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Credit Union Services and Training

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[illegible] - Credit Union Development

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

UNCLASSIFIED

AID-DLC/P-2130

December 12, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: COLAC - Credit Union Development

Attached for your review are the recommendations for the authorization of a loan to the Latin American Confederation of Credit Unions, a Panamanian cooperative organization ("Borrower"), of not to exceed four million United States dollars ($4,000,000) to assist in financing the United States dollar and local currency costs of a program ("Program") to provide medium-term financing and technical assistance for the development and expansion of the credit union and cooperative programs of the Borrower's member national federations of credit unions and cooperatives.

No meeting is scheduled for this proposal. However, please advise us of your concurrence as early as possible but no later than December 17, 1975. If you are voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review

Attachments
- Summary and Recommendations
- Project Analysus
- Annexes I-XI

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE ("X" appropriate box)

[X] Original [ ] Change [ ] Add [ ] Delete

PP

DOCUMENT CODE 3

2. COUNTRY/ENTITY L.A. REGIONAL

3. DOCUMENT REVISION NUMBER

4. PROJECT NUMBER 598-T-005

5. BUREAU a. Symbol LA b. Code 3

6. ESTIMATED FY OF PROJECT COMPLETION FY 7 9

7. PROJECT TITLE - SHORT (stay within brackets)

[COLAC - CREDIT UNION DEVELOPMENT]

8. ESTIMATED FY OF AUTHORIZATION/OBLIGATION

a. INITIAL mo. 7 yr. 6 b. FINAL FY 7 7

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

a. FUNDING SOURCE	FIRST YEAR FY 76 b. FX	c. L/C	d. Total	ALL YEARS e. FX	f. L/C	g. Total
AID APPROPRIATED TOTAL	350	–	350	4,600	–	4,600
(Grant)	(350)	(–)	(350)	(600)	(–)	(600)
(Loan)	(0)	(–)	(0)	(4,000)	(–)	(4,000)
Other U.S. 1.						
Other U.S. 2.						
~~XXXXXXXXXXXX~~ BORROWER	295	–	295	2,000	–	2,000
OTHER DONOR(S) + SOURCES	6,260	–	6,250	15,000	–	15,000
TOTALS	6,895	–	6,895	21,600	–	21,600

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

a. Appropriation (Alpha Code)	b. Primary Purpose Code	c. Primary Tech. Code	FY 76 d. Grant	FY 76 e. Loan	FY 77 f. Grant	FY 77 g. Loan	FY 78 h. Grant	FY 78 i. Loan	ALL YEARS j. Grant	ALL YEARS k. Loan
FN			350	4000	250	–	–	–	600	4000
		TOTALS	350	4000	250	–	–	–	600	4000
11. ESTIMATED EXPENDITURES			350	–	250	2,500		1,500		

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

[to Promote the establishment of an effective, efficient, and viable regional intermediate credit and service delivery system, capable of adequately responding to the priority development needs of the credit union movement in Latin America, principally in rural areas.]

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

[ ] Yes [*] No

14. ORIGINATING OFFICE CLEARANCE

Signature: Donor M. Lion *Donor M. Lion*

Title: Associate Assistant Administrator
Office of Development Resources

Date Signed: mo. 12 day 12 yr. 75

15. Date Received in AID/W, or For AID/W Documents, Date of Distribution

mo. 12 day 05 yr. 75

AID 1330-4 (7-75)

* This project was approved as an IRR in January, 1975, therefore, neither a PID nor a PRP was submitted nor necessary.

<u>PROJECT PAPER</u>

LATIN AMERICA REGIONAL

THE LATIN AMERICAN CONFEDERATION OF CREDIT UNIONS (COLAC)

ANNEXES

Annex I		Draft Loan Authorization
Annex II		Application
*Annex III	-	Statutory Checklist
Annex IV	-	Financial Projections
Annex V	-	Logical Framework
Annex VI	-	Project Performance Tracking Matrix
Annex VII	-	Absorptive Capacity Calculations
Annex VIII	-	Justification for an AID Loan to COLAC (Post - IDB)
Annex IX	-	The COLAC Proposal and Recommended Distribution of AID Loan Funds
Annex X	-	Credit Demand
Annex XI	-	Current Outstanding Portfolio

*May be found in LA/DR files.

PROJECT PAPER

LATIN AMERICA REGIONAL PROJECT

CONFEDERACION LATINOAMERICANA

DE COOPERATIVAS DE AHORRO Y CREDITO

(COLAC)

PART I. SUMMARY AND RECOMMENDATIONS

A. The Borrower and Executing Institution

The Borrower is the Latin American Confederation of Credit Unions (COLAC), a private international cooperative service organization, legally chartered in Panama. COLAC provides credit, financial, technical, and representational service to an active membership of 15 national credit union federations. Other cooperative organizations may affiliate as associate members.

B. Proposed AID Contribution:

1. The Loan:

a) Amount: US $4 million to be disbursed over a three year period from the date of satisfactory completion of the conditions precedent to initial disbursement.

b) Terms: 30 years, including a ten year grace period on amortization of principal, with interest at three percent on the disbursed balance of the loan.

2. The Grant: Up to US $600,000 to be disbursed for operating costs over a period of up to two years commencing on January 1, 1976.

C. Goal Structure

1. The Goal

The goal of this project is to improve the real net income, production, and productivity of a growing credit cooperative membership in Latin America, especially of the small rural producer. It should be noted that there will be a variety of secondary and some direct benefits in such areas as health, education, housing, and the quality of life in general of the target population.

The project has been broadened since it was first presented to AID over a year ago to a not-so-rigorous focus on the small farmer. The goal and the institution relate to the entire credit cooperative movement in Latin America and, hopefully, eventually to cooperative membership of many other varieties, always maintaining a focus on low income groups, both urban and rural.

2. The Purpose

The specific purpose of this project as distinct and more narrowly defined than the goal, which is sector oriented as opposed to the institutional nature of the COLAC project itself, is to promote through COLAC the establishment of an effective, efficient, and viable regional intermediate credit and service delivery system, capable of adequately responding to the priority development needs of the credit union movement in Latin America.

These priority development needs fall into two basic areas: (a) increased capital at all levels of the cooperative system for lending, operations, and equity; and (b) improved credit management at all levels, especially for rural production.

D. Summary Rationale

The basic justification for this project must be based on the comparative advantage offered by channeling resources through COLAC (the regional approach in place of traditional bilateral or national level programs.) COLAC represents an additional institutional layer at the apex of a multi-country system, at considerable cost to its membership and supporting institutions. The rational, therefore, must be based on the potential capacity to mobilize external resources, from both public and private international sources, more efficiently, effectively, and at less cost to the movement than the various national members could realize working independently of each other. By the end of the project period AID should be able to withdraw from direct assistance to the Credit Union movement in Latin America confident that COLAC, as a viable institution with substantial resources at its command, will be able to continue in place of AID and other donors with the necessary assistance and inputs to continue effectively stimulating the growth of the movement and bringing about an increasingly favorable impact upon affiliated lower income groups, especially in the rural sector.

E. The Target Group

The beneficiaries of the project are the members (individual shareholders) of the Latin American Credit Union movement, both rural and urban. AID loan funds will be divided roughly between urban and rural, but the great majority of project resources as a whole will be directed to the small farmer. In addition a substantial "spread" effect is expected both within and outside of the movement (See Section III,C,2.), due to the system building and outreach incentives built into the design of the project.

The following principal benefits to the target group are anticipated as a result of this project:

1. Increased income and production.

2. Improved participation in the process of development and the development of organizational skills and institutional infrastructure at the community level, specifically rural credit unions and cooperatives.

3. Acquisition of increased economic leverage.

4. Improved access to a variety of services such as credit, agricultural extension, marketing assistance, supply, health, education, and housing.

5. Stimulation of private savings, capitalization, and investment.

F. Project Description

The project consists of the simultaneous realization of various complementary activities in order to achieve the successful establishment of the delivery system envisioned within a three year period. These activities are divided among the following three principal categories:

1. Lending: COLAC will lend for agricultural production, other (small industry, artisan handicrafts, etc.) production, health, education, and housing.

2. Technical Assistance: COLAC will provide a full range of technical advisory services to member federations in such areas as project preparation, credit administration, delinquency control, accounting and centralization of funds procedures, financial projections, marketing and supply, statistics and reporting, planning and programming, evaluation, management, organizational development and promotion.

3. Global: Activities in this area relate to such areas as resource mobilization, relations with the movement and other external organizations (representation), and regional system building activity and analysis pertaining to such areas as maintenance of value, regional marketing and supply, planning and new program development.

The above activities are mutually reinforcing and are designed to produce the self-sustaining growth of a true regional mechanism capable of tapping public, private and international capital and other resource markets for effective and efficient distribution throughout the credit cooperative movement for the ultimate benefit of the low income target man.

G. Origin of the Project

The origin of this project is long and extremely complex, especially in relation to recently approved IDB financing. Please consult Section II,A,2,3 and 4 for detailed treatment of the formation and evolution of COLAC, the development of the original proposed AID loan, its transfer to the IDB, and the AID decision to reconsider capital assistance. The proposed project represents the culmination of over a decade of continual AID assistance to the Latin American Credit Union Movement in both regional and bilateral contexts.

H. Summary Cost Estimate and Financial Plan ($000)

Source	AID Loan	AID Grant 1/	COLAC	Others Loans	Others Grants	Total
Lending	4,000		295 2/	12,834	1,000	18,129
Operational Support		600				600
Technical Assistance			2/		1,000	1,000
	4,000	600	295	12,834	2,000	19,729

1/ The grant amount shown is for up to two years commencing on January 1, 1976. (Please see financial analysis, pp. 50 - 54 for a detailed treatment and justification of the need for increased and extended grant support.) $347,000 is included in the FY 1976 congressional presentation for grant support to COLAC. Approximately $250,000 additional support, therefore, will be added to the FY 1977 congressional presentation. No separate notification to Congress will be required.

2/ This was the balance of member share capital as of June 30, 1975. Shares from credit operations should come close to $1.6 million by the end of the project period.

I. Statutory Criteria

All statutory criteria for the Foreign Assistance Act of 1974 have been met. (See Annex IV.)

J. Summary Findings of Analysis

1. Technical Analysis

a) Prefunding Judgment. It is the judgment of the Project Committee that this project is appropriate for the time and area contemplated. Above all this judgment rests on the unique appropriateness of the overall concept of the project for a period and an area where:

- Concessional resources are bound to become more and more scarce over time.

- Demand for resources is and will be expanding rapidly due to expanding education, mass media, land reform, social and rural development programs of various types, the world food crisis, expanding technology transfer, etc.

- Credit and other cooperative national and local organizational infrastructure is at a stage of development, sophistication, and viability where it can support its own regional institutional mechanism for the securing and channeling of external capital and technical assistance.

It is also the judgment of the Project Committee that the project is reasonably priced and designed in relation to the totality of our program in Latin America, the long run potential impact envisioned, the magnitude of resources to be mobilized from other sources and the efficiency in general of the system when compared to the cost of bilateral assistance.

b) Technical Soundness

The project, in the best judgment of the Project Committee, is technically sound based on the most extensive analyses feasible within the time allowed and under the revised financial and institutional assumptions, constraints, and realities. Every effort possible has been made to ensure that the project makes sense in institutional, financial, economic, and social terms. That the project is high risk, in AID experience, especially since no government guarantee is available, there can be no doubt. The long run developemnt potential of the effort, however, is estimated to far outweigh the risk, especially as there is, indeed, a consortium approach to financing the effort (See Implementation Arrangements); AID's portion represents less than 25% of the total project cost.

2. Financial Analysis

Financial projections were prepared and analyzed, assuming a $4.0 million AID loan, against relevant financial criteria (rates, growth, etc.) and found satisfactory. If, as seems reasonable and probable, COLAC will make increasing use of loan funds from the US credit union movement, it will have the capacity to amortize the AID loan, and others as well, and continue to grow as a regional intermediate credit institution.

The case is made, however, in the financial analysis for a $5.0 million AID loan and an increased grant due to the unexpected impact of an IDB restriction on end-user interest rates. It is recommended that serious consideration be given, at a minimum, to the proposed grant increase.

3. Economic Analysis

The analysis assumes AID acceptance of the validity of the credit constraint argument advanced in Latin American Sector analysis work of recent years. That the lack of credit is a major retarding force to Latin American rural and urban development alike seems irrefutable. The main conclusion of the analysis, however, is that the COLAC "going rate" approach model is most conducive not only to the most efficient and equitable use of credit resources but also to the tapping of private and international capital markets for the greater growth and outreach of the delivery system.

4. Implementation Capacity and Arrangements

a) COLAC

If COLAC is able to secure the resources to pursue its proposed reorganization and development program it will be able to effectively administer this, the IDB's and other projects effectively. Certain key additional staff members are essential now for the initial "gearing up" phase of project execution, and their employment is made a condition precedent to disbursement.

b) AID

A full time AID funded position should be established for COLAC project management. A tentative case has been made for the location of such a position in Panama together with the COLAC headquarters operation.

K. Project Issues

1. Bi-lateral lending to credit union federations.

To the extent that international development institutions lend directly to national credit union federations, by-passing the regional credit delivery system mechanism that this project will build, the viability of COLAC may be impaired. While start-up situations may merit direct bi-lateral assistance (as in the case of a new federation with limited absorptive capacity but clear need for income generation ability possible only through direct concessional assistance), the majority of future assistance to the credit union movement should attempt to utilize the COLAC mechanism as a conduit for financial and technical assistance to intended beneficiaries. To ensure that this is achieved, approval of this project should constitute formal adoption by AID of such a policy and, subsequently, AID should undertake discussions with the IDB and the IBRD to obtain their endorsement and support for such a policy as it pertains to loans they might consider through national government channels.

2. Conditions of the IDB Loan to COLAC

While the overall impact of the IDB project is favorable, certain conditions of the IDB assistance agreement (yet to be signed) represent hindrances or obstacles for COLAC in working toward goals AID and COLAC have long shared in this project. Specifically, IDB limitations on end-user interest charges and proscriptions of COLAC's utilizing of maintenance of value measures in its subloans (see Financial Analysis and Plan section) are counter-productive to the project goal. While the IDB-imposed obstacles are possible to work around with resources from other channels they represent a modification in project design by the IDB from AID and COLAC's original concepts, and also from what the IDB informed us it expected it would do with the COLAC project when we agreed to transfer it in May, 1975.

In view of the significant impact these changes will have on the COLAC project, high level AID - IDB discussions on them should be pursued.

3. Amount of AID Loan and Grant Support to COLAC

Largely as a result of constraints upon COLAC's financial operations presented by the IDB conditions referred to above, precise, reliable determinations of additional financial support required by COLAC to reach viability are impossible to make. The proposed amount of $4.0 million in loan funds is required; however, as described more fully later in III. B., a $5.0 million loan with increased grant support, above that contemplated, would provide greater assurance of project goal-objectives-outputs achievement. With no changes in the IDB imposed conditions on COLAC, the Project Committee believes increased AID support is required.

L. Conditions and Covenants (Draft)

1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement or to issuance of any commitment documents under the loan, the borrower shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, the following:

a) a certified copy of the corporate charter and by-laws of the Borrower, duly authorized by the Borrower's Board of Directors.

b) evidence that the positions of administrator, finance division chief, and operations division chief are filled.

c) a certified copy of the operating policies, procedures, and standards of the Borrower, which shall include but not necessarily be limited to:

i) The Borrower's credit policy including:

- The procedures to be followed for the objective and comprehensive review and authorization of all sub-loans proposed to be made by the Borrower to assure that such proposed activities are economically justified, technically sound, and will have the desired input on the agreed upon target group of beneficiaries.

- Eligibility criteria to be met by sub-borrowers and sub-loan proposals in each of the following areas: a) agricultural production and related credit, b) non-agricultural production and related credit, c) health, education, and housing credit, d) credit to be channeled through cooperatives other than credit cooperatives.

- The plan for periodic audit of sub-loans made by the Borrower.

ii) Policies controlling the subscription and resale of capital shares in Borrower's equity capital by member national credit union federations or other entities.

iii) The Borrower's policy and procedures relating to the allocation and programming of human and other operating resources in accordance with assessed project constraints, country by country and regionally.

iv) The standards and procedures to be followed in providing technical assistance to client federations.

d) The administrative, organizational, and staffing plan of the Borrower for the effective execution of the project, including a complete cost breakdown and timetable for execution and a recruitment plan including job descriptions.

e) The operating plan for the first full year of the project to commence in July 1976. (The first AID disbursement is anticipated in June 1976.)

2. Covenants

a) Except as AID may otherwise agree in writing the Borrower shall not:

i) Make commitments involving more than the equivalent of two million United States dollars ($2,000,000) of AID loan funds, prior to a joint review of the progress of the program by AID and COLAC;

ii) Utilize AID loan funds or any repayments of principal from sub-loans made from AID loan funds to pay administrative or operating expenses of the Borrower;

iii) Permit AID funds to be used to finance any sub-project or to make sub-loans to any sub-borrower in excess of the equivalent of five hundred thousand United States dollars ($500,000) without first obtaining official written approval from AID;

iv) Make sub-loans with repayment terms of more than five (5) years;

v) Maintain a reserve for bad debts of less than one percent (1%) of its total sub-loan portfolio for the first three years, increasing to three percent (3%) thereafter;

vi) Declare or pay dividends or patronage refunds or rebates on shares of shareholders capital without first submitting for AID approval a comprehensive dividend or refund policy;

vii) Declare or pay dividends or patronage refunds from sources other than accrued earnings and after reserves for bad debts and legal reserve requirements have been met;

viii) Incure any indebtedness for a term exceeding one (1) year or for amounts of more than five hundred thousand dollars ($500,000) without the prior consultation with AID;

ix) Incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID loan;

x) Amend or modify its corporate charter, by-laws or undergo any type of corporate reorganization without prior consultation with AID.

b) In addition to the foregoing requirements, the Borrower will agree to:

i) Use its best efforts to educate sub-borrowers in relation to decapitalization risk from inflation and monetary devaluation and will attempt to persuade them to take adequate financial and administrative protective measures.

ii) Utilize repayments from AID funded sub-loans only for those purposes for which the AID loan funds were originally made available.

iii) Give special and continuing recognition throughout the life of this project to the effective and expeditious implementation of projects and activities designed to test, develop, and expand programs of international inter-lending of financial resources between national credit systems.

iv) Notify AID immediately subsequent to any change in management or any other important decision which might have a significant impact or bearing on the course of project execution.

c) Prior to COLAC disbursement of AID loan funds for any particular member country, COLAC will submit for AID approval the maintenance of value procedure to be utilized in that country.

d) Prior to COLAC disbursement of loan funds for any particular member country, COLAC will submit to AID an opinion or opinions of counsel, acceptable to AID, that all corporate and legal action required has been taken under the laws of the country in which it proposes to lend or otherwise fulfill obligationsunder the AID loan.

3. Other Terms and Conditions

The loan shall be subject to such other terms and conditions as AID may deem advisable.

M. The AID/COLAC Project Committee and Contributors

Project Committee:	John Heard	- LA/DR
	Edward Lijewski	- LA/DR
	Wayne Tate	- LA/DP
	Joaquin Marquez	- LA/GC
Other Contributors:		
AID:	Mike DeMetre	- LA/DR
	Wayne McKeel	- FM/RSD
	Kenneth L. White	- SER/DM
	Lawrence Livesay	- SER/DM
	James Ito	- FM/RSD
CONTRACT:	Angel Castro	- Credit Union National Association
	Barry Rogstad	- Systan Inc.
	Roy Lave	- Systan Inc.

This project in its broadest sense is the fruit of the effort of many dedicated people, Latin American and American, who have worked together tirelessly for the development of a concept and a system they believe in. One person, however, stands out as the most responsible, the most knowledgeable, and the one who has strived and fought the longest and hardest, year after year. If this project is successful, COLAC, Latin America, and AID will owe a great debt of thanks to Angel Castro, currently serving as special advisor to COLAC management for resource mobilization under contract with the Credit Union National Association.

PART II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. BACKGROUND

1. The Development Problem: Constraints to which the project is addressed.

Traditionally the small producer in Latin America has suffered from: a) the non-availability of both credit and services necessary for increased production and self-improvement, b) an overcentralization of the development process and public services in national governments and a corresponding lack of local and regional organizational competence and infrastructure in virtually all areas (especially rural) of both the public and private sectors, and, c) the absence of practical mechanisms and channels to facilitate and motivate the productive economic and social involvement of lower income groups in the process of their own development.

Of all low income groups, the small, and often landless farmer, has suffered most from the prevalence of the above factors. Restrictive patterns of land tenure, the absence of organized, responsive marketing and distribution systems and lack of access to technical assistance, credit, and other services have insured a static or declining (in relative terms) socio-economic condition for this group and have frustrated the majority of rural development efforts which have not treated the above factors in an integrated fashion.

In recognition of the nature of the problem, over the course of the past decade AID has gradually increased its support for multifacted rural development programs to: a) provide essential technical assistance and credit resources to local and regional entities of various types (cooperatives, credit unions, local units of government, community development associations, etc.), and b) combat the lack of popular participation and local organizational infrastructure, in order to make possible the creation of truly responsive and viable delivery systems for the real economic and social benefit of the individual, the group, and especially the small farm sub-sector.

Gradually national credit and service systems have responded to initiatives primarily from national governments and the international donor-lender community. The process, however, is painfully slow and very dependent on continued concessional inputs which due to the scarcity of resources has only reached a fairly small select group. In today's world of increasingly high inflation and competition for resources, profit, and markets of all types, it is questionable how long the present level of concessional aid may be able to continue or much less to increase for greater coverage or impact. This project is aimed at exactly this problem, the idea being to stimulate and help to insure the creation of a regional resource mobilization and delivery system with the following characteristics:

- Independent of government support or subsidy.
- Capable of self-sustaining and potentially dynamic growth.
- Capable of tapping substantial resources from the worldwide cooperative movement and private international capital markets.
- Responsive to needs of target populations through and due to the cooperative process.
- Efficient in the sense that the high cost to international donors and national recipients of individual bilateral project development activity is eliminated.
- Multi-disciplinary and multi-service in approach so as to provide an integrated package of services and credit for the producer/member.

More specifically and immediately, the constraints to be addressed by this project include the following within the sphere of the credit cooperative movement in Latin America.

a) <u>THE CREDIT CONSTRAINT</u>:

A considerable body of evidence now exists to the effect that in Latin America the lack of institutional credit is a major constraint to increased production, productivity, and real income at the small producer level.[1/] In addition the credit demand section (pp. 66-67) will show that demand far exceeds the supply of institutional credit from all known sources combined, including this project. This is also demonstrated by the widespread utilization of informal credit sources at rates of interest varying from near commercial levels to 100% and more. Normal informal rates average between 20% and 50% per loan, the majority of which are for less than one year.

The constraint is twofold: a) the lack of resources and b) the lack of credit delivery systems. Often, the small producer simply has no access to an institutional source of production or marketing credit, or does not know of its existence. The nearest branch bank is frequently more than a day's journey from the farm.

COLAC in the long-term, offers a mechanism for meeting latent and actual demand on an unprecedented scale because of its potential capacity to mobilize resources of an ever increasing amount from private and international capital markets. In order to do this, however, COLAC will have to present to the international lending community a practical mechanism for interregional financing, which is another major constraint.

b) <u>LACK OF PRACTICAL MECHANISM FOR INTERREGIONAL LENDING:</u>

Significant "surplus" capital now held by the U.S., Canadian, and European credit union movements (over $100 million in the U.S. movement alone) could be channeled to Latin America and other capital short systems if adequate intermediate regional credit facilities could be established which could demonstrate effective portfolio management, assure repayment, and provide a reasonable return. A project designed to test this hypothesis through COLAC, known as the International Inter-Lending Project (IIP), is now ready for execution.

1/ See Colombia (173) and Guatemala (1975) studies performed by Sector Analysis Division of Latin America Bureau of AID incorporating the results of comprehensive farm-level surveys. The 1973 Spring Review of Small Farmer Credit, Country Papers, indicate a similar conclusion as do a number of demand analyses for FY 1974 and FY 1975 agricultural credit loans throughout Central and South America.

The lender for the project is the recently established United States National Central Credit Union, which will provide up to $1.25 million to COLAC, primarily for agricultural production. The loan has a 100% guarantee of collection provided by the Office of Private Investment Corporation (OPIC). (Loan and guarantee agreements were signed on June 24, 1975, but disbursements have not yet begun.) If the U. S. Central loan and credit from other sources is properly utilized and repayments are timely, larger lines of credit should be possible with lower percentage guarantees. (An international credit union guarantee pool, for example, is now in the planning stage in the U.S. and Canadian movements.) In addition, other agencies such as Private Agencies Collaborating Together (PACT), the World Council of Churches, the Canadian Development Agency (CIDA), and European foundations would be interested in the utilization of such an interregional channel, if it can be proven effective and creditworthy.

A major element of the rationale for this project and the IDB's contribution is to provide capital and an adequate margin on lending for early viability of COLAC as the interregional approach is tested and a track record is established based on the development of a substantial portfolio during the life of the project. Further, as the interest spread on capital obtained from private sources will be low due to their more nearly commercial rates, the AID and IDB credits will be critical during the initial "take-off" period. Once a sufficient volume of lending is established, such concessional resources will no longer be essential although they will always be welcome. This also relates to another constraint of great importance in Latin America -- the prevailing interest rate question discussed below.

c) <u>THE SUBSIDIZED CREDIT CONSTRAINT</u>

It is recognized in concept by COLAC and many of its members that a market rate approach to lending makes sense in terms of attracting needed resources from the private sector. There are strong political pressures, however, and in some cases legislative barriers to the adoption of market rates. As both AID and the IDB have found in their bilateral credit projects, the majority of Latin American Governments have established policies for highly subsidized credit for small farm development, i.e., 5 to 12 percent for the end borrower. The cooperative movement itself in Latin America, as in the U.S., has traditionally offered credit at 12 percent to the shareholder.

Faced with the above prevailing norm, COLAC intends to gradually educate the credit cooperative movement to the need for a much more realistic interest rate structure, but time is needed for promotion and education. Prospects are better in some areas than others, especially in the southern half of Latin America where inflation has forced the adoption of more realistic policies. Also, higher rate initiatives are now being tried in Costa Rica, El Salvador, Colombia, and Bolivia.

Both AID and the IDB have contributed to the subsidized credit problem by allowing subsidies to be passed through the lending system to the farmer and lost with each rollover rather than insuring that concessions are utilized for system development and expansion. COLAC, and its member federations, however, may be penalized in the future due to inability to compete with international concessional credit through government subsidized development banks. Now that major external capital assistance funding for COLAC is a reality, AID and the IDB should exercise caution that future bilateral loans do not jeopardize COLAC's competitive position.

Based on information obtained in the COLAC credit and service demand survey of late 1974, the ability to further raise interest rates within selected national movements can be appraised as follows:

	Considerably (Up to 24%)	Some (14-15%)	Very Little (12-14%)
Honduras	X		
Guatemala			X
Costa Rica	X		
Bolivia		X	
El Salvador		X	
Colombia	X		

	Considerably (Up to 24%)	Some (14-15%)	Very Little (12-14%)
Nicaragua (situation undergoing change)			X
Dominican Republic		X	
Ecuador		X	
Paraguay		X	

d) THE LACK OF COMPLEMENTARY SERVICES AND TECHNICAL ASSISTANCE FOR SMALL FARM PRODUCTION CREDIT:

The membership of COLAC requires varying levels and types of technical assistance and services to enable both federation and primary level cooperatives to insure effective and profitable production credit utilization. Problems of scarcity and the high cost of fertilizer and other agricultural supplies as well as difficulties in marketing faced by small farmers also are not being successfully addressed by most rural credit unions. COLAC, through its integrated Production Credit Program, presents a range of alternative approaches to the problem, including where possible the building into the cooperative system itself of the capability for extension, marketing, and supply services and/or a variety of arrangements with private and public sector suppliers. It is essentially a pragmatic approach and can be tailored to the situation in any given country. Some systems, such as Guatemala and Costa Rica are reasonably far advanced. Also, a growing tendency is to establish a cooperative marketing central or a mechanism for cross-cooperative affiliation either regionally or nationally in order to provide a more complete package of farm input, production, and marketing services.

For the last two years COLAC has been under great pressure to provide specialized technical assistance in the marketing and supply area. In addition, as the recent ATAC evaluation of COLAC points out, there is a pressing need for specialized assistance in the area of farm extension and the delivery of the appropriate production technology packagesto cooperative members. These needs will be met in part through IDB, AID, and COLAC-financed technical assistance, both on a long and short-term basis. (See Project Description.)

e) THE MANAGEMENT PROBLEM

Probably the greatest single impediment to be overcome for successful growth of the credit cooperative movement in Latin America is management. Boards of Directors are likewise often lacking in management skill and technical capability in the area of credit administration.

The problem is recognized by leaders of the credit cooperative movement; and several federations, for example, lend specfically for the employment of trained management. The real answer to the management problem however, lies in the area of education. The movement must be educated to the essential need to direct and redirect scarce resources to the employment of competent management rather than passing them on to the shareholders in the form of subsidies or dividends, until true viability is reached. The issue relates to the interest rate subsidy question as well.

COLAC has, as part of its key eligibility criteria for the integrated production credit program, a requirement that every cooperative that wishes to participate in the program must have a paid, full-time, professional manager. In the implementation of this project, COLAC will focus on the question more and more vigorously through technical assistance and training.

Also, with the leverage of the capacity to make substantial loans to federations as a result of this and the IDB projects, COLAC will be in a position to require a more rigorous compliance with eligibility criteria relating to management. COLAC also employs a full-time expert in institutional development whose role is to carry out periodic diagnostic planning and evaluation seminars with member management and technical personnel. With training in modern participatory management practices, he is capable of assisting federations to identify management problems both in themselves and in their member cooperatives and to design courses of action to overcome them.

f) THE LACK OF OUTREACH INCENTIVES:

For the last few years a number of federations have concentrated on improving their rural credit operations with existing membership. Correspondingly there has been less of an emphasis than formerly on growth or outreach of the production credit system, i. e., expansion of existing cooperatives and creation of new ones to provide resources and services to an even larger number of small producers. This is also because of the higher risk associated with such expansion to lower income clientele. Federations and cooperatives have had their hands full simply handling current membership. Finally, cooperative systems that are almost viable or are subsidized, have had little incentive to reach out to new groups that may create additional financial and administrative problems.

