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FINAL REPORT  
of an Evaluation of  
Latin American Confederations of  
Credit Unions (COLAC)

by

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## PREFACE

Under AID Contract # AID/CN-otr-C-73-198, Work Order 21, ATAC undertook to evaluate the CONFEDERACION LATINOAMERICANA DE COOPERATIVAS DE AHORRO Y CREDITO (COLAC). The scope and design of the evaluation are set forth in the scope of work for contract evaluation ... and ATAC's proposal.

This Final Report, including a supplemental survey of selected country federations, contain the conclusions, recommendations, and observations of the evaluation team. A Preliminary Report covering initial recommendations of COLAC's central organization operations was presented to AID on December 27, 1974, and a Draft Final Report was submitted on March 17, 1975. The evaluation was slanted to minimize those aspects which were the subject of simultaneous evaluations by others of program budget and printing press operations. Contrariwise, we emphasized the needs of the CAP and PROP requirements and those conditions which, in our opinion, would be useful in negotiating loan and grant agreements with COLAC. A brief explanatory methodology statement and list of principal documents collected are appended. These documents have been turned over to the project manager.

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## **I. SUMMARY OF MAJOR RECOMMENDATIONS**

### **A. Principal Recommendations made to AID:**

1. Authorize a loan to COLAC of from \$6 to \$8 million at concessional rates.
2. Provide COLAC with grant assistance during the first two years of disbursement of the loan (FY 1966-67) to permit an operations budget of \$600,000.

### **B. Recommendations Relating to Improving "Efficiency" of COLAC as an Intermediate Credit Organization:**

1. Defer the recruitment of a third country team (monitoring).
2. Eliminate Assistant Director position and shift present incumbent to Statistics Advisor.
3. Utilize OD Officer in dual administrative role while training country teams (monitors) in OD techniques; within one year, reconsider need for OD position.
4. Concentrate Promotion Officer efforts on training of federation counterparts and on COLAC's objectives vis-a-vis the federations.
5. Eliminate the printing operation.
6. Replace present audit firm and revise accounting system.
7. Add two full time agricultural specialists in farm production-planning and marketing.
8. Recruit a financial expert to strengthen the mobilization of capital and to relieve top management from this highly specialized function.
9. Defer for later consideration relocation of COLAC.
10. Plan ahead for replacement of personnel and recruit professionals outside the cooperative movement.
11. Request AID to provide specialized T.A. in statistics.

### **C. Recommendations Relating to COLAC's "Effectiveness"**

1. Charge differential rates of interest and limit amounts loaned to federations with different risk ratings.
2. Establish special bank control accounts and limit access to security notes and documents on loans to federations.
3. Undertake periodic and in-depth loan appraisal with annual reports to COLAC management on loan portfolio status.

4. Investigate the legal safeguards utilized for documents held against COLAC loans.
5. Give vote in the Loan Credit Committee to Director instead of the Coordinator.
6. Keep statistical requirements to a minimum but include data specified.
7. Refine and complete the Logical Framework (Exhibit #8) for measurement of future performance and priority of COLAC activity.
8. Develop uniform standards, guides and systems.
9. Reinstate the monthly newsletter for interchange of ideas.

D. Recommendations for AID Action Relating to "Viability" of COLAC:

1. Make conditions of the proposed loan flexible, permitting temporary non-production loans and fixed investment.
2. Promote use of COLAC as contractor to oversee the implementation of bilateral funding to federations.
3. Utilize AID management to obtain IDB cooperation in providing or mobilizing capital for COLAC.

## II. L.A. CREDIT UNION MOVEMENT: AN OVERVIEW

The credit union movement in Latin America was started relatively recently, and many national movements were established within the last 10 years. COLAC was established in 1970 and became operational in 1973. By the beginning of 1974, COLAC estimates that its affiliates had over one million members with \$150 million of their own savings available for relending. The movement is generally healthy and does not suffer from extreme politicization. It is potentially an effective channel for reaching a large and growing number of poor people and for helping them help themselves. While initially, and still primarily, an urban/consumer movement, more cooperatives<sup>(1)</sup> in rural areas and a growing number of production-credit programs promise to provide a meaningful financial and assistance resource for small farmers who are not eligible for private bank credit. In most cases, these farmers are not reached by other cooperative or community development organizations or programs.

As can be expected, the national federations and movements have much in common; there are, nevertheless, many different forms of organization, services offered, and methods of operation stemming from differences in management policy and country characteristics. These differences provide an opportunity to the movement to analyze and choose those forms of operation which result in beneficial performance and to eliminate those which are less effective and efficient. In part, these differences stem from relative development levels in the transition common to all country movements from a social/economic voluntary organization stressing grass roots assistance to a more professional, formal intermediate credit institutional movement. At the federation level, the rise of young, professional, full-time, paid managers and technicians is already well established, professionalism at the cooperative level is less developed, though in some countries already formally and systematically underway. These transitional

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(1) In this report, credit unions will be referred to as cooperatives, the common nomenclature of the movement. Agricultural cooperatives will be specifically denoted.

changes can be expected to result in more dynamic leadership in the next five years, and, if COLAC recognizes and takes the opportunity to lead and introduce modern organization and new business practices as standard procedure, it will have fulfilled the promise of its founders. To do so, however, it will have to have more adequate loan funding, credits, and/or other financial assistance which make it viable and free to concentrate on its function of a "credit assistance" agency. Once in this position, moreover, its management should be able to make independent decisions and will begin to, finally, be an indigenous Latin American entrepreneurial organization.

Professional management will gradually bring about more responsible and recuperable operations, but the grass roots nature of the movement has failed to attract internationally known professionals to its leadership. This is probably the major reason why COLAC is finding the mobilization of capital and loan funds so difficult.

In addition to greater professionalism and still greater emphasis on production credit, another important element which is changing the character of the credit union movement is its source of funds for further growth. The initial period of growth was based on small member savings and consumer loans at relatively low interest rates, reflecting, in part, volunteer management and low savings returns. High delinquency and default rates could be absorbed and covered, temporarily, from a combination of resources, partial repossession, and gradual repayment in subsequent years. Where net losses ultimately occurred, these were essentially transfers from one member to another within national boundaries without great import to the outside world. As the national federations and affiliated cooperatives begin to depend on external capital and financing, initially concessional, but ultimately at market rates, and as a higher percentage of lending is for production and industrial lending, the credit union system cannot indulge in loosely controlled lending policies and operations leading to delinquency, defaults, and losses. External lenders, including COLAC, will not stand for failure to meet repayment schedules.

### III. AID TARGET GROUP AND RATIONALE

AID's ultimate rationale for support of COLAC is to help an indigenous credit movement, currently highly national rather than regional and subject to sharp reverses, become an effective and viable credit source for Latin America farmers not now eligible as clients of other institutions. Current and potential farmer members looking to their credit cooperatives for production credit can benefit more from use of this mechanism if adequate farm planning and credit assistance accompanies the loan; farm planning is also a means of reducing risks of inefficient management of the loan. As members of the cooperative, they will have more opportunity to participate in the "rule of the game" and since saving is a prerequisite, will have an incentive to build for the future and for emergencies. Participation in cooperative farm credit production programs does not rule out participation, at the same time, in government and other agricultural programs which are either complementary or supplementary, especially marketing. Thus, in the short run, AID's objective should be the institutional development of COLAC as an effective and viable credit assistance institution, measured, in turn, by the long run objective of increased numbers of farmers receiving production credit and related services from whatever source, but integrated into a loan package which is repayable and does not endanger the economic independence of the borrower.

AID will have policy decisions to make in (1) defining the relation and extent of support to the movement regionally, as compared to individual missions and countries; and (2) the relative support and related conditions of separate movements intended to help the same farmers, namely, credit and agricultural cooperatives both regionally and nationally. We see the use of the cooperative credit union movement primarily as a source of credit for current operating expenses (seed, feed, labor), as compared with credit for increasing productivity (irrigation, herds, buildings, land, etc.)

AID will want to clearly distinguish between farm production credit and credit to rural cooperatives or to farmers which is not for production purposes. The statistical measurement of such utilization is currently inadequate and improved and uniform statistics should be a condition of any loan or grant package.

