local conditions and circumstances, prepare (with the leaders of the federations) plans for consolidation and other related reforms, and help to implement them. Each study of this type takes about four weeks, including the preparation of the report in Spanish and the follow-up work in the country. It is anticipated that such studies will be carried out in the following countries:

<u>1970</u> -- Costa Rica, Chile

<u>1971</u> -- Panama and El Salvador

<u>1972</u> -- Mexico, Dominican Republic

<u>1973</u> -- El Salvador, Ecuador

<u>1974</u> -- Guatemala, Bolivia, Honduras

C. Insurance Services. Insurance is a rather severe problem in the developing countries, and the lack of insurance could hurt the credit union movement. Basically, this element of CUNA/AID strategy would provide technical assistance to the national federations to help them establish two types of insurance protection.

1. Loan Protection and Life Savings Insurance. This type of insurance is essential to the credit unions, for it assures that outstanding loans will be paid off in the event of the death of the borrower. Such insurance protects the credit union, and protects the savings of the other members of the credit union in the event of the death of one or more of the members. To date only five federations have such programs -- Peru, Bolivia, Ecuador, Honduras, and Chile. In the other countries there is either no insurance at all, or partial, expensive insurance which is provided by foreign companies or mutuals. LARO will conduct feasibility studies in each of the other countries, prepare working plans and programs for establishing such programs, and provide technical assistance for their establishment and implementation. Each survey will require from six to eight weeks to conduct and prepare a report and plan of action for the federations. It is estimated that these surveys will be condicted on the following basis during the next five years:

1970 -- Venezuela, Mexico

1971 -- Brazil, Guatemala

1972 -- El Salvador, Panama

1973 -- Nicaragua, Costa Rica

1974 -- Paraguay, Dominican Republic

2. Bond Insurance. LARO will provide technical assistance to the federations to help them develop bonding insurance programs for credit union managers and directors. External financial assistance to these programs will be provided through CUNA International's Stabilization Program. Through such bonding, the management of local credit unions should be substantially improved.

To carry out the program outlined in this section will require the fulltime activities of two LARO technicians, both of whom are already on board. The total program budget for these activities is $302,500.

V. Publications

The expanded regional project in the areas of DAPC, COFAC, and Training, will place a greater burden on the LARO publication facilities, which at the present time are limited by inadequate equipment and a small staff. Folding and binding must be sent out or done by hand and photomechanic work must be sent out to a commercial establishment, both of which result in lost time and excessive expenses. During 1968 and 1969 the average work day for the publications department was 10 hours and 45 minutes, and often the department had to operate seven days a week in order to meet program deadlines.

The greatest percentage of the anticipated increased load on the publications department will result from the expanded training program. It will require rather large quantities of training manuals, textbooks, and other printed supplies. The publication "Management Tips" will have to be available to most, if not all, of the local credit union leaders who receive basic training. DAPC will create the second largest new demand on the publications department, as instruction and reference manuals will be needed for federation technicians and to reinforce the training received by local DAPC leaders and managers.

To bring the publications department up to a level where it will be able to meet this increased demand requires the acquisition of certain key pieces of equipment:

1.	HARRIS Offset Press 125, paper size 19 x 25" printing capacity $18\frac{1}{4}$ x $24\frac{1}{2}$	17,500.00
2.	BROWN Developing Sink and Washer Viewer with temperature control unit.	1,597.00
3.	CHALLENGE Paper Cutter Model 370 EPB with power backage and 37" capacity.	7,500.00
4.	NuARC Platemaker Model FT26, 23 x 27"	850.00
5.	BOSTITCH Wire stitcher Model 7	1,200.00
6.	OMEGA D3 Enlarger and accessories	650.00
7.	Utility Cutter 18 x 20"	30.00
8.	Shelves for paper storage	500.00
9.	Stripping Table (locally made)	150.00
10.	Drafting Table and Stool	450.00
11.	Photographic Headliner	420.00

12.	Filing Cabinet	250.00
13.	Silk Screen equipment, including drying racks, bi-cutters, stylus, wire staple gun, ulano and profilm	650.00
14.	Ten I.B.M. Composer elements	300.00
15.	Two filing cabinets, locally made, special design	300.00
16.	Spare parts for DAVIDSON and HARRIS printing presses and maintenance of equipment	500.00
		32,349.00

This new equipment will eventually both reduce the ultimate publication costs as well as allow increased volume through a saving of time. Within this proposal it would be possible to make negatives, plates, trim paper, fold as required, and do simple saddle-stitch binding. It includes a second press which will increase the publication capacity of LARO and permit the developing of posters and promotion materials, as a result of its larger paper handling size.