As a more realistic lending rate structure is gradually adopted, however, and concessional resources become more and more scarce, federations will have to achieve higher volume operations, just to survive. There is also a great need for increased savings generation and more effective financial incentives for joining and maintaining affiliation with the system. COLAC, both in its lending activity and technical assistance program, will stress membership promotion and savings generation. A full-time advisor is currently employed specifically for this purpose, and he is in great demand. COLAC will also strive for improved legislation to permit cooperatives to pay higher rates for savings deposits and to establish interest and fee structures commensurate with the higher risk of expansion in the rural production credit area.

g) THE LACK OF EXPERTISE AND TRAINING IN ESSENTIAL OPERATIONAL AREAS: Credit Administration, Finance, Planning and Evaluation, Accounting, Audit, Insurance, Capitalization, etc.

Without going into detail here, federations and cooperatives all have deficiencies to a greater or lesser extent in the above subject areas. COLAC, in preparation for a major program budget exercise for the AID loan made a country-by-country assessment of constraints to be overcome for effective credit operations at both federation and cooperative levels. On the basis of this assessment, elaborate technical assistance plans were prepared for each country, which also formed part of the basis for COLAC's projected operating budget during the three years of the project. (See Section II.A.3). All of the significant diagnosed constraints will be met one way or another, either through the provision of direct technical assistance and training of federation personnel, or assistance solicited and arranged with other public and private suppliers such as Ministries of Agriculture, universities, institutes, etc.

(h) LACK OF TRACK RECORD AND EQUITY CAPITAL

As COLAC is a young institution, especially as a financial intermediary, it has not had time to develop an adequate credit experience vis-a-vis the standard for approval of some of the more important international and private sources of capital. The proposed project, together with that of the IDB, will enable COLAC to develop and demonstrate a substantial "track record," i.e., the capacity to effectively channel significant amounts of credit to membership for high priority objectives and a concomitant repayment record to demonstrate creditworthiness of the system.

Related to the above question is the presently limited capacity of national federations to sufficiently capitalize COLAC with an equity base needed to leverage large-scale international borrowings. The proposed contribution, through the interest spread it will make available to COLAC plus increased capitalization from a larger portfolio, and to the extent it will encourage other lenders, will be of major assistance in overcoming this problem.

2. Evolution and Formation of COLAC.

In 1965 the Agency for International Development (AID) began a regional project with the Credit Union National Association (CUNA) for the development and strengthening of the Credit Cooperative Movement in Latin America. The CUNA contract was amended in 1966 to provide for the establishment in Panama of a Latin American Regional Office (known thereafter as CUNA/LARO). The creation of the Panama Office marks the beginning of the evolution of COLAC as an institution.

During the five-year period, 1965-1970, CUNA/LARO activities primarily focused on organizational aspects of building a base for the Credit Cooperative Movement, specifically, the establishment of new rural credit unions, increasing membership and capital assets, and -- most important -- the establishment, organization, and structuring of national credit union federations in each country. Beginning with nine national federations in 1964, by the end of 1968 there were 15 throughout Latin America.

Early in the project the practice was established of bringing national credit cooperative leaders to an annual meeting to develop regional strategies, share experience, and guide the activities of CUNA/LARO. At the 1966 meeting the idea first surfaced of organizing a regional finance mechanism to mobilize supplementary external capital for national movements who had had little success thus far in obtaining credits from national development banks, commercial banks, and international sources.

In 1968 a CUNA/LARO Coordinating Committee was formed, composed of representatives from each of the particpating national federations. Also a feasibility study for the creation of a regional finance organization was carried out by CUNA/LARO and presented to the Coordinating Committee the following year. The conclusions of the study, indicating feasibility along with considerable sacrifice in terms of cost to the national federations, were approved; and an organizing committee was named for the design and creation of the proposed organization.

In August 1970 the third annual meeting of the Coordinating Committee approved by-laws and officially established the Confederación Latinoamericana de Cooperativas de Ahorro y Crédito (COLAC). On April 23, 1971 COLAC received approval for its charter from the National Council of Cooperatives of the Government of Panama under the Agrarian Code of the Republic and was officially recognized as an international cooperative service organization.

Shortly after the formation of COLAC an agreement was signed with CUNA to transfer the operation of CUNA/LARO to COLAC management. The same AID-funded contract (Task Order) mechanism was utilized, however, for CUNA/LARO personnel and facilities through June 1973. On July 1, 1973 COLAC assumed all responsibility for implementing the on-going regional program under a direct grantee relationship with AID/Washington. From the beginning, COLAC as a concept and an institution combined the three functional areas of international representation, technical assistance, and finance (especially external capital mobilization) for the benefit of the movement, primarily the rural side of the movement, emphasizing agricultural production.

3. <u>The Development of the Original Proposed AID Capital Assistance Project and its Transfer to the IDB.</u>

a) <u>THE ORIGINAL PROPOSED AID LOAN</u>

COLAC's first request for capital assistance from AID was submitted in 1972 when a $25 million loan project proposal was prepared for consideration by the Latin American Bureau. The request was rejected at the time as premature for several reasons mainly relating to institutional and financial absorptive capacity in addition to the creation of the necessary lending apparatus, procedures, and controls for effective credit administration, particularly for rural production.

From fiscal year 1974 on (when a possible AID loan first appeared in the AID Congressional Presentation) AID has seriously considered capital support for COLAC. In fact, the long-term AID grant agreement signed in June 1973, made little sense without an accompanying AID concessional loan to help the project reach financial viability within the four-year period contemplated for grant execution (July 1973 - June 1977). Finally, on October 4, 1974 an Intensive Review Request (IRR) was presented for review by the Development Assistance Executive Committee (DAEC) of AID's Latin America Bureau. The DAEC approved the IRR, which at the time contemplated a loan of only $5 million, and authorized the AID project committee to proceed with certain priority analyses, with the provision that full authority to prepare a Capital Assistance Paper would be subject to a subsequent DAEC assessment by means of an interim progress review to be held in early 1975.

In February 1975 an Interim Progress Report summarizing the results of Phase I of the intensive review was presented to the DAEC. Phase I concentrated heavily on financial feasibility, and credit and service demand. Also included were chapters covering a review of maintenance of value and decapitalization risk considerations relating to monetary devaluation and inflation, and the initial findings of a contract evaluation of the COLAC/AID grant project.

The Interim Report recommended an AID loan of $8 million as optimal based primarily on a computer-assisted analysis of a large number of alternative possible financial combinations of external capital, operating costs, lending rates, and other variables. In addition, a country-by-country survey of federation credit and service demand carried out in late 1974 supported the claim that credit demand, even at the near commercial interest rates contemplated, was not a real constraint.

The DAEC, in reacting to the Interim Report, approved continuation of the intensive review for the second and final phase (Phase II , and tenatively accepted the recommended loan amount of $8 million subject to the results of an analysis of the potential availabiality of funds to the project from other (non-AID) sources, including the possibility of utilizing reflows from the Social Progress Trust Fund (SPTF) of the IDB, funds from

U.S. commercial sources to be guaranteed by the Office of Private Investment Corporation (OPIC), and additional resources (over and above those contemplated, from such sources as the United States National Central Credit Union.

To answer the above concern, a supplementary paper was prepared which analyzed the question of potential mobilization of other (non-AID) source capital in addition to inputs realized and contemplated from the U.S. Central, the Inter-American Foundation, the UNDP Capital Development Fund, and CUNA Mutual Insurance Society. Essentially, the analysis concluded that the capacity of COLAC to mobilize funds from other sources during the three-year project period would not be sufficient to replace a significant portion of the AID loan, especially since almost all other funds would be at considerably higher cost. Also, the time factor was considered critical as considerable momentum had been generated in COLAC and the federations by the AID intensive review. Finally, a significant "track record" establishing the credit-worthiness of COLAC as a borrower, would not be possible for at least two to three years. Thus, the AID loan amount of $8 million was justified from a different angle and determined to be necessary for COLAC to reach financial equilibrium within the project period, given the facts and circumstances as analyzed by the project committee.

The possibility of utilizing IDB resources was not known at the time. AID checked with the IDB in February 1975 and the answer was a clear negative on lending to COLAC in any form, primarily because of the lack of a government guarantee.

Phase II of the AID intensive review proceeded from early February 1975 through May 1975 at which time AID prepared an executive summary of terms and conditions and negotiated the final assistance package with COLAC's Board of Directors. The focus of Phase II was primarily institutional in character and revolved around a major "Program Budget" exercise which included: (a) a country-by-country assessment of constrains or deficiencies to be overcome for effective project execution (at cooperative, federation, and national levels), and (b) determination and calculation of the level, type, and cost of effort to deal with the above constrains by activity, process, sub-process, and major program category.

The methodology and results of the above exercise are presented later in this paper, but essentially the outcome was expressed in a three-year plan including a calendar for disbursements and technical assistance, a new organizational structure, and a recruitment plan for the mobilization of the necessary professional talent for effective project execution. Also, cost data was put into the computer program for COLAC's financial statements in order to analyze the impact of the projected operating project budgets. Heavy deficits were incurred during the first two years of the project, because the level and cost of professional effort had to be especially high during the early years relative to the size of COLAC's outstanding loan portfolio. Break-even was still possible by the end of the three-year period, however, given a final oustanding portfolio of approximately US $17 million and a gradual programmed increase in lending rates. Also taken into consideration were credit demand estimates and absorptive capacity calculations at different rates of interest.

Finally, a number of distinct issues and factors of concern were analyzed and treated to a greater or lesser extent involving such questions as the interest rate structure, the target group, necessary technical assistance to COLAC itself, and financial and credit policies conducive to achievement of the purpose of the project and the set of objectives or "outputs" considered critical to the purpose. (See Flow Chart p. 34 .)

The AID project committee, upon completion of negotiations, was commencing preparation of the capital assistance paper for loan authorization review (May 1975) when it became clear that the IDB intended to move forward with its proposal. Given AID's policy as a lender of last resort, the AID loan was placed in suspense pending IDB deliberations.

b) TRANSFER TO THE IDB

On May 13, 1975 the IDB informed AID that it considered the proposed operation (referring to the proposed AID/COLAC loan and complementary grant package) as a technical cooperation project, "suitable for resources from SPTF reflows in local currencies intended to improve COLAC's basic capital position." AID replied expressing its "...very favorable reaction in general..." to what the Bank proposed. In addition, AID pledged substantial collaboration in terms of material from the intensive review to be shared and staff support for the development, finalization, and negotiation of the IDB proposal. At the same time, AID expressed the hope that certain points and issues receive particular consideration by the Bank as it moved forward. (See Issues, I.K.)

Subsequent to the above exchange, considerable controversy surrounded the matter of the transfer of the project from AID to the IDB with strong concerns expressed by COLAC itself together with both OPIC and CUNA. The concerns mainly had to do with the question of AID's intention to terminate financial involvement, if possible, in the face of diminishing congressional appropriations and the fact that AID is a "lender of last resort." In addition it was feared that IDB resources, to be made available in non-convertible local currency in Social Progress Trust Fund reflows would place COLAC in a very awkward operating and negotiating position vis-a-vis federations, central banks, and other potential lenders. Other problem areas surfaced as well as certain restrictions covered later in the analysis. Finally, COLAC and AID were relatively close to loan authorization based on almost a year of intensive analytical activity. The momentum and expectations that had been built up by the end of the intensive review period (May 1975) were strong, resulting in considerable frustration when AID told COLAC to hold all further loan preparatory activity in abeyance pending IDB deliberations and an assessment of the project and institutional impact of proposed IDB financing.

To further complicate matters, OPIC, the U.S. Central, and COLAC signed a letter of agreement in June 1975 to the effect that there would be no disbursement under the $1.25 million international inter-lending project until AID made a loan. This resulted from OPIC's assessment of the preliminary IDB proposal and its belief that the basic viability of the project was jeopardized which would increase the risk factor under the OPIC guarantee.

Given the resulting confusion and ambiguous state of affairs, COLAC and AID agreed in a meeting in June 1975 to carry out an assessment of the financial and institutional implications of the IDB project over the following three-month period in order to determine whether a reconsideration on AID's part was necessary.

4. The AID Decision to Reconsider

From June through mid-October 1975 COLAC analyzed in detail the financial and institutional impact of the proposed IDB project on COLAC and the project as originally developed and negotiated with AID. Also during the period AID worked closely with the IDB to assist the Bank to put together a project for which it had little background or experience.

During the above process every effort was made by both COLAC and AID to prevail upon the Bank to accept a project design, conditions, and execution procedures which would be most conducive to COLAC's growth, viability, and outreach based on the intensive analysis already accomplished by AID and COLAC for the original AID package. Over and above participation in technical and negotiation sessions -- on a daily basis -- AID went twice to the Board of Directors with carefully prepared talking points stressing specific concerns to be resolved for successful project execution.

The IDB project was approved in October 1975. Shortly thereafter COLAC presented its own detailed two-volume analysis of the implications of the financing, together with a U.S. $4 million loan request to AID.
AID, at the time, had already drawn a number of tenative conclusions on its own which led it to be considerably

more receptive to COLAC's revised approach. Finally, after a concentrated review of the IDB documents, the COLAC study, and a variety of other factors of importance, AID concluded that it should indeed reconsider and proceed to prepare a PP for loan authorization as soon as possible -- no later than December 1975. The COLAC Executive Committee was so informed at a meeting with the Assistant Administrator on November 5, 1975.

It should be stressed that it was not easy to arrive at the above conclusion. A recommendation to move forward with a loan under the circumstances is without precedent in AID along with other unprecedented elements in this project. Nevertheless, it is felt that LA/DR is standing on firm ground and that a forthright and valid technical case has been made as will be seen in the following analyses and ANNEX VIII. It is also felt that the project will indeed "break new ground" and show the way for delivery system innovation which will allow AID increasingly to withdraw from direct bilateral support to cooperatives in favor of the self-financing regional mechanism for mobilizing and distributing resources to the target groups within a framework of self-help and democratic institution building at all levels, from the community through the international.

The "Post-IDB" rationale for an AID loan to COLAC depends on a set of compelling and complex factors -- somewhat difficult to appreciate at first. These are spelled out, however, ANNEX VIII.

5. <u>Studies, Analyses, and Submissions Performed to Date</u>

The Intensive Review for this loan really began in September 1974. Since that time AID, COLAC, and various contractors have worked steadily to produce analytical and supporting material for the authorization of the project. In fact there is now so much material that even a concise summary would occupy an entire volume. The studies and analyses accomplished are listed here for reference and are all on file in LA/DR. The analytical material in Part III depends heavily on these studies, as the citations indicate.

a) Intensive Review Request, September 1974.

b) COLAC, Country-by-Country Credit and Service Demand Survey, February 1975.

c) Intensive Review, Phase I, Progress Report to the DAEC, February 1975.

d) Evaluation of COLAC, performed under contract by the American Technical Assistance Corporation, April 1975.

e) Decision Budgeting in COLAC, performed under contract by Systan, Inc.

f) Executive Summary of Terms, Conditions, and Execution Plan for the AID/COLAC Project and the Proposed Loan, prepared by AID for Board negotiations in May 1975.

g) The Size and Terms of the Proposed FY 1975 AID Loan to COLAC in Relation to Other Potential Sources of Financing for the Project, proposed by the AID project committee.

h) Sensitivity Program: A computer program for the running of complete pro forma financial statement projections to demonstrate the sensitivity of the statements to an almost infinite number of variable changes (cost, volume, marginal interest, budget, and other variables.) developed by the AID Office of Data Management.

i) A complete assessment of constraints to be overcome for effective lending at cooperative, federation, and national levels in addition to costing and programming of specialized technical assistance to resolve such constraints. Carried out as part of the Program Budget Exercise summarized in e) above.

j) The Impact of the Inter-American Development Bank's Capital and Technical Assistance Project on the Institutional Development of the Latin American Confederation of Credit Unions, October 22, 1973, 2-volume study submitted to AID by COLAC, together with a revised loan request.

k) Miscellaneous: Literally dozens of analytical pieces were prepared by and at the request of AID covering such areas as specialized technical assistance, absorptive capacity of federations, revised credit policies and procedures, indicators for meeting production credit and other program criteria, etc.

6. The COLAC Loan Request

The COLAC Loan Proposal, (See Annexes IX and Xii) is for a long-term development loan of US $4 million plus continued budget support through June 1977. Of the total, COLAC requests:

a) $1.5 million for production credit and related needs, including agricultural, artisan, and small industry production and related services such as fertilizer and marketing facilities.

b) $1.5 for non-production credit needs, both urban and rural, in the area of housing, health, and education.

c) $1.0 million for the financing of other types of cooperatives (non-credit union) such as agricultural, artisan, fishing, and industrial cooperatives.

This paper recommends a package that is basically responsive to the request although a number of controls and covenants are introduced to insure that lending activity will be in line with AID's program goals. Category c) may also be eliminated in whole or in part pending further negotiations. In any case the full $4 million requested is more than justified in accordance with the findings of AID's analysis. (See pp. 50 - 54, Financial Plan and Analysis.)

B. Detailed Project Description

1. Rationale and Goal Structure

a) Summary Rationale

The basic justification for this project, from the point of view of both AID and IDB, must be based on the comparative advantage offered by channeling resources through COLAC (the regional approach in place of traditional bilateral or national level programs.) COLAC represents an additional institutional layer at the apex of a multi-country system, at considerable cost to its membership and supporting institutions. (The Fiscal Year 1976 operating budget is calculated at just over $700,000.) A large part of the justification, therefore, must be based on the potential capacity to mobilize external resources, from both public and private international sources, more efficiently, effectively, and at less cost to the movement than the various national members could realize working independently of each other. By the end of the project period, both AID and the IDB should be able to withdraw from direct assistance to the Credit Union Movement in Latin America confident that COLAC, as a viable institution with substantial resources at its command, will be able to continue in place of the Bank and AID with the necessary assistance and inputs to continue effectively stimulating the growth of the movement and bringing about an increasing favorable impact upon affiliated lower income groups, especially in the rural sector.

b) The Nature of the Project

The project is of both an economic and social development nature and contributes directly to the realization of the following objectives:

i) Increased income and production among low income farmers and other producers.

ii) Improved popular participation in the process of development among lower income groups and the development of organizational skills and institutional infrastructure at the community level, specifically rural credit unions and cooperatives.

iii) Acquisition of increased economic leverage for marginal and lower income segments of the population.

iv) Improved access of the small farmer and other marginal groups to a variety of public services such as credit, agricultural extension, marketing assistance, transportation, etc.

v) Stimulation of private savings and investment by low income farmers and workers.

c) <u>The Goal Structure</u>

i) <u>Statement of Goal</u>

The goal of this project is to improve the real net income, production, and productivity of a growing credit cooperative membership in Latin America, especially of the small rural producer. It should be noted that there will be a variety of secondary and some direct benefits in such areas as health, education, housing, and the quality of life in general of the target population.

The project has been broadened since it was first presented to AID to a not-so-rigorous focus on the small farmer. The goal and the institution relate to the entire credit movement in Latin America, and hopefully eventually to cooperatives across the board, always maintaining a focus on low income groups--both urban and rural.

ii) <u>Assumptions for Achievement of Goal</u>

1. That the credit union movement in Latin America will respond to basic economic and social incentives for outreach or expansion to include an ever larger low income membership. The system must grow to survive and prosper.

2. That the cooperative movement will continue to receive support and collaboration but not be taken over by the Latin American Governments.

3. That there will exist generally stable political, economic, social, and national conditions which will permit real increases in production and income from increased credit availability.

iii) <u>Specific Purpose of the Project</u> (As distinct and more narrowly defined than the goal which is sector oriented as opposed to the institutional nature of the COLAC project itself)

The project purpose is to <u>promote through COLAC the establishment of an effective, efficient, and viable regional intermediate credit and service delivery system, capable of adequately responding to the priority development needs of the credit union movement in Latin America, principally in rural areas</u>. These priority development needs fall into two basic areas: (a) increased capital at all levels of the cooperative system for lending, operations, and equity; and (b) improved credit management at all levels, especially for rural production. (Also, note the basic financial and external capital mobilization thrust of COLAC as a project as opposed to the normal bilateral or national project financed by the IDB or AID; i.e., the justification for COLAC as an additional layer in the system. (See II. B. 1. a. Summary Rationale.)

iv) <u>Conditions Expected by the End of the Project Period</u>

It should be stressed here that it is impossible to separate entirely the impact of the AID input--only approximately 25% of the total resource inputs--from the various other donors and lenders. Expected conditions, therefore, and output targets must be defined and quantified on a total project basis. Some quantification will have to wait for new data to be developed during the condition precedent stage in early 1976.

iv. a) <u>Effective</u>: By the end of the project period COLAC will have accomplished the following through their credit system development and lending programs.

1. Ten national federation finance departments will be functioning at fully operational capacity and four others will be performing satisfactorily. On file with the project office are complete definitions and criteria for "fully operational" as applied to finance departments.

2. The Integrated Production Credit Program will be operating satisfactorily in eight countries and successfully initiated in four others. Criteria for "satisfactorily" operating are also on file.

3. By the end of the project period at least 10 federations will have received loans from COLAC and will be current in terms of financial obligations to COLAC.

4. By the end of the project 50 % of COLAC's agricultural credit portfolio will be utilized by federations in accordance with Integrated Production Credit Program criteria.

iv. b) Efficient: 1/

1. The ratio of administrative and all support activity to the cost of lending plus credit system development (Technical Assistance) will have been reduced from a current level of 3.23 to less than 1 by the end of the project period.

2. The average total cost per loan will drop from a current $______ to $_______ by the end of the project.

3. The ratio of total cost to the size of the outstanding loan portfolio will drop from __________ to __________ by the end of the project.

iv. c) Viable

1. COLAC will be completely self supporting at an annual operating budget level of approximately $900,000.

2. COLAC's debt equity ratio will drop from 6.94 at the start of the project to less than 5.0 by the end of the project period. Total Equity Capital will be $ 2,000,000.

3. COLAC's real earnings will be growing at a rate exceeding 5 % per year.

4. COLAC will be able to commence dividend payments by the end of the 5 th year after project initiation.

v. Basic Assumptions for Achievement of Project Purpose

a) COLAC will be able to mobilize $ 2.0 million in unidentified external capital at 9% or less by the end of the period and increasing amounts per year thereafter.

b) With respect to IDB financing: -- it will be possible for COLAC to convert capitalization and interest payments to dollar operating costs in Panama.

-- The IDB will not insist on rigid adherence to its requirement that Bank funds be lent at less than bank rates for similar purposes in the respective countries.

-- There will be no major devaluation (over and above those now in the projections) in countries which will have large outstanding IDB loan balances.

1/ The figures and ratios to be used for efficiency measurement need to racalculated depending on the outcome of a new budget, programming and financial analytical exercise to be accomplished in the early condition precedent stage of project execution.

-- It will be possible to work out unofficial conversion arrangements for the majority of the principal amounts of IDB sub-loans when necessary.

c) There will be no major disasters which could cause serious sub-loan defaults.

d) The U.S., Canadian, and other credit union movements in developed countries will be responsibe to COLAC's need for lending capital once a track record and sufficient credit-worthiness have been established.

e) For economic and demand/supply reasons, it will be possible to establish a "going" or commercial interest rate structure in the credit cooperative movement in Latin America in spite of the predisposition for subsidized credit of a number of Latin governments.

vi) <u>Outputs</u> (See Logical Framework Annex)

a) <u>Lending</u>

The lending targets of COLAC during the project are represented by the following projected disbursement schedule. This is based on the credit and service demand survey of a year ago in addition to constraint and absorptive capacity calculations, taking into account the amount of technical assistance required to insure effective utilization of the amounts shown. In addition, as a result of IDB negotiations and the prospect of new money, federations have been coming in with new loan requests. Pressure is mounting to move larger and larger sums. The following schedule is conservative and considerably less than demand (See economic analysis) especially if lending is allowed in areas other thanproduction and to other types of cooperatives. Over 70 % of the schedule below is for production only, over 70 % of which is for agriculture.

Four Year Disbursement Targets
1976-1979

Country	Current Lending Targets	IDB Dis-bursement Schedule	From Other Identified Sources: IAF, U.S. Central, Capitaliza-tion	AID 1/	Unidenti-fied Sources
Bolivia	1,589	1,200			
Colombia	1,588	1,000			
Costa Rica	1,990	500			
Dominican Republic	1,300	1,000			
Ecuador	500	500			
El Salvador	3,000	500			
Guatemala	2,000	1,000			
Honduras	3,000				
Nicaragua	1,150	1,000			
Mexico	900	800			
Panama					
Paraguay	500				
Peru	500	500			
	18,017	8,000	3,250	4,000	4,000

1/ It has not been possible yet to reprogram AID and other non-IDB capital resources by country. This awaits a new assessment, to be completed prior to loan disbursement, of federation requests and needs as affected by approval of both the AID and IDB credits. As is pointed out in the economic analysis, the aggregate demand and absorptive capacity is far greater than the lending targets listed above but more analysis is required for country by country disbursements.

Included in the above total, COLAC will place up to $1.2 million of AID and an unidentified amount of other source money in rural and urban housing, health, and education through special funds to be established for this purpose. (See Implementation Plan)

Beyond the above total, on the other hand, and over the same time period, COLAC intends to respond gradually but increasingly to demand from outside the strictly credit-coop sub-movement. During the life of the project, lending is contemplated to agriculture, marketing, industrial, and other cooperatives through federations in Panama, Honduras, Bolivia, Ecuador, and possibly other countries. A special fund may also be established for this category.

Lending for the most part will be through credit union federations, such as FACACH in Honduras which for several years has been lending to agricultural, coffee, agrarian reform, and other coops and community groups (through the Honduras Development Foundation.)

b) <u>Technical Assistance</u> (<u>Credit System Development</u>) <u>and Training Outputs</u>

At the time of the program budget exercise in February and March of 1975, a complete country by country, three year schedule of technical assistance by specialty was developed in accordance with a preceding assessment of constraints and the disbursement schedule planned at that time. Subsequently, the technical assistance schedule became somewhat obsolete because of changed and increased financing plus delays and complications arising from IDB project development, and additional countries and types of lending to be implemented thanks to both the new IDB and AID credits. Plans need to be revised and new detailed targets established. This process will take place during December 1975 and January 1976 immediately after loan authorization as COLAC proceeds with an intensive gearing up process for the execution of lending activity for both projects. (See PPT network) Nevertheless the following chart, prepared as part of the AID intensive review, is illustrative of the relative minimum order of magnitude considered necessary for effective lending of a given amount per country. This of course reflects the end result of a detailed series of steps of aggregating different types of assistance by country. Different countries also require different amounts of technical assistance depending on the nature and magnitude of the constraint to be overcome. Also shown are the levels of administrative effort by country for the actual lending process itself in accordance with the disbursement schedule.

Table 1

COLAC Disbursement Schedule
(Pre - IDB)

COUNTRIES	7/1/75 6/30/76	7/1/76 6/30/77	7/1/77 6/30/78
Honduras	US$1,000,000	US$1,000,000	US$1,000,000
Guatemala	1,000,000	500,000	500,000
Costa Rica	500,000	890,000	600,000
Bolivia	300,000	900,000	389,000
Colombia	250,000	750,000	588,000
El Salvador	-	2,000,000	1,000,000
Nicaragua	-	600,000	500,000
Rep. Dominican	-	400,000	200,000
Mexico	-	-	800,000
Paraguay	-	-	500,000
TOTAL	US$3,050,000	US$7,040,000	US$6,077,000

Table 2
Pre - IDB
Level of Effort by Country
(man days)

Country	Lending	Credit System Development	Lending	Credit System Develop.	Lending	Credit System Develop.
Honduras	68	205	64	25	64 65	65
Guatemala	68	126	64	10	64	45
Costa Rica	68	232	64	25	64	55
Bolivia	68	418	64	175	64	28
Colombia	54	372	64	311	64	41
El Salvador	-	60	54	184	64	70
Nicaragua	-	307	54	289	64	55
Rep. Dominican	-	205	54	332	64	75
Mexico	-	106	-	268	54	317
Paraguay	-	40	5	90	54	177
Ecuador	-	30	-	65	-	156
Panama	-	40	-	125	-	235
Antillas Holandesas	-	10	-	46	-	60
Brazil	-	9	-	15	-	226
Peru	-	11	-	10	-	232
Venezuela	-	-	-	55	-	5
TOTAL	326	2,136	482	1,980	620	8,842

Since the program budget exercise, the entire technical assistance question has become more complex primarily because of the IDB package and new countries to be lent to. Also, the schedule above was considered the absolute minimum necessary for a responsible program designed to meet program goal criteria in regard to the target group and especially the integrated production credit program. Now with added and more complex lending and the advantage of the IDB grant for technical assistance, the activity has expanded significantly. Resources and the organization necessary to carry out the effort will be discussed in the technical analysis, but types of assistance are discussed below.

The major thrust of the COLAC technical assistance activity is for the development of the appropriate delivery system in each country and its capacity to effectively absorb and utilize credit channeled to it by COLAC and other lenders. The basic approach is to direct and train federation staffs in the management and improvement of priority activities for credit union development and expansion while such activities are determined, planned, and implemented. Federation officials are also trained to train officials at the cooperative level in similar disciplines and techniques, modified appropriately for local situations. All COLAC assistance is at the federation level or through the federation in order to achieve the maximum multiplier effort. In addition, a number of regional and national formal training seminars are held throughout the year in such areas as production credit management, finance and capitalization, insurance, savings and membership promotion, institutional development (OD), and education.

For the most part technical assistance is tailored specifically to the individual diagnosed needs of the federations, based on the prior assessment of constraints to be overcome. Assistance typically goes to such areas as project preparation, credit administration, delinquency control, accounting and centralization of funds procedures, capitalization procedures, financial projections, marketing and supply, statistics and reporting, planning, programming, evaluation, management, etc. The list could be much longer. (See Technical Analysis.)

Specific output targets are included in individual country assessments. In general they relate to given country constraints and problems. To list and show them here would require too much space but specific output criteria and the COLAC rating system for federation finance and production credit programs - as well as other areas have been developed. A number of the indicators - especially in the areas of credit administration, viability, delinquency and complementary services also relate to eligibility criteria for lending.