#### IV. PRINCIPAL CONCLUSION AND RECOMMENDATION

On balance, COLAC as an intermediate credit institution and as a catalyst to promote and unify the continued growth of the Latin American credit movement qualifies for AID support. Given certain recommended changes in organization, personnel, objectives, and viability base, COLAC has the potential for developing the credit movement into an effective hemisphere institution to serve the credit needs of the low income farmer and worker. We find the present management of COLAC to be responsible, dedicated, and highly experienced. The national federations visited have indicated they wish COLAC to provide financing, monitoring, training, other assistance, and leadership.

Recommendation: AID should move concurrently with both grant and loan assistance to support COLAC for two fiscal years through June 30 of 1977. If the loan is authorized in FY-75, we expect it to be sufficiently disbursed by 1977 to obviate the need for further grant support:

- (1) AID should authorize a loan to COLAC in 1975 of no less than \$6 million and no more than \$8 million at 2%/3%, with a 5 year grace period. The exact duration of the loan will require further study and probably will not require the usual 40 years.
- (2) At the same time, AID should provide COLAC with grant assistance to underwrite its operations at about the \$600,000 annual level, of which approximately \$400,000 will be personnel. This should be a final two year authorization, giving notice to COLAC of AID's expectation that it will become self-sufficient of AID assistance in 1977.

Assuring operations at the \$600,000 level compares with a level of \$531,000 in 1974, of which an estimated \$63,000 could have been saved if the printing operation had been eliminated. Thus we are effectively recommending a level of slightly more than \$100,000 higher than 1974 for each of the two years to provide for additional personnel in agri-business and farm planning, credit mobilization, and possibly finance.

Assuring a \$600,000 level will require regional funding in each of the two years of no more, and probably less, than \$400,000, considering the alternative income already available to COLAC from interest on its \$1 million

in loan funds; its potential income from charges for technical assistance and recruitment; and potential income from future contracts to oversee the successful implementation of AID bilateral funding to national federations. In this connection, AID/W should take positive steps to promote contracts with COLAC by missions and federations, similar to the one in El Salvador and now being contemplated in Colombia, to have COLAC provide technical and credit assistance in the utilization of bilateral funding of cooperative credit. COLAC would hire new, sometime temporary, personnel and, at the same time utilize more efficiently the services of its present staff for general long-term improvements in national federations. Insofar as services of existing staff technicians can be charged against bilateral contracts, such costs would not be charged to the general COLAC budget. There are three options open to AID/W to obligate the proposed grant funds to COLAC:

- a) As previously planned, \$325,000 in 1976 and \$225,000 in 1977. Administratively, this is the easiest for AID and has the advantage of forcing COLAC to seek any shortfall from alternative sources or to operate at a lower level.
- b) On a "line of credit" basis, reducing the amount obligated as COLAC receives bilateral contracts and charges costs of existing staff to these contracts, with corresponding reduction in regional funding. This is a more uncertain method but builds in an incentive to AID/W to promote COLAC-Federation relations.
- c) On a sliding scale, with a larger input the first year and depending on alternative revenues, a reduced input the last year. This is similar to the line of credit but makes all of the adjustment in the second year.

AID/W could, of course, choose to authorize fixed amounts (Option a)) and if COLAC obtains income from other sources, agreement could be reached jointly to increase services to federations over the \$600,000 level. Thus, e.g., the federations in particular need of promotion might be assisted to quicker growth.

Our proposal, under any of the above options, would permit COLAC a breathing space of two years to concentrate on institutional development: recruitment, statistics, mobilization of alternate source funds, production credit and federation relations without interruption for new budget proposals.

It permits federations to enjoy bilateral concessional funding while utilizing COLAC for assistance. Assured grant funding permits COLAC to disburse the loan in a responsible manner so that loan revenues will come on stream as grant funds are eliminated.

No dividends on capital should be paid by COLAC to its member federations during the period of grant assistance since this could be considered an AID subsidy to the federations over and above support of COLAC.

## V. CONDITIONS OF SUPPORT

Our principal conclusions and related recommendations presuppose certain requirements which AID will want to consider and to negotiate with COLAC. These fall into various categories relating to future effectiveness, efficiency, and viability of COLAC by June 1977.

### A. Organization and Management: Increased Efficiency

The history of the changes which led to the present organization of COLAC has been succinctly set forth in the PROP of February 20, 1973. AID is well aware that the Director and many of the professional staff of COLAC were changed in 1973 and 1974, and the organization structure was realigned at the same time. The major difference in organization and approach is shown in a comparison of the organization chart of 1972 with the present one (Exhibits #1 and #2). The 1972 organization was structured around functional specialists who provided Technical Assistance (as compared with credit assistance) directly to Federations. The 1974 organization is still in transition, pending the employment of the two additional technicians to oversee affiliated country Federations not now covered, but reflects COLAC as a monitor and supplier of technical assistance related directly to loans to Federations. In a very real sense, the important liaison technicians are country officers, although one of each team is a specialist in production credit and the other an economist or agri-business specialist. Eventually, these technicians will not only systematically monitor each Federation, but will recruit specialized technical assistance specialists from Federations or the outside rather than as at present providing direct technical assistance.

#### 1. Recruitment of a Third Country Team

Farm production programs are either already underway or can be developed from initial programs in eleven of the fifteen federations affiliated to COLAC. These are Bolivia, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Paraguay. Contrariwise, Brazil and Peru are limited by law or regulation from operating farm credit programs; Curaçao is too small and has too little potential to warrant COLAC's investing much of its manpower to develop a program.

Internal political problems in the past have deterred COLAC from entering into a development relationship with Venezuela. These may be moving toward resolution and COLAC may be able to initiate a program there in the near future.

Recommendation: Because of these particular country situations, COLAC should defer the recruitment of its 3rd monitoring or country team for the next year or two, using its budgetary resources for more pressing expenditures.

## 2. Assistant Director and Statistics Improvement

At the time of the evaluation, the Executive Director or Manager concentrated on federation relations, in addition to overall management, and the Assistant Director concentrated on internal management problems. Technical detail and credit assistance was provided primarily by a Coordinator of Technical Services.

Recommendation: The present Assistant Director is a U.S. citizen with long service in COLAC. He has given it needed stability and provided expertise in the preparation of loan requests to AID and international agencies. Considering COLAC's original objective of indigenization and its current needs, we recommend that he be shifted to an advisory position and given the task of developing and unifying the statistical collection function of the federations and developing special statistical surveys which AID will find helpful in monitoring its grant and loan. We believe this can be accomplished by June 1976.

For budgetary reasons and because future Executive Directors may be chosen from outside of COLAC, we do not believe it necessary to maintain an Assistant Director position. In the absence of the Director, the Coordinator would appear to be the logical person to provide temporary direction. It does not appear desirable for both the Director and the Coordinator to be absent at the same time for any significant time period.

If our recommendation on a shift of the Assistant Director to Statistics is followed, we further recommend that AID/W provide specialized backstopping to COLAC in the development of a uniform management information system.

## 3. Organizational Development

In our preliminary report we noted that:

"COLAC's new approach to monitoring Federations, uncovering problems, evaluating alternatives, and assuring actions by pinpointing specific responsibility could prove to be the most important function served by COLAC. But the systems approach utilized can be applied by any trained professional and follow-up is being done by the country officers. Moreover, the method utilized by the OD officer presently depends on the Federation personnel recognizing their own problems."

We recommended that the position be abolished after the country team technicians were sufficiently trained in the systems approach. Since that report, the OD technician returned to her Panamanian Government position and a new technician has been employed in her place.

Recommendation: In view of the importance of follow-up by the monitors, the necessity to build the closest possible advisory problem-solving relationship between monitors and related federation management, and the expertise that the monitors have, as compared with the OD technician, we continue to recommend that this not be a separate full time position, draining budgetary resources better used for new positions. We repeat our contention that the monitors (country team technicians) could easily learn the technique and OD services would thus still be available to the federations. In view of the necessity for training of the monitors over a several month period and the need for the introduction of concentrated administrative procedures within COLAC, the OD officer may be utilized in a dual role for a trial one year period. COLAC will want to carefully consider at that time whether budgetary outlays are necessary and desirable for this combined position.

#### 4. Promotion and Publications

It would be difficult to find a more highly qualified promotion technician than COLAC's Merchan Mora. Our surveys of the federations uniformly brought both praise and indications that his services would be requested.