To handle the increased publication load will require an additional three local employees: a second Graphic Arts technician to assist the present Graphic Arts Specialist in handling the larger volume of work; a Composing Machine Operator; and a Print Shop Assistant to help with the general handling of publications, binding, trimming, folding, and to assist the press operator on the HARRIS and DAVIDSON presses. The estimated total budget for Publications over the five-year life of this project is $355,600.

VI. New Publications

At the present time, the publications of LARO backstop the technical personnel and carry information to credit union leaders and managerial staff. In essence, the expanded publications program described previously would enable this section to keep up with the anticipated increased demands of the rest of the expanded program. As a result, it would not really be an expanded publications program, but would merely parallel the increased activity of the rest of the office.

Since these publications do not reach the local memberships, it is felt that there is a need for a publication directed toward the members themselves, and addressed to their needs. This proposed publication would be modeled after Everybody's Money, which is distributed to some two million credit union members in the United States. The purpose of this magazine would be to educate the local credit union member in various aspects of personal credit and finance, to stimulate his interest in a range of issues that affect his life, both as a person and as a credit union member, and to encourage him toward greater participation in the affairs of his local credit union. In short, the purpose of the publication is to increase the awareness of the credit union members themselves in the vital issues affecting their lives so that they will become greater participants in the democratic processes that their credit unions permit.

Like Everybody's Money, this publication would touch on a wide range of issues that are relevant to credit union members. Tips on credit and savings, uses of money, insurance, and related legislation could be accompanied by comments on nutrition, education, family planning and other issues of popular civic participation. Because the potential leadership of such a magazine reaches into the millions, and because it will reach an audience that is largely unreached by other types of informational literature, the potential impact of this magazine on the formation of a large, mobilized, and participating democratic interest group is enormous.

Projected Penetration:

The present potential market for this magazine is close to 1,000,000 copies per issue. This is a market that would grow as the credit union movement itself grows. It is estimated that within the first two years, this publication will actually be reaching between 1/12 and 1/6 of this total.

Distribution:

The magazine will be sold in bulk quantities to the credit union federations, which will distribute it to the local credit unions for ultimate distribution to the membership. By such bulk distribution, LARO will be able to keep distribution costs to a minimum.

Printing:

The press requirements for this publication exceed the facilities, either present or planned, of the CUNA/LARO publications department. As a result, the magazine will be published by an outside firm, possibly the "Editora Intercontinental, S.A.", a company established by TIME LIFE, Inc. for the publication of TIME magazine in Latin America. This outfit has the high speed multi-color web press that the printing of this magazine would require. Graphic design and layout will be handled through the existing facilities of LARO.

Staff:

This new publication would require an additional three staff members and two local secretaries, as follows:

1. Editor -- either U.S. or third country who would be qualified, both journalistically and linguistically, to direct the publication. The editor would be in charge of the overall plans and content of the publication.

2. Writer -- third country -- to assist the editor in reviewing credit union publications, adapting relevant articles for publication in Latin America, and developing special articles based on contemporary Latin American conditions and experiences.

3. Business Manager -- third country -- to assist the editor in all matters of finance related to publications, advertising and sales.

4. Secretaries (2) -- local.

Budget and Financing:

The budget for this new publication would be $150,250 for the first two years, and $63,500 for each year thereafter. Of the initial $150,250, $50,000 would be one-time costs associated with the establishment of the magazine, and would not be repeated in subsequent years. The cost to AID would not be this high, however, for the magazine would produce income from two sources which will lead rapidly to its self-sufficiency. In the first place, the magazine would be sold to the federations at a cost of 25¢ per member per year. This should cover the basic costs of distributing the magazine. The main source of income for this publication would be international advertising, and approximately one-fourth of the magazine would consist of advertising. During the first year there would be no net income from this publication, but current market projections indicate that in the following years the magazine can reach the following goals:

Year	Total Credit Union Membership	% Penetration	Number distributed	Income realized
1970	1,000,000			
1971	1,352,000	8.3	112,500	14,075
1972	1,757,000	16.6	292,832	40,650
1973	2,284,000	16.6	380,668	95,100
1974	3,000,000	16.6	500,000	125,000

It should be noted that at no time does this projected penetration exceed one sixth of the total credit union membership, though in reality it is felt that the magazine will be able to achieve a much greater penetration. This has been done to show that even if the growth in total credit union membership does not keep up with these projections, the magazine will still be a feasible economic unit.