Major technical assistance outputs include:

Managers and Technicians Trained
Comprehensive Federation Plans and Budgets developed
Information and Data Systems developed
Marketing and Supply Systems developed
Projects developed and approved for funding
Delinquency control problems overcome
Savings and promotion campaigns realized
Accounting systems improved
Capitalization systems improved

c) Global Outputs

Targets in this area relate mainly to capital mobilization, relations with the movement and other external organizations (representation), regional system building activity and analysis pertaining to such areas as maintenance of value, regional marketing and supply, policy formulation, planning and new program development (R & D). In addition, COLAC intends to establish a complete management and federation information system through a special center to be established for this purpose within the organization. An economic trend analysis capability will be developed in COLAC primarily to contend with such problem areas as monetary devaluation, investment priorities in relation to domestic and international economic and marketing considerations, etc. Finally, the necessary apparatus for effective lending and control within COLAC itself is essential. The organization and programming of resources for this is covered in the technical analysis.

d) Critical Assumptions for Achievement of Outputs

Assumptions for outputs almost have to be country-specific which precludes detailed treatment here. Basically one must assume that the federations will in fact accept COLAC criteria and indiaators for effective credit utilization and that it will in fact be possible to sell an increasingly commercial approach to lending and system development. COLAC, obviously, will be under great pressure to move funds rapidly, especially the cheaper IDB resources, and it must be assumed that leadership will accept and support, in practice, the rigorous standards which COLAC will apply. One also must assume, as in the case of the project purpose, that the international lending agencies will generally support COLAC strategy and not overly finance national movements at the expense of COLAC's competitive position. The effectiveness of both COLAC's lending and technical assistance programs depend on a mutually reinforcing concept. That is, federations will strive to comply with COLAC criteria in order to be able to secure COLAC resources. The process and the effort could be neutralized to a greater or lesser extent if ILA's do not exercise a certain forbearance or at least coordination with COLAC before proceeding with major investments which could do serious damage to the concept. For the same reasons we have to assume that national governments will not move to emasculate the regional effort by introducing ill-conceived subsidies within national contexts.

vii) Inputs

vii. a) Capital: COLAC as a project represents a true consortium approach to development, although there is, as of now, no written agreement to this effect. The following chart depicts resource inputs to the project during the period from all known sources.

Capital Inputs	Amount	Terms	Grace
IDB	$ 8,000,000	30 years	10
AID	4,000,000		
IAF (grant)	1,000,000	N/A	N/A
US Central (OPIC Guarantee)	1,250,000	5 years	2
CUNA Mutual	450,000	15 years	5
	$14,700,000		

In addition, COLAC may possibly be able to obtain US$ 1 million from the United Nations Development Programme Capital Development Fund although this is somewhat doubtful due to conditions and restrictions built into the project. Finally COLAC will have to mobilize the necessary additional resources for viability from other sources. Depending on interest rates which COLAC will be able to establish with the IDB package, the terms and conditions of future borrowings, etc. COLAC must mobilize somewhere between 2 and 5 million to become viable by the end of the period, even counting on the US$ 4 million of the AID input. (See financial plan.)

vii. b) Grant

AID: AID grant funded budget is recommended for up to two additional years for a total of up to $600,000 over the period.

IDB: The IDB has approved a US$ 1 million technical assistance grant which has been tentatively programmed as follows over the three year project period.

Systems Analysis 36 mm	$ 135,000
Data Collection 12 mm	55,000
Resource Mobilization 24 mm	115,000
Accounting and Control System	20,000

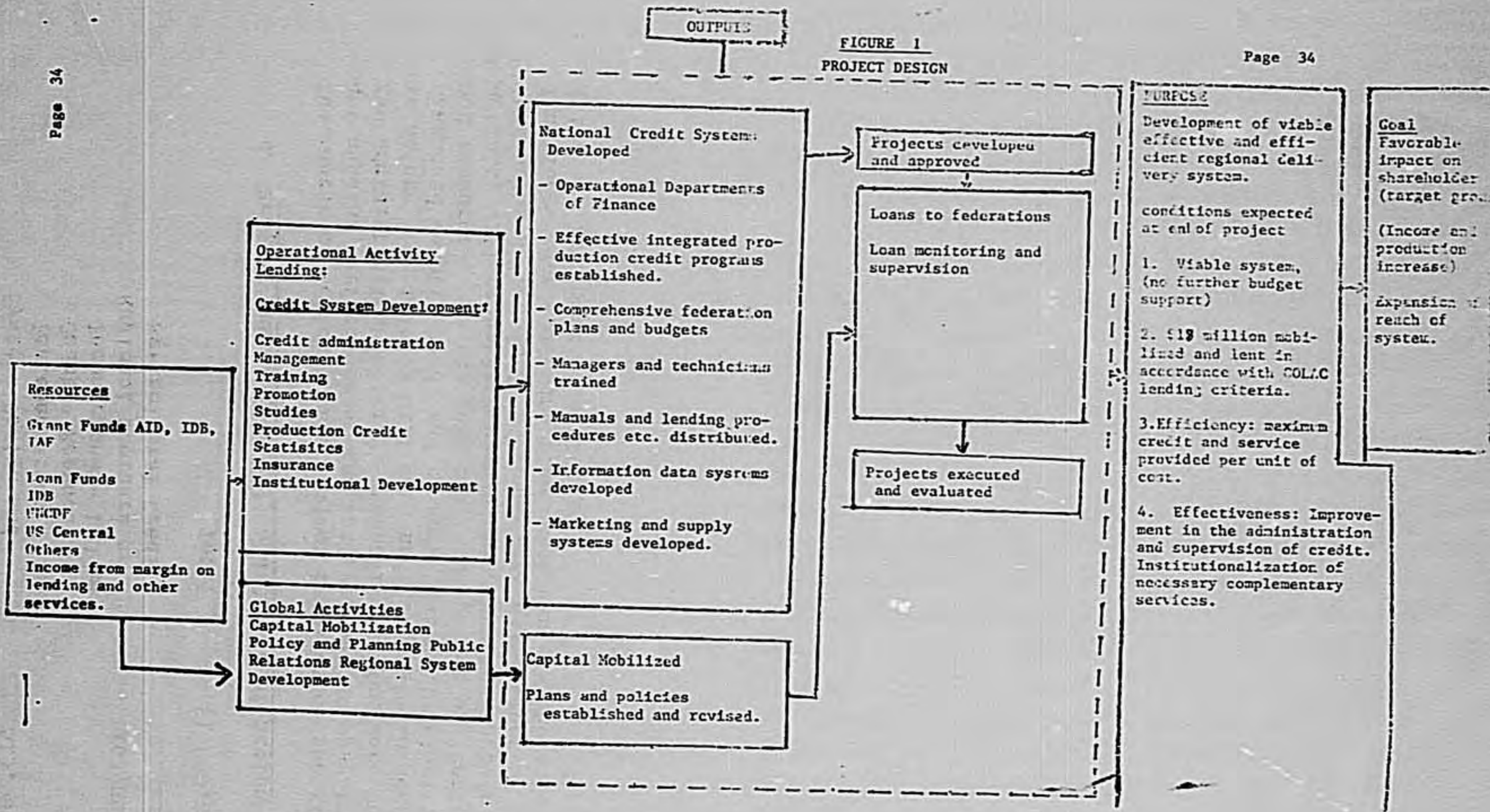
Systems Design and Implementation - Country Resident Technicians - 180 mm	513,000
Regional Seminars on Agricultural Credit	162,000
Total	$1,000,000

d. Project Design (Overall) and Course of Action

The course of action of the project consists of the simultaneous and ongoing performance of the entire range of operational global and administrative activity, gradually growing more sophisticated in nature. Activities will vary and fluctuate in accordance with diagnosed country needs and changing national priorities, conditions and resources. In the long run, and outside of lending itself, COLAC activity will probably become highly technical and focused on specialized areas as federations become generally competent in traditional functions. The following flow chart depicts the entire process. (Also see Implementation Plan.)

FIGURE 1

PROJECT DESIGN



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PART III. PROJECT ANALYSIS

A. TECHNICAL ANALYSIS

1. Prefunding Judgment

a) It is the judgment of the Project Committee that this project is appropriate for the time frame and area contemplated. Above all, this judgment rests on the unique appropriateness of the overall concept of the project for a period and an area where:

- Concessional Resources are bound to become more and more scarce over time.

- Demand for resources is and will be expanding rapidly due to expanding education, mass media, land reform, social and rural development programs of various types, the world food crisis, expanding technology transfer, etc.

- Credit and other cooperative national and local organizational infrastructure is at a stage of development, sophistication, and viability where it can support its own regional institutional mechanism for the securing and channeling of external capital and technical assistance.

b) It is also the judgment of the Project Committee that the project is reasonably priced and designed in relation to the totality of our program in Latin America, the long run potential impact envisioned, the magnitude of resources to be mobilized from other sources and the efficiency in general of the system when compared to the cost of bilateral assistance.

2. Suitability of Technology for Constraints to be Overcome, the Development Problem

The suitability of the technology of this project as well as the viability of the concept and the institution must be treated in the regional context in which COLAC operates. For purposes of this section, one must assume the basic acceptance on AID's part of the credit union and the cooperative in general as a suitable and valid development mechanism.

No two national credit union movements or structures are alike and COLAC's approach is tailored in each case to mesh with national and local conditions. Nevertheless the following basic elements of the technology and the concept are common to the application of the program regionally.

a) The Integrated Production Credit Program (IPCP)

The IPCP is an outgrowth of the original Directed Agricultural Production Credit Program in Ecuador in the mid and late 1960's. Essentially the concept is that credit, to be effective for small farmer production purposes, should be part of an integrated package of complementary services such as farm extension, supply, and marketing. The services do not need to be integrated within the cooperative system itself but should be assured through one of a variety of arrangements for the recipient. It is essentially a pragmatic approach and can be tailored to individual country conditions and needs. COLAC has developed a comprehensive, flexible set of criteria and indicators for the successful IPCP which are used as a basic design, training, assessment and evaluation instrument.

b) Sound Credit Administration

Above all the COLAC approach focuses on the area of financial management and credit administration. Again a comprehensive set of indicators and criteria are established for both federations and cooperatives which cover the full range of credit administration from portfolio management through delinquency control. In addition COLAC promotes a centralization of funds mechanism, which, although not appropriate for all countries, at the same time improves accounting and record keeping aspects of credit administration and provides a short term liquid source of resources for immediate federation and credit union needs.

c) Capitalization

The technology of this project includes a strong focus on the need and mechanics for capitalization at all levels from the cooperative through COLAC itself, the idea being that adequate capitalization is essential not only for viability but also to leverage essential external borrowing.

The basic capitalization mechanism works through the required contribution of a portion of each loan made. This is normally 10% at the coop level and 5% at the federation. Both federations and cooperatives normally require a small capital contribution for entrance. COLAC itself takes 4% off the top of each loan and charges 1% on the outstanding quarterly balance after the first year of a given loan. Once a truly viable operation is established at any given level, dividends or patronage refunds are paid in proportion to the equity holding of the shareholder.

d) The Going Rate Approach

COLAC since its establishment has been an advocate of an interest rate structure which would be conducive to the tapping of private capital markets and a more equitable and efficient distribution of resources. This element of the technology package is covered in detail by the constraint section of this paper and in the Economic Analysis.

e) International Inter-lending

A basic component of COLAC technology and of the project design relates to the mobilization of resources within cooperative movements in the U.S., Canada, and other developed countries and channeling these resources through institutions such as COLAC to the lesser developed countries. The OPIC guaranteed loan to COLAC from the U.S. National Central Credit Union is a pilot project for the establishment of the feasibility of just such a system. Once proven feasible, the magnitude of financing that conceivably could be obtained from such sources is practically without limit, at least in relation to the absorptive capacity of the systems contemplated in the coming decade. Estimates of excess liquidity in government backed deposits of one kind or another in the U.S. movement alone right now run from 100 million to 0.5 billion.

3. Technical Description of the Project, as a Basis for Cost

a) Methodology 1/

During Phase II of the intensive review for the original proposed AID loan, February-March 1975, a complete program budget exercise was carried out at COLAC in order to provide the organization and AID with the operational information and procedures necessary to design and implement plans and programs in a manner consistent with the best use of project and institutional resources. The exercise permitted management to translate plans into operationally useful resource budgets (both capital and operating) on which to base sound long and short term programming decisions.

The exercise was carried out in Panama and involved the entire professional staff of COLAC. Guidance and technical assistance were provided through an AID contract with Systan Inc. and additional assistance was supplied by CUNA. The following steps were involved:

i) A "planning framework" was developed as a required input to the program budget. This involved the elaboration of an exhaustive set of indicators relating to constraints to be overcome at local, national federation, and country levels in accordance with COLAC's credit policy, eligibility, and other criteria. Then

1/ See Decision Budgeting in COLAC, Final Report submitted to AID by Systan Inc. under contract, dated July 1975.

the extent to which the conditions and structure of each federation fell short of these indicators was assessed in order to provide COLAC with an operational set or list of tasks to be accomplished and deficiencies to be overcome.

ii) All of the work done by the COLAC staff and all the direct expenses of COLAC were classified by "activities," a micro-unit of work at the most basic or disaggregated level. Activities for the most part are mutually exclusive. Analysis of credit requests, for example, is an activity. Others are loan impact evaluations and debt service accounting. Activities thus formed the building blocks which could be combined in a variety of ways to form (a) a process, a logical grouping of activities related to an organizational output, or (b) a program, which consists of several processes and relates to a major objective. A loan for example is an output, and lending is a process. In contrast lending is a component part of COLAC's finance program designed to meet the external capital needs of its members. The complete list of activities allocated by sub-process, process, and program resulted in an overall classification system for both direct and administrative cost.

iii) Using the activity classification list, the COLAC staff then determined which activities and in what magnitude (man days or cost) were required to address each task or resolve each deficiency identified in the planning framework portion of the exercise.

iv) Then a cost assignment exercise was completed starting with the traditional administrative budget and ending with program and process budgets.

The entire analysis was accomplished without being constrained by the organizational limits of what COLAC is today. In other words, the fact that COLAC does not now have an expert in marketing and supply did not prohibit the development and incorporation of a marketing and supply activity as being essential to the resolution of certain deficiencies. The result has provided COLAC with an invaluable management policy, planning, and programming instrument. COLAC's effort and costs can be shown in any number of ways, by process, sub-process, activity, and by country or any combination thereof. (The possible combinations of cost data for more valid decision making are almost endless.) The exercise produced the best possible estimate, at the time and under the circumstances, of resource requirements (both human and other operating cost) for project execution. Also the disbursement schedule was revised in accordance with the findings of the exercise (i.e. the technical effort necessary to place the loan funds)) and highly detailed technical assistance plans were elaborated for the first year of the project. Finally, a whole new organizational structure and recruitment plan emerged from the exercise providing for a much more cost effective operation tailored accurately to real needs.

The objective of the program budget exercise was not just to fill an analytical need to justify the AID loan. The process can and will be installed permanently in COLAC as an ongoing programming system integrated with the traditional accounting apparatus. It also forces both management and staff to think rigorously make decisions on time and resources with the true cost and impact implication of such decisions clearly apparent. 1/

b) Resources Necessary for Project Execution. (Pre-IDB

At the time of negotiation for the original AID loan, the budgets shown in Figure _____ had been established after a rigorous process of cutting in order to fit within the income resources determined to be possible to achieve through a computer assisted sensitivity analysis of possible financial alternatives. A basic condition in the analytical process was that COLAC become viable prior to the end of the loan project period.

In Figure ______ note the radical shift in resource allocation between calendar year 1974 and the three years of the project starting with fiscal 1976. As a result of the exercise, administrative cost and policy formulation were cut drastically with corresponding sharp increases in technical assistance and lending. Note also the relative size of the lending activity itself in relation to technical assistance going back to the point that if COLAC were an ordinary ICI or a bank its expenses or overhead could be cut in half. Finally, note the trend between technical assistance (decreasing over time from FY 1976 on) and lending (increasing over time from FY 1976 on.) This reflects the basic reality that a heavy "front end load" investment in technical assistance is necessary during early years of the project in order to establish viable national delivery systems and the essential administrative and technical absorptive capacity to receive and effectively utilize the credit to be forthcoming.

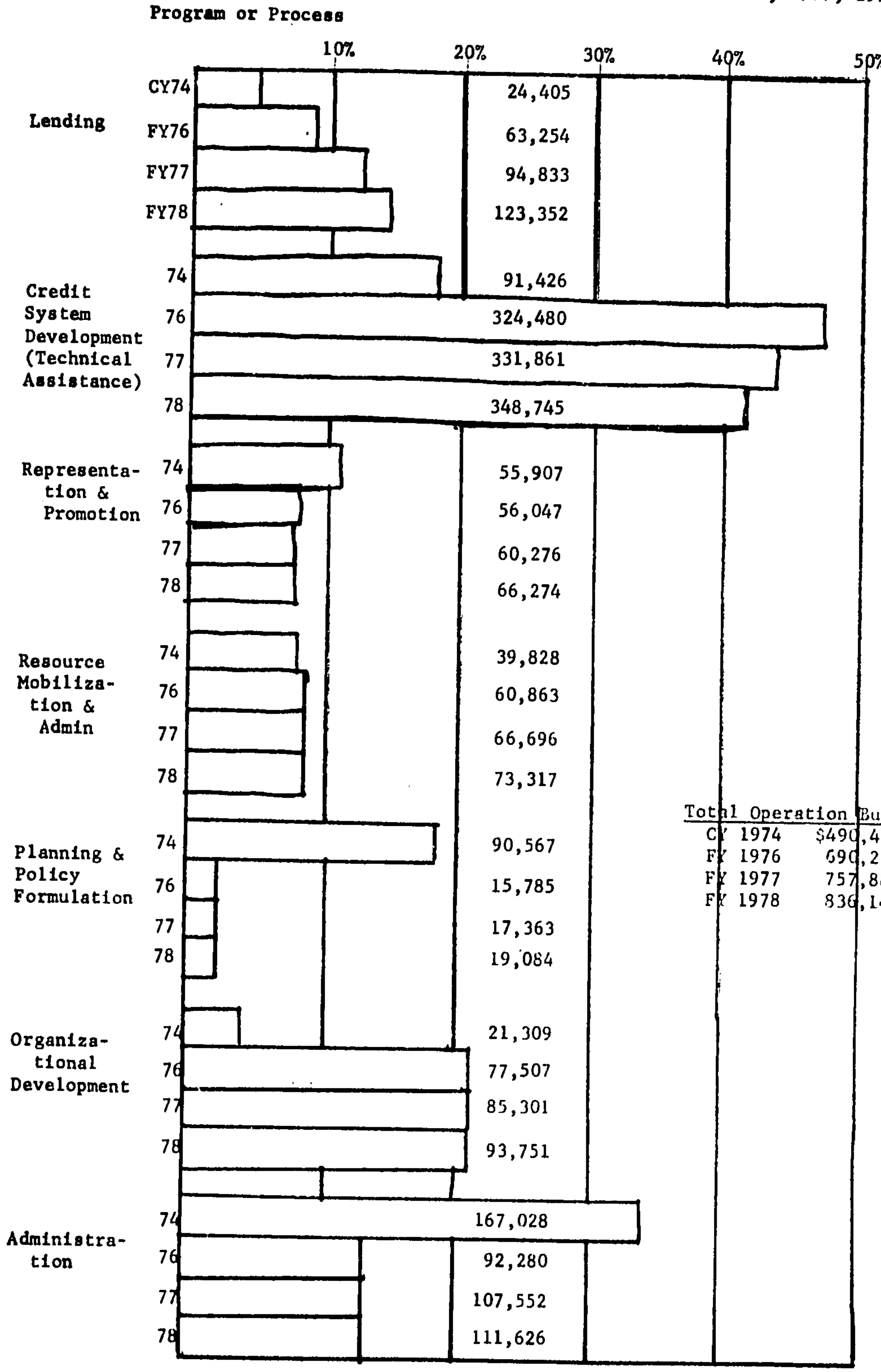
Overall, the exercise established a basic point of departure for future programming and planning in addition to illustrating two important realities:

1/ A variety of other fringe benefits for management come from the program budget system. Examples are more accurate personnel evaluation (as technicians are held accountable for their time), invaluable data for the development of proposals and resource mobilization, a precise framework against which COLAC itself can be evaluated, a more accurate determination of true overhead, and others.

TABLE 3

COLAC Program Budgets (Pre-IDB)

CY 1974 and Fiscal Years 1976, 1977, 1978



Total Operation Budgets	
CY 1974	$490,470
FY 1976	690,216
FY 1977	757,882
FY 1978	836,149

i) The efficiency of the COLAC operation could be improved dramatically through reorganization and reorientation, and

ii) Sharp initial increases in operating resources were required to effectively launch the project as envisioned and determined to be feasible by AID and COLAC together.

c) <u>Operational and Budgetary Implications of the IDB Contribution</u>.

There has not yet been time to work entirely through a second major program budget exercise to take into account changed conditions, new constraints and emphases, a different resource mix, etc. brought about by the IDB contribution. COLAC has, however, carefully assessed the impact of the IDB contribution in terms of human and other operating costs necessary to implement it. In addition, the original program budget had been cut sharply to conform to the income generation capacity of identified capital resources at the time. On re-assessment, the following factors and needs have come to light.

i) COLAC's salary schedule needs to be upgraded sufficiently to attract and maintain high quality talent as core staff. The sophistication designed into COLAC's future operations calls for first rate international expertise. Skill and compensation levels more and more will have to be in line with such organizations as the OAS, the UN, IDB, etc.

ii) The financial and administrative capability of COLAC should be upgraded from present levels and those contemplated originally by AID to handle (a) more complex international financial transactions under the IDB project, and (b) a more diversified portfolio and more countries with separate dollar and local currency procedures and requirements.

iii) COLAC should have a true economic and international monetary trend analysis capability.

iv) Budget provision is necessary for a full time legal counsel or at least a sharp increase in legal services in order to handle the projected increased level of legal work that will be necessary to implement the IDB project, including international loan and borrowing agreements, study of national cooperative legislation, etc.

v) COLAC needs to increase its long term technical assistance capability in the area of farm marketing, supply, and accounting systems for federations.

vi) Budget provisions are necessary for a permanent planning and programming unit to assist with long range planning and maintenance of a management information system.

vii) A technical information center is needed to handle the enormous volume of data, information, and studies now collected and to maximize COLAC's potential to transfer relevant and timely information to its members. For the same reason COLAC's printing capability (not commercially viable) needsto be maintained and subsidized.

viii) Budget provisions are necessary for a research and development unit capable of designing new programs and services for member federations.

ix) Budget provisions are necessary to accommodate the depreciation expense of a future COLAC building which COLAC may purchase after achieving viability. This would enable COLAC to capitalize an estimated $20,000 to $25,000 that is projected to be paid in office rent beginning in 1976-77.

x) In general, increased operational specialization, technical improvement, and a better support and para professional capability is called for over and above present and originally contemplated levels.

The pre- and post IDB functional and organizational charts are shown in Figures 2 - 5.

d) The Proposed Budget

The budget for operating expenses which COLAC considers optimal under the revised (post-IDB) assumptions and conditions is shown in Table 4 . It should be noted that this does not include the three-year Technical Assistance Budget to be financed by the IDB. This would have inflated the budget in the first three years, making comparative analyses much more difficult. In addition COLAC wants to maintain the integrity of their proposed budget options for planning purposes so that with termination of the IDB package the institutional impact of the expiration will be minimal. (See pp. 32-33 for breakdown of the IDB "Technical Cooperation" sub-program.)

A comparison of pre- and post-IDB budgets for the ten-year period, 1976-1985, is shown below. The pre-IDB budget was that developed by the program budget exercise and subsequently entered into the computer program to provide financial projections for negotiating the original AID $8 million package. It was also picked up directly by the IDB for their financing proposal. The net difference essentially relfects the needs described in the preceding section and in the revised organizational structure.

FIGURE 2

PRESENT OPERATIONAL STRUCTURE OF COLAC: FUNCTIONAL DISTRIBUTION

MANAGER

1. Planning, Organizing & Operational Control
2. Relations with Movement
3. Relations with external organizations
4. Legal representation, negotiation, signing of Agreements, Contracts etc.
5. Meetings of Board of Directors, Credit Committee, etc.
6. Policy Formulation

Advisory Services to Management. Administrative Systems and Resource Mobilization

Legal Assistance

Department of Operations

* Credit
* Technical Assistance
  - loan projects
  - credit system development
  - other
* Financial Planning
* Resource Mobilization
* General Planning
* Instututional Improvement
* Statistics
* Special Studies
* Technical Writing for Publication
* Special Seminars

Accounting Department

* General Accounting
  - Profit & Loss
  - Daily Ledger
  - General ledger
  - Subsidiary Acc.
  - Financial Statements
  - Budget Control

Administration

* Personnel
* Files
* Secretarial Pool
* Office Equipment Maintenance
* Reproduction
* Trips-Visas etc.
* Reception
* Mail
* Inventory Maintenance