Recommendation: We repeat our preliminary recommendation that he terminate his services aimed at helping particular cooperatives to build membership, concentrating instead on training counterparts at the federation level who can serve cooperatives. We believe, furthermore, it is

worth experimenting with his promotional expertise to gain COLAC's objectives vis-a-vis the federations. This could include intensive campaigns to raise interest rates, to convince federations of the necessity to pay for technical services, of the role and importance of uniform credit and statistical operations, among others.

Mr. Merchan has been, and currently is being used, to direct a greatly reduced printing operation.

Recommendation: We are recommending that the printing operation be eliminated, even on a partial basis, because it is inefficient, cannot serve federation publication needs, diverts management efforts from its major tasks, and takes up space which could be rented. We estimate that slightly more than \$60,000 would be saved if the printing machinery is sold and the space is subcontracted (Exhibit #3). In any case, we do not believe Merchan should be utilized in the printing operation.

## 5. Audit

COLAC has been employing an outside Panamanian audit firm, partly because it was assumed that principals of the firm could be influential with the Government. This firm was responsible for the accounting system and particular bookkeeping system used by COLAC. During an extended period of sickness of the accountant, the audit firm actually did the day to day accounting. Although COLAC's newly employed internal accountant may eventually be able to salvage some of the accounting records and introduce useful and speedy accounts, the current system leaves much to be desired.

Recommendation: We recommend that COLAC replace its audit firm and give high priority, allocating temporary clerical budget if necessary, to revise its accounting system.

## 6. New Positions

### A. Agricultural Technicians

Our field visits developed strong evidence that federations will move slowly to take COLAC financing for agricultural production credit until they can be reassured that the risks of this type of lending on a large scale can be understood and controlled. The key to such control is in farm

plans underlying each loan and agricultural technicians in each federation overseeing the production and marketing prospects of members.

Recommendation: We recommend that COLAC add two agricultural economists with operational experience to its permanent staff, one highly specialized in farm production and planning, the other in marketing. Although COLAC is counting on the latter to be financed from German sources, this temporary assistance may not be of sufficient scale or focussed sufficiently to the training and constantly changing market needs; such assistance might prove helpful in supplementing a more permanent employee. Our recommendation is made with the knowledge that at least two COLAC's staff are highly qualified agricultural technicians. They, however, are not available full time for this functional task, although they would reinforce both planning and training objectives.

The Fondo de Agricultura, Avicultura, y Ganadería in the Banco de Mexico has had a very successful program of agricultural credit which owes its success to supervised farm plans and careful recruitment of technicians. The FONDO has given courses to third country technicians and may be a source for personnel and training. Other sources are FAO and Turrialba (IICA).

#### B. Loan or Finance Officer

Viability (self-sufficiency) of COLAC, leverage to enforce credit standards, and acceptance of its monitoring and assistance functions are directly tied to COLAC's ability to attract capital and loans. Without AID loans and grants, as recommended previously, we do not see COLAC becoming viable before 1980. COLAC cannot continue to disperse the efforts of its entire top staff to mobilize loans from international agencies, governments, or banking institutions. Although COLAC may not be able to attract the right person, a full time highly experienced and qualified expert appears to be needed if long run loan funds are to become available to COLAC. Ideally IDB should provide COLAC with capital, both being specialized L.A. development institutions. AID/W may not have utilized its top management to sound out IDB to consider becoming the financial arm of COLAC. (1)

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(1) IDB has had unfortunate experiences with credit organizations not affiliated with COLAC and cannot be considered at the same level of performance or organization. COLAC needs to be represented to many officials within IDB for what it is.

**Recommendation:** Failing this, we recommend that COLAC employ an expert in finance with background in tapping the private money markets. Employees of IDB and IBRD appear to offer the most likely candidates. If possible, a Latin American would be preferred as a solicitor of funds for COLAC. It may be possible to employ this expert on a part time basis.

## 7. Organization and Personnel

A. Based on the foregoing recommendations, COLAC would move rapidly to become a fully operating intermediate credit institution and be organized as shown in Exhibit #4. Not shown in the chart are personnel resources which are available to COLAC through formal and informal arrangements.

- (1) The World Council maintains Dr. Serrano as a full-time Latin American Credit Cooperative Leader and Educator. We recommend against the use of COLAC budgetary resources to pay for seminars on the world situation which relates to the cooperative movement (population, food, and similar trends) but rather to broaden this program, focusing on education, public relations and legal advice.
- (2) CUNA Mutual makes available without cost: audit, credit, and insurance technicians for assistance through COLAC to federations. These should be consciously integrated into COLAC's training and credit analysis functions.
- (3) Donated personnel are expected from European foundations and from AID.

## B. Location of COLAC

Much attention has been given in the last year to the possibility and advisability of a move of COLAC's headquarters to Colombia or Costa Rica. COLAC has a study of the relative costs of operation in each country. The Colombian Government had indicated in principle that COLAC might obtain regional status if located there. CUNA MUTUAL has offered COLAC a 6% loan to purchase a 1/3 interest in a 16 story building now nearing completion in Bogotá. On the surface it would appear desirable for COLAC to seriously consider this possibility; (1) Together with CUNA MUTUAL and World Council, Bogotá would be the center of the L.A. credit union movement, (2) The building would probably pay for itself, reducing COLAC's operation costs, (3) Some loss might occur in mobility but is not considered important; (4) less international banking facilities are found in Bogotá, again not overriding since COLAC could bank in New York or Panama by telex; and (5) some separation

from the very active Central American Federations would be offset by closer proximity to Paraguay and Colombia itself, two clients which would benefit from COLAC assistance. (6) The availability of adjunct technicians from CUNA MUTUAL also weighs in favor of a move to Colombia.

Despite these favorable reasons, COLAC would be put in a position of dependency on CUNA MUTUAL which in the long run could militate against indigenous insurance operations at the federation or COLAC level. The level of independence from the Government is far from clear, moreover, and might eventually hamper COLAC's flexibility, especially as an intermediate credit institution (consider, e.g., the possibility of a requirement to hold all assets and capital in Colombia).

We are not, therefore, recommending a move in location even though Panama is excessively expensive and tends to discourage the recruitment of qualified technicians at COLAC's salary levels. This question should be reconsidered at a later date.

## VI. PROJECT PERFORMANCE

### A. Past Performance: Effectiveness

During the past year, COLAC shifted from an institution primarily providing technical assistance, as requested by federations, to an intermediate credit institution, providing credit related technical assistance and the beginnings of monitoring.

During the same period new management and turnover of professional staff make performance responsibility more difficult to assess. COLAC as an institution, however, cannot use either change in management or function as a basis for any non-performance which may have occurred.

The original project purpose performance indicators were developed in mid 1973 and baseline data are for that year. One year of performance, 1974, was compared with expected performance, as revised by Exhibit D, an amendment, to the Grant Agreement. This amendment took into account the changes in COLAC and reduced downward the targets from the original levels of performance. Attribution of performance achievement is difficult to pinpoint, moreover, considering the increased professionalism of the federations and the built-in growth of the movement. Nevertheless, taking the targets set forth for COLAC, most of the indicators of satisfactory performance have been met or exceeded (Exhibit 5). The two which have not been met are (1) the average rating of all programs (30% compared with a 48% target). This is not a well defined indicator, being similar to the GNP as an indicator of an economy's health; and (2) the number of farmers in rural credit unions in 9 of 11 federations reporting was about 20,000 short of the 187,000 projected. In actual fact, the number of farmer members is not easily determined with present statistical reporting and could easily exceed the target or vice versa.

#### 1. Satisfactory Credit and Integrated Production Credit Department

Perhaps the two most important indicators of effectiveness of the movement is the capability of finance or credit departments in operational and satisfactory condition and the number of federations with satisfactorily operating production credit programs. These criteria (Exhibit 6) were generally known to the federations, but they are not fully aware of the scales and measurements used to evaluate the level of capability. The particular federations which qualify and the level of development of each

federation are shown in Exhibit 7. Since COLAC expects to limit financing to those federations which qualify as satisfactory, these criteria will continue to be important prerequisites to future relationships. COLAC may wish to reeducate the top management of federations to the importance of these criteria, their meaning and measurement.

Of the 6 federations which qualify as having satisfactory or operational credit departments, COLAC was instrumental in helping El Salvador, Bolivia, and Costa Rica to reach their present levels. The CUNA/LARO program, which preceded COLAC, and the country CUNA/AID programs are responsible for the establishment of the credit departments in Panama, Honduras and Guatemala.