As these projections show, the magazine should be contributing to its own support by the second year, and by the fourth year it should be totally self-supporting. At that time, additional revenues from the sale of this publication, and from the sale of advertising would be used to subsidize the general publications budget of LARO, reducing the AID inputs in this area.

CONCLUSIONS

The most relevant question at this point is: "With this project, its inputs and activities, what will we have accomplished?" It is impractical to say that we will have established fifteen fully self-supporting credit union systems: as was pointed out earlier, it took the U.S. credit union movement over thirty years to become self-supporting. Nor will the credit union movement have achieved its potential penetration or its maximum economic impact. In these areas the credit union movement will just be beginning. What, then, can we expect as the result of this project?

1. We can expect to have over 5,000 local credit unions serving nearly 3,000,000 members.

2. These credit unions should have assets of over $300,000,000, and should have extended over $800,000,000 in credit to their members.

3. In at least six countries (Bolivia, Ecuador, Costa Rica, Colombia, Panama, and maybe Peru) the national federations should be virtually self-supporting--that is, they should be providing adequate services to their member credit unions, paid for entirely from income generated internally within the credit union movement.

4. In at least four other countries the COFAC systems should be self-supporting and beginning to provide additional income to the national federations.

5. There should be at least 600 rural credit unions operating Directed Agricultural Production Credit programs, and the federations should have both the financial and technical resources to expand this program to other rural credit unions.

6. Over 64,000 local credit union leaders should have received at least basic credit union leadership training as a direct result of this project. Of these, another 7,500 should have received intermediate-level training and another 1,500 should have received advanced training. Moreover, the national federations should have developed adequate training programs to meet future demands.

7. Because of the training, DAPC, COFAC, and management improvement activities of the LARO project, the technical and organizational skills

of credit union leaders in all fifteen countries should be significantly increased, to the point that they will have relatively little need for external technical assistance of the type that this project is designed to provide.

8. The credit unions, and the credit union movements should, by 1975, be beginning to exert significant pressure in Latin America as interest groups representing the lower socio-economic classes. The experiences in the local credit unions and the learning processes involved should help to orient the members toward a more active participation in the political and social processes of the respective countries.

9. Perhaps most important, however, is that the accomplishments of the LARO program should have eliminated the need for a regional project. Earlier it was pointed out that a regional project was feasible only when there was a fairly homogeneous problem that could be approached with a fairly homogeneous set of techniques. If this project is successful in achieving its stated goals, this condition should not exist in Latin America in 1975. The particular problems that remain should vary greatly from country to country. In most cases there should only be a need for financial support; the technical skills should already be present. In this situation, a regional project is not a feasible way to attack the problems. Mission-level or short-term assistance would be more efficient ways of dealing with the particular problems that remained, and the regional project could and should be phased out.

Summary Budget

APPENDIX A

	1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances							
U.S. and TCN	263,500	369,000	369,000	363,500	300,500	103,500	
Local	63,750	93,500	93,500	93,500	91,500	30,500	
Subtotals	327,250	462,500	462,500	456,000	392,000	133,500	2,233,750
Travel and Per Diem							
Relocation and Home Leave	26,000	2,000	24,000	4,000	18,000	16,000	
Technicians' Travel	62,000	84,500	89,000	85,000	60,500	26,000	
Subtotal	88,000	86,500	113,000	89,000	78,500	42,000	497,000
Other Expenses							
Rent, Utilities & Alterations	15,000	20,000	20,000	20,000	20,000	12,500	
Telephone and Telegraph	10,000	25,000	25,000	25,000	20,000	10,000	
Technicians' Home Furnishings	50,000	10,000	5,000				
Reproduction (Xerox, IBM)	8,000	10,000	15,000	15,000	10,000	5,000	
Equipment	54,500	6,500	6,000	6,000	5,500		
Material and Supplies	34,250	33,000	31,500	30,000	28,500	8,750	
Regional Workshops	1,000	3,000	3,000	3,000	3,000	1,000	
Maintenance	200	200	200	200	200	100	
Freight	3,000	100	50	50	50		
Other	20,000	30,000					
Less Income		(14,075)	(40,650)	(95,100)	(125,000)		
Subtotal	195,950	123,725	65,100	4,150	37,750	37,350	388,525
Reserve for Salary Increases		24,000	26,000	27,500	25,500		103,000
31.7% Overload (Maximum)	90,000	122,000	127,000	130,000	115,000	42,000	626,000
TOTALS	701,200	818,725	793,500	706,650	573,250	254,850	3,848,275