Print Shop

* COLAC Publications
* Commercial Publications

FIGURE 3
PRESENT ADMINISTRATIVE
ORGANIZATION OF COLAC

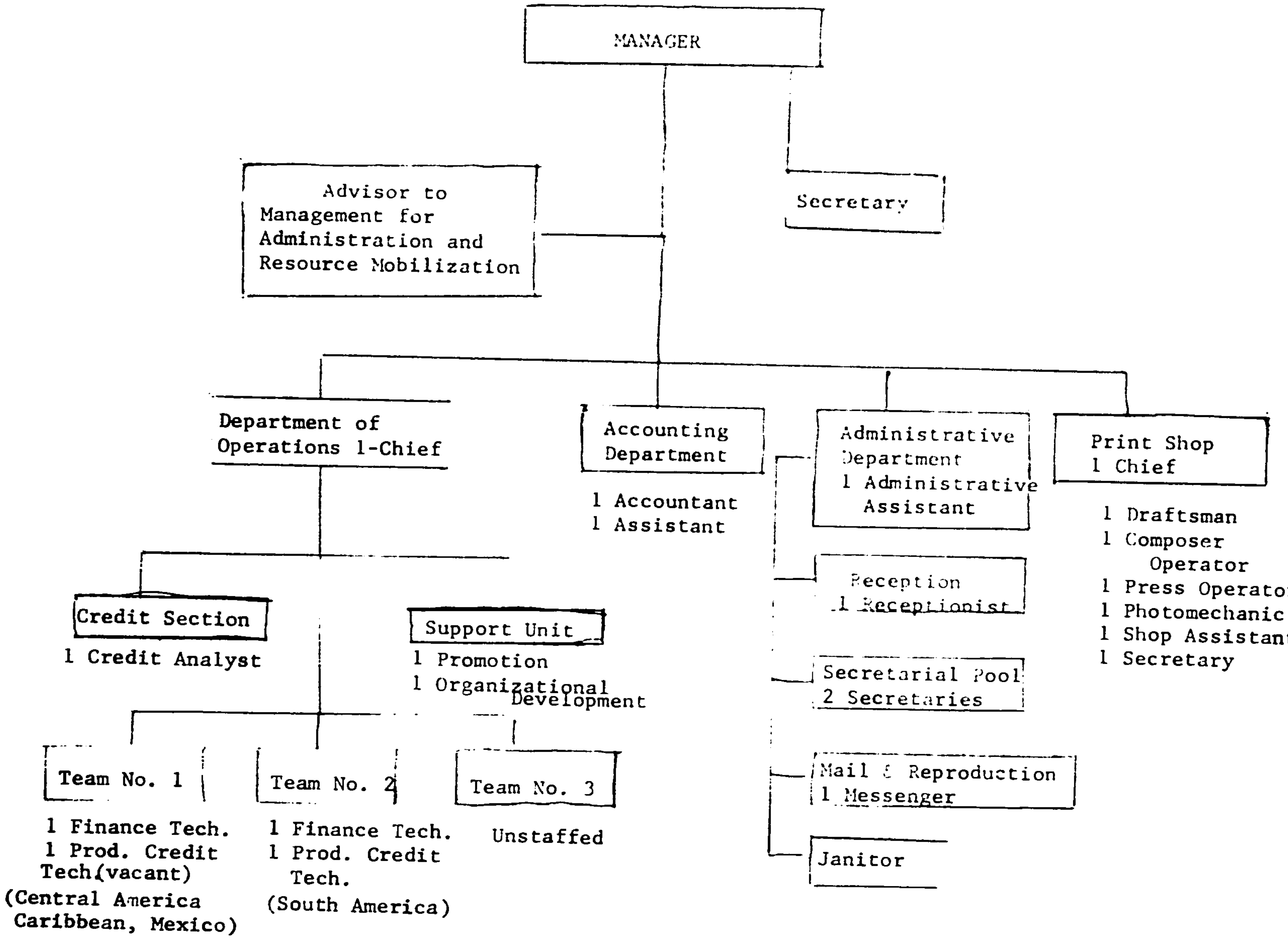


FIGURE 4

FUNCTIONAL DISTRIBUTION OF COLAC ACTIVITIES ACCORDING TO PROPOSED REORGANIZATION

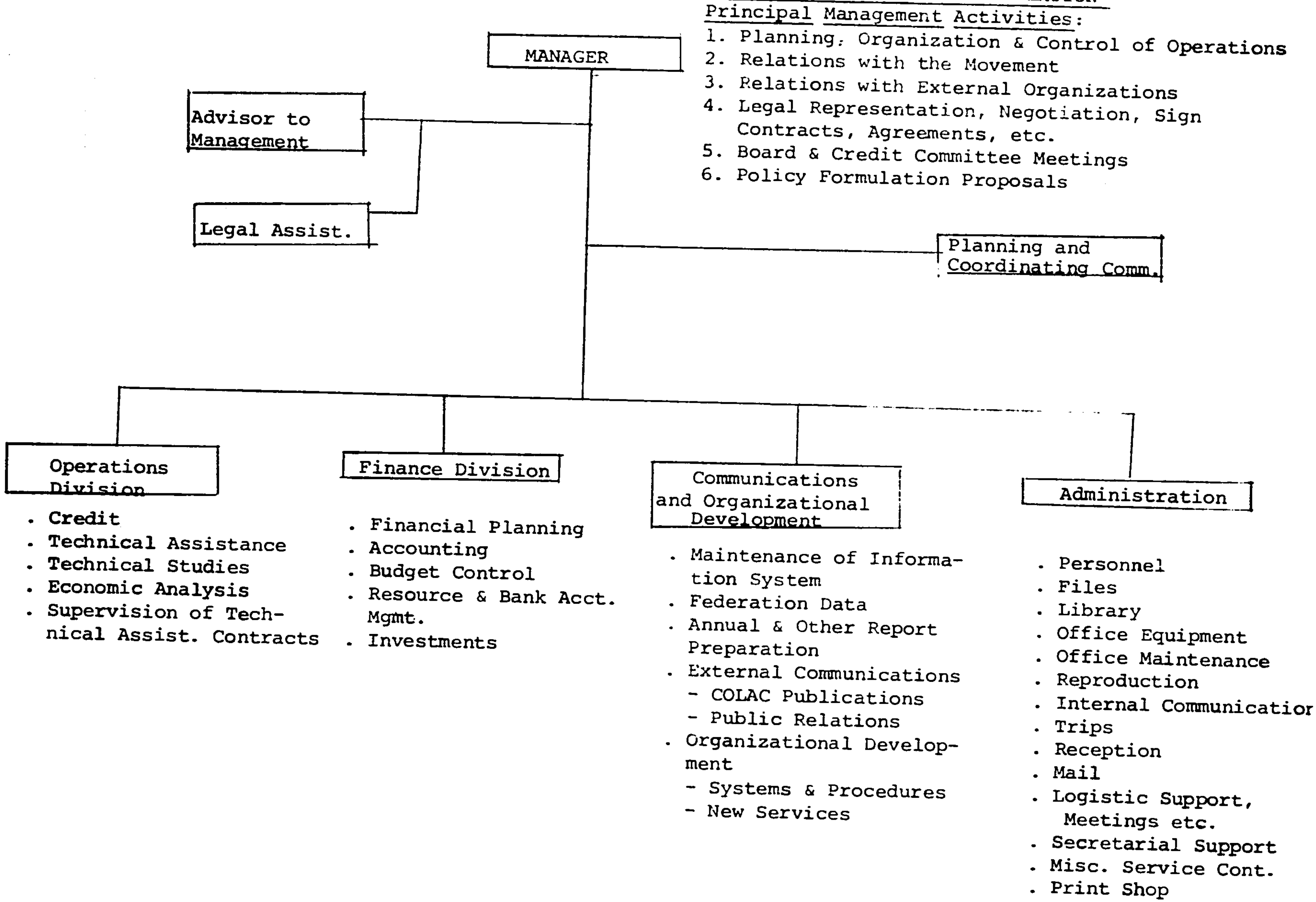


FIGURE 5
PROPOSED ADMINISTRATIVE REORGANIZATION

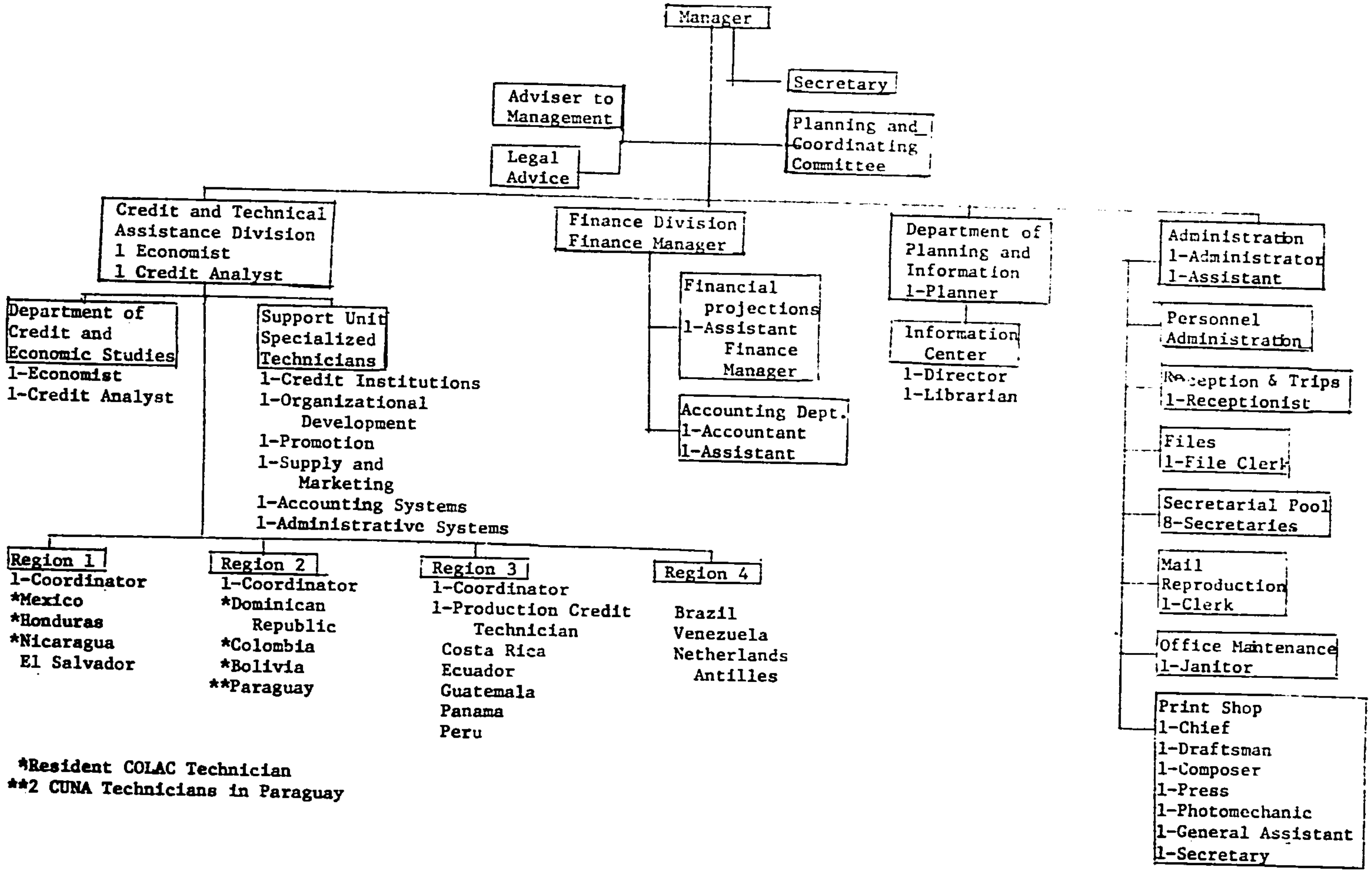


TABLE 4

COLAC OPERATING COST PROJECTIONS 1975 - 76 to 1974 - 85
Assumes U.S.$ 4 Million A.I.D. Loan and Reorganization

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Salaries	300,300	409,300	467,300	569,700	712,400	748,000	785,400	824,700	865,900	908,300
Social and Fringe Benefits	53,200	73,100	79,100	96,000	115,200	120,000	126,900	133,300	139,600	147,000
Program Travel	132,800	39,400	146,400	153,700	161,400	119,500	178,000	156,900	196,200	206,000
Technican Placement & Moving	53,900	16,200	16,900	17,800	18,700	19,600	20,600	21,700	22,800	22,900
Other Travel Costs	0	0	0	0	0	0	0	0	0	0
Training Material	1,000	2,000	2,100	2,200	2,300	2,400	2,600	2,700	2,900	3,200
Office Material	6,300	7,500	7,900	8,300	8,700	9,100	9,600	10,000	10,600	11,100
Rent - Office	17,800	23,200	23,200	23,200	0	0	0	0	0	0
Light-Cables, Telephone	20,000	23,400	24,500	25,800	27,000	28,400	29,800	31,300	32,900	34,500
Office Repairs - Alterations	13,000	5,000	5,500	5,500	6,100	6,100	6,700	6,700	7,200	7,200
Technician Furniture Repair	900	1,900	2,100	6,500	2,300	2,500	2,600	7,500	7,500	2,800
Rent, IBM,XEROX etc.	8,600	9,000	9,500	10,000	10,500	11,000	11,500	12,100	12,200	13,300
Freight Correspondence Publications	15,000	16,300	16,100	16,900	17,700	18,600	19,500	20,500	21,500	22,600
Educational Material	3,000	3,200	3,300	3,500	3,600	3,800	4,000	4,200	4,400	4,600
Publications	8,000	8,400	8,800	9,300	9,700	10,200	10,700	11,300	11,900	12,400
Board and Executive Committee Meetings	13,400	14,100	14,900	17,800	18,400	19,000	19,800	20,800	21,900	22,900
General Assembly	0	0	24,300	0	0	27,900	0	0	32,100	0
Seminars & Conferences	1,700	1,700	1,800	1,900	2,000	2,100	2,200	2,300	2,400	2,600
Technical Assistance to COLAC	0	0	0	0	0	0	0	0	0	0
Research &System Design Contract	0	0	0	50,000	50,000	55,000	55,000	60,500	60,500	66,500
Fees, Consultants & Lawyers	25,000	26,300	27,500	28,900	30,400	32,000	33,600	35,300	37,100	38,900
Bonding Insurance	1,800	2,000	2,200	2,400	2,600	2,900	3,200	3,500	3,900	4,200
Dues, World Council	12,000	12,600	13,300	14,600	23,000	23,000	24,200	25,300	26,600	27,900
Eternal Audit	3,000	5,000	5,500	5,800	6,100	6,400	6,700	7,000	7,400	7,800
Depretation of Equipment and Building	12,600	15,500	15,500	15,500	55,500	55,500	54,700	48,800	48,800	45,000
Public Relations	3,000	5,000	5,300	5,500	5,800	6,000	6,200	6,500	6,800	7,200
Bank Charges	3,200	6,000	9,100	4,600	5,200	7,900	6,700	6,500	5,700	7,300
IDB Seminars (Manager and Extension Agents)										
Contingencies	13,000	24,800	28,000	32,900	38,600	34,800	35,700	37,500	40,000	41,000
Office Moving Costs	0	0	0	0	5,000	0	0	0	0	0
TOTAL OPERATING COSTS	722,500	850,900	960,000	1,128,300	1,338,200	1,422,600	1,455,900	1,526,900	1,629,200	1,667,200

COLAC OPERATING EXPENSE 1/

	FY-76	FY-77	FY-78	FY-79	FY-80
Pre-IDB	690,200	758,000	836,000	877,800	921,700
Post-IDB	722,500	850,900	960,000	1,128,300	1,338,200
Increase	32,300	92,900	124,100	250,500	416,500

	FY-81	FY-82	FY-83	FY-84	FY-85
Pre-IDB	961,800	1,016,200	1,066,800	1,120,300	1,176,300
Post-IDB	1,422,600	1,455,900	1,526,900	1,629,200	1,667,200
Increase	460,800	439,700	460,100	508,900	490,900

COLAC's analysis of the projected increases shown above is as follows:

FYs 76, 77, 78: The increase is primarily attributable to the increased level of technical and support staff needed to implement the IDB program.

FY 79 In this year COLAC assumes approximately 50% of the annual program cost of the IDB funded technical assistance program which is scheduled to end on June 30, 1978.

Does not include reserves for bad debts, which in the new proposed COLAC budget are considerably higher.

FY 1980: COLAC assumes the full program cost of the IDB funded technical assistance program, on the order of $300,000 per year. Also, COLAC begins to depreciate its building , to be purchased in this year, at an annual rate of $40,000 per year.

FY 1981-85: The difference reflects normal annual increases in operating costs but on a substantially larger operation than that originally contemplated by either AID or the IDB. The difference also reflects continued building depreciation plus maintenance of the IDB technical assistance program.

4. Summary Conclusion - Technical Soundness

The project, in the best judgment of the Project Committee, is technically sound based on the most extensive analysis feasible within the time allowed and under the revised financial and institutional assumptions, constraints, and realities. Every possible effort has been made to ensure that the project makes sense in institutional, financial, economic, and social terms. That the project is high risk, in AID experience, especially since no government guarantee is available, there can be no doubt. The long run development potential of the effort, however, is estimated to far outweigh the risk, especially as there is indeed a consortium approach to financing the effort (see Implementation Arrangements); and AID's portion represents, for a change, less than 25% of the total cost and resources of the project.

Part III. B. Financial Plan and Analysis

1. Financial Plan/Budget Tables

Table B-1

Summary Cost Estimate and Financial Plan ($000)

Source	AID		COLAC	Others		Total
	Loan	Grant		Loans	Grants	
Lending	4,000		295	12,834	1,000	18,129
Operational Support		600				600
Technical Assistance					1,000	1,000
	4,000	600	295 1/	12,834	2,000	19,729

The following is an explanation of the financial inputs shown above:

Loans			Explanation
1.	AID	$4,000,000	Amount proposed in this PP
2.	Others:		
	a)	8,000,000	IDB-Social Progress Trust Fund Local Currencies
	b)	1,250,000	U.S. Central Credit Union
	c)	1,000,000	United Nations Capital Dev. Fund (doubtful)
	d)	450,000	CUNA Mutual
	e)	265,000	Security Pacific Inter. Bank
	f)	1,869,000	Other Sources (as yet unidentified)

Grants			
1.	AID	$ 600,000	Final Phases of Existing Grant Support
2.	Others:		
	a)	1,000,000	Inter-American Foundation for Capitalization and lending
	b)	1,000,000	IDB-Social Progress Fund for Technical Assistance

1/ This was the balance of member share capital as of June 30, 1975. Shares from credit operations should come close to $1.6 million by the end of the project period.

b. Costing of Project Outputs/Inputs

Given the nature of the proposed activity a regional credit union intermediate credit institution with a single primary output of increasing subloans and the difficulty and arbitrariness required in assigning relationships between individual financial inputs and total project outputs, an Output/Input Table is of little relevance and therefore not presented.

2. Financial Analysis. Financial projections prepared by COLAC in support of its request for an AID loan of $4.0m. were analysed by the Project Committee in October. Judged against relevant financial criteria, those projections demonstrated that COLAC in fact required additional concessional resources in order to cover the larger than expected operating expenses now anticipated in implementing the IDB credit, to compensate for the probability of currency devaluations reducing the earning power of COLAC's IDB-SPTF funds, and to enhance COLAC's capability for achieving early and self-sustaining financial viability. Subsequently, COLAC was advised by the IDB during final negotiations on the IDB-COLAC project of two particular, restrictions on the use of IDB funds which will limit substantially COLAC's ability to earn revenue in relending those funds.

At the time these projections were prepared (October-1975) COLAC assumed that no major restrictions would be placed on its use of IDB-SPTF resources. Accordingly, all available funds to be lent to member federations were assumed to earn 10% interest for COLAC. Recently, COLAC has been advised that IDB-SPTF funds it relends to the credit union movement cannot reach the end-user (typically, the local credit union small farm member) at a cost higher than or equal to the end-user cost of other IDB provided resources made available for similar objectives (e.g., basic grains production) through national development banks or similar institutions. The specific, actual implication of this limitation remains unclear since interest rates of the kind to be used as a guide vary significantly from country-to-country, and even within a single country. (COLAC, however, has already gathered much data on this issue for several countries.) Nonetheless, given the need for an interest margin at each level of the system to cover costs and produce income (i.e., at the federation and the local credit union levels), analysis of available data indicates COLAC may be unable to relent IDB funds at greater than an average cost of 5%.

A further constraint concerns the effect of currency devaluations on COLAC's IDB-SPTF funds (all in various L.A. natioal currencies) and COLAC's ability to minimize such effects. Initially, the IDB had indicated COLAC was free to work out, if possible, arrangements with its individual borrowing members or systems to compensate totally or partially for devaluations of local currencies. Most recently, indications are that the IDB will specifically prohibit COLAC from attempting to incorporate any such "maintenance of value" mechanisms in its subproject agreements.

As a result, a revised set of pro-formal financial projections for the COLAC project was prepared (attached as Annex IV.) including financial assumptions, cash flows, balance sheets, and income/expense statements. The projections incorporate an assumption of a 5% average margin for COLAC on the IDB-SPTF funds as well as other minor changes in assumptions of, for example, the timing of disbursements of funds from other donors given current expectations of issues (primarily legal) yet to be resolved. However, due to complications in computerizing the data, the devaluation impact on COLAC's assets was not incorporated and is handled separately below. Table B-2 below presents key data from these projections supporting the need for AID funds.

Table B-2

COLAC-Summary Income/Expense Data (With $4.0 in AID loan and 5% Margin on IDB Funds)

	FY: 75/6	76/7	77/8	78/9	79/80
1. Net Income before Operating Expenses	486,862	733,105	950,824	1,217,040	1,376,260
2. Operating Expenses, plus Bad Debt Reserves	749,272	801,700	901,261	1,048,797	1,227,963
3. Net Income (Loss)	(262,410)	(68,595)	49,563	168,243	148,297
4. Accumulated Income (Loss)	(262,410)	(331,005)	(281,442)	(113,200)	35,097

These figures show COLAC reaching its financial breakeven point within three years (an objective of the AID-COLAC project for obvious reasons, an important one of which is that the existing grant support to COLAC is programmed to terminate by the end of CY 1977 and achieving modest but significant net income levels subsequently. However, the favorable results of these pro-forma figures are qualified by two critical factors: a) they assume significant reductions in COLAC's annual operating budget for personnel and administrative items from what COLAC believes desirable and necessary over this period (ca. 20%

for each year); and b) no compensation for the impact of currency devaluations on current income was incorporated.

COLAC's analysis suggests devaluation probabilities are significant over time in 5 of the 10 countries it will be operating in with IDB-SPTF currencies: Bolivia, Dominican Republic, Colombia, Costa Rica and Peru. Since predicting the timing of currency devaluations is not possible, an alternative is to estimate the likely annual currency depreciation based on historical trends. Following this approach produces an estimated impact on net income as follows:

TABLE B-3

COLAC - Annual Net Income Levels Adjusted for Currency Devaluations

	FY: 75/6	76/7	77/8	78/9	79/80
1. Net Income (Loss) From Table B-2	(262,410)	(68,595)	49,563	168,243	148,297
2. Estimated Impact of Devaluations on Annual Income	- o -	-6,000	-17,000	-39,000	-50,000
3. Revised Net Income (Loss)	(262,410)	(74,595)	32,563	129,243	98,297

The devaluation impact is likely to increase annually along the trend shown over future years as the probability of devaluations in any or all of the five countries increases.

In view of the foregoing, the case for the proposed concessional loan of $4.0 million appears fully justified: without the loan COLAC obviously will not reach financial/operationsl viability. However, even the amount of $4.0 million may not be totally sufficient to provide reasonable confidence that COLAC will achieve project targets in terms of goals, objectives, and outputs, given that COLAC would be operating on a slashed budget during the critical start-up periods for the project. An increase in the AID input from 4 to $5.0 million would provide COLAC with increased earning power and would not burden COLAC's (and the credit union system's) capacity to absorb additional funds. Assuming such an increase in the AID loan and its disbursement totally within FY 77/78, COLAC's annual net income position would appear as follows:

TABLE B-4

COLAC - Revised Net Income Levels with $5.0, AID Loan

	FY: 75/6	76/7	77/8	78/9	79/80
1. Net Income (adjusted for devaluations) from Table B-3	(262,410)	(74,595)	32,563	129,243	98,297

2. Incremental Net Income from additional $1.0m from AID (estimates)	- o -	- o -	80,000	86,000	92,000
3. Revised Annual Net Income (Loss)	(262,410)	(74,595)	112,563	215,243	190,297

COLAC's overall position, particularly over time, would be improved with increased AID funds. While this assumption does not directly address COLAC's administrative/operational budget constraint in the first two years, it could allow COLAC to increase its operating deficit slightly in the first two years to increase its operational staff/capabilities on the assumption of increased revenues to be generated and available subsequently as a means to finance such deficits. Increased AID budget support to COLAC within the framework of the existing grant project (not extending the termination date substantially), with the increased AID loan, could be the answer to providing the financial elements necessary to making the determination that the project can be expected to meet its targets as indicated below.

Assuming that COLAC increases its operational/administrative budget by 50% of the difference between its preferred budget and the reduced budget assumed in the projections, and also assuming modest additional AID grant support; COLAC's situation would be improved as follows:

TABLE B-5

COLAC - Net Income (with $5.0m AID loan and increased AID Grant Support)

	FY: 75/6	76/7	77/8	78/9	79/80
1. 50% of Difference between Preferred/ Reduced Budgets	- o -	83,000	93,000	110,000	130,000
2. Assumed Incremental Increased AID Budget Support	- o -	80,000	90,000	- o -	- o -
3. Revised Annual Net Income (Loss) data-from Table B-4	(262,410)	(77,595)	109,563	105,243	60,297

While COLAC clearly would need to both find ways of increasing income and reducing expenses in all periods, especially in FY 76/77, under this assumption it would have necessary resources to implement the project.

The basic financial projections assuming a \$4.0m AID loan were analysed against relevant financial criteria (debt/equity ratio; current ratio; times interest earned; growth in annual net income and retained earnings; liquidity requirements etc.) and satisfactory. If, as seems reasonable to assume, COLAC will make increasing use of loan funds from the U.S. credit union movement, it will have the capacity to amorized the AID loan, and others as well, and continue to grow as a regional credit union intermediate credit institution.

C. Social Analysis

1. The Target Group

The beneficiaries of the project are the members (individual shareholders) of the Latin American Credit Union Movement, both urban and rural. AID loan funds will be devided roughly equally between urban and rural, but the great majority of project resources as a whole will be directed to the rural sector. In addition, a substantial "spread effect" is expected both within and outside of the credit cooperative movement. (See Section 2 .) The primary intended beneficiary of the project, however, remains the small farmer.

Data currently available to COLAC and AID is insufficient to allow the presentation of a statistically valid set of parameters for the target group in each and every member country. In early 1975, however, COLAC technicians, using the results of a country-by-country survey conducted in October and November 1974 as part of the AID intensive review, and other information available to them concerning the movement, made initial estimates of ranges for the seven economic indicators shown below. The ranges were calculated so as to include approximately 80% of all credit union farmer members. The figures were then sent to the federations where they were reviewed by technical staffs and suggestions for changes were made based on knowledge of the local situation. The information was then returned to COLAC where it was retabulated and put into the form shown below.

AGGREGATED PROFILE OF 80% OF FARMER MEMBERS
OF CREDIT UNIONS BELONGING TO COLAC FEDERATIONS

	Range Containing 80% of farmer members 1/
Net Income	$150 - 1,200
Other Income	$ 50 - 300
Total Income	$200 - 1,500
Hectares Cultivated	1.5 - 13
Total Value of Assets	$600 - 6,000
Average Savings	$ 30 - 300
Average Amount Borrowed for Production Purposes	$150 - 1,000

1/ As raw data from the individual borrowers were not available to the COLAC staff, it was not possible to make a more accurate estimate using the standard diviation technique.

Table 5 shows a country-by-country profile of the average credit cooperative farmer in eight member countries where characteristics clearly fall within the acceptable range of AID criteria for "smallness." Not included are four key future borrowing (for agricultural production credit) countries: Paraguay, El Salvador, Ecuador, and Mexico. On the first three countries AID has reasonably current data from past and on-going programs indicating that the majority of farmer members fall within the prevailing AID accepted ranges. On this basis and also due to the estimated complexity of establishing an adequate monitoring and control system throughout COLAC member countries, the Project Committee recommends that the farmer membership in the COLAC system be declared eligible from the start. It should be noted, however, that under the IDB technical cooperation program a data collection system will be established for the entire credit system which will systemize collection and periodic tabulation of shareholder level data for evaluation and other purposes. Technical assistance will also be provided to credit unions for the collection of important economic and social data at the time of loan application and entry into the cooperative system.

Outside of the small farm target area, data was not available to AID on the characteristics of town and urban prospective beneficiaries. Prior to utilizing AID funds, however, in the area of small industry, health, education, and housing, the appropriate target group profiles will be evaluated and approved by AID. In general the low income wage earner and lower-middle class white-collar worker will benefit along with the independent artesan or selfemployed member engaged in small business or industry. In addition, a small part of the loan may go to other types of co-ops. over 50% of which will be associated with small farmer production.

Table 6 shows the general composition and size of the membership of COLAC for the same eight countries shown earlier. Finally, the following figures demonstrate the overall (both urban and rural) size of COLAC's membership and growth over the past 13 years. (Also, please see the credit demand analysis in the economic analysis section.)

LATIN AMERICAN GROWTH FIGURES
(Credit Unions Affiliated with COLAC)

	1961	1974
Numbers of Credit Unions	432	2,140
Number of Members	123,919	1,120,854
Member Savings (Millions)	$4.2	$164.8
Loans Outstanding (Millions)	$4.0	$180.2

TABLE 5

PROFILE OF THE "TYPICAL" FARMER/MEMBER IN 8 COUNTRIES

Indicator	RESULTS OF COLAC SPONSORED SURVEY								
	Some Characteristics of the "Average" Farmer Member								8 Country Average
	Bolivia	Colombia	Panama	Costa Rica	Nicaragua	Honduras	Guatemala	Dom. Rep.	
(1) Net Farm Income	325	350	300	500	200	200	100	250	284
(2) Other Income, Net	50	58	100	100	70	65	60	75	72
(3) Total Net Income	375	408	400	600	270	265	160	325	356
(4) Hectares Cultivated	2	0-5	2	2-5	2	2.5	2	2	2.31
(5) Total Value of All Assets	1,230	1,410	2,000	2,000	900	1,000	750	1,098	1,298
(6) Average Savings	54	50	100	100	50	100	46.30	60	70
(7) Average Amount Borrowed for Productive Purposes	150	150	466	120	75	275	138	195	196

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TABLE 6

BASIC DATA - CREDIT UNION MEMBERSHIP AS OF JUNE 30, 1974

	Bolivia	Colombia	Panama	Costa Rica	Nicaragua	Honduras	Guatemala	Dominican Republic	Total
Affiliated Coops	181	245	82	67	54	105	83	91	908
Rural	101	74	31	26	12	58	68	32	402
Urban	80	171	51	41	42	47	15	59	506
Rural Coop Shareholders	35,702	50,067	9,580	8,570	3,602	15,880	39,032	9,258	171,691
Farmer members 1/	42,965	57,556	1,320	12,250	3,600	8,370	30,000	10,814	166,875
Affiliated Rural Coops eligible For Credit	82	74	18	26	10	31	61	25	327
Shareholders in these Coops	28,985	50,067	6,773	8,570	3,002	11,155	35,014	7,233	150,799
Farmer members 1/ in eligible Coops	35,606	54,486	1,200	12,250	3,465	6,456	29,495	10,119	153,077

1/ In the case of Bolivia, Colombia and the Dominican Republic more farmer members are shown than the total of the membership of rural coops. The cause of this apparent inconsistency is not clear at this time. A possible answer may be that some farmers may have access to borrowing from credit unions but are not actual shareholders. Also some farmers may belong in groups.

2. The Spread Effect

The impact of the project due to its institutional, financial, and economic nature, will evenutally encompass a target group many times the number of those who will directly receive credit or technical assistance during the implementation period. The lasting benefit of the project lies in the establishment of an independent, self-financing capital mobilization and delivery system to meet the needs of the movement for external inputs indefinitely and on a commerical or near-commercial basis.

There is no practical limit in the foreseeable future to the growth potential of COLAC and its affiliates. In fact, COLAC could, at some point in the future, become the major supplier of external production and other credit for the cooperative sector as a whole in Latin America, especially if concessional bi- and multilateral assistance decreases over time in the region due to increasingly scarce resources and the growth of the hemispheric economy as opposed to Asian and African countries where the need for such assistance is greater. National credit cooperative movements, financially and institutionally strengthened by the project and other foreign and domestic inputs, can logically be expected to continue to expand operations and outreach activities.

Finally, as federations and co-ops continue to be squeezed by the opposing forces of increased demand and continuing inflation, volumes of operation will have to grow to compensate for diminished margins. Increasingly, co-operatives will have to reach out to lower income, higher risk clientele, in order to service and prosper.1/

3. Benefits to the Target Group

The following principal benefits to the target group are anticipated.

a) Increased access to and receipt of agricultural and other production credit.

b) Improved services complementary to production credit in marketing, supply, extension, and other areas.

c) Improved and increased access to credit, information, and facilities in the areas of health, education, and housing.

1/ The co-ops will also attempt to expand to a higher income membership for obvious reasons. However, because of the built-in graduation incentives posed by the higher cost of capital through the system, relative to commercial sources, it is expected that the greatest expansion will be possible among those groups that have no access to such cheaper sources of credit which cater to the more heavily collateralized, higher volume borrower.

d) Enforced savings and capitalization.

e) Credit Life and other types of insurance.

f) Increased employment from agricultural and small industrial enterprises financed.

g) Improved access to and the chance to influence commercial decision making, the distribution of resources and the market place in general.

They all add up, one way or another, to increased income and socio-economic wellbeing.

4. Target Group Participation in Design of the Project and Decision-Making

COLAC is a cooperative and duly registered as such under the Agrarian Law of Panama. It is a third level international cooperative, but clearly controlled by its members. This is a curse and a blessing at the same time for different reasons, but it does make for target group representation and participation.

The ultimate authority in any cooperative rests with the assembly, or total active membership, which, in turn, elects the governing board, approves policy, and makes other significant decisions. The board in turn selects management, approves the budget, establishes operating guidelines, makes major resource allocation decisions, etc. Again, COLAC is no different.

Management and administration of COLAC is exercised through executive bodies and positions in the following order of precedence: a) General Assembly (ordinary assemblies every three years), b) Board of Directors "Consejo de Administración" (one director per member, ordinary meetings annually), c) Executive Committee (President, Vice President, Secretary, and two additional designated Board members, ordinary meetings every four months), d) Manager. The President presides over Board and Executive Committee meetings.

COLAC itself was oringially established by federation representatives meeting annually in Panama who felt the need and had the vision to make the critical decision to form COLAC, primarily as a vehicle for external capital recourse mobilization. As the record shows, over the last several years neither AID nor the IDB nor other major donors in the program have sought out COLAC as a recipient. Rather COLAC has been aggressively pursuing AID and other external capital assistance for at least four years now. Again and again the initiative, the direction, and focus of effort down the international financial intermediary route has been pursued and approved by federation representatives in annual assemblies, board, and executive committee meetings.

AID has participated in at least three of the past four annual assemblies and a large number of Board meetings. The active participation in the design and negotiations for the project by federations and their elected representatives has been constructive, enthusiastic, and unfailing. The extent to which federation representatives actually represent the interests of the poorest of the target group, especially the small farmer, of course is debatable; but there is no denying that the pressure of the target group has and is being felt strongly by these representatives.