COLAC, therefore, has proven it can help federations to organize and establish highly responsible and competent credit departments. Once loan funds are available to COLAC, it can exert greater leverage and incentives to those not yet up to the 85% level.

Recommendation: We recommend that COLAC consider either or both of the following in the making of loans:

(1) Charge a higher rate of interest for funds lent to federations with lower ratings of capability, keeping an absolute prohibition against loans to those under an unacceptable level, including not lending to federations which do not have a fidelity bond program for member credit unions.

(2) Limit the amount lent to a federation to a percentage of capital which would increase as its capability rating increases. Present credit policy permits the least experienced federation to borrow up to 5 times its capital and those with considerable experience to borrow up to 15 times its capital.

Three Central American federations have 75% or higher levels of satisfactory production credit programs. Honduras may actually qualify as a fourth federation. Other, lower rated programs are underway in Paraguay and Ecuador. All of these countries owe their development of the program to COLAC or to CUNA/LARO. The rating is implicitly taken into account when determining borrower eligibility and once funds are available to COLAC, it can be expected to be given even greater weight as a prerequisite to a loan.

## 2. COLAC Lending

The team carefully reviewed the manner in which COLAC carries on its credit operations. All of the documents on one loan were examined. This included the first application, the evaluations, contracts, and reports from the field. Each COLAC loan was discussed in detail with the COLAC credit official, or the responsible country team member. In addition, the team visited two of the countries which have COLAC loans. We were impressed with COLAC's decisive move to protect its loan to the Ecuadorean federation. In that case, COLAC forced the resignation of the manager for misapplication of funds.

Recommendation: The procedures followed by COLAC appear to be thorough and adequate. Recommendations have been accepted by COLAC to establish special bank accounts for COLAC loans and to control loan notes at the federation level by controlling access to them to more than the manager of the federation. If COLAC, by contract, required immediate transmission to it or its trustee for its account of all note payments, the withholding of such funds by an employee would likely involve a breach of trust which would be covered by his fidelity bond.

The team found that COLAC did not evaluate federations' portfolio of outstanding loans. It relied upon the delinquency figure reported by the federations. Since no standard definition exists amongst COLAC's members for calculating delinquency, and since this figure is subject to certain manipulations, the team recommended to COLAC that it evaluate each loan in a federation's portfolio. (A loan delinquency may be of no consequence or it may be a signal of serious difficulties. Loans may be 100% collectible, given an extension of time, whereas a loan may collapse overnight and be entirely uncollectible but, being within the repayment period not considered delinquent. Periodic and in-depth loan appraisal or audit would provide COLAC and the federations with a basis for making loans and for setting reserves.) This would permit COLAC to form an estimate of the probable loss to be suffered by the federation. COLAC's loan policy calls for the granting of loans in relation to a federation's capital. The probable loss figure should be subtracted from the capital of the federation, and a loan extended on the basis of the calculated net capital.

COLAC limits its control to loans which it makes to the federations. There is no systematized method of credit auditing of the federations, or the cooperatives. Thus loans with other than COLAC funds do not come under COLAC's scrutiny. COLAC, therefore, has no reliable measure of the true worth of the federations' balance sheets; similarly, the federations have no reliable way of checking the balance sheets of the cooperatives. An overall audit implementation would appear essential to lending activities and to capital mobilization.

Recommendation: We recommend that COLAC analyze the U.S. system<sup>(1)</sup> for adaptation to the credit movement of L.A. This would particularly mean that COLAC would initiate an auditing and loan examination service to examine every loan on the books for legality, repayment, collateral, and soundness. A full annual report to management on the status of all loans would be made, including an appraisal of their collectibility. This system needs to be ultimately established for all three levels, COLAC, Federation and cooperative.

A disturbing finding in Colombia points to the possibility that the "pagares", which are notes of members sequentially assigned to the cooperative, federation, and to COLAC as partial security for a loan, may be repaid at the cooperative or federation level without the necessity of the note being reclaimed. Once a member has a separate receipt, however, attesting to repayment, Colombian law does not permit the original note to be enforced. COLAC may be auditing notes which are held securely in vaults, but are worthless. Possible safeguards are to hold managers, accountants, and/or boards of directors at each level personally responsible for the repayment of the notes. Another safeguard would be to develop a uniform document which specifically warns the member that he has to retrieve his signed note on repayment.

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(1) See manuals and credit forms utilized by the U.S. FARM CREDIT SYSTEM:

- (1) Principles of Credit - A Lending Manual
- (2) Manual for Credit Examinations of Production Credit Associations
- (3) Credit Review of a Production Credit Association
- (4) Inspection and Appraisal Reports
- (5) Operations Manual for Production Credit Associations
- (6) Statistical Summary for Production Credit Associations

Recommendation: We recommend that COLAC consult with legal advisors in several countries on this problem. Dr. Serrano might well head up the investigation.

COLAC loans of less than \$50,000 are approved by the Director. All other loans are approved by a Credit Committee of 2 federation representatives and COLAC's Coordinator of Technical Services. The Director of COLAC is a non-voting member. Since loan requests are prepared by federations, with assistance of COLAC's technical staff who report to the Coordinator, the Coordinator in effect is voting on his own request.

Recommendation: We recommend that the Director of COLAC, in lieu the Coordinator, be given a vote in the Credit Committee.

COLAC's credit policy states that loans for productive purposes will be given priority over others. To date, COLAC has made loans only for productive purposes. In the future, however, it will need to support the low income consumer segment of its movement.

### 3. Uniform National Statistical Reporting System

All national federations visited were particularly questioned about the nature, timing, and extent of reporting statistics. Statistical forms are included in our supplemental volume. In Panama, where the federation performs the accounting function for most of its cooperatives, most of them supply the information on time and the information is very detailed. The federation even receives the names of delinquent individuals.

In Paraguay, there was near total non-compliance by the cooperatives in reporting their statistics. When the data required was cut from 34 items to less than a dozen the situation changed and there is now near total compliance.

In Honduras, the data requested has always been minimal and has always flowed naturally out of the monthly closing of the accounts. In addition, the federation has always stayed on top of the cooperatives, hounding those who were late with their data. The feeling there was that a cooperative

not reporting its data probably had some problem and needed help from the federation extensionist. Historically, 75% to 90% of the cooperatives report their data within 15 days of the end of the month. More detailed information is generated by the federation once a year. However, the federation generates this information itself. Locally generated information would not be reliable, even if it was forthcoming.

The lesson of these three examples is that COLAC can only expect to generate data if it keeps the requests simple and uses every means at its disposition to insist that the information be provided. Special information such as that required by AID in connection with a loan, will require special efforts and can probably only be handled by surveys every three to five years. It is basic that COLAC develop and insist on the installation of a uniform reporting system from coops to federations to COLAC. If requested by COLAC to do so, AID/W would be wise to provide specialized T.A. to COLAC.

#### 4. Expansion of Production Credit

The team had no data with which to analyze the growth of production credit, even on a sample basis. Since the federations do not systematically collect such data, even they do not know the answer.

Recommendation: We recommend, as part of COLAC's future development of statistics, the following basic data be collected:

- (1) Number of loans made to farmers. An increase will be favorable.
- (2) The dollar amount of loans made to farmers. An increase in both total and the average size of the loan will be favorable.
- (3) Number and amount of farm loans refinanced or rolled over. If this figure is kept low, the situation will be healthy.
- (4) Delinquency rate in farm loans. (N.B. a standard definition must be prepared by COLAC.) A low and/or decreasing amount will be favorable.
- (5) The gross and average savings of farmers. This figure should increase constantly.
- (6) The number of farm members. This figure should increase.

## 5. Specific Cases of COLAC Performance

Lack of data and failure to impose realistic targets for 1974 diminish the validity and usefulness of the agreed-upon performance (purpose) indicators. We found certain examples of COLAC's activities during 1974 more revealing and indicative of the services it was rendering to federations and the movement.

The evaluation team concluded that COLAC, in addition to initial shifting to an intermediate credit institution, had provided catalytic and strategic as well as long run training and other assistance activities during 1974 which spell continued growth to particular federations.