Program Budget
Centralization of Funds and Accounting

	1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances							
Chief	22,000	22,000	22,000	22,000	22,000	11,000	
Field Technician	9,000	18,000	18,000	18,000	18,000	9,000	
Field Technician	4,500	18,000	18,000	18,000	9,000		
Credit Specialist		20,000	20,000	20,000			
Secretary	3,500	3,500	3,500	3,500	3,500	1,750	
Subtotals	39,000	81,500	81,500	81,500	52,500	21,750	357,750
Travel and Per Diem							
Relocation & Home Leave	4,000	2,000	6,000		4,000	4,000	
Technicians' Travel	10,000	17,500	20,000	20,000	12,500	7,500	
Subtotals	14,000	19,500	26,000	20,000	16,500	11,500	107,500
Other Expenses							
Regional Workshops	1,000	3,000	3,000	3,000	3,000	1,000	
Training Manuals	500	1,000	500	500	500	250	
Materials		1,000		500			
Subtotals	1,500	5,000	3,500	4,000	3,500	1,250	18,750
Totals	54,500	106,000	111,000	105,500	72,500	34,500	484,000

Program Budget
Directed Agricultural Production Credit

	1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances							
Chief	30,000	30,000	30,000	30,000	30,000	15,000	
Field Technician	18,000	18,000	18,000	18,000	18,000	9,000	
Rural Credit Technician	9,000	18,000	18,000	18,000			
Farm Management Specialist	4,500	18,000	18,000	18,000	18,000		
Secretary	3,500	3,500	3,500	3,500	3,500	1,750	
Subtotals	65,000	87,500	87,500	87,500	69,500	25,750	422,750
Travel and Per Diem							
Relocation & Home Leave	6,000		4,000		4,000	4,000	
Technicians' Travel	13,000	18,000	20,000	20,000	15,000	6,000	
Subtotals	19,000	18,000	24,000	20,000	19,000	10,000	110,000
Other Expenses							
Materials	1,500	500	500	500	500	250	3,750
Totals	85,500	106,000	112,000	108,000	89,000	36,000	536,500

Program Budget
Training

	1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances							
Chief	30,000	30,000	30,000	30,000	30,000	15,000	
Educational Technician	6,000	12,500	12,500	12,500	12,500		
Educational Technician	6,000	12,500	12,500	6,000			
Secretary	3,500	3,500	3,500	3,500	3,500	1,750	
Subtotals	45,500	58,500	58,500	52,000	46,000	16,750	277,250
Travel and Per Diem							
Relocation & Home Leave	6,000		4,000	4,000	2,000	2,000	
Technicians' Travel	11,000	20,000	20,000	16,000	10,000	5,000	
Subtotals	17,000	20,000	24,000	20,000	12,000	7,000	100,000
Other Expenses							
Equipment	2,000	500	500	500			
Materials	5,000	5,000	5,000	3,000	2,000	500	
Subtotals	7,000	5,500	5,500	3,500	2,000	500	24,000
Totals	69,500	84,000	88,000	75,500	60,000	24,250	401,250