In early May 1975, at a special Board meeting called for the purpose of negotiating the original AID package, federation representatives demonstrated an extraordinary grasp of sophisticated project concepts and went to some lengths to air the issues and ensure that there was indeed a genuine consensus. Management was given a clear mandate to proceed with all speed to finalize negotiations and execute the proposal according to agreed-upon guidelines and conditions. Details of the package, the mix of resources, the modus operandi and timing of the project have now changed, but basic fundamental elements are still the same. The project committee has no doubt, therefore, that the federations and their memberships will continue to sincerely and constructively support COLAC as a project, an institution and a total system.

D. Economic Analysis

For a regional project such as this, it is not possible to prepare the traditional economic analysis. Certainly there will be no measurable "macro" effect during the project period in the countries in question. The potential exists in the second decade and beyond, however, if all goes according to plan.

On the "micro" side, the reader is referred to AID and contract farm level surveys carried out in Colombia, Guatemala, and Paraguay as well as analyses prepared in the last two years for cooperative, credit, and sector loans authorized in Panama, Costa Rica, Nicaragua, Honduras, and elsewhere. The project committee does not believe that the basic assertion needs to be redocumented that, other elements in place (adequate marketing and price structures, the production technology package, and a delivery system for extension and other services etc.) the receipt and proper utilization of credit will bring about meaningful improvements in production, productivity, and earnings for the small producer, urban or rural.

With the above in mind and for purpose of the presentation, therefore, the main economic factors to be covered will include only project-related demand and cost considerations in addition to the project's basic economic hypothesis, that the "going rate" approach is most conducive to maximum target group impact.

1. Supply and Demand: The Underlying Rationale

The underlying economic premise of this project lies in the apparent reality, tested a number of times in AID and other studies, that demand for credit, all types, but especially production credit and working capital, far exceeds supply in Latin America. As will be noted in the tables in the following section, this is certainly the case within the credit cooperative movement.

In economic terms, assuming credit is indeed in short supply, the local money market situation can be described in relation to classic supply and demand functions as shown in Figure 6 .1/

In the example shown, the artifically reduced price attracts a supply of capital of Q_1. The demand for credit at that price, however, is Q_3. At the equilibrium cost, C, demand is at Q_2. If left unconstrained, market forces would drive the price to point C, where the curves cross, which would stimulate higher lending and savings, both beneficial to the target group. Presently, however, the seeking of such an equilibrium point is frustrated by arbitrary maximum interest rates, subsidized credit policies, simple tradition, and politics.

The Project Committee argues that the illustration is applicable as well to the situation where external capital is applied at a subsidized rate. The demand will always be there to absorb the subsidized supply, but what about demand beyond the limited amount that can be provided at the artificial price? If our objective is to simply assist a fixed number of small producers, say 10,000 out of a total group of 100,000, then the subsidized rate is acceptable provided it can be maintained over time. If our objective is to expand outreach, however, and assist an even larger group, then the subsidy is actually counterproductive and a constraining force.

Another economic argument for the higher rate approach is that only if funds are put out at cost will such funds find "efficient" use. That is, if the rate is constrained at an arbitrarily low point such as 8% or 12% then some borrowers on the lower end of the economic scale will be able to afford borrowing who would normally

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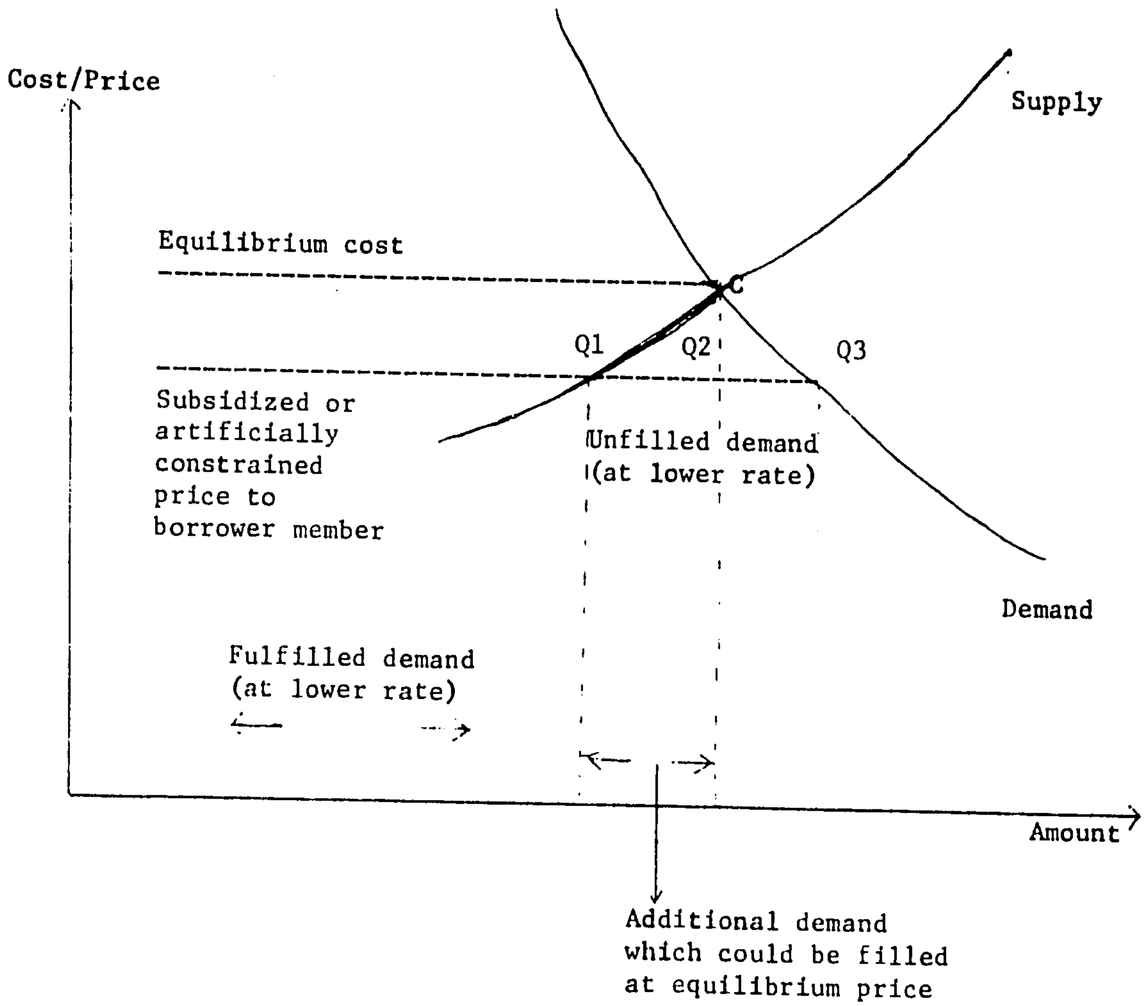
1/ For Figure 6 and the following argument, the Project Committee is indebted to Systan, Inc. and the Credit Union National Association (CUNA). The material is drawn in part from "An International Inter-lending Program for Credit Unions" prepared by Systan under CUNA contract in July 1973.

Figure 6

CREDIT SUPPLY AND DEMAND

(Internal Capital)



be excluded from the market if the rate were at the equilibrium point. If such producers could only borrow at the subsidized rate, then once the subsidy disappears the enterprise would logically become unviable. Such a producer probably should not borrow in the first place. Secondly, and more important, within the credit cooperative context, the larger middle and upper class borrower can afford to stay in the subsidized system and continue to absorb the majority or a disproportionately large share of the supply of credit, which economically and justly should to those who have no alternative, cheaper source. Artificially low rates discourage "graduation" of the larger borrower. If the rate goes up in the cooperative system, then a natural graduation mechanism is established which is conducive to:

.. eliminating those on the upper end of the scale who can borrow more cheaply from banking sources geared to the higher volume, lower cost and risk lending to individuals and firms.

.. encouraging the system to reach out to lower income, higher risk clientele to whom the higher cost is not a major impediment, especially in relation to the cost of informal sources of credit or the alternative of no credit at all.

Finally, artifically low rates in the cooperative or any other system are in one sense inequitable, because it means that only a select few receive the credit and they may well not be the most efficient users. It means that large majorities of the rural and urban poor receive no credit at all or only at informal rates (25% to 100% and more in Latin America). The fact that so much borrowing does occur at informal rates leads one to believe that there are, in fact, large numbers of very efficient users who are being entirely and unfairly excluded by the system. How much greater could production and equity impact of institutional credit programs be if such efficient producers could be reached by lower cost, market rate credit with complementary services in addition to the added benefit of enforced savings and capitalization.

The point of the above argument is that the project and COLAC as an institution and a concept rest on the economic premis presented. If the argument is valid and if credit is indeed in as short supply as our research efforts and COLAC's tend to confirm, then conceptually COLAC offers a way to truly open the credit cooperative system in Latin America as a channel of unprecedented resources in the future from private and international capital markets. The only real constraint is the institutional capacity of the system to absorb and deliver. It is precisely this institutional capacity where the subsidy in the AID project is focussed as well as COLAC's subsidies to its own members in the form of technical assistance, with the exception of IDB funds which by agreement will have to go out at subsidized rates.

2. Demand Within the COLAC System

In the interim report submitted in February 1975, a demand analysis was presented based on the findings of the survey conducted for the intensive review of October and November 1974. To summarize, the following aggregated expressed demand schedule for agricultural production credit only was presented for the eight countries from which results had been obtained. (Bolivia, Colombia, Nicaragua, Honduras, El Salvador, Guatemala, the Dominican Republic, and Costa Rica.)

Composite Expressed Federation Demand by Year and Interest Rate for Rural Production Credit from COLAC (US $000)

Year	8%	9%	10%	11%	12%
1975	7,308	4,662	3,387	319	319
1976	6,827	5,111	942	354	354
1977	7,564	5,689	2,977	389	389
1978	8,253	5,811	4,626	496	496
1979	8,873	6,223	5,038	2,666	566
Totals	38,825	27,496	16,970	4,224	2,124

At the time there were, and still are, a number of reasons why these estimates should be considered unrealistically low in relation to project resources. These are as follows:

a) The expressed federation demand figures are considerably below demand estimated on the basis of credit need per land area of cultivation per farmer shareholder vs. known funding available from other sources. (See Annex X, Tables 2 & 2a.)

b) Demand estimated on the basis of average loan amounts per farmer member, the number of current agricultural shareholders eligible for credit, and those who are seeking credit and have not yet been able to obtain it, is much higher than expressed demand figures would indicate. (See Annex X, Table 3.)

c) Federations are reluctant to go on record as being willing to receive credit at higher cost until they are actually faced with such a decision in an operational sense.

d) Ecuador (a current borrower), Paraguay, Panama, Mexico, Peru, and other potential longer range sub-borrowers are not included in the above-expressed demand figures.

e) The figures do not adequately take into account potential expansion of the rural movement and the inclusion of a large number of member cooperatives not now eligible for credit for one reason or another. (See Annex X, p.1)

f) The figures do not take into account the "expediency factor" which comes into play when a federation is in urgent need of funds for a particular crop cycle, for example. In this situation, a federation will borrow at a higher rate from COLAC in order to receive the funds on time rather than wait several months and receive the credit at a lower, subsidized rate from a development or state bank.

g) As noted earlier, the expressed demand figures related almost entirely to agricultural production credit. The amount of credit demand for investments, other production, and urban associated credit remains to be calculated and may be substantial. Tables have been developed, however, for non-production credit based on the same survey. (See Annex X, Tables 4-8.) The non-production expressed demand runs from a high of approximately $27.5 million at 8% for the five-year period, 1975-1979, to a low of $5.9 million at 12%. At 10%, which will preferably be COLAC's lending rate for the next two to three years, the demand was $24 million.

To summarize the demand situation, calculations based on cultivated land or an average outstanding loan per ha. in eligible cooperative comes to over US $50 million a year for 250,000 farmer members by the end of the project period for the eight countries included in the survey, at least $30,000 of which will have to come from external sources. Demand, therefore, given COLAC's lending policy and intended expanded scope of operation in terms of lending in more countries, greater portfolio diversification, and the opening of the program to other types of cooperatives, is very clearly not a constraint. In fact, the real danger may be in COLAC's being forced by its membership to move money more rapidly than prudent credit administration would allow. COLAC estimates the AID loan will be fully disbursed in 18 months, for example.

3. Absorptive Capacity

Absorptive capacity depends on a number of factors depending on how one views the situation. To COLAC and AID probably the most important factor is sound administration and technical/managerial capacity to properly utilize and supervise the resources in accordance with program criteria. This, of course, is what the technical assistance side of COLAC's operation is all about. On purely financial grounds, however, based on projected debt equity ratios at the federation level, the latest absorptive capacity calculation made of the eight countries contemplated by the original AID package was as shown below. (For detail and assumptions, see Annex VII.)

FY 1976	FY 1977	FY 1978	FY 1979
18,563,465	16,275,965	17,286,454	20,278,618

4. Cost Effectiveness (In lieu of Cost/Benefit Analysis)

As emphasized earlier, the original rationale for the formation of COLAC had to do with federation realization of their need for a mechanism for external lending capital mobilization. The federations recognized that they did not have either the experience or the resources to independently pursue the necessary capital inputs and lines of credit from the international lending community. Capital mobilization is an expensive proposition, whether from commercial or concessional sources; and where contacts and negotiations outside the country are involved, the search and effort itself almost has to be subsidized. By sharing the cost, however, amongst the members of COLAC, once viability is achieved, the credit cooperative movement will be able to aggressively seek credit in worldwide capital markets in the U.S., Canada, Europe, and elsewhere for their own account.

The argument, of course, cuts both ways, for AID and the ILA community or for credit cooperative movements in developed countries seeking sound and philosophically attractive opportunities to assist sister movements and to place excess deposits or liquidity, a mechanism such as COLAC offers a number of cost savings. Consider the cost of development of the average bilateral AID, IDB or IBRD loan which can, and at times does, run into six figures. The cost of lending every two to three years to even half of the eleven contemplated COLAC sub-borrowers would be clearly prohibitive for international lending agencies. Also, given the fact that COLAC can now and will, much more aggressively in the future, physically go to the lender in Washington, New York or wherever, with professionally prepared financeable packages, reduces the cost still further.

In summary, at a time when concessional resources appear to be dwindling, at least in the Latin American context, COLAC represents what appears to be the most cost effective way for federations to receive a sufficient volume of external lending capital to survive, prosper, and reach an expanding target clientele in the indefinite future.

PART IV IMPLEMENTATION ARRANGEMENTS

A. Analysis of COLAC and AID Administrative Arrangements

1. COLAC - Management Capability and Organizational Structure

Section III A 3 described the analytical process through which the proposed budget and organizational structure were developed. In practice, of course, COLAC will budget and structure itself as resources and conditions will permit and demand. It is clear, however, that COLAC is not capable of executing the project envisioned with its present structure and human resource base. Currently, management, staff, and the adviser for resource mobilization are working under high stress conditions and have to "run" night and day, just to stay even. This condition cannot last much longer.

At the time the IDB financing was proposed, COLAC had an established recruitment plan and timetable for the original AID package which was shelved until long-term AID/IDB financing intentions again became clear. The one person brought on board in the interim has been the CUNA adviser for resource mobilization.

While AID may reserve judgment on the magnitude of the budgetary and organizational needs currently proposed by COLAC, it is essential that certain key positions and functions be properly staffed in the shortest possible period if this project (combined AID/IDB) is going to get off the ground on a sound initial technical and administrative basis. These positions are as follows:

- Administrator
- Operations Division Chief
- Finance Division Chief

This implies hiring immediately two highly qualified professionals. The current Chief of Operations could handle either the new Department of Operations or Finance.

COLAC currently has on file a number of applications brought in as a result of the initiation of the previous recruitment plan--now held in abeyance. A sound evaluation (matrix) system for selection is also established thanks to short-term CUNA assistance during the AID intensive review. Most of the new job descriptions can also be readily modified from those established for the original AID package. In relatively short order a revised recruitment plan can be prepared and key professionals hired for the initial critical six to nine month period. In any case, AID will require as a minimum that the above positions be adequately staffed prior to disbursement.

Other organizational needs in the area of economic analysis, planning, coordination of country programs, data and information collection and dissemination are also considered important by both COLAC and AID. These will be staffed as rapidly as resources will permit. As explained earlier, the project design contemplates a heavy "front-end" load. The need is actually greatest at the outset. As technical, administrative, and financial capacities improve over time in the federations, the need will diminish, or at least not grow as rapidly, for heavy COLAC technical assistance, training, monitoring, processing, trouble shooting, etc.

The IDB technical assistance grant will, of course, help substantially during the early years (See pp. 32). The current CUNA adviser will be covered from the grant plus long-term country resident technicians, the systems analyst, data collection advisory services, and a new comprehensive accounting and budgetary control system. All should be on board or in process by the end of June 1976.

Given the AID requirement for key staff and planning (see Conditions Nos. 1 b&d) plus the IDB technical cooperation sub-program, the Project Committee is confident that COLAC will have an adequate human and resource base for successful albeit perhaps not optimal project execution.

The Manager of COLAC is a dedicated executive with many years of practical experience in the Panamanian cooperative movement. He is perfectly capable of leading the organization and making sound decisions, but needs better staff support. The current problem is that he is so pressed with day-to-day operational, technical, and administrative questions that the essential time is simply not available for due consideration and attention of the most important issues and problems. He needs to be given the freedom and resources to be the manager COLAC needs. This will also be resolved during the coming six-month period, as the envisioned recruitment plan is executed.

The Board of Directors consists, under recently revised statutes, of a representative from each of the sixteen-member federation. It meets once a year in place of the former annual assembly (now every three years). The real governing body is the Executive Committee consisting of the President, Secretary, and First Vice President of COLAC, plus two elected members. This body now meets once a quarter on the average.

The Executive Committee is an effective body but needs to be better informed. COLAC is now operating in a very sophisticated, financial, and international environment. It is very difficult to keep such a group--every member in a different country--informed of current happenings, negotiations, and the changing operational activities and needs of the organization. For this reason, along with other management and program reasons, the proposed planner and the information center at COLAC are deemed important in order to produce the variety of executive summaries, reports, and projections necessary for adequate medium and long-range decision making.

2. The Credit System

a) Lending

The lending process consists of three major sub-processes which have been defined as follows in terms of composition and level of effort:

Pre-funding: Assistance activity realized at the federation level directly related to the preparation and review of sub-project proposals to COLAC. This includes feasibility and cost benefit analysis, pro-forma financial statement projections, the execution plan, etc. The projected average level of effort by COLAC for this phase is 21 man-days of field time.

Loan Approval: Once the loan request and supporting material are received by COLAC, the package is passed to the Credit Analyst who prepares a report with recommendations for approval, terms, and conditions. This in turn is passed with the federation submission to the credit committee which approves or denies the request. If approved, the credit analyst then prepares the necessary legal documentation--loan contract, the promissory note, and contract which are signed by the legal parties to the operation. Once signed, funds are disbursed in accordance with the terms of the contract, which include certain conditions precedent. An average of approximately 15 days of primarily home office time is required for this phase.

Loan Implementation and Supervision: A reasonable period of time after partial or total disbursement and subsequently at least twice a year during the execution period, visits are made to federations for supervision and and follow-up activity. These visits include: a) verification of the use of loan funds at the federation, cooperative, and shareholder level, b) verification of recuperation and rollover, c) a study of delinquency, if in evidence, and its causes with recommendations for remedial action, and d) recommendations for improved project management and use of both financial and human resources. An average of approximately 28 man-days per loan are devoted to this phase.

The majority of the procedural effort to be performed in the lending area will come from COLAC's credit analyst (see Organizational Chart p. 40) who will devote his entire time to the process. Other necessary and fairly heavy inputs will be made by the field resident technicians, area coordinators, production credit technicians as the case may be, primarily on supervision, monitoring, and trouble shooting.

The overall average staff effort per loan of professional time came to 64 man-days at the time the program budget exercise was completed. The average time is expected to increase considerably under the IDB package because of necessary negotiations and arrangements with central banks, government agencies, and other complications. The calculation does not include any true technical assistance.

b) Credit Policy and Criteria

COLAC's credit policy has been reviewed by the project committee and appears technically adequate and in line with project goals. General eligibility criteria also appears acceptable but requires sharper definition in terms of the relative weight to be accorded to various factors and absolute minimums within given lending areas. Eligibility criteria will be reviewed and approved by AID for each loan category to be financed by loan funds.

What is especially necessary now, in COLAC, is a complete lending and operations manual. There are dozens, possibly hundreds of different guidelines, sets of instructions, forms, and formats, etc. for covering every conceivable phase of COLAC's activity. A wealth of experience has been documented over the past decade. However, there is literally too much to absorb or cope with for any one technician or executive. A comprehensive document should be developed consolidating all procedures into one operating handbook which would then be approved by the Board as policy. This would also serve the dual prupose of educating the board, as well as giving COLAC management added leverage in forcing compliance on the part of federations with the more rigorous elements of project and loan implementation. (See Condition Precedent No. 1.C.).

3. Inter Institutional Relationships

Although there is no written agreement among participating institutions, the COLAC project represents what could be called a consortium approach to development financing, albeit perhaps more by circumstance than by design. The respective inputs and institutions are shown in Fig. 7 .

The importance of the mutually supporting roles of the various institutions for the benefit of the project cannot be overemphasized, especially as this effort is so unprecedented in nature and of relatively high risk at least until an adequate track record has been established. It is essential that good working relationships, close coordination and an attitude of trust be maintained at the working level of the various institutions in order to maximize the complementarity of each input as well as to avoid the obvious duplication of effort that could evolve.

From both COLAC's and the donor/lender standpoint, there is a considerable cost savings potential here. For example, a single reporting system and format could be designed, joint evaluations could be realized, etc. As these major inputs are about to be launched almost simultaneously (AID, the IDB, and the OPIC - US Central) it would make sense to meet early in 1976 to design integrated or at least complementary procedures where practical.

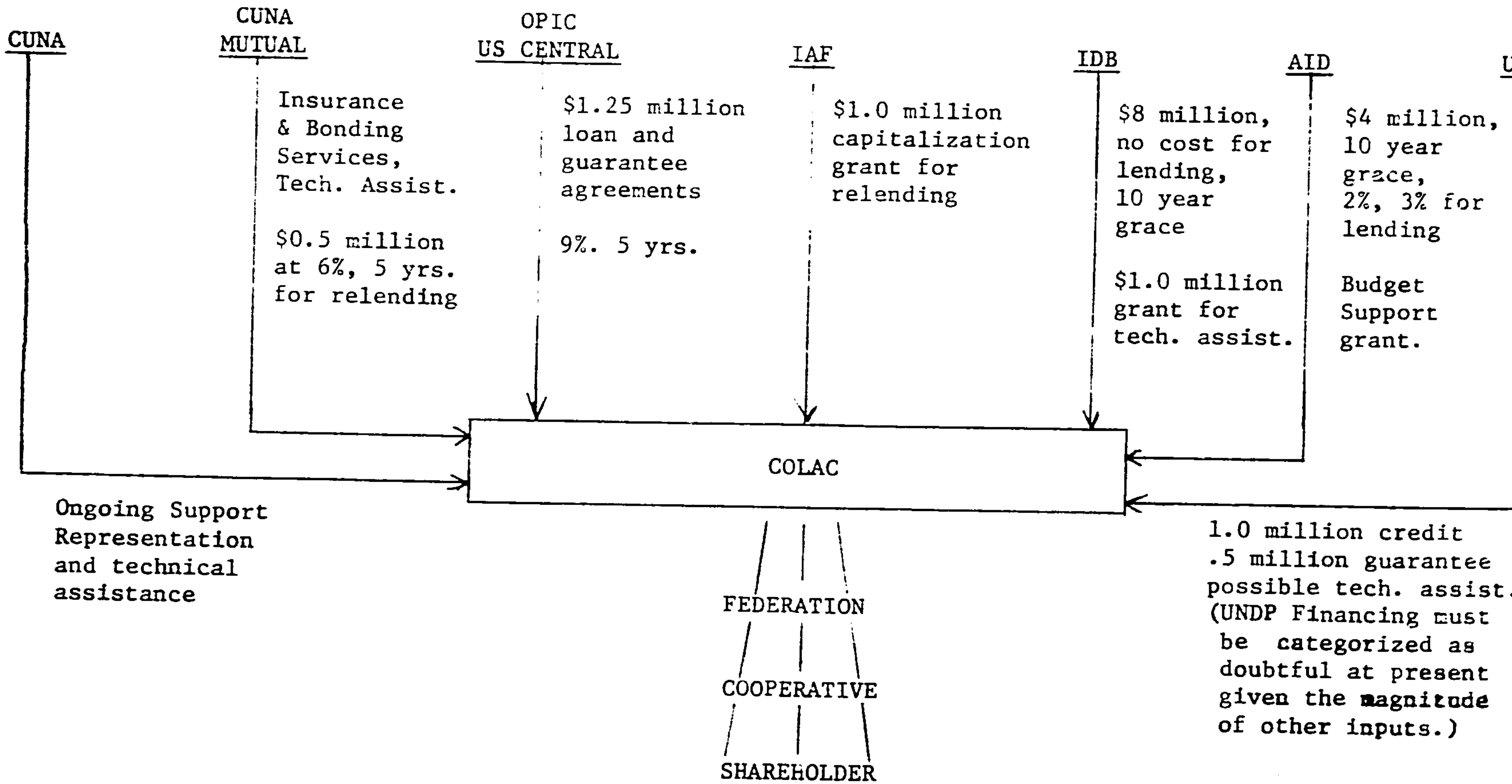
4. AID's Administrative Arrangements

COLAC, as a project has been covered by an AID/Washington Project Manager (rural delivery systems specialist, LA/DR/RD) for the past 2 1/2 years. As the project has grown and picked up momentum over time, and especially once the loan development process was initiated, management of the activity has become almost a full time job and would be if time and circumstances permitted. Counting the inputs from the LA/DR finance officer, it is now more than a full-time job. With loan execution activity about to begin which will include a demanding condition precedent/gearing up phase (see following section) project management will include heavy responsibilities for at least the first year. It is therefore recommended either that a personnel ceiling or a contract position be established for the project. The effort is of such a nature and potential that the AID should not run the risk of sloppy implementation or having the project go off course due to inadequate attention or supervision. Such a position conceivably could also serve as a coordinating agent for other participating donor agencies at a real cost savings to all. Perhaps even the expense of a contract or direct hire supervisor could be shared somehow with OPIC and the IDB, although it is understood that the IDB will monitor the project through their Panama office.

Figure 7

THE CONSORTIUM APPROACH

Inter-Institutional Donor/Lender Relationships



A final question relates to whether the activity should be managed in Washington or Panama where the headquarters operation is physically located. The USAID has indicated from time to time that it would be glad to help where possible and continue to cooperate administratively under the bilateral agreement (coverage due to end Dec. 31, 1975); but it has been made very clear that the Mission would not consider taking over the management of the activity without a position.

Reviewing travel activity of the past year and the probable field time requirements of the job in addition to past management problems in Washington of time, distance, and communication, it would appear - on balance - that the position whould be attached to the Panama Mission, but the case is definitely not clear cut due to all the approvals and coordinating activity that naturally take place in Washington.

B. Implementation Plan

Implementation of this project can not be separated into convenient components relating to AID, the IDB, OPIC, the IAF, etc. It must be viewed and executed as an integrated whole. Involved are simultaneous one-time and ongoing activities in Panama, member countries and Washington. Because of the state of flux the project has been in for the past eight months, much remains to be calculated, determined, planned, and programmed, etc. There is also considerable pressure now from the federations for action, movement or money and services of all kinds. Over the past 15 months COLAC management and staff have been so engaged in the capital mobilization effort that major sacrifices were made in the area of ongoing lending, technical assistance, training and other services to the federations.

Nevertheless, it is possible at this point to establish certain critical project indicators and a time table for execution subject to review early in CY 1976 after COLAC and AID have had the chance to study and sort out exactly what has come out of recent rounds of negotiations and project development activity in terms of conditions, constraints, resources and needs. Tentatively the implementation plan is presented in two phases, (a) pre-disbursement and (b) the full project. (Also see Annex VI, Performance Tracking Matrix.)

1. Prior to AID/IDB disbursements:

	Event	Target
a)	AID Loan Authorization	December 1975
b)	IDB Financing Agreement signed	December 1975
c)	COLAC Recruitment Plan launched for AID required positions	December 1975

d)	COLAC Seminar, and full Board meeting	mid-February 1976
e)	COLAC/AID Loan Agreement signed	mid-February 1976
f)	COLAC Position of Finance Division Manager, Operation Division Manager and Administrator are filled	Early March 1976
g)	Final OPIC - US Central Disbursement	March 31, 1976
h)	Complete operating policies and procedures submitted to AID	mid-April 1976
i)	Operations Plan for 1st year and Planning Framework submitted to AID	mid-May 1976
j)	All conditions Precedent completed	May 31, 1976
k)	IDB Financed Country Resident Technicians and Headquarters Advisors are in place	May 31, 1976
l)	First AID disbursement	June 30, 1976
m)	First IDB disbursement	September 30, 1976

2. <u>The Full Project</u>

a)	First AID disbursement	June 31, 1976
b)	First IDB disbursement	September 30, 1976
c)	Joint AID/COLAC review prior to disbursement of 2nd mission	April 1977
d)	Complete Management and statistical gathering system esta established	May 1977
e)	Annual Evaluation review	June 30, 1977
f)	AID Grant Support terminates, COLAC reaches breakeven	December 1977
g)	All AID funds disbursed	December 1977
h)	Annual AID Evaluation Review	June 30, 1978
i)	All IDB Funds for relending are disbursed	June 30, 1978
j)	COLAC's outstanding portfolio reaches $19-20 million	December 31, 1978
k)	10 Federations have fully operational finance depts.	June 30, 1979
l)	8 Federations have satisfactorily operating production credit programs	June 30, 1979
m)	Terminal disbursement date	June 30, 1979
n)	Final IDB/AID Evaluation complete	June 30, 1979

C. Evaluation Plan

The IDB project proposal requires an evaluation to be conducted jointly by COLAC and the Bank within four years from the signature of the financing agreement to assess the impact of the Bank's financial and technical assistance on member federations and constituent credit unions. The evaluation will be at four levels of analysis: COLAC, national federations, and a valid sample of individual credit unions and credit union shareholders.