As noted in our Preliminary Report, COLAC has provided solid backstopping to more effective organization and higher more realistic interest rates in several countries:

- Nicaragua:
- (1) Administration reorganization and change of Manager.
  - (2) Reorganization and functioning of finance department.
  - (3) Increase of interest rate from 4 to 8% for special loans.
  - (4) Increase of interest rate from 8 to 10% for ordinary loans.
  - (5) Regulation of overdrafts in the central accounting system.

Costa Rica: Increase of interest rates from Federations to Credit Unions from 10 to 12% and from the latter to members from 12 to 18%.

Panama: Studied credit policy and regulations and introduced changes in period of repayment and revised the interest rate structure.

Bolivia: Organized a finance department, including its functions and operations. Restructured the administration and organization of the Federation.

Several countries benefitted from direct promotion efforts of COLAC's expert, particularly Ecuador. Other types of activities (outputs) are detailed in the Annex of COLAC's 1974 Annual Report.

In addition, COLAC provided hemispheric leadership in safeguarding against encroachments on particular federation operations:

Colombia

In early 1974, the Government of Colombia issued a decree which effectively replaced the director of FINANCIACOOP with a Government appointed director, taking control of the cooperative. COLAC mobilized opinion in every affiliated country and petitions poured into the GOC from the hemisphere. As a result, the decree was withdrawn.

Paraguay

When one sector of the cooperative movement and the Central Bank attempted to promote a law to bring credit unions under rigid Central Bank control, which would severely restrict the operating flexibility and growth of the smaller cooperatives, COLAC was instrumental in explaining the dangers in the proposed law. The law was not passed and the leadership of the federation was changed.

Ecuador

In the last quarter of 1974, COLAC, by moving decisively to call a \$55,000 loan which was being put to ineligible use, was directly responsible for changing the Federation manager and for initiating improved organization.

Bolivia

In mid 1974, as a condition precedent to a loan, the Bolivian Federation, to meet the credit department capability criteria, requested and received credit assistance, including organizational assistance leading to reorganization.

Thus, COLAC can be seen to be actively assisting particular federations and the movement. What is not so evident is that its internal administration lacked cohesion; its personnel were not specializing; and its accounting, statistics, and recruitment need serious upgrading.

B. Future Performance:

The team reviewed the 1973 logical framework, or design of the COLAC project, and made suggested revisions and additions which are under current study by COLAC. The team suggested a revised set of goals and tentative old and new indicators of purpose and output. (Exhibit 8)

At the goal level, we are recommending that farmer production and income statistics not be required regularly. If AID requires these data for Congressional purposes, they are best obtained from sample surveys every 3-5 years. Such surveys are better designed to isolate the attribution to income of off farm sources, of cyclical factors operating on particular year income, and of the particular effect on production and productivity of the credit. We are proposing that numbers of loans to and repayment of loans by farmers are sufficient evidence of successful credit operations, especially if farmer savings increase. The potential credit to rural industry has been explicitly introduced as an indicator of desirable related credit beneficiaries.

At the purpose level, we are proposing that COLAC's performance be measured by adequate marketing and credit life insurance and by the rate of delinquency at the federation/cooperative level.

At the output level, we propose considerably greater attention by COLAC to the establishment and utilization of uniform COLAC standards for making loans by credit unions and federations.

The foregoing refer primarily to questions of effectiveness. In considering indicators of the cost per unit of COLAC's activities, there do not appear to be many, if any, meaningful indicators. We have proposed the average cost per dollar lent as an overall guide to the cost of COLAC's operation. We expect, however, that average costs may rise initially as competent, high salaried technicians are recruited for specific tasks.

### C. Viability

AID has already published an in-depth analysis of COLAC's financial status, including results of computer runs for combinations and permutations of various levels of loan amounts, interest charged and received, and duration of loans. We do not consider it necessary to repeat these data. (1) We repeat the major conclusion of our preliminary analyses: Without AID support, COLAC cannot be expected to become viable before 1980, if then.

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(1) See INTENSIVE REVIEW PHASE I, PROGRESS REPORT TO THE DAEC, February 1975. Sections II and IV.

At the present time, COLAC's major assets include a \$1 million IAF grant; a 6% \$500,000 loan from CUNA MUTUAL; some \$150,000 in member shares. Assuming all of these funds were available for relending (only 1/2 of the IAF grant is presently available) at 8% to federations, COLAC would have roughly the following gross income: \$1,150,000 (IAF plus capital) @ 8% or \$92,000, \$500,000 (CUNA) @ 2% = \$10,000. This total of \$102,000 <sup>(1)</sup> is roughly the amount of gross income COLAC can count on to cover its operating expenses, which we estimate at \$600,000 <sup>(2)</sup>, for adequate performance in FY 1976-1977. In general terms, COLAC has a shortfall of \$498,000. Certain other types of income, such as dues and miscellaneous receipts, leave COLAC with about a \$460,000 shortfall. Considering that the elimination of the printing operation saves some \$63,000, COLAC's basic shortfall could be as low as \$400,000 in round numbers.

An AID loan of \$6 million @ 2% would, when fully disbursed, bring in \$360,000 <sup>(1)</sup> (\$6 million @ 8% less 2%). If during the next two years, COLAC can obtain an average of 9% interest instead of 8%, this would increase its revenues to \$420,000, about the amount of shortfall. We believe the federations will pay this rate. In actual fact, we have assumed full immediate disbursement. We wish to stress, however, that both the rate of interest and rate of disbursement are likely to be difficult through 1977.

Recommendation: We recommend that AID be as flexible as possible in permitting COLAC to lend for short-term traditional non production credit union loans and permit COLAC to keep a portion of the loan in fixed investment during the first two years. This will permit COLAC to have greater flexibility and reduce the need to disburse too rapidly.

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If AID were to make \$8 million at 2% available to COLAC, this would result in income of \$480,000 when fully disbursed if COLAC charged an average of 8% to federations. This is a more realistic revenue level if COLAC is to cover the estimated increase in cost per year of 7% in salaries and other overhead through 1977 and the possibility that the credit and finance experts

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- (1) COLAC receives capital contributions equal to 4% of loans made but these may not be immediately available for relending.
- (2) Assuming two additional agricultural experts and finance and credit mobilization experts.

will be relatively high priced personnel. At an average charge of 9% to federations, COLAC would receive income per year of \$560,000 but since disbursement will be slow, perhaps only 2/3rds of this would be available for operating expenses within the first two years.

Long run viability, with COLAC not depending on external grants and operating at present levels or higher, is possible only if COLAC is successful in mobilizing loan funds in the early period and obtaining additional loans and the beginning of significant capital infusions in later periods. A good case can be made that COLAC will not be able to borrow significant amounts from private sources at market rates unless it has an adequate capital base to secure such borrowings. This is not to say that a good "track record" is not also a prime requirement of long run loans, but a strong capital structure is a necessary condition for borrowing if U.S. experience is any guide. We are not sanguine, therefore, about the prospects of COLAC being in a position soon to obtain loan funds from the private banking system on a significant scale. To do so, moreover, would require, in the short run, a lowering of the bank interest rate to 9%, to permit COLAC to maintain at least a 1% margin under the maximum 10%, and, for the bulk of its loans, a bank rate of 7% to permit COLAC to charge federations 8%. In the long run, the federations can be expected to borrow at rates of 10-12% or even higher. But COLAC normally needs a 2% spread to cover costs.

## VII. SAMPLE SURVEY OF FEDERATIONS: OPPORTUNITY FOR LEADERSHIP

A detailed supplementary report on federation visits is attached with particular observations and conclusions on the federations visited. COLAC/federation relationships, the way COLAC is conceived, and the types of service desired differ depending on whether funding is available bilaterally and on the degree of professionalism in the federation. We were particularly impressed with the acceptance, if not the reaching out at the federation level for government assistance wherever it could help the movement. This was in stark contrast to the attitude of COLAC's management which appeared to fear encroachment of and takeover by governments if permitted to become involved. Similarly, we have noted the failure of COLAC and AID/W to come to grips with the relationships between agricultural and credit cooperatives. Because of this, credit union members are often being denied the benefits of related marketing services. Where possible, harmonization and agreement between these sister cooperative movements should be worked out. The agricultural cooperative is primarily a marketing cooperative and will normally centralize its location to provide marketing services. The credit cooperative will specialize in production and integrated purchase of inputs making it necessary to be more widely dispersed in location. In those cases where agricultural cooperatives have not developed or are failing, not an unusual phenomenon, the credit cooperatives will have no choice but to provide marketing services.