Program Budget
Management Improvement

		1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances								
Chief		22,000	22,000	22,000	22,000	22,000	11,000	
Technician		19,000	19,000	19,000	19,000	10,000		
Secretary		3,500	3,500	3,500	3,500	3,500	1,750	
Subtotal	Subtotals	44,500	44,500	44,500	44,500	35,500	12,750	226,250
Travel and Per Diem								
Relocation & Home Leave		4,000		4,000		2,000	2,000	
Technicians' Travel		12,000	12,000	12,000	12,000	8,000	3,000	
	Subtotals	16,000	12,000	16,000	12,000	10,000	5,000	73,000
Other Expenses								
Materials		1,000	500	500	500	500	250	3,250
Totals		61,500	57,000	61,000	57,000	48,000	17,000	302,500

Program Budget
General Publications

	1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances							
Chief	15,000	15,000	15,000	15,000	15,000	7,500	
Graphic Arts Technician	9,000	9,000	9,000	9,000	9,000	4,500	
Administrative Assistant	4,000	4,000	4,000	4,000	4,000	2,000	
Press Operator	5,000	5,000	5,000	5,000	5,000	2,500	
Shop Assistant	2,500	5,000	5,000	5,000	5,000	2,500	
Composing Machine Operator	2,000	4,000	4,000	4,000	4,000	2,000	
Assistant Press Operator	2,000	4,000	4,000	4,000	2,000		
Subtotals	39,500	46,000	46,000	46,000	44,000	21,000	242,500
Travel and Per Diem	3,000	3,000	3,000	3,000	1,000	500	13,500
Other Expenses							
Equipment	32,500	1,000	500	500	500		
Freight	3,000	100	50	50	50		
Supplies	15,250	10,000	10,000	10,000	10,000	5,000	
Equipment Maintenance	200	200	200	200	200	100	
Subtotals	50,950	11,300	10,750	10,750	10,750	5,100	99,600
Totals	93,450	60,300	59,750	59,750	55,750	26,600	355,600

Program Budget
New Publications

	1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances							
Editor	12,500	25,000	25,000	25,000	25,000		
Writer	3,750	7,500	7,500	7,500	7,500		
Business Manager	4,000	8,000	8,000	8,000	8,000		
Secretaries (2)	3,500	7,000	7,000	7,000	7,000		
Subtotals	23,750	47,500	47,500	47,500	47,500		213,750
Travel and Per Diem							
Relocation & Home Leave	2,000		2,000		2,000		
Travel	6,000	6,000	6,000	6,000	6,000		
Subtotals	8,000	6,000	8,000	6,000	8,000		36,000
Other Expenses							
Development	20,000	30,000					
Supplies and Materials	5,000	10,000	10,000	10,000	10,000		
Less Income		(14,075)	(40,650)	(95,100)	(125,000)		
Subtotals	25,000	25,925	29,350	85,900	115,000		(178,525)
TOTALS	56,750	79,425	24,850	(31,600)	(59,500)		71,225

Program Budget
Administration

	1970	1971	1972	1973	1974	1975	Totals
Salaries and Allowances							
Director	35,000	35,000	35,000	35,000	35,000	17,500	
Planning and Evaluation	5,000	20,000	20,000	20,000	20,000		
Administrative Chief	16,000	16,000	16,000	16,000	16,000	8,000	
Administrative Assistant	3,500	7,000	7,000	7,000	7,000	3,500	
Accountant	2,500	5,000	5,000	5,000	5,000	2,500	
Secretaries (4)	8,000	14,000	14,000	14,000	14,000	4,000	
Subtotals	70,000	97,000	97,000	97,000	97,000	35,500	493,500
Travel and Per Diem							
Relocation & Home Leave	4,000		4,000		4,000	4,000	
Travel	7,000	8,000	8,000	8,000	8,000	4,000	
Subtotals	11,000	8,000	12,000	8,000	12,000	8,000	59,000
Other Expenses							
Rent, Utilities and Alterations	15,000	20,000	20,000	20,000	20,000	12,500	
Telephone and Telegraph	10,000	25,000	25,000	25,000	20,000	10,000	
Office Equipment	20,000	5,000	5,000	5,000	5,000		
Office Supplies	6,000	5,000	5,000	5,000	5,000	2,500	
Reproduction (Xerox,IBM)	8,000	10,000	15,000	15,000	10,000	5,000	
Technicians' Home Furnishings	50,000	10,000	5,000				
Subtotals	109,000	75,000	75,000	70,000	60,000	30,000	419,000
Totals	190,000	180,000	184,000	175,000	167,000	76,000	961,500