It is recommended that AID negotiate with the Bank a joint evaluation at the time with due emphasis given to the respective program goals and criteria of each institution. Perhaps also the US National Central Credit Union and OPIC could participate as well as the Inter-American Foundation. The cost savings here for a major evaluation contract could be substantial.

The most important aspect of such an evaluation, for AID's purposes, would be the relative utility of COLAC as a regional development model to be replicated in other regions or in other organizational contexts.

In the intervening period it is suggested that annual project reviews be held beginning in June 1976, or one year from when AID disbursements are scheduled to commence. The annual review would consist of the presentation to LA/DR by the project committee of an annual evaluation report which would treat in detail the extent to which goal, program, and output indicators were being met with recommendations as to required remedial action and changes in indicators, assumptions, etc., warranted due to changing circumstances and conditions. In addition, a special joint COLAC/AID review will be held after disbursement of the first $2 million of AID funds.

COLAC quarterly reports will be devised to focus on purpose and output indicators. In addition the technical assistance COLAC will receive from the IDB grant for the establishment of a statistical gathering system will be helpful in terms of relevant shareholder, coop, and federation data.

Finally, annual audited financial statements are required by both AID and the IDB.

The Project Manager, supported by appropriate members of the project committee will spend approximately two months per year in gathering material and preparing the evaluation report for the annual review. Of this time at least one month should be spent in the field reviewing COLAC's headquarters operation and impact at the federation level.

D. Review and Approval of Lending Criteria by AID

All egibility criteria as well as procedures for lending will be reviewed and approved by AID. Specific elements to be emphasized will be:

a) The economic return to the producer or shareholder;
b) Absorptive capacity of the borrowing federations and cooperatives;
c) Administrative and technical capacity of the federation and the cooperative to properly utilize and supervise loan funds;
d) Financial condition of the sub-borrower and capacity to repay. Delinquency control and monitoring, portfolio management capability, etc.;
e) Technical assistance necessary to properly implement the sub-projects or project;
f) Complementary Services to credit necessary for effective sub-project execution, in marketing, extension, supply, etc.

In addition to the above general criteria, separate criteria to be applied to non-productive areas such as housing, health and education will be reviewed and approved with assistance from appropriate technical divisions of LA/DR.

E. Review and Approval of Sub-Projects by AID

All COLAC projects to be financed by AID, regardless of size, will be submitted to the AID/W Project Manager with a copy to the USAID in the country involved. The material included in this submission will consist of the following:

1. COLAC Loan Document: Full technical, financial, and economic description and justification of the project in accordance with AID approved procedures and criteria.

2. COLAC letter certifying that the loan has been authorized by COLAC's credit committee.

3. A copy of the loan agreement.

Each AID financed project will be checked for compliance with the loan agreement and any project to utilize more than $500,000 in AID funds will require formal AID approval by the AID project manager through an implementation letter.

F. Disbursements

Disbursements to COLAC will be made in United States dollars, COLAC requires dollar disbursements to sub-borrowers where possible in order to register loans with exchange control authorities and Central Banks in each country for repatriation of principal, interest and capitalization purposes.

G. Procurement

Since COLAC is an Intermediate Credit Institution, the procurement regulations of the Capital Project Guidelines will not apply. Also, Small Business Notification will not be necessary except in instances where federations elect to carry out a formal competitive bidding procedure.

H. Environmental Assessment

Given the regional nature of the project (total project resources will be distributed fairly evenly amongst some 10 countries) and the relatively modest amount of total resources to be made available by the end of the project (less than $20 million) to those countries, the proposed activity's effect or impact upon the environment is likely to be neutral even if it is assumed that all project resources would be directed to small farmer agricultural production.

Under COLAC's integrated production credit program concept, project funds will be made available through the credit union "delivery sustem" to credit union members to increase their agricultural production. Use of the funds will probably include the purchase of fertilizer and insecticides and possibly, tractor rental for land preparation and (conceivably) small scale, individual unit, irrigation activities. In no case is large scale or widespread use of insecticides or other chemicals, in any area or on any farm, contemplated or likely. On the other hand, it is probable that many small farmer credit recipients will follow the appropriate technical assistance advice in order to be eligible under the integrated production credit program and adopt improved agricultural practices which may enhance the overall value of the land cultivated through land protection and soil erosion minimization practices.

I. Integration of Women in Development

There is no legal discrimination against women in COLAC or any of its member federations and national systems. In many instances women are found on cooperative boards management and staffs. In Paraguay, the president of the federation is a woman and a senator.

The condition and station of women in the movement varies depending on the country and it has not been possible to obtain data on membership and participation which would be meaningful for this presentation. A number of projects which COLAC will finance, however, in such areas as artisanry, small industry and agriculture will benefit, create work, and provide opportunities for women.

Credit, technical assistance, and other services are provided without regard to sex by cooperatives and federations alike.

Conditions, Covenants and Negotiating Status

The following conditions and covenants are recommended for inclusion in the loan agreement. These conditions and covenants remain to be renegotiated as they have changed somewhat from the original AID proposal negotiated in May 1975. The differences, however, are of more form than substance, and no major problem is anticipated.

1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement or to issuance of any commitment documents under the loan, the borrower shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, the following:

a) a certified copy of the corporate charter and by-laws of the Borrower, duly authorized by the Borrower's Board of Directors.

b) evidence that the positions of administrator, finance division chief, and operations division chief are filled.

c) a certified copy of the operating policies, procedures, and standards of the Borrower, which shall include but not necessarily be limited to:

i) The Borrower's credit policy including:

- The procedures to be followed for the objective and comprehensive review and authorization of all sub-loans proposed to be made by the Borrower to assure that such proposed activities are economically justified, technically sound, and will have the desired input on the agreed upon target group of beneficiaries.

- Eligibility criteria to be met by sub-borrowers and sub-loan proposals in each of the following areas: a) agricultural production and related credit, b) non-agricultural production and related credit, c) health, education, and housing credit, d) credit to be channeled through cooperatives other than credit cooperatives.

- The plan for periodic audit of sub-loans made by the Borrower.

ii) Policies controlling the subscription and resale of capital shares in Borrower's equity capital by member national credit union federations or other entities.

iii) The Borrower's policy and procedures relating to the allocation and programming of human and other operating resources in accordance with assessed project constraints, country by country and regionally.

iv) The standards and procedures to be followed in providing technical assistance to client federations.

d) The administrative, organizational, and staffing plan of the Borrower for the effective execution of the project, including a complete cost breakdown and timetable for execution and a recruitment plan including job descriptions.

e) The operating plan for the first full year of the project to commence in July 1976. (The first AID disbursement is anticipated in June 1976.)

2. Covenants

a) Except as AID may otherwise agree in writing the Borrower shall not:

i) Make commitments involving more than the equivalent of two million United States dollars ($2,000,000) of AID loan funds, prior to a joint review of the progress of the program by AID and COLAC;

ii) Utilize AID loan funds or any repayments of principal from sub-loans made from AID loan funds to pay administrative or operating expenses of the Borrower;

iii) Permit AID funds to be used to finance any sub-project or to make sub-loans to any sub-borrower in excess of the equivalent of five hundred thousand United States dollars ($500,000) without first obtaining official written approval from AID;

iv) Make sub-loans with repayment terms of more than five (5) years;

v) Maintain a reserve for bad debts of less than one percent (1%) of its total sub-loan portfolio for the first three years, increasing to three percent (3%) thereafter;

vi) Declare or pay dividends or patronage refunds or rebates on shares of shareholders capital without first submitting for AID approval a comprehensive dividend or refund policy;

vii) Declare or pay dividends or patronage refunds from sources other than accrued earnings and after reserves for bad debts and legal reserve requirements have been met;

viii) Incure any indebtedness for a term exceeding one (1) year or for amounts of more than five hundred thousand dollars ($500,000) without the prior consultation with AID;

ix) Incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID loan;

x) Amend or modify its corporate charter, by-laws or undergo any type of corporate reorganization without prior consultation with AID.

b) In addition to the foregoing requirements, the Borrower will agree to:

i) Use its best efforts to educate sub-borrowers in relation to decapitalization risk from inflation and monetary devaluation and will attempt to persuade them to take adequate financial and administrative protective measures.

ii) Utilize repayments from AID funded sub-loans only for those purposes for which the AID loan funds were originally made available.

iii) Give special and continuing recognition throughout the life of this project to the effective and expeditious implementation of projects and activities designed to test, develop, and expand programs of international inter-lending of financial resources between national credit systems.

iv) Notify AID immediately subsequent to any change in management or any other important decision which might have a significant impact or bearing on the course of project execution.

c) Prior to COLAC disbursement of AID loan funds for any particular member country, COLAC will submit for AID approval the maintenance of value procedure to be utilized in that country.

d) Prior to COLAC disbursement of loan funds for any particular member country, COLAC will submit to AID an opinion or opinions of counsel, acceptable to AID, that all corporate and legal action required has been taken under the laws of the country in which it proposes to lend or otherwise fulfill obligationsunder the AID loan.

3. Other Terms and Conditions

The loan shall be subject to such other terms and conditions as AID may deem advisable.

LOAN AUTHORIZATION
(DRAFT)
A.I.D. Loan No. 598-T-005

Provided from: FAA Section 103 ("Food and Nutrition")
For: Latin America Regional: Latin American Confederation of Credit Unions (COLAC)

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended ("the Act"), and the delegations of authority issued thereunder, I hereby authorized the establishment of a loan ("Loan") pursuant to Section 103 of the Act, and in furtherance of the Alliance for Progress, to the Latin American Confederation of Credit Unions, a Panamanian cooperative organization ("Borrower"), of not to exceed four million United States dollars ($4,000,000) to assist in financing the United States dollar and local currency costs of a program ("Program") to provide medium-term financing and technical assistance for the development and expansion of the credit union and cooperative programs of the Borrower's member nationalfederations of credit unions and cooperatives. The loan shall be subject to the following terms and conditions.

I. Interest and Terms of Repayment

Borrower shall repay the loan to the Agency for International Development ("A.I.D.") within thirty (30) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest during the grace period at the rate of two percent (2%) per annum, and at the rate of three percent (3%) thereafter.

II. Source and Origin

Goods, services (except for ocean shipping) and marine insurance financed under the loan shall have their sources and origin in countries included in Code 941 of the A.I.D. Geographic Code Book. Marine insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in Code 941 of the A.I.D. Geographic Code Book, excluding the country of the relevant sub-borrower.

III. Local Currency Costs

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

IV. Conditions Precedent

Prior to the first disbursement or to the issuance of any commitment documents under the loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

A a certified copy of the corporate charter and by-laws of the Borrower, duly authorized by the Borrower's Board of Directors.

B. evidence that the positions of administrator, finance division chief and operations division chief are filled.

C) a certified copy of the operating policies, procedures, and standards of the Borrower, which shall include but not necessarily be limited to:

1. The Borrower's credit policy including:

a) - The procedures to be followed for the objective and comprehensive review and authorization of all sub-loans proposed to be made by the Borrower to assure that such proposed activities are economically justified, technically sound, and will have the desired input on the agreed upon target group of beneficiaries.

b) - Eligibility criteria to be met by sub-borrowers and sub-loan proposals in each of the following areas: a) agricultural production and related credit, b) non-agricultural production and related credit, c) health, education, and housing credit, d) credit to be channeled through cooperatives other than credit cooperatives.

c) - The plan for periodic audit of sub-loans made by the Borrower.

d) Policies control the subscription and resale of capital shares in Borrower's equity capital by member national credit union federations or other entities.

e) The Borrower's policy and procedures relating to the allocation and programming of human and other operating resources in accordance with assessed project constraints, country by country and regionally.

f) The standards and procedures to be followed in providing technical assistance to client federations.

2. The administrative, organizational, and staffing plan of the Borrower for the effective execution of the project, including a complete cost breakdown and timetable for execution and a recruitment plan including job descriptions.

3. The operating plan for the first full year of the project to commence in July 1976. (The first AID disbursement is anticipated in June 1976.)

V. Covenants

A. Except as AID may otherwise agree in writing the Borrower shall not:

1. Make commitments involving more than the equivalent of two million United States dollars ($2,000,000) of AID loan funds, prior to a joint review of the progress of the program by AID and COLAC;

2. Utilize AID loan funds or any repayments of principal from sub-loans made from AID loan funds to pay administrative or operating expenses of the Borrower;

3. Permit AID funds to be used to finance any sub-project or to make sub-loans to any sub-borrower in excess of the equivalent of five hundred thousand United States dollars ($500,000) without first obtaining official written approval from AID;

4. Make sub-loans with repayment terms of more than five (5) years;

5. Maintain a reserve for bad debts of less than one percent (1%) of its total sub-loan portfolio for the first three years, increasing to three percent (3%) thereafter;

6. Declare or pay dividends or patronage refunds or rebates on shares of shareholder- capital without first submitting for AID approval a comprehensive dividend or refund policy;

7. Declare or pay dividends or patronage refunds from sources other than accrued earnings and after reserves for bad debts and legal reserve requirements have been met;

8. Incure any indebtedness for a term exceeding one (1) year or for amounts of more than five hundred thousand dollars ($500,000) without the prior consultation with AID;

9. Incur any indebtedness which would enjoy a position superior to the obligation incurred under the AID loan;

10. Amend or modify its corporate charter, by-laws or undergo any type of corporate reorganization without prior consultation with AID.

B. In addition to the foregoing requirements, the Borrower will agree to:

1. Use its best efforts to educate sub-borrowers in relation to decapitalization risk from inflation and monetary devaluation and will attempt to persuade them to take adequate financial and administrative protective measures.

2. Utilize repayments from AID funded sub-loans only for those purposes for which the AID loan funds were originally made available.

3. Give special and continuing recognition throughout the life of this project to the effective and expeditious implementation of projects and activities designed to test, develop, and expand programs of international inter-lending of financial resources between national credit systems.

4. Notify AID immediately subsequent to any change in management or any other important decision which might have a significant impact or bearing on the course of project execution.

C. Prior to COLAC disbursement of AID loan funds for any particular member country, COLAC will submit for AID approval the maintenance of value procedure to be utilized in that country.

D. Prior to COLAC disbursement of loan funds for any particular member country, COLAC will submit to AID an opinion or opinions of counsel, acceptable to AID, that all corporate and legal action required has been taken under the laws of the country in which it proposes to lend or otherwise fulfill obligations under the AID loan.

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

The loan shall be subject to such other terms and conditions as AID may deem advisable.

Annex II

COLAC CONFEDERACION LATINOAMERICANA DE COOPERATIVAS DE AHORRO Y CREDITO

Apartado Postal 6664; Panamá 5, R. de P. o Cable COLAC o Tel.: 23-7412

Panamá, 27 de octubre de 1975

Sr. Herman Kleine
Deputy U.S. Coordinator
Alliance for Progress
AA/LA
Department of State
Washington, D.C. 20523

Estimado Señor Kleine:

Ante todo queremos manifestar, una vez más, nuestro agradecimiento por la ayuda que hemos recibido del AID la que nos ha permitido, trabajando juntos, Uds y nosotros, iniciar una organización, única en su clase, que es una prueba de la visión, de la agresividad, del espíritu de innovación del AID y del Movimiento Cooperativo Latinoamericano y del deseo de Uds de cumplir con los objetivos del programa de ayuda externa de esa gran Nación.

Perdóneme si parece presentuoso decir que gracias a que el AID tuvo el valor de romper con todas las tradiciones, con la rutina, con los esquemas preestablecidos para canalizar recursos hacia Latinoamerica y a que nosotros tuvimos el coraje de correr el riesgo de dejar posiciones aparentemente mas estables para trabajar en lo que parecía un sueño, ese sueño se está convirtiendo, con muchas dificultades, es cierto, en una realidad.

Sin lugar a dudas el préstamo del BID coloca a COLAC en una posición que le permite una mayor estabilidad, una mayor seguridad de que la realización de lo que hemos planeado juntos puede lograrse.

Pero, también es cierto, que las condiciones especiales de esta asistencia económica deja una serie de lagunas en cuanto al cumplimiento de lo que juntos hemos planeado, lagunas que Ud. podrá constatar en el trabajo que acompaña esta carta, trabajo del cual nos sentimos orgullosos porque demuestra la capacidad técnica para cumplir los objetivos del organismo que Uds. han ayudado a crear.

El trabajo que acompañamos demuestra en forma irrefutable que sin un préstamo de por lo menos cuatro millones de dólares de parte de Uds. nuestra viabilidad económica es problemática y que tendríamos que tomar medidas de recorte presupuestario

que afectarían en forma drástica la efectividad que hemos visualizado para lograr un mejor desarrollo de las Federaciones y de las Cooperativas en general.

Por esta razón es que ocupamos nuevamente el tiempo de Uds. para que estudien la posibilidad de ese préstamo, rogándoles que nos den en forma definitiva una respuesta positiva o negativa, pero que se tome una decisión final en este asunto porque no sería inteligente de parte nuestra, ni de Uds., seguir invirtiendo más tiempo en estas gestiones cuando se han hecho todos los estudios, los más exhaustivos quizás, en cualquier propuesta que se haya hecho al AID, que nos permiten, en forma técnicamente elaborada, tomar una desición final.

Rompiendo también las tradiciones me siento obligado a hacer una observación final que no se acostumbra en este tipo de negociaciones pero que en este caso por su trascendencia creo que es absolutamente necesario.

Estoy seguro que en ninguna de las negociaciones del AID se ha dado la circunstancia de involucrar en una sola transacción más países junto y que afectara, su resultado, a una mayor cantidad de personas de los niveles económicos que a nosotros y a Uds., según la comprensión que tenemos de los objetivos del AID, nos interesa llegar.

Estas gestiones han mantenido por varios años a millones de personas de 16 países latinoamericanos con su fé puesta en el AID, ha creado una serie de esperanzas, la seguridad de un deseo de cambio en las políticas del AID, ningún proyecto puede haber causado tanta simpatía en los Latinoamericanos como este proyecto del Gobierno Norteamericano directamente con nuestro pueblo. Dejar esta obra inconclusa es un factor político que tiene que ser tomado en cuenta por Uds., por la gran frustación y el deterioro que en nuestra fé causaría.

El Comité Ejecutivo de COLAC espera que Uds. puedan dar una respuesta definitiva en la reunión que sostendremos con AIDS en noviembre 5.

De Ud. con toda consideración y respeto.

ARMANDO TERAN M.

ATM/gg

Annex IV Pg. 1

CONFEDERACION LATINOAMERICA DE COOPERATIVAS DE AHORRO Y CREDITO
SOURCES AND APPLICATIONS OF FUNDS STATEMENT
TWENTY YEAR PROJECTION
FIGURES IN U.S. DOLLARS

	7/1/75 6/30/76	7/1/76 6/30/77	7/1/77 6/30/78	7/1/78 6/30/79	7/1/79 6/30/80	7/1/80 6/30/81	7/1/81 6/30/82	7/1/82 6/30/83	7/1/83 6/30/84	7/1/84 6/30/85
SOURCES OF FUNDS										
NET UNALLOCATED SURPLUS OR (OPERATING LOSS IF NEGATIVE)	-262410.	-68595.	10575.	62959.	91134.	86739.	117716.	163631.	214769.	293252.
CAPITALIZATION:										
EXTERNAL BORROWINGS	600000.	8750000.	4450000.	4250000.	1000000.	7000000.	4000000.	5000000.	7000000.	5000000.
NET INCR. IN SHARE CAPITAL	104877.	293410.	551327.	705198.	840548.	993405.	1227281.	1402708.	1597472.	1774145.
NET DEPOSITS	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
CAPITAL DONATIONS	500000.	0.	0.	0.	0.	0.	0.	0.	0.	0.
INCREASE IN LEGAL RESERVES	0.	0.	39185.	35234.	57153.	80634.	102516.	125147.	147842.	176952.
INCREASE IN RESERVES FOR CURRENCY DEVALUATIONS	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
INCREASE IN RESERVES FOR BAD DEBTS	26772.	115900.	127461.	159497.	157463.	216722.	239491.	268411.	302768.	306963.
DEPRECIATION	12600.	15500.	15500.	15500.	55500.	55500.	54700.	48800.	48800.	45000.
SUB-TOTAL	1181838.	9106215.	5193851.	5278[illegible].	2201808.	8433000.	5741705.	7008697.	9311651.	7596311.
LOAN RECUPERATIONS	276962.	429223.	304523.	600573.	3761831.	5276600.	6320393.	5045980.	7635346.	9465958.
INCREASE IN ACCOUNTS PAYABLE	25831.	54438.	54594.	121062.	143000.	296187.	352062.	420250.	501187.	510875.
DECREASE IN ACCOUNTS RECEIVABLE	204037.	74508.	304207.	460491.	614420.	696003.	953968.	1096965.	1263910.	1463386.
DECREASE IN INVESTMENTS	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
DECREASE IN INVENTORIES	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
TOTAL FUNDS RECEIVED	1688668.	9664733.	5557174.	6660364.	6721055.	14701791.	13368128.	13571892.	18712095.	19036530.
APPLICATION OF FUNDS										
REPAYMENT ON LOANS AND OBLIGAT.	0.	16666.	502500.	1087500.	37500.	204167.	1537500.	2204167.	3470833.	4637500.
ACQUISITION	58500.	0.	0.	0.	500000.	0.	0.	0.	0.	50000.
LOANS TO BORROWERS	1426650.	9342058.	5001093.	4616027.	5516820.	12769193.	10109661.	9887244.	13234855.	12121222.
INCREASE IN INVESTMENTS	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
DECREASE IN ACCOUNTS PAYABLE	66418.	25831.	54488.	54594.	121062.	143000.	296187.	352062.	420250.	501187.
INCREASE IN ACCOUNTS RECEIVABLE	74808.	304207.	460491.	614420.	696003.	953968.	1096965.	1263910.	1463386.	1564091.
INCREASE IN INVENTORIES	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
TOTAL FUNDS DISBURSED	1665376.	9688762.	5018571.	6374540.	7273356.	14070327.	13040514.	13707384.	18589324.	18874000.
INCREASE OR DECREASE IN CASH	292.	-24228.	-161397.	285524.	-552327.	631464.	327613.	-135491.	122771.	162530.
CASH BALANCE BEGINNING OF YEAR	34590.	34882.	10654.	-150744.	134780.	-417548.	213916.	541530.	406038.	528810.
CASH BALANCE AT END OF YEAR	34882.	10654.	-150744.	134780.	-417548.	213916.	541530.	406038.	528810.	691340.

Annex IV Pg. 2

PROJECTED PRO-FORMA CULAC'S BALANCE SHEET

(FIGURES IN U.S. DOLLARS)

ASSETS	7/1/75 6/30/76	7/1/76 6/30/77	7/1/77 6/30/78	7/1/78 6/30/79	7/1/79 6/30/80	7/1/80 6/30/81	7/1/81 6/30/82	7/1/82 6/30/83	7/1/83 6/30/84	7/1/84 6/30/85
TOTAL ASSETS	2859252.	11846058.	16394553.	20496963.	22470244.	30580043.	34545931.	39101439.	44671626.	47288162.
CURRENT ASSETS	2735972.	11738278.	16302273.	20420155.	21548964.	29714263.	33734851.	38339159.	43958146.	46569682.
CASH	34682.	10654.	-150744.	154730.	-417546.	213916.	541530.	406038.	528810.	691340.
OUTSTANDING LOANS	2677180.	11590015.	16286585.	20104540.	21861529.	29354121.	33143590.	37984854.	43584362.	46239626.
ALLOWANCE FOR UNCOLL. LOANS	66072.	181972.	309433.	446950.	606354.	823116.	1062607.	1331018.	1633786.	1940749.
NET OUTSTANDING LOANS	2611108.	11408043.	15977152.	19655509.	21255135.	28531005.	32080982.	36653836.	41950577.	44298877.
UP TO 1 YR. RECUPERATION	429223.	304523.	300073.	3761851.	5276630.	6320393.	5045980.	7635346.	9465958.	10922100.
MORE THAN 1 YR. RECUPERATION	2247957.	11285492.	15486513.	16342705.	16584922.	23033729.	28097610.	30349508.	34118405.	35317527.
ACCOUNTS RECEIVABLE	60391.	213744.	301399.	422996.	479371.	677725.	775578.	896317.	1045387.	1114589.
SHARES RECEIVABLES	14416.	90463.	159091.	151423.	216633.	276243.	321387.	367093.	417998.	449502.
OTHER CURRENT ASSETS	15374.	15374.	15374.	15374.	15374.	15374.	15374.	15374.	15374.	15374.
FIXED ASSET NET OF DEPRECIATION	122459.	106959.	91459.	75959.	920459.	864959.	810259.	761459.	712659.	717659.
OFFICE EQUIPMENT & FURNITURE	118103.	118103.	118103.	118103.	193103.	193103.	193103.	193103.	193103.	243103.
PRINTING MACHINES, EQUIPMENT	35751.	35751.	35751.	35751.	35751.	35751.	35751.	35751.	35751.	35751.
OFFICE BUILDING	0.	0.	0.	0.	825000.	825000.	825000.	825000.	825000.	825000.
MINUS DEPRECIATION	31395.	46895.	62395.	77895.	133395.	188895.	243595.	292395.	341195.	386195.
OTHER ASSETS	821.	821.	821.	821.	821.	821.	821.	821.	821.	821.
PREPAID EXPENSES	821.	821.	821.	821.	821.	821.	821.	821.	821.	821.

Annex IV Pg. 3

PROJECTED PRO-FORMA COLAC'S BALANCE SHEET

(FIGURES IN U.S. DOLLARS)

LIABILITIES + NET WORTH	7/1/75 6/30/76	7/1/76 6/30/77	7/1/77 6/30/78	7/1/78 6/30/79	7/1/79 6/30/80	7/1/80 6/30/81	7/1/81 6/30/82	7/1/82 6/30/83	7/1/83 6/30/84	7/1/84 6/30/85
TOTAL LIABILITIES + NET WORTH	2859252.	11846058.	16394553.	20496953.	22470244.	30580043.	34545931.	39101439.	44671626.	47288162.
TOTAL LIABILITIES	1592099.	10354090.	14301696.	17530664.	18515102.	25464123.	27982498.	30846519.	34456623.	34828810.
CURRENT LIABILITIES	27099.	55756.	55862.	122330.	144268.	297455.	353330.	421518.	502455.	512143.
REVOLVING FUND	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
INTEREST ON LOANS PAYABLE	25831.	54488.	54594.	121062.	143000.	296187.	352062.	420250.	501187.	510875.
OTHER PAYABLE ACCOUNTS	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
DEFERRED INCOME	1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.	1268.
EXTERNAL LOANS	1565000.	10298334.	14245334.	17408334.	18370834.	25166667.	27629167.	30425001.	33954167.	34316667.
IDB	300000.	5800000.	7750000.	8000000.	8000000.	8000000.	8000000.	8000000.	8000000.	8000000.
SECURITY PACIFAC #1	80000.	80000.	0.	0.	0.	0.	0.	0.	0.	0.
SECURITY PACIFAC #2	185000.	185000.	0.	0.	0.	0.	0.	0.	0.	0.
CUNA MUTUAL	450000.	433334.	395334.	358334.	320834.	283334.	245834.	208334.	170834.	133334.
UNITED NATIONS	0.	0.	1000000.	1000000.	1000000.	1000000.	1000000.	1000000.	900000.	800000.
U.S. CENTRAL #1	500000.	1250000.	1050000.	0.	0.	0.	0.	0.	0.	0.
U.S. CENTRAL #2	0.	0.	0.	3000000.	3000000.	3000000.	2000000.	1000000.	1000000.	1000000.
U.S. CENTRAL #3	0.	0.	0.	0.	0.	4000000.	4000000.	4000000.	2666667.	1333333.
U.S. CENTRAL #4	0.	0.	0.	0.	0.	0.	0.	0.	6000000.	6000000.
AID	0.	2500000.	4000000.	4000000.	4000000.	4000000.	4000000.	4000000.	4000000.	4000000.
CUNA MUTUAL SAVINGS CERT.	50000.	50000.	50000.	50000.	50000.	50000.	50000.	50000.	50000.	50000.
OTHER SOURCES1	0.	0.	0.	1000000.	1000000.	833333.	500000.	166667.	166667.	166667.
OTHER SOURCES2	0.	0.	0.	0.	1000000.	1000000.	833333.	500000.	166667.	166667.
OTHER SOURCES3	0.	0.	0.	0.	0.	3000000.	3000000.	2500000.	1500000.	500000.
OTHER SOURCES4	0.	0.	0.	0.	0.	0.	4000000.	4000000.	3333333.	2000000.
OTHER SOURCES5	0.	0.	0.	0.	0.	0.	0.	5000000.	5000000.	4166667.
OTHER SOURCES6	0.	0.	0.	0.	0.	0.	0.	0.	1000000.	1000000.
OTHER SOURCES7	0.	0.	0.	0.	0.	0.	0.	0.	0.	5000000.