### 1. Conclusions from Field Visits

- a) While all credit union systems will have certain problems in common (i.e., delinquency), country differences in rate of inflation, interest rate and availability of funds, size and dispersion of cooperatives, control of money supply, among others, suggest that attempts to provide financing, training, and assistance be flexible and utilize more than one avenue.
- b) If agricultural production is to be the prime target of COLAC's lending and assistance, federations will require specialized agricultural technicians, particularly in farm planning and marketing. Marketing of members' agricultural production is a neglected area and may result

in loss of benefits from the movement's lending. Cooperation between agricultural and credit unions in the one country where it is being tried is a failure. A.I.D. may play a useful role in defining specialized functions of the two movements, fostering joint membership and other forms of collaboration, and providing rural development officers in the USAID's with policy guidelines to break down opposition to the credit union role in agricultural production and, in those cases where it applies, to purchase of inputs and/or the financing of rural industry.

- c) Federations viewed COLAC differently, depending on needs and management personalities. In general, COLAC is seen as helpful, needed, and worthy of support. All federations visited indicated a willingness to provide COLAC with a full faith guarantee of its borrowing from external sources.
- d) The demand for production credit funds is almost unlimited in the long run, but federations will move slowly during the first two years while gaining experience and expertise. Thus, COLAC's projections in the short run may be over optimistic. Contrariwise, where bilateral funding is not available, lack of additional lending by COLAC to the federations may cause serious defections, especially by rural cooperatives.
- e) The new breed of federation managers and staffs are young, dynamic, dedicated and university trained leaders. COLAC's leadership to bring business-like and uniform methods of lending and promotion will be easily understood and appreciated at the federation level. If actively pursued by COLAC the movement will slowly become more unified and regionalized.
- f) There is a tendency in some federations for management to engage in business enterprises which take time from the principal function of a savings and loan institution.

g) The benefits of working with governments are many and the federations visited felt no danger to their independence in seeking such cooperation and assistance. COLAC may be lagging behind in this regard.

## 2. COLAC Guarantees in Lieu of Loans

One of the most exciting possibilities discovered in the course of the federation surveys relates to the possibility of using AID funds to guarantee local currency loans from local banks (Bolivia) or to lend to federations through the central bank (Colombia). COLAC and AID/W will want to follow up on this: COLAC should once again discuss this with the Panama Branch of the Bank of America. AID/W may wish to query the missions re the possibility of the central banks or other local financial institutions taking the risks of devaluation and convertibility for small farmer credit.

## VIII MISCELLANEOUS RECOMMENDATIONS

### A. Support of COLAC as T.A. Contractor

We recommend that AID/W systematically support the letting of contracts by national federations and AID missions to COLAC to oversee the implementation of bilateral funding. Not only will this provide COLAC with income and resources to recruit and train staff throughout the hemisphere, but it will reinforce the COLAC/Federation relationship we foresee when COLAC is providing the credit. It may also reduce the AID regional funding requirement for the next two years.

### B. Continued Professionalism

COLAC's management has a built-in bias which limits its use of technicians too severely to those with cooperative movement experience and training. On the other hand, federation management, when queried, felt that the movement could recruit more widely. We believe that recruitment of competent professionals in various functional specialties will be one of the keys to ultimate success of COLAC and the national organizations. Broadening the choice of experts outside the movement will vastly increase the supply of potential technicians and bring fresh insight into the movement. In this connection, COLAC should attempt to review the job descriptions of its professional personnel with a view to limiting their activities along specialized lines.<sup>(1)</sup> We were particularly impressed and concerned by the heavy work load of the coordinator, among others.

We find COLAC vulnerable to sudden, unplanned loss of professional personnel. COLAC would be well advised to plan ahead for necessary replacement of key personnel, both existing and potential. COLAC will want to seek advice and personnel within IDB, IBRD, AID and other international agencies as well as providing employment in COLAC as a step up for federation personnel.

We would not expect additional technical personnel to be Panamanian or Ecuadorian citizens, even though those who are presently employed are

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(1) In working out duties and work load, particular technicians can be monitors for part of the year and functional specialists for the rest of the year. Thus, e.g., Dr. Heart can provide agricultural economic analysis and planning; Dr. Varela, finance.

highly competent. One means of providing broad scale representation is to employ nationals from as many countries as possible. Naturally, the competency of the individual is the overriding consideration.

### C. Unifying the Movement

Although local national problems tended to preoccupy federation management, there was a frank and fresh interchange on ways to strengthen the movement. We were particularly impressed with the willingness of every federation visited to give a full faith guarantee as cosigners for the COLAC guaranteed loan currently under consideration. The interchange of technicians was offered willingly and without reservation. We have recommended the development by COLAC of uniform standards, guides, checklists, and systems (audit, accounting, statistics, etc.) which would be utilized throughout the movement and would lead to greater efficiency and reduced delinquency. It would, ultimately, permit greater movement and communication among the federations and as potential personnel for COLAC. We have noted earlier that COLAC needs to give much more leadership in the form of prior studies and recommendations for more purposeful and relevant agendas at the general assemblies.

### D. Innovation: Interchange of Ideas

We were impressed within COLAC of the innovative steps taken by the Director to initiate a monthly letter to the federations (Exhibit #12) to interchange ideas and to assure a memory bank of problem-solving activities. In some cases, e.g., letters to delinquent members prepared by Panama, prototypes will mean that other federations do not have to "reinvent the wheel". Perhaps because management has been diverted to a multitude of other activities, including a steady stream of visitors and evaluators, a concerted effort to obtain credits, public relations, among others, the monthly letter has not been systematically followed up. We recommend it be reconstituted and implemented. Certainly the country teams in the course of monitoring will have countless suggestions after each federation visit.

## **IX GENERAL CONCLUSIONS**

We believe the present organization of COLAC is made up of experienced and dedicated technical personnel. Salaries are not excessive. COLAC needs to obtain specialized personnel in agriculture, finance, and mobilization of resources. Without AID or similar loan support, viability does not appear possible within the next four to five years. We believe AID should underwrite the viability of COLAC with 2-year grant funds and an initial loan of from \$6-8 million. Present AID bilateral loans to federations reduce COLAC's leverage and potential loan placement. The credit union movement is maintaining its growth and performing a desirable development function in Latin America. In addition to its present efforts, COLAC needs to take positive steps to strengthen the bonds among federations, and to provide federations and credit unions with updated uniform standards and guides on loans to keep defaults to a minimum. As time and personnel permit, COLAC by representation to other organizations and governments, should reduce disharmony which may exist in the cooperative movement in particular countries and provide governments with an understanding of the benefits to small farmers from credit union lending and the role this plays in national agricultural plans. COLAC management has welcomed the evaluation, been completely cooperative, and has already introduced changes suggested by the evaluation.

**EXHIBITS: MAIN REPORT**

**Numbers 1 through 9**

ORIGINAL STRUCTURE (pre-1974)

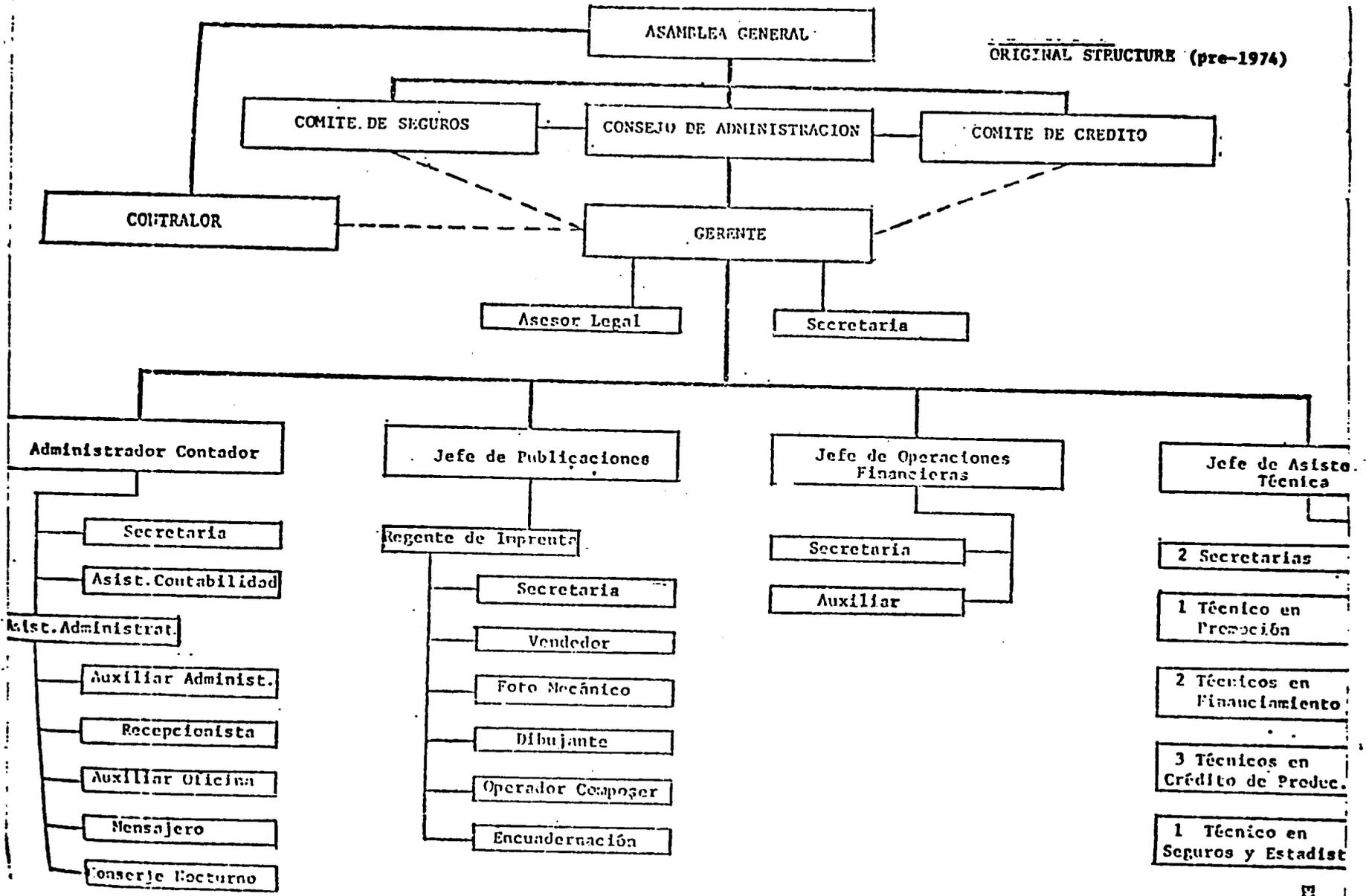


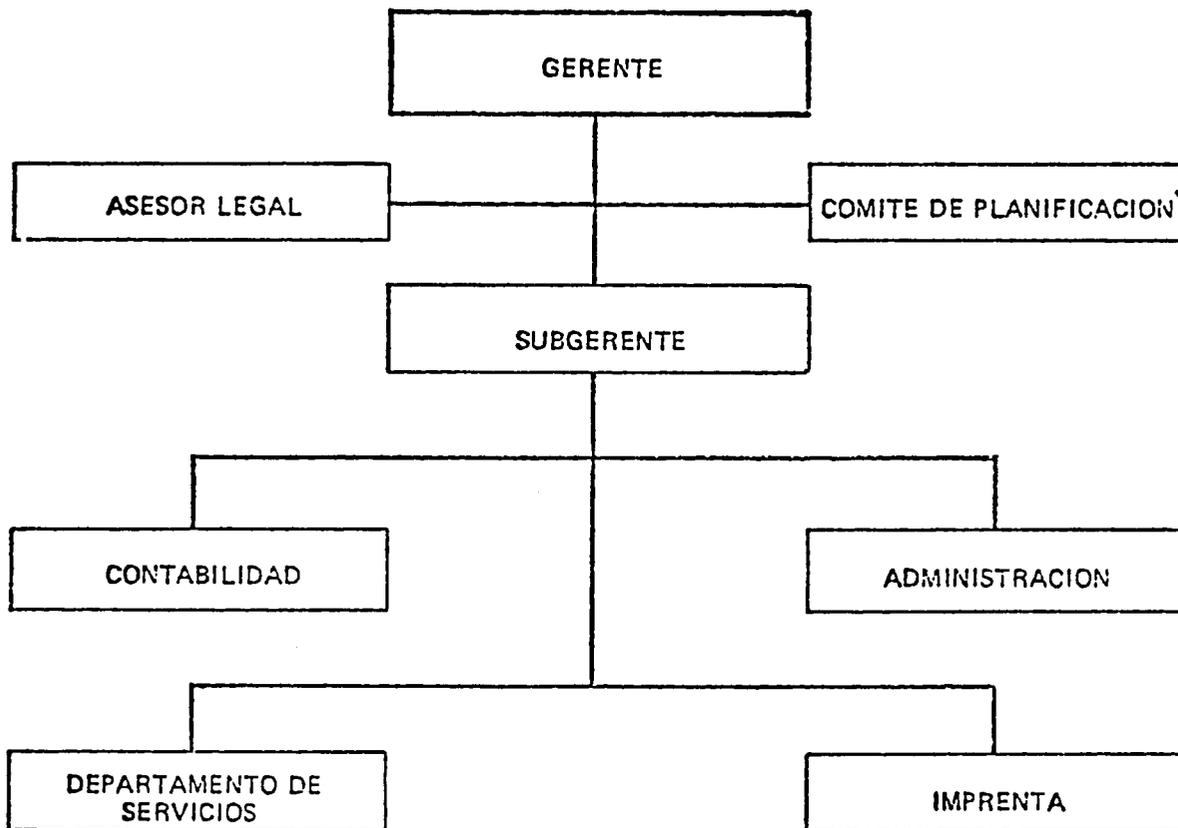
EXHIBIT # 1

(3)

REPRODUCIDA POR LA COMISION DE INVESTIGACIONES

PRESENT STRUCTURE

ESTRUCTURA DE COLAC



\* Este Comité estará formado por técnicos de cada especialidad.

Enero/1974

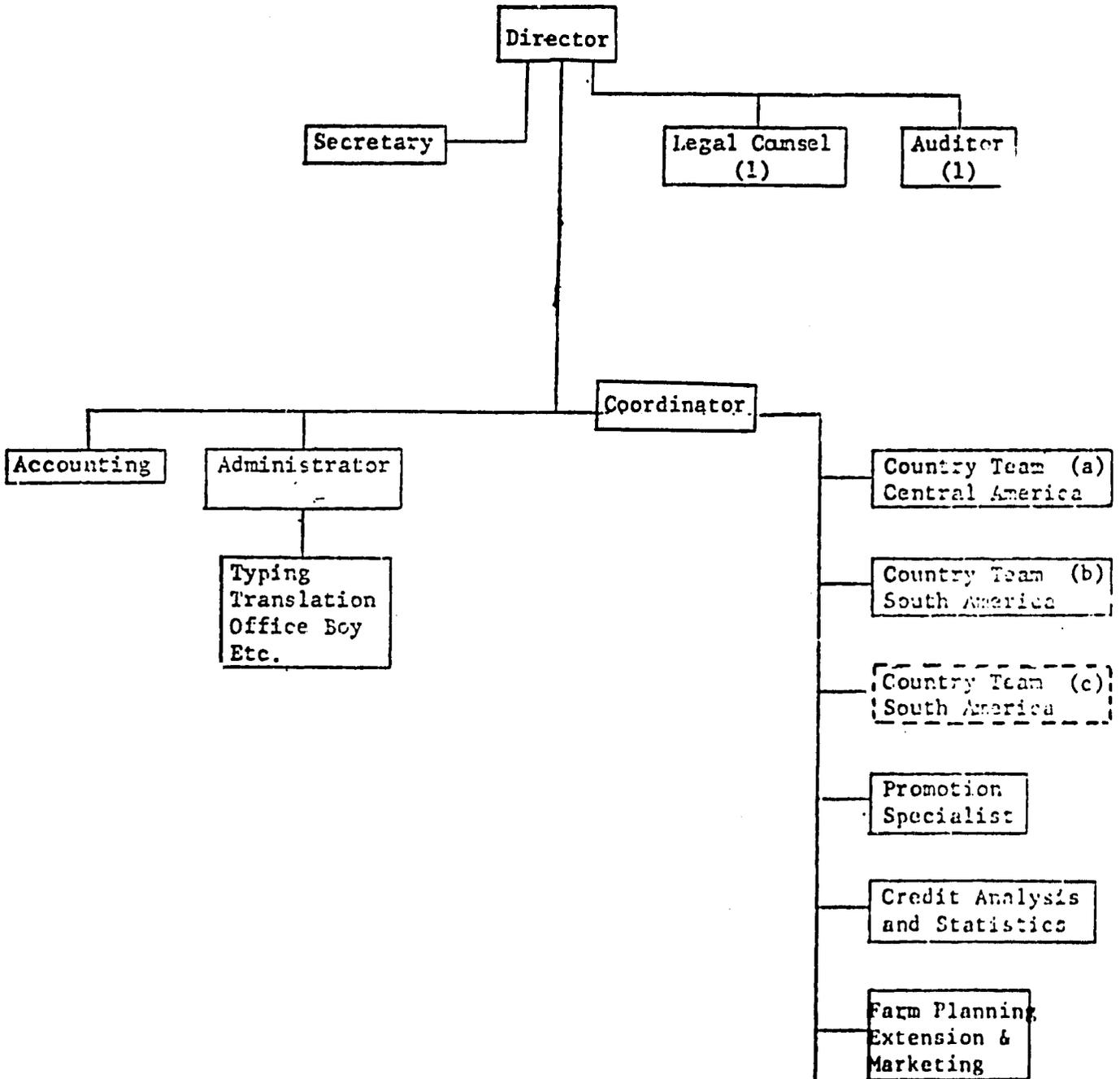
Assuming the sale of the printing machinery at \$30,000, the following changes would occur in COLAC's budget:

<u>INCOME:</u>	<u>YEARLY</u>
Increase in interest from \$30,000 loan at 9%	\$2,700
 <u>EXPENSES:</u>	
Reduction due to salaries, benefits, etc. of employees.	33,600
Cost of renting office, IBM machine, utilities, depreciation	<u>29,292</u>
	\$62,892
Reduction in the cost of COLAC's publications at the rate of \$800 per month	<u>9,600</u>
	72,492
Increase in cost of publications of COLAC printed in private shops	<u>12,000</u>
	\$60,492
<hr/>	
<u>SUMMARY:</u>	
Increase in income	\$2,700
Reduction in expenses	<u>60,492</u>
TOTAL	\$63,192

Jan 7, 1975

COLAC ORGANIZATION CHART

(Paid Employees Only)



(1) Legal Counsel and Auditor are outside positions. They are paid when actually employed.

## EVALUATION '74 PERFORMANCE TARGETS

## II PURPOSE

Narrative Summary

Promote establishment of an effective, viable, and efficient, Latin American Regional Confederation of credit unions responsive to priority development needs of the credit union movement, especially in relation to the small farm subsector

Conditions Expected at End of Project

	1973	1974	1975	1976
<b>1. Effective vis a vis National Federations</b>				
a) Finance Departments in national federations "fully operational" (90)	0	2 (2)	5	6
"satisfactory" (75)	3	3 (4)	7	8
b) Integrated Production Credit Programs operating satisfactorily.	1	4 (3)	4	8
Average rating of all programs	36%	48% (30%)	62%	72%
c) Bonding Service Programs established	2	6	9	12
d) Well developed statistical gathering system established	2	2 (5)	9	11
e) Self Evaluation systems established	0	4 (5)	9	14
f) Detailed 5-year plans approved	0	3 (4)	9	14
g) Percentage increase small farmer savings over 1973	0	20 (1)	50	75
h) No. of farmer members in rural credit unions	157,000	187,000 (165,875)	309,000	376,000
i) No. of farmer members in CUs with production credit programs	21,500	21,000 (7)	67,000	100,000
j) No. of loans given by rural credit unions with production credit programs.	18,000	35,000 (7)	53,000	70,000
k) Amount of loans by rural CUs in the program.	3,000,000	4,200,000 (7)	15,540,000	21,000,000
l) Percentage penetration of rural population by CU members.	78%	35%	44%	57%
<b>2. Viable</b>				
a) Over 13 Million in lending capital secured by COLAC.		1.5 (2.4)	9.5	13 Million
b) COLAC's operation budget derived entirely from:				
Membership dues & contributions				39,000k
Credit-Dept. of Publications		44,000 (16,000)	53,000	54,000
Increasing profit from interest on loans to federations.			110,000	210,000
Percentage payment by federations for costs of technical assistance.			25%	30%
<b>3. Efficient</b>				
a) Professional Staff	12	1 (1)	11	9
b) Reduction of US Personnel	4	3 (1)	2	1
c) Percentage of federations with highly qualified managers not requiring further basic program training from COLAC		15%	30%	30%

**A) GENERAL CRITERIA FOR MEASURING EFFECTIVENESS OF A FEDERATION'S CREDIT DEPARTMENT**

1. A federation credit department will be considered fully operational and technically self-sufficient when it meets 100% of the ten criteria listed below, but
2. Given the complex and demanding nature of the work involved in fully meeting these ten criteria, a federation credit department will be considered to be operating satisfactorily when it reaches an efficiency level of 85%. However, in addition to having a score of 85%, it must have a minimum of seven points in each one of the ten areas being measured.

**B) SPECIFIC CRITERIA FOR MEASURING THE OPERATING EFFICIENCY OF FEDERATION CREDIT DEPARTMENTS**

To measure the operating capacity and technical self-sufficiency of a federation's credit department, the following criteria will be used:

**1. Financial self-sufficiency.**

A credit department will be considered to be financially self-sufficient when the income generated from its credit operations can meet its own operating expenses and permit it to set aside adequate reserves for bad loans. Financial self-sufficiency of the credit department will be measured from the view-point of a specialized service unit and not the overall operations of the federation.

**2. Minimum amount of \$1,000,000 in loan funds for lending operations mobilized from internal and external sources.**

A federation's credit department must have at least \$1,000,000 in loan funds mobilized in the form of equity capital and/or external funds for its lending operations to be considered to be providing a minimally acceptable level of loan service to credit unions.

**3. Adequately trained personnel.**

This criterion relates to the number of personnel in the credit department as well as to their technical competence. With regards to the number of personnel, the credit department should have the number of employees that will allow it to carry out effectively its designated functions.

The goal is to develop at least two employees that can assume the full responsibility of directing the department's operations. This criterion was established to assure that there is sufficient depth in the credit department's personnel, thus avoiding serious problems in the event that the department head leaves the federation at any given moment.

With respect to the technical quality of the credit department personnel, each of the employees in the department must fully understand his duties and responsibilities. He must be able to carry these out efficiently and in a coordinated manner with the rest of the personnel working in the department.

4. Well defined credit policies and procedures for processing loans.

This criterion relates to the federation's lending policies and rules. A federation will be considered to have well defined credit policies and rules when these indicate clearly and specifically the borrowing conditions as related to: (a) the maximum amount that can be borrowed, (b) interest rates on loans, (c) types of guarantees to be accepted for each kind of loan, (d) special credit norms for agriculture, livestock, artisan and small industry loans, and (e) minimum administrative conditions that must be met precedent to disbursement of loan funds.

In addition to the above, the basic loan agreements or contracts and other legal documents that can prove the existence of loans made to borrowers must be clearly defined. Federations must also have well-defined loan processing procedures that clearly specify the steps involved in making a loan from the time that the loan request is received through its ultimate recuperation.

As a guideline to measure efficiency, it is considered that no more than 15 days should transpire under normal circumstances for the approval or rejection of any loan request that is received.

5. Capacity to make loan analysis and to carry out loan supervision.

This criterion will be considered to be met when the credit department personnel have the ability to make analyses of loan requests that clearly establish the future growth trend of the borrowing credit union, its financial condition, and its projected financial position during the period in which the loan being requested is to be outstanding. The credit analyst of a loan request must produce a concise and clear report indicating his conclusions and recommendations as to whether the loan in question should be approved or rejected. The loan analyst must also be capable of developing pro-forma financial statements of the requesting credit union to determine its future

debt capacity. The credit department personnel responsible for the supervision of loans made must be capable of verifying the utilization of loan funds at cooperative and member levels and must be able to estimate the level of possible loan delinquency and determine ways to prevent or correct the situation.

If loan funds are disbursed in the form of a line-of-credit, the credit department's personnel must have the capacity to judge whether the project being financed is progressing in accordance