PROJECTED PRO-FORMA COLAC'S BALANCE SHEET

(FIGURES IN U.S. DOLLARS)

NET WORTH	7/1/75 6/30/76	7/1/76 6/30/77	7/1/77 6/30/78	7/1/78 6/30/79	7/1/79 6/30/80	7/1/80 6/30/81	7/1/81 6/30/82	7/1/82 6/30/83	7/1/83 6/30/84	7/1/84 6/30/85
TOTAL NET WORTH	1257153.	1491968.	2092555.	2966296.	3955142.	5115920.	6563434.	8254920.	10215004.	12459352.
MEMBERS SHARES	399894.	693304.	1244631.	1949625.	2790376.	3763781.	5011063.	6413771.	8011243.	9765387.
MEMBERSHIP REGULAR SHARE	43500.	49500.	55500.	61500.	67500.	73500.	79500.	85500.	91500.	97500.
SHARES FROM CREDIT OPERATIONS	147213.	394623.	939950.	1659146.	2473695.	3461100.	4682382.	6079090.	7670562.	9438706.
SHARES FROM CAPITAL SUBSCRIPT.	209181.	249181.	249181.	249181.	249181.	249181.	249181.	249181.	249181.	249181.
RESERVES	14305.	14305.	53491.	138775.	195939.	276572.	379069.	504236.	652078.	829030.
LEGAL RESERVE FOR OPERATIONS	8174.	8174.	43579.	105127.	166279.	243098.	335042.	446480.	579556.	734989.
LEGAL RESERVE FOR EDUCATION	2044.	2044.	4955.	16324.	14830.	16737.	22023.	28878.	36261.	47020.
LEGAL RESERVE FOR SOCIAL SECUR	4087.	4057.	4956.	16324.	14830.	16737.	22023.	28878.	36261.	47020.
DONATIONS	1089100.	1089100.	1089100.	1089100.	1089100.	1089100.	1089100.	1089100.	1089100.	1089100.
AID DONATION	89100.	89100.	89100.	89100.	89100.	89100.	89100.	89100.	89100.	89100.
IAF DONATION	1000000.	1000000.	1000000.	1000000.	1000000.	1000000.	1000000.	1000000.	1000000.	1000000.
UNDISTRIBUTED SURPLUS OR LOSS	-262410.	-68595.	10375.	82959.	91134.	85739.	117716.	163631.	214769.	293252.
UNDISTRIBUTED SURPLUS OR LOSS PREVIOUS YEARS	26264.	-236146.	-304741.	-294365.	-211406.	-120272.	-33533.	84182.	247813.	462583.
ACTUAL UNDISTRIBUTED SURPLUS OR LOSS	-236146.	-304741.	-294365.	-211406.	-120272.	-33533.	84182.	247813.	462583.	755834.
DEBT/EQUITY RATIO	1.26	5.94	6.65	5.91	4.66	4.98	4.26	3.74	3.37	2.80

PROJECT COLAC'S TOTAL BUDGET
1975/76 - 1984/85
FIGURES IN U.S. DOLLARS

SOURCES OF INCOME	7/1/75 6/30/76	7/1/76 6/30/77	7/1/77 6/30/78	7/1/78 6/30/79	7/1/79 6/30/80	7/1/80 6/30/81	7/1/81 6/30/82	7/1/82 6/30/83	7/1/83 6/30/84	7/1/84 6/30/85
ANNUAL DUES	35200.	36960.	38808.	40746.	42786.	44925.	47171.	49530.	52006.	54607.
OVERHEAD ON CONTRACTS	10300.	13600.	15000.	0.	0.	0.	0.	0.	0.	0.
OTHER INCOME	2400.	2500.	2600.	2700.	2900.	3000.	3100.	3300.	3500.	3600.
AID BUDGET SUPPORT	325000.	225000.	0.	0.	0.	0.	0.	0.	0.	0.
NET SALES	23100.	12150.	12750.	13400.	14050.	14750.	15500.	16250.	17150.	18000.
BUILDING RENTAL(MINUS MAINT EXP)	0.	0.	0.	0.	0.	50000.	50000.	55000.	55000.	60500.
INTEREST ON LOANS	160394.	640141.	1105482.	1509869.	1637555.	2406413.	2928327.	3358535.	3935157.	4329261.
OTHER INCOME	960.	-1795.	-3973.	-427.	17219.	-1443.	-820.	-845.	-615.	999.
TOTAL	557374.	928555.	1170568.	1566290.	1914510.	2517645.	3043278.	3521774.	4062198.	4466967.
LESS COST OF FUNDS	70512.	195450.	219844.	349250.	538250.	956000.	1288250.	1539750.	1829500.	1965750.
NET INCOME BEFORE OPERATING EXP.	486862.	733105.	950624.	1217040.	1376260.	1561645.	1755028.	1982025.	2232698.	2501217.
OPERATING EXPENSES										
OPERATING EXPENSE INPUT	722500.	685800.	773300.	909300.	1070500.	1177550.	1295305.	1424835.	1567319.	1724051.
TOTAL OPERATING EXPENSES	722500.	685800.	773800.	909300.	1070500.	1177550.	1295305.	1424835.	1567319.	1724051.
PROVISION FOR BAD DEBTS	26772.	115900.	127461.	139497.	157463.	216722.	239491.	268411.	302768.	306963.
RESERVES	26772.	115900.	127461.	139497.	157463.	216722.	239491.	268411.	302768.	306963.
TOTAL OPERATING EXPENSES	749272.	801700.	901261.	1048797.	1227963.	1394272.	1534796.	1693246.	1870087.	2031014.
NET INCOME	-262410.	-68595.	49553.	168243.	148297.	167373.	220232.	288778.	362612.	470203.
ACCUMULATED NET INCOME	-262410.	-331005.	-231442.	-113200.	35097.	202470.	422702.	711481.	1074092.	1544296.
LEGAL RESERVES	0.	0.	39186.	65264.	57163.	80634.	102516.	125147.	147842.	176952.
NET UNALLOC. SURPLUS OR LOSS	-262410.	-68595.	10376.	62959.	91134.	86739.	117716.	163631.	214769.	293252.
NET INCOME W/OUT AID BUDGET SUP.	-587410.	-293595.	49563.	168243.	148297.	167373.	220232.	288778.	362612.	470203.
TIME INTEREST EARNED	16.53	6.85	9.42	7.49	5.84	4.09	3.55	3.39	3.24	3.31

Assumptions to Financial Projections

1. Sources, Terms, and Conditions of Available Funds.

   a. CUNA Mutual Savings Certificate. $50,000 @ 5 1/2%; (Renewable term).

   b. CUNA Mutual Line of Credit. $450,000 @ 6%; 15 year term.

   c. Interamerican Development Bank. $8,000,000 in various Latin currencies @ 0% interest; 30 year amortization - 10 year grace period. Comprised of:

Bolivia	- $1,200,000	equivalent	
Colombia	- $1,000,000	"	"
Costa Rica	- 500,000	"	"
Dom. Republic	- $1,000,000	"	"
Ecuador	- 500,000	"	"
El Salvador	- 500,000	"	"
Guatemala	$1,000,000	"	"
Nicaragua	$1,000,000	"	"
Mexico	800,000	"	"
Paraguay	500,000	"	"
	$8,000,000		

   d. A.I.D. $4.0 million @ 2%/3%; 30 year amortization - 10 year grace period.

   e. U.S. Central Credit Union (ICUS). $1.25 million @ 8 3/4%; 5 years - 2 year grace period. Additional, follow-on loans from U.S. Central of $3,4, and 6 million at 9% with same terms.

   f. U.N. Capital Development Fund. $1.0 million @ 2%; 15 years amortization - 5 year grace period.

   g. Other Sources. (Banks; insurance companies, etc. currently unidentified). Amounts of $1,3,4, and 5 million @ 9%; 5 year amortization - 2 year grace period for each.

   h. Inter-American Foundation. $1.0 million grant. (COLAC already has $500,000 of this amount).

   i. Capitalization. Regular dues amount to $6,000 per year to COLAC (from all federations). Special subscriptions of $40,000 per year in FYs 75/76 and 76/77 are assumed. Additionally, a 4% capitalization charge is levied on the total amount of a subloan approved, with additional charges of 1% per quarter on outstanding loan balances beginning in the second year.

2. COLAC Subloans. All available funds are relent in the quarterly period following their recuperation or availability. Assumed interest charge is 5% on IDB-SPTF funds, 10% on other funds during the first 3 years-rising to 11% thereafter; terms are 5 years, including 2 year grace period.
3. Interest on Bank balances is calculated at 8%.

4. A Bad Debt reserve is built up and maintained at 1% of the highest outstanding quarterly subloan portfolio balance.

5. Legal Reserves. In accordance with Panamanian law, in periods of net income, COLAC will reserve: 35% for Operations; 10% for Education; and 10% for Social Security.

6. Retained Earnings will be maintained in COLAC through issuance of PRO-RATA "stock" or support certificates to COLAC members.

7. AID Budget Support of $325,000 in FY 75/76 and $225,000 in FY 76/77 is assumed.

8. IDB Grant Technical Assistance. All uses of these funds are handled separately and are not incorporated into these projections.

9. Operating Budget. COLAC's budget will assume the costs of maintaining - continuing portions of the IDB grant funded T.A. as the IDB funds are exhausted (this primarily refers to the resident country technicians and their support costs and begins in FY 79/80). Annual operating expenses levels (before Bad Debt reserves) for the first five years are based on COLAC's long range planning model; subsequently, these expenses are assumed to grow @ 10% per year.

LOGICAL FRAMEWORK MATRIX

The Latin American Confederation of Credit Unions (COLAC)

Narrative	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
GOAL Improve the real net income, production and productivity of a growing credit union/cooperative membership in Latin America with particlar emphasis on small producer members.	The data does not currently exist to quantify projected increases in income, production and productivity. Early in the program selective micro level data should be possible to collect as part of the data collection component of the IDB grant.	1. Sample surveys of recipient groups 2. Data to be collected where possible in shareholder loan applications	1. That the credit union movement in Latin America will respond to basic economic and social incentives for outreach and expansion to include an ever larger low income membership. (See Social analysis, p. 60) 2. That the cooperative movement will continue to receive appropriate support and collaboration from Latin American Governments 3. That there will exist generally stable political, social and economic conditions in COLAC member countries

PURPOSE

Promote through COLAC the establishment of an effective, efficient, and viable regional intermediate credit and service delivery system, capable of adequately responding to the priority development needs of the credit union movement in Latin America, principally in rural areas

CONDITIONS EXPECTED BY END OF PROJECT PERIOD

1. Effective:

a) Ten federation finance departments will be functioning at "fully operational" capacity and four others performing "satisfactorily" in accordance with COLAC developed criteria.

b) The Integrated Production Credit Program will be operating satisfactorily in eight countries and successfully initiated in four others in accordance with COLAC developed criteria.

c) At least ten federations will have received loans from COLAC and will be current in terms of financial obligations to COLAC.

d) _____% of COLAC's agricultural credit portfolio will be utilized by federations in accordance with Integrated Production Credit Program Criteria

e) COLAC will have a well established lending program in operation for non-agricultural production and for health, education, and housing, oriented toward low income groups of shareholders

2. Efficient: (Refers to COLAC's Internal Operational Efficiency)

1) The ratio of administrative and all support activity to the cost of lending plus credit system development (Technical Assistance) will have been reduced from a current level of 3.23 to less than 1.

2) The average total cost per loan will drop from a current $_______ to $_______.

3) The ratio of total cost to the size of the outstanding loan portfolio will drop from _______ to _______.

3. Viable:

1) COLAC will be completely self supporting at an annual operating budget level of approximately $900,000.

2) COLAC's debt equity ratio will drop from 6.94 at the start of the project to less than 5% by July 1979. Total Equity Capital will be $2,000,000.

3) COLAC's real earnings will be growing at a rate exceeding 5% per year.

4) COLAC will be able to commence dividend payments by the end of the 5th year following project initiation.

MEANS OF VERIFICATION

1. COLAC's annual and Quarterly reports to AID and other lenders

2. Subloan status reports from Borrowers to COLAC

3. Reports from COLAC's resident technicians (IDB financed) in various countries

4. Annual Evaluation data and Progress Review Reports

5. Special Reports developed as a result of COLAC's proposed new management information and reporting system, to be assisted by IDB financed T.A.

IMPORTANT ASSUMPTIONS

1. COLAC will be able to mobilize $2,000,000 in unidentified external capital by the end of the project period and increasing amounts per year thereafter

2. On the IDB financed portion of COLAC's portfolio:

a) It will be possible for COLAC to convert capitalization and interest payments to cover dollar operating costs in Panama

b) The Bank will not insist on rigid adherence to its requirement that Bank funds be lent at less than Bank rates (many of which are subsidized) for similar purposes in given countries

c) No major devaluation (over and above those now estimated in the financial plan) will take place

d) Currency conversion arrangements for the principal amounts of IDB-SPTF reflow disbursements will be developed

e) The U.S., Canadian, and other Credit Union Movements in developed countries will be responsive to COLAC's need for lending capital once a track record and sufficient credit-worthiness have been established

f) Current support for the "going rate" concept in financial funds mobilization and relending will continue to expand

OUTPUTS	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
a) Lending: Over the period 1976-1977 COLAC plans on lending approximately US$ 18 million in 10 Latin American countries	Lending Targets for 1976-1979: ($000) Bolivia 1589 Colombia 1588 Costa Rica 1990 Dominican Republic 1300 Ecuador 500 El Salvador 3000 Guatemala 2000 Honduras 3000 Nicaragua 1150 Mexico 900 Paraguay 500 Peru 500 (Year by year country totals by type of loan will be possible to develop during initial replanning stage.) The targets at left include the equivalent of US$ 8 million from the IDB, US$ 4 million from AID, and US$ 3.25 milllion from other identified sources. AID funds should be disbursed within two years of first disbursement.	1. COLAC quarterly loan reports and disbursement requests	1. The IDB, AID, and other international lending agencies will not saturate the absorptive capacity of borrowing federations through direct or subsidized earmarked loans through government intermediaries or in other forms. 2. It will be possible for COLAC to "sell" an increasingly commercial approach to lending. 3. Pressure to move funds will not force COLAC to lower its standards in terms of eligibility criteria and indicators for effective credit utilization. 4. COLAC directors will support the heavy operating cost budget and salaries implied by COLAC's proposed reorganization and technical assistance plans.
b) Technical Assistance: Specific output targets need to be redeveloped in light of the expanded program made possible by both AID and IDB inputs. Technical Assistance outputs in general relate to the overcoming of constraints to absorptive capacity (administrative, financial and technical). Also included is training, both on the job and in formal seminars. Detailed technical assistance plans will be developed for each country prior to the first loan disbursement.	Illustrative T.A. Outputs Managers and Technicians Trained Comprehensive Federation Plans and Budgets developed Information and Data Systems developed Marketing and Supply Systems developed Projects developed and approved for funding Delinquency control problems overcome Savings and promotion campaigns realized Accounting systems improved Capitalization systems improved	1. Loan and other reports to AID and the IDB. 2. Annual Report	
c) Global Outputs: This area relates mainly to external capital mobilization, regional system building and analysis plus improvement in COLAC's institutional capacity for lending, TA, information dissemination, etc.	Global Outputs 1. External Capital mobilized from unidentified sources (1976 - 1979) 2. M.V and other regional finance lending and control procedures established and refined 3. COLAC's information center, economic trend analysis capability and planning capability established 4. Regional Marketing and Supply T.A. capability developed	1. COLAC Reports . AID Observations and evaluation visits	

INPUTS

A. Summary Cost Estimate and Financial Plan ($000)

Source	AID Loan	AID Grant	COLAC	Others Loans	Others Grants	Total
Lending	4,000		295	12,834	1,000	18,129
Operational Support		600				600
Technical Assistance					1,000	1,000
	4,000	600	295 1/	12,834	2,000	19,729

B. Loans

		Amount	Explanation
1.	AID	$4,000,000	Amount proposed in this PP
2.	Others:		
	a)	$8,000,000	IDB-Social Progress Trust Fund Local Currencies
	b)	$1,250,000	U.S. Central Credit Union
	c)	$1,000,000	United Nations Capital Dev. Fund (doubtful)
	d)	$ 450,000	CUNA Mutual
	e)	$ 265,000	Security Pacific Inter.Bank
	f)	$1,869,000	Other Sources (as yet unidentified)

C. Grants

		Amount	Explanation
1.	AID	$ 600,000	Final Phases of Existing Grant Support
2.	Others:		
	a)	$1,000,000	Inter-American Foundation for Capitalization and lending
	b)	$1,000,000	IDB-Social Progress Fund for Technical Assistance

1/ This was the balance of member share capital as of June 30, 1975. Shares from credit operations should come close to $1.6 million by the end of the project period.

MEANS OF VERIFICATION

COLAC's Financial Statements

IMPORTANT ASSUMPTIONS

1. COLAC will establish a successful track record early in the project and be able to borrow increasing amounts beginning in the third or fourth year from "other sources" including the United States National Central Credit Union

PRELIMINARY PROJECT PERFORMANCE TRACKING MATRIX

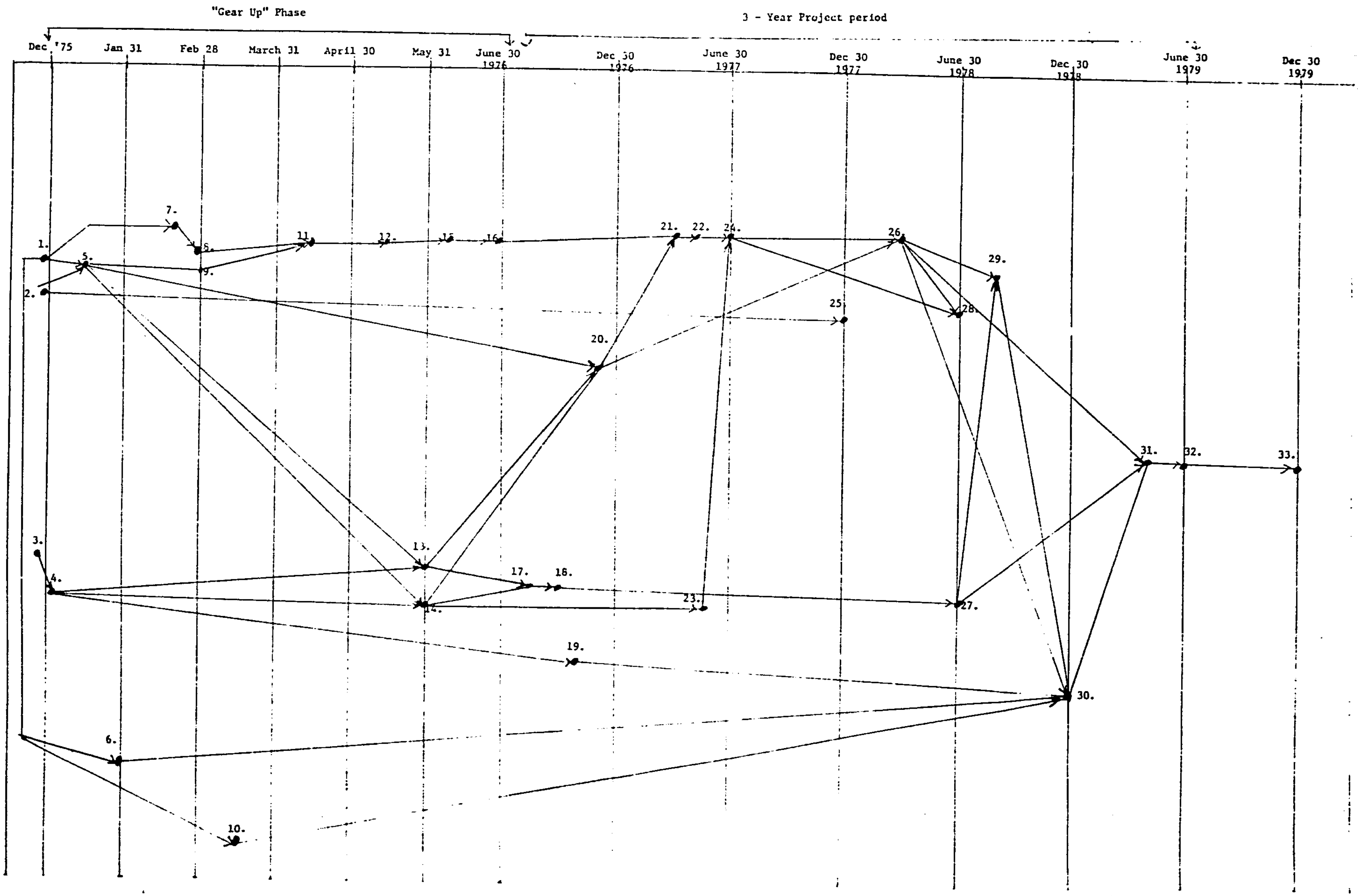
(To be revised pending replanning Jan.-May 1976)

Critical Project Indicators

1. AID Loan Authorized
2. AID Grant Extended
3. IDB Financing Agreement Signed
4. IDB Grant begins coverage
5. Initial COLAC recruitment plan launched for required and other positions
6. IAF disburses 2nd $0.5 million from grant
7. COLAC Seminar, Board Meeting and Final AID Negotiations
8. AID/COLAC Loan Agreement signed
9. COLAC Finance Division Chief, Operations Chief, and Administrator on board
10. OPIC-US Central disburses $1.25 million under IIP Loan and guarantee agreements
11. COLAC operating policies and procedures submitted to AID for approval
12. Administrative, Organizational, Final Staffing and 1st year operations plans submitted to AID
13. IDB Country Resident advisors on board
14. IDB COLAC Headquarters advisors on board (Data Collection, Systems Analysis)
15. AID Loan Conditions Precedent met
16. First AID Loan Disbursement
17. IDB Financing Conditions Precedent met
18. First IDB Disbursement
19. Revised Accounting and Financial Control system established - IDB financed
20. COLAC fully staffed per reorganization plan
21. First $2 million of AID loan disbursed
22. AID/COLAC $2 million review
23. COLAC Data Collection System established - IDB financed advisor
24. First Annual AID Evaluation
25. Final Termination Date - AID Grant
26. AID Loan Fully Disbursed
27. IDB Loan Fully Disbursed
28. 2nd AID Annual Evaluation Review
29. COLAC reaches break even point
30. $2 to $4 million mobilized from "other sources" (including US Central)
31. COLAC Loan Portfolio of $19 - $20 million
32. Conditions Expected Met (see Log. Frame)
33. AID/IDB Joint or separate evaluations complete

PRELIMINARY PROJECT PERFORMANCE TRACKING MATRIX

(To be revised pending replanning Jan.-May 1976)



CALCULATION OF FINANCIAL ABSORPTIVE CAPACITY

Cuadro No. 1:	By federation assuming that equity capital will increaae at the rate of 10% annually and that COLAC could lower eligibility requirements gradually from the more rigorous 5:1 ratio in the first year to 10:1 by the end of the fifth year.
Cuadro No. 2:	In the aggregate for the 8 borrowing countries originally contemplated in the AID package, taking into account COLAC lending and subloan amortizations.

FUENTE Y SUPUESTOS USADOS EN LAS PROYECCIONES DEL CUADRO N° 1

El capital y reservas del año base 1975/1976 corresponde a cifras actuales de los últimos balances recibidos en COLAC, la mayor parte de los cuales son a diciembre 31 de 1974.

1) A partir del año base se asume para los años siguientes un 10% de incremento de capital y reservas con relación al año anterior.

2) Para el cálculo de la capacidad de endeudamiento se utilizaron las siguientes relaciones deuda a capital:

1,975/1976	relación	5 x 1
1,976/1977	relación	6 x 1
1,977/1978	relación	7 x 1
1,978/1979	relación	8 x 1
1,979/1980 y en adelante	relación	10 x 1

3) Las relaciones antes citadas se aplicaron indistintamente a todos los países para efectos de demostrar la capacidad creciente de endeudamiento en razón del incremento del capital y reservas propios que, en si ya serían un indicador favorable a la concesión de préstamos.

COMENTARIO

En la práctica corresponderá a COLAC decidir si acoge ésto como política en la fijación del monto máximo de crédito, o si más bien en lugar de referirse a los años se refiere al orden del préstamo así:

1er Préstamo: relación 5 x 1
2do Préstamo: (un año despues) relación 6 x 1; etc.

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16/ABR/75

CUADRO N° 1

PROYECCIONES DE INCREMENTO DE CAPITAL Y CAPACIDAD DE ENDEUDAMIENTO
DE LAS FEDERACIONES MIEMBROS DE COLAC

PAISES	1975/1976 CAPITAL Y RESERVAS	1975/1976 CAPACIDAD ENDEUDAM.	1976/1977 CAPITAL Y RESERVAS	1976/1977 CAPACIDAD ENDEUDAM.	1977/1978 CAPITAL Y RESERVAS	1977/1978 CAPACIDAD ENDEUDAM.	1978/1979 CAPITAL Y RESERVAS	1978/1979 CAPACIDAD ENDEUDAM.	1979/1980 CAPITAL Y RESERVAS	1979/1980 CAPACIDAD ENDEUDAM.	1980/1981 CAPITAL Y RESERVAS	1980/1981 CAPACIDAD ENDEUDAM.
HONDURAS	555,850	2,775,250	611,435	3,668,610	672,578	4,703,046	739,836	5,918,663	813,120	8,135,200	895,202	8,952,0[illegible]
GUATEMALA	497,562	2,487,810	547,018	3,282,108	601,720	4,212,040	661,892	5,295,136	728,181	7,280,510	800,889	8,008,8[illegible]
COSTA RICA	230,990	1,154,950	254,089	1,524,534	279,498	1,956,486	307,448	2,459,584	338,193	3,381,930	372,012	3,720,12[illegible]
BOLIVIA	591,895	2,959,475	651,085	3,906,510	716,193	5,013,351	787,812	6,302,496	866,593	8,665,930	953,252	9,532,52[illegible]
EL SALVADOR	533,923	2,669,615	587,315	3,523,890	646,045	4,522,332	710,651	5,685,208	781,716	7,817,160	859,888	8,598,8[illegible]
COLOMBIA	454,928	2,274,640	500,420	3,002,520	550,462	3,853,234	605,508	4,844,064	666,058	6,660,580	732,664	7,326,6[illegible]
NICARAGUA	112,852	564,260	130,737	784,422	143,811	1,006,677	158,192	1,265,536	174,011	1,740,110	191,412	1,914,1[illegible]
REPUBLICA DOMINICANA	128,247	641,235	141,071	846,426	155,179	1,086,253	170,697	1,365,576	187,767	1,877,670	206,543	2,065,43[illegible]
Sub Total	3,112,247	15,561,235	3,423,370	20,539,920	3,765,487	26,358,409	4,142,036	33,136,288	4,556,239	45,562,390	5,011,862	[illegible]
PANAMA	386,520	1,932,600	425,172	2,551,032	467,689	3,273,823	514,457	4,115,656	565,902	5,659,020	622,492	6,224,9[illegible]
PARAGUAY	74,100	370,500	81,510	489,060	89,661	627,627	98,627	789,016	108,489	1,084,890	119,338	1,193,3[illegible]
MEXICO	22,358	111,790	24,593	147,558	27,052	189,364	29,757	238,056	32,732	327,320	36,005	360,0[illegible]
ECUADOR	117,468	587,340	129,214	775,284	142,135	994,945	156,348	1,250,784	171,982	1,719,820	189,180	1,891,8[illegible]
Sub Total	600,446	3,002,230	660,489	3,962,934	726,537	5,085,759	799,189	6,393,512	879,105	8,791,050	967,015	[illegible]
TOTAL	3,712,693	18,563,465	4,083,659	24,501,954	4,492,024	31,444,168	4,941,225	39,529,800	5,435,344	54,353,440	5,978,877	59,788,7[illegible]

ANNEX VII
Page 3 of 5

BASES PARA EL CALCULO DE LA CAPACIDAD DE ENDEUDAMIENTO REAL DEL CUADRO N° 2

PRIMER AÑO

1) Partimos de la columna que expresa la capacidad de endeudamiento del año 1975/1976 del cuadro N° 1.

2) A esta cantidad deducimos el monto de préstamo programados (ya que éste monto hace reducir en igual cantidad la capacidad de endeudamiento).

3) Las federaciones capitalizan el 5% de los préstamos concedidos. Por eso nosotros volvemos a agregar ese 5% del monto de crédito concedido, multiplicado por 5 en razón de la relación deuda a capital de 5 x 1 en el primer año (por cuanto esto hace subir nuevamente la capacidad de endeudamiento.

4) A través de las operaciones indicadas llegamos a establecer lo que constituye la capacidad de endeudamiento para el inicio del año siguiente.

AÑOS PSTERIORES

1) Comenzamos el cálculo con la cifra correspondiente a la capacidad de endeudamiento para el inicio del año siguiente que aparece en el año anterior.

2) A la cantidad anterior agregamos el incremento de la capacidad de endeudamiento que se desprende del cuadro N° 1. (Capacidad de endeudamiento del año 1976/1977 menos capacidad de endeudamiento del año 1975/1976).

3) Continuamos el cálculo de la misma manera que en el primer año: pasos 2, 3 y 4.

4) En los años en que se comienza a amortizar los préstamos, agregamos dichas cantidades para llegar a establecer la capacidad de endeudamiento real (Las amortizaciones de préstamos incrementan en igual cantidad la capacidad de endeudamiento).

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17/ABR/75

CUADRO Nº 2

RESUMEN DE LA VARIACION DE LA CAPACIDAD DE ENDEUDAMIENTO
CONSIDERADOS LOS PRESTAMOS QUE SE PROGRAMA CONCEDER

	1975/1976	1976/1977	1977/1978	1978/1979	1979/1980	1980/1981
Capacidad actual de endeudamiento	18,563,465	16,275,965	17,286,454	20,278,618	26,980,916	43,017,888
Más: incremento de capacidad sobre año anterior	-o-	5,338,489	6,942,214	8,085,632	14,823,640	5,435,330
	18,563,465	22,214,454	24,228,668	28,364,250	41,804,556	48,453,218
Menos: préstamos programados	3,050.000	7,040,000	6,077,000	4,000,000	4,300,000	6,500,000
	15.513,465	15,174,454	18,151,668	24,364,250	37,504,556	41,953,218
Más: % capitalización por préstamos	762,500	2,112,000	2,126,950	1,600,000	2,150,000	3,250,000
				25,964,250	39,654,556	45,203,218
Más: amortizaciones de préstamo				1,016,666	1,016,666	1,016,666
					2,346,666	2,346,666
						2,025,666
Capacidad endeudamiento incial para año siguiente	16,275,965	17,286,454	20,278,618	26,980,916	43,017,888	50,642,216

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17/ABR/75

JUSTIFICATION FOR AN AID LOAN TO COLAC
(Post - IDB)

This annex summarizes the reasoning behind the decision of the Latin America Bureau to proceed with a project paper for reconsideration of an AID loan to COLAC in the face of the recent approval (Oct. 1975) of the $9 million IDB project.

A. The Target Group; Factors of Demand and Need.

Latin American Credit Union shareholders belonging to COLAC member federations number approximately 1,300,000. Of these, approximately 200,000 are small farmers whose profile fits within AID's generally accepted criteria. The aggregate annual production credit demand from farmer members alone covered by the COLAC sytem is conservatively estimated at $50 million plus. Also, with the institutional development boost which this multi-donor project will give to the system, its outreach is expected to expand significantly.

The major limiting demand factor is the administrative and technical absorptive capacity of borrowing federations and cooperatives. Based on financial conditions however, (mainly debt equity ratios) the absorptive capacity of the 8 federations originally scheduled to borrow under the AID/COLAC project design came to over 40 million during the 3 year period. Expressed federation demand - for agricultural production credit only- came to 39 million at 8% and 17 million at 10%. Demand notwithstanding, administrative and technical needs (constraints to effective lending) of federations are serious; but this is the basis of the projected operating budget of COLAC, at least 50% of which will go for technical assistance in addition to the US $1 million IDB grant, which is 100% technical assistance, "Institutional Strengthening."

The fact is that only a small fraction of real and potential target group demand is being met. As long as Latin American governments, backed by the international lending agencies, continue to subsidize credit to the small producer without regard to recovering the subsidy that is lost each time credit is rolled over; not only will private capital markets not be tapped, but systems will not expand, especially in rural areas, because neither sufficient resources nor the incentives will exist. COLAC's approach, on the other hand, puts the subsidy where it should go, into institutional strengthening and outreach, in addition to providing a practical mechanism for tapping private capital resources which require a commercial return to move and a credit-worthy intermediary. With AID's future in Latin America uncertain, it seems to make sense to insure that regional groundwork is properly laid for a private self-financing capital mobilization and distribution structure, ultimately under the control of the target groups we are now trying to reach.

Conclusion: Demand and absorptive capacity exist for both AID and IDB inputs. Both the target group and the credit system will benefit substantially from the additional AID investment.

B. Viability of COLAC and the System; COLAC's operating budget and the income need.

1. The Budget: One of COLAC's principal arguments for an AID loan in addition to the IDB contribution has to do with income need and operational viability.

COLAC's operating budgets for the period of the project are as follows:

FY - $722,500
FY - $850,000
FY - $960,100

At first glance it might appear that there is far too much padding. The following factors should be taken into account, however, before such a conclusion is drawn.

a) COLAC will be lending in ten different countries in Latin American simultaneously, each with its own separate and distinct set of institutional, legal, social, and economic constraints all of which must be analyzed and overcome one way or another to insure effective lending. COLAC is not just a Bank. If it were, its costs could be cut by two thirds. The clear majority of all projected costs go into national credit system improvement and expansion. Seven years from now in 1982, COLAC plans a $40 - 50 million portfolio at which time the relative proportion of the budget will be much lower. A heavy investment now, however, is essential to insure that the proper groundwork is laid.

b) In comparing the cost of COLAC to bilateral capital projects, an element often not incorporated into the latter is the cost of separate and distinct project design and supervision by AID Missions or other donors. The design and development cost alone of many cooperative projects more than makes up for the cost of the additional layer represented by COLAC. (The price of developing the 4.7 million dollar cooperative loan authorized in Paraguay last year, for example, was conservatively estimated by the USAID at $250,000, the cost of the intensive review.) The efficiency of the system is obvious in relation to the standard lending approach.

c) The IDB project - as it now stands is an exceedingly complex proposition, administratively and technically. This is reflected in the revised COLAC operating budget under such categories as legal counsel, a strengthened economic and monetary trend analysis capability, the creation of a separate department for financial administration which will also handle resource mobilization, and a full time planner (including evaluation.) The job of effectively negotiating with federations and Central Banks in ten different countries, plus handling the complexities of interest and capitalization conversion and monitoring and execution under the more restrictive IDB conditions (more restrictive than AID's) will require a considerable increase in staff capability.

2. Income.

a) Convertibility and repatriation of income.

In the COLAC projections on which a new loan request is based, modest monetary devaluations are included for five countries where trends and indications point to probable devaluations over time. No quantified account, however, is taken of probable losses, of income from inability to fully convert interest and capitalization payments. The additional dollars represented by the AID loan would provide some margin of safety for this likely eventuality.

b) Due to the IDB's predisposition to pass credit on to the end user at highly subsidized rates of interest and its restriction that coops must lend at lower than prevailing bank rates for similar purposes, it is possible that in several countries (all but Bolivia and Colombia) COLAC may be forced to lower its rate to the federation in order to allow a sufficient spread for both the federation and the cooperative. For example, if the bank rate is 12% to the farmer COLAC would probably have to lend at 8% or below in order to give the federation and the cooperatives a minimall, acceptable 2% margin each.

Conclusion: The requested AID loan, when fully disbursed, will provide some $230,000/year in interest income plus $160,000/year in increased capitalization. This will fund a major part of the expanded operating budget and provide further internally generated resources for lending. The size of the operating budget seems high but justifiable under the circumstances. If the budget is trimmed, such savings could well be offset by unprojected losses from non-convertibility of IDB interest and capitalization payments on having to lend at a lower rate due to the end user restriction to Bank rates.

C. Flexibility, Portfolio Management, and Leverage.

The case made by COLAC in its presentation is persuasive. IDB funds are currently set aside on deposit in the Central Banks of participating countries. Officially these funds cannot leave the given country in which they were set aside. COLAC may convert recoveries at its own risk, but is highly exposed to potential devaluation during the early years of the project. Also, in the event that a programmed IDB credit cannot be extended in a given country due to unforeseen circumstances, such as a cheaper source becoming available or failure to meet a COLAC condition precedent, then costly delays will be experienced while arrangements are made and approvals sought to deobligate in one country and draw down in another with no assurance of reflow availability in the alternative case. AID dollars will provide COLAC not only with needed financial flexibility to handle such a situation but also an improved negotiating position with both federations and Central Banks.

Conclusion: An AID loan will provide COLAC with essential flexibility in portfolio management and badly needed leverage with both federations and Central Banks.

D. The Interest Rate Issue

An AID loan will allow COLAC to effectively pursue the development of a true "going rate" system in Latin America. The IDB restriction to a 10% maximum to federations is acceptable for the time being, but the condition to lend at lower than commercial banks for similar purposes may really hurt, especially if some of those rates are subsidized; and some are. Therefore, if COLAC is forced to lower its IDB rate in order to allow a workable margin for federations and cooperatives, with the AID loan the effect can be balanced off somewhat through higher dollar rates where necessary. Once COLAC is truly viable from a combination of IDB, AID, and other sources lending, and once the principal is established in the regional credit system for a sound commercial financial structure, tapping private capital markets, especially counterpart movements in the US, Canada and Europe, should be relatively simple compared to the position in which COLAC now finds itself where an OPIC guarantee is required to secure US movement funds.

Conclusion: An AID loan, unrestricted as to maximum interest rates will alow COLAC to offset lower rates which may be necessary with IDB funds and to pursue with much more flexibility the establishment of a realistic and viable lending rate structure through the movement.

E. Capital Mobiliation

COLAC's argument that an unrestricted dollar portfolio and lending experience across international boundaries is key to capital mobilization makes sense. Other external lenders will be lending in dollars. The IDB experience on the other hand will be totally unique. Other lenders will want to see experience in international currency transactions, success with maintenance of value measures and sound policies and procedures for international dollar lending in general. IDB local currency resource management within individual countries is not likely to be nearly as relevant.

Finally, and most obviously, the fact that it may be impossible for some countries to recover IDB loans or to convert payments in the event of liquidation, will not be conducive to other sources lending. This has been amply demonstrated by the stand which OPIC and the US Central have taken on the critical need for AID loan approval prior to disbursements under the 1.25 million pilot international inter-lending project.

F. Other Types of Lending

The IDB project is restricted 100% to production, 70% of which must be for agricultural production. In addition, urgently needed working capital at federation and cooperative levels is not eligible even where directly related to ag production.

In order to maintain its credibility and leadership as well as to develop a sound financial structure, COLAC needs to be able to respond in some measure to the "rest of the movement", which in many areas is still predominantly urban in strength and leadership. The original AID package would have required a 50% commitment of resources to agricultural production with an additional 20% for other productive purposes - urban or rural. 30% was to have been free for other purposes altogether, health, education, housing, etc.

An AID loan now, could free COLAC from its near total restriction to production credit. The loan request of 4 million is to be devoted 37% to agricultural production and related activity through credit unions and an additional 25% for other types of cooperatives, agricultural, artisan, fishing, small industry, etc. The drafters believe that 50% of the project should be maintained in the agricultural production area but that the remaining half should be open for other needs and other cooperatives in accordance with COLAC policies.

Conclusion: An AID loan will provide capacity to respond to other pressing needs in the movement, still within our area of interest and priority - health, education, and housing. Also, lending through other coops will contribute to inter-movement integration and cooperation for the ultimate benefit of the shareholders.

G. Supervision, Monitoring and Trouble Shooting

The Project committee strongly feels that, at least during the coming few critical "take off" years that AID should stay on top of the project through the mechanism of a loan. The success of the project is vital to our own long run objectives in Latin America.

In addition the IDB has little experience in administering this type of project, and if we are involved with capital resources at stake, this will give us reasonable grounds for working closely with the Bank to overcome whatever implementation obstacles may arise.

Finally, two major methodological innovations were developed during the intensive review for the original AID project. These are the program budget and the sensitivity program. 1/ We very much want to make sure that they are properly installed and utilized at the COLAC level both for their benefit to the project and for replication.

H. Our Congressional Mandate

The COLAC project involves much that is desirable and attractive under our mandate. It is

1. focused on small farmers and ag production
2. a model of regional integrated cooperative development
3. multilateral and involves a mature partnership approach
4. designed to attract substantial resources from the world-wide movement and the private sector in general

1. The program budget is similar to PBAR's output budgeting concept, only more thorough - going all the way down to the costing of micro activity units. The system can be fully automated to provide Management, at any point, with a complete budget analysis showing cost and implications of decisions by activity, by program, by geographic region, by process, etc. The Sensitivity Program is a computer program for the running

5. designed to allow us to withdraw entirely from bilateral funding of LA credit union development programs
6. an unusual example of collaboration among a number members of the foreign assistance community who are working together to achieve the same objectives: namely AID, IAF, OPIC, IDB, CUNA, and possibly the UNDP.

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of complete proforma financial statement projections to demonstrate the sensitivity of the statements to an infinite number of changes in costs, lending, volume, budget and other variables.

THE COLAC PROPOSAL AND DESTINATION OF AID LOAN FUNDS

The COLAC Loan Proposal includes, out of a US$ 4 million package, $1.5 million for Production credit, $1.5 million for health, education and housing, and $1.0 million for other types of cooperatives, i.e., non credit unions. There is a legitimate case to be made for COLAC's proposed lending in non-production areas and also to other types of cooperatives. Portfolio diversification is financially healthy and such lending would respond in part to the urban majority of the movement which has been supporting COLAC's major thrust in agricultural production and related areas for several years now. Nevertheless, it is felt important that at least half of AID project resources be devoted to the basic small farmer target group. The following suggested distribution of funds is, therefore, proposed although it may vary depending on negotiations. Certainly, no ceiling will be placed on the amount of the loan to be devoted to rural production.

Destination for AID Loan Funds 1/ ($000)

General Category	1. COLAC Proposal	2. AID Proposal	3. Ag Production	4. Non Ag Production	5. Housing Health Education
Production and Production Related Credit	1,500	2,800	2,000	800	
Credit for non-credit union cooperatives	1,000				
Rural and Urban Housing, Health, Education	1,500	1,200			1,200
	4,000	4,000	2,000 (50%)	800 (20%)	1,200 (30%)

It should be noted that 100% of the IDB $8 million financing must be utilized for production credit, up to 70% of which must be for agriculture. Also, 100% of the US$ 1 million I.A.F. grant must go for production credit.

1/ Column 1 represents the COLAC loan request. Column 2 represents the AID alternative proposal to insure that at least one half of loan resources will be devoted to rural production. Columns 3, 4, and 5 are subdivisions of Column 2.

A. Production Credit Demand Calculated from Cooperative and Shareholder Levels (See Economic Analysis for Expressed Demand for Production Credit)

Table 1. below shows the magnitude of rural membership in affiliated cooperatives. (Urban coops are included for comparison) Also shown are membership figures for those rural cooperatives that are currently eligible to receive credit from federations surveyed. These figures form the basis for the two additional tentative demand calculations explained in 1. and 2. below. It should be pointed out that these figures represent demand from only eight of the twelve federations scheduled to borrow from COLAC during the project period.

1. Demand on the Basis of Cultivated Land

Table 2. below shows key data with respect to calculation of credit demand based on credit required per ha. of cultivated land area. Of the total amount that is being spent per ha. it is estimated from COLAC survey data that approximately 60% must be borrowed, which would mean an actual annual credit demand of $33,650,000. (60% of $56,084,000) Of this only $15,830,000 is being met as shown by the current outstanding loan portfolio for rural cooperatives, leaving an unsatisfied demand of $17,820 in 1974 alone from the credit union movement, including only those cooperatives currently eligible for borrowing. Much of this demand in fact is being met from other sources, both institutional and informal, but for the most part at commercial or higher rates of interest. Most of the concessional credit available to these farmers is included in the current outstanding loan portfolio figure.

On top of the unsatisfied demand demonstrated above, as tentative as it is, one could add the following. If farmers were to spend per cultivated ha. what is technically recommended in their countries for maximum profitability, the demand amount would jump from $33 million to well over $50 million, conservatively, (See line item Code 3 in Table 3), leaving an unsatisfied demand to be met from other domestic and external sources of over $30 million. In addition, it is reasonable to assume that as cooperative and technical assistance capabilities of the federations improve, increasing numbers of the cooperatives currently not eligible for credit will become eligible and demand will be accelerated according. Then, if to current farmer members are added those potential farmer members that are expected to be eligible by 1978, for example, one arrives at a possible total agricultural production recipient group of over 250,000 representing a 60% increase over the 1974 figure. Again, the $33 million figure would climb to over $50 million per year for total demand leaving an unsatisfied demand of at least $30 million to be met from other sources. Finally if one were to calculate demand based on some reasonable estimate of price increases for farm supplies, especially fertilizer; and inflation in general is taken into account, demand could jump to much higher levels than the foregoing.

2. Demand on the Basis of Outstanding Loans Per Shareholder

Considering average outstanding loans per agricultural shareholder from all sources in 1974 - not just the cooperative - a production credit demand level of similar magnitude (to that based on cost per ha.) can be calculated, as shown in Table 3 below.

B. Non-Production Credit Demand

Tables 4-8 demonstrate expressed non-production credit demand from COLAC from the eight federations surveyed over the five year period 1975-1979. This includes the COLAC proposed Health,education, and housing category.

ANNEX X

TABLE 1

BASIC DATA - CREDIT UNION MEMBERSHIP AS OF JUNE 30, 1974

	Bolivia	Colombia	Panama	Costa Rica	Nicaragua	Honduras	Guatemala	Dominican Republic	Total
Affiliated Coops	181	245	82	67	54	105	83	91	908
Rural	101	74	31	26	12	58	68	32	402
Urban	80	171	51	41	42	47	15	59	506
Rural Coop Shareholders	35,702	50.067	9,580	8.570	3.602	15.880	39.032	9.253	171,691
Farmer members 1/	42,965	57.556	1,320	12.250	3,600	8,370	30,000	10,814	166,875
Affiliated Rural Coops eligible For Credit	82	74	18	26	10	31	61	25	327
Shareholders in these Coops	28,985	50.067	6,773	8,570	3,002	11,155	35,014	7,233	150,799
Farmer members 1/ in eligible Coops	35,606	54,486	1,200	12,250	3,465	6,456	29.495	10,119	153,077

1/ In the case of Bolivia, Colombia and the Dominican Republic more farmer members are shown than the total of the membership of rural coops. The cause of this apparent inconsistency is not clear at this time. A possible answer may be that some farmers may have access to borrowing from credit unions but are not actual shareholders. Also some farmers may belong in groups.

ANNEX X

TABLE 2

Characteristics of Farmer Members

	Bolivia	Colombia	Panama	CostaRica	Nicaragua	Honduras	Guatemala	Dom. Rep.	Total	Code
Average No. of Ha. cultivated per farmer	2	2.5	2	2	3	3	2	1.5		1
Currently spending per Ha. (avg.) 1/	150	220	175	180	170	132	35	278		2
Technically should be spending 2/	250	325	330	225	275	165	?	394		3
Farmer members in coops eligible to receive credit	35,606	54,486	1,200	12,250	3,456	6,456	29,495	10,119	153,977	4
Demand = 1x2x4 ($000)	10,681	29,967	420	4,410	1,767	2,556	2,064	4,219	56,084	

Total Demand: $56,084,000

1/ These are averaged figures taking into consideration the crop mix with varying levels of cost/ha of each distinct crop. Estimates were made by federation agronomists for the most part and by government extension personnel.

2/ These are also averaged figures based on the cost of farm inputs if applied in accordance with recommended technology packages (to maximize profitability) in given country contexts. Statistically these composit figures may not be valid, but the idea is to provide a gross relative order of magnitude.

TABEL 2a

ESTIMATIONS OF AMOUNTS NEEDED IN CREDIT UNIONS OF 8 COUNTRIES FOR AGRICULTURAL PRODUCTION CREDIT

Figures are only for those credit unions that are now, or will be within 3 years, good credit risks

	Bolivia	Colombia	Panama	Costa Rica	Nicaragua	Honduras	Guatemala	Dom. Rep.	
No. of Farmer/Members at Present	35,606	54,486	1,200	12,250	3,465	6,456	29,495	10,119	
Average No. of Hectares	2	2.5	2	2.5	2	2.5	2	2	
Total Hectares Farmed by Credit Union Farmer/Members	71,212	136,215	2,400	30,625	6,930	16,140	58,990	20,238	
Cost per Hectare in Order to Maximize Output	250	325	330	224	275	165	100	395	
Total Cost to Maximize Output of Present Membership	17,803,000	44,269,875	792,000	6,860,000	1,905,750	2,663,100	5,899,000	7,994,010	
Savings of Rural Credit Unions	1,883,000	1,560,000	2,870,000	670,000	220,000	2,540,000	1,444,000	671,000	
External Funds Available for Production Credit	477,500	400,000	1,900,000	1,096,000	0	2,320,000	1,000,000	100,000	
Additional Amounts Needed	15,442,500	42,309,875	0	5,094,000	1,685,750	0	3,455,000	7,223,010	75,210,135

The above table presents computations for the credit union movements of 8 countries of the agricultural production credit demand which is over and above that which can be filled from local sources at present.

While there may be a few other sources of external funds that we have not taken into account here, such as commercial banks, agricultural development banks, etc. (the assumption was that only the federation would provide these funds) and therefore from that standpoint the amount of additional funds needed may be somewhat overstated, it is felt that this was more than compensated for by the following two assumptions:

(1) All federation loans would be for agricultural production credit purposes, and
(2) All savings in rural credit unions would be loaned for agricultural purposes.

The net effect of the three assumptions is that the demand figure is most likely somewhat below what it really should be. For example it is known that right now Honduras is in need of several million dollars to put into agricultural production credit, but by using our conservation assumptions, the amount of funds they require at this time is zero.

NOTE: Data from El Salvador, Paraguay and Ecuador are not included in this table as they have not yet been made available to COLAC.

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ANNEX X

TABLE 3

	Bolivia	Colombia	Panama	C.R.	Nicaragua	Honduras	Guat	Dom. Rep.
1. Average amount borrowed by farmer members from all sources in 1974. 1/	180	250	716	200	150	300	230	215
2. Farmer members in affiliated coops eligible for credit	35,606	54,486	1,200	12,250	3,456	6,456	29,495	10,119
3. Demand if all farmers borrowed the average amounts shown in line #1. from coop ($000)	6,409	13,621	859	2,450	520	1,937	6,783	2,376

Total Demand: $34,755,000

minus outstanding loans of: $15,830,000

Unsatisfied demand: $18,925,000

The same data manipulation as in the case of demand calculated by cost per cultivated land area can be performed (potential growth, etc.) in this case, arriving at equally impressive sums.

1/ These figures represent average amounts borrowed by those farmers actually and currently borrowing from the coop and other sources. Not averaged in are those that are non-recipients of credit.

ANNEX X Table 4

At 8%

FEDERATION ESTIMATES OF THEIR ABSORPTIVE CAPACITIES AT VARYING RATES OF INTEREST FOR THE YEARS 1975-1979 FOR NON-PRODUCTIVE LOANS AND FOR LOANS THAT THEY THEMSELVES MIGHT USE

	Bolivia FENACRE	Colombia UCONAL	Panama FEDPA	Costa Rica FEDECREDITO	Nicaragua FECANIC	Honduras FACACH	Guatemala FENACOAC	Rep. Dom. FEDOCOOP.	TOTAL
1975									
Non-Productive Loans	75150	300000	250000	2,325,581	30,000	875000	400000	160000	4,415,731
Loans to be used by the Federation itself	23400	75000	funds available	290,698		65000	6000	24000.	484,098.
1976									
Non-Productive Loans	83500	168092	300000	2,325,581	35,000	1,080,000	100000	200000	4,292,173
Loans to be used by the Federation itself	26000	42023	funds available	406,976		200000	15000	30,000	719,999
1977									
Non-Productive Loans	91850	168092	500000	2,325,581	40,000	1,330,000	100000	240,000	4,795,523
Loans to be used by the Federation itself	28600	42023	funds available	406,976		70000	15000	36,000	598,599.
1978									
Non-Productive Loans	116900	168092	500000	2,325,581	45,000	1,600,000	200000	200,000	5,155,573
Loans to be used by the Federation itself	36400	42023	funds available	406,976		100000	30000	30,000	645,399
1979									
Non-Productive Loans	133600	168092	750000	2,325,581	50,000	1,980,000	200000	200000	5,807,243
Loans to be used by the Federation itself.	41600	42025	funds available	406976		110000	30000	30000	660,601
Total Non-Productive Loans									24,466,273
Total Loans to be used by the Federation itself									3,108,696

AT 9% ANNEX X Table 5

FEDERATION ESTIMATES OF THEIR ABSORPTIVE CAPACITIES AT VARYING RATES OF INTEREST FOR THE YEARS 1975-1979 FOR NON-PRODUCTIVE LOANS AND FOR LOANS THAT THEY THEMSELVES MIGHT USE

	Bolivia FENACRE	Colombia UCONAL	Panama FEDPA	Costa Rica FEDECREDITO	Nicaragua FECANIC	Honduras FACACH	Guatemala FEDACOAC	Rep. Dom. FEDOCOOP.	TOTAL
1975									
Non-Productive Loans	75150	300000		2,325,581		875,000		160000	3,735,731
Loans to be used by the Federation itself	23400	75000		290,698		~~65000~~ 65,000		24000	478,098
1976									
Non-Productive Loans	83500	168092		2,325,581		1,080000		200000	3,857,173
Loans to be used by the Federation itself	26000	42023		406,976		200000		30000	704,999
1977									
Non-Productive Loans	91850	168092		2,325,581		1,330,000		240,000	4,155,522
Loans to be used by the Federation itself	28600	42023		406,976		70,000		36,000	583,599
1978									
Non-Productive Loans	116900	168092		2,325,581		1,600,000		200,000	4,410,573
Loans to be used by the Federation itself	36400	42023		406,976		100,000		30,000	615,399
1979									
Non-Productive Loans	133600	168092		2,325,581		1,980,000		200,000	4,807,272
Loans to be used by the Federation itself.	41600	42025		406,976		110,000		30,000	630,601
Total Non-Productive Loans									20,966,273
Total Loans to be used by the Federation itself									3,012,696

ANNEX X , Table 6

At 10%

FEDERATION ESTIMATES OF THEIR ABSORPTIVE CAPACITIES AT VARYING RATES OF INTEREST FOR THE YEARS 1975-1979 FOR NON-PRODUCTIVE LOANS AND FOR LOANS THAT THEY THEMSELVES MIGHT USE

1975	Bolivia FENACRE	Colombia UCONAL	Panama FEDPA	Costa Rica FEDECREDITO	Nicaragua FECANIC	Honduras FACACH	Guatemala FEDACOAC	Rep. Dom. FEDOCOOD.	TOTAL
Non-Productive Loans	75150	300000		2,325,581		875,000		240000	3,815,73
Loans to be used by the Federation itself	23400	75000		290,698		-		30000	419,09
1976									
Non-Productive Loans	83500	168092		2,325,581		1,080,000		240000	3,897,17
Loans to be used by the Federation itself	26000	42023		406,976		200000		30000	704,99
1977									
Non-Productive Loans	91850	168092		2,325,581		1,330000		240000	4,155,52
Loans to be used by the Federation itself	28600	42023		406,976		70000		30000	577,59
1978									
Non-Productive Loans	116900	168092		2,325,581		1,600,000		240000	4,450,57
Loans to be used by the Federation itself	36400	42023		406,976		100000		30000	615,35
1979									
Non-Productive Loans	133600	168092		2,325,581		1,980,000		240000	4,847,27
Loans to be used by the Federation itself	41600	42025		406,976		110,000		30000	63060
Total Non-Productive Loans									21,166,27
Total Loans to be used by the Federation itself									2,947,69

ANNEX X Table 7

At 11%

FEDERATION ESTIMATES OF THEIR ABSORPTIVE CAPACITIES AT VARYING RATES OF INTEREST FOR THE YEARS 1975-1979 FOR NON-PRODUCTIVE LOANS AND FOR LOANS THAT THEY THEMSELVES MIGHT USE

	Bolivia FENACRE	Colombia UCONAL	Panama FEDPA	Costa Rica FEDECREDITO	Nicaragua FECANIC	Honduras FACACH	Guatemala FEDACOAC	Rep. Dom. FEDOCOOP.	TOTAL
1975									
Non-Productive Loans	75150							240000	315150
Loans to be used by the Federation itself	23400							30000	53400
1976									
Non-Productive Loans	83500					1,080000		240000	1,403500
Loans to be used by the Federation itself	26000							30000	56000
1977									
Non-Productive Loans	91850					1,330000		240000	1,661850
Loans to be used by the Federation itself	28600							30000	58600
1978									
Non-Productive Loans	116900					1,600000		240000	1,956900
Loans to be used by the Federation itself	36400							30000	66400
1979									
Non-Productive Loans	133600					1,980000		240000	2,353600
Loans to be used by the Federation itself.	41600					110000		30000	181600
Total Non-Productive Loans									7,691000
Total Loans to be used by the Federation itself									416000

ANNEX X <u>Table 8</u>

<u>At 12%</u>

FEDERATION ESTIMATES OF THEIR ABSORPTIVE CAPACITIES AT VARYING RATES OF INTEREST FOR THE YEARS 1975-1979 FOR NON-PRODUCTIVE LOANS AND FOR LOANS THAT THEY THEMSELVES MIGHT USE

	Bolivia FENACRE	Colombia VCONAL	Panama FEDPA	Costa Rica FEDECREDITO	Nicaragua FECANIC	Honduras FACACH	Guatemala FEDACOAC	Rep. Dom. FEDOCOOP.	TOTAL
1975									
Non-Productive Loans	75150							240000	315150
Loans to be used by the Federation itself	23400							30000	53400
1976									
Non-Productive Loans	83500							240000	323500
Loans to be used by the Federation itself	26000							30000	[illegible]5600
1977									
Non-Productive Loans	91850					1,330000		240000	1,661850
Loans to be used by the Federation itself	28600							30000	58600
1978									
Non-Productive Loans	116900					1,600000		240000	1,956900
Loans to be used by the Federation itself	36400							30000	66400
1979									
Non-Productive Loans	133600					1,980000		240000	2,353600
Loans to be used by the Federation itself.	41600							30000	71600
Total Non-Productive Loans									6,611000
Total Loans to be used by the Federation itself									306000

Current Outstanding Portfolio

ANNEX XI

CONFEDERACION LATINOAMERICANA DE COOPERATIVAS DE AHORRO Y CREDITO - COLAC

ANALISIS DE VENCIMIENTOS DE PRESTAMOS A FEDERACIONES

31 de marzo de 1975

FEDERACION	Préstamo No.	Valor	Plazos Vencidos a 3/31/75	Segundo Trimestre de 1975	Tercer Trimestre de 1975	Cuarto Trimestre de 1975	1976	1977	1978	1979
Bolivia - FENACRE	5	100,000.00	-	-	9/30 25,000.00	-	9/30 25,000.00	9/30 25,000.00	9/30 25,000.00	-
Rep. Dominicana - FEDOCOOP	6	50,000.00	-	-	-	-	9/30 12,500.00	9/30 12,500.00	9/30 12,500.00	9/30 25,000.00
Ecuador - FECOAC	3	55,200.00	-	6/30 11,000.00	-	-	6/30 16,500.00	5/31 27,700.00	-	-
Guatemala - FENACOAC	2	200,000.00	50,000.01	6/30 16,666.67	9/30 16,666.67	12/31 16,666.67	3/31 16,666.67	3/31 16,666.67	-	-
							6/30 16,666.67	6/30 16,666.63	-	-
							9/30 16,666.67	-	-	-
							12/31 16,666.67	-	-	-
Guatemala - FENACOAC	8	300,000.00	-	-	-	-	4/16 75,000.00	4/16 75,000.00	-	-
							10/16 75,000.00	10/16 75,000.00	-	-
Costa Rica FEDECREDITO	7	278,541.00	-	-	7/15 122,951.00	-	12/31 25,931.67	6/30 25,931.67	6/30 25,931.67	6/30 25,931.65
Honduras - FACACH	4 (Saldo)	70,000.00	10,000.00	6/30 10,000.00	9/30 10,000.00	12/31 10,000.00	-	12/31 25,931.67	12/31 25,931.67	-
							3/31 10,000.00	-	-	-
							6/30 10,000.00	-	-	-
Honduras - FACACH	9	230,750.00	-	-	-	-	12/31 10,000.00	-	-	-
							12/25 6,631.00	* 79,572.00	** 79,572.00	* 72,975.00
GRAN TOTAL		1,292,491.00	60,000.01	37,666.67	174,617.67	26,666.67	333,229.35	379,963.04	168,935.34	111,498.65

* En 1977 Honduras pagará 12 cuotas mensuales de $6,631.00

** En 1978 Honduras pagará 12 cuotas mensuales de $6,631.00

* En 1979 Honduras pagará 10 cuotas mensuales de $6,631.00 y una de $6,665.00

ANALISIS POR PERIODO FISCAL

Plazos vencidos al 31/3/75		60,000.01
Plazos a vencer al 30/6/75		37,666.67
Año fiscal -	julio 1975 a junio 1976	316,117.03
	julio 1976 a junio 1977	310,146.23
	julio 1977 a junio 1978	243,936.34
	julio 1978 a junio 1979	188,935.32
	julio 1979 a junio 1980	45,806.00
GRAN TOTAL		1,292,491.00

ANNEX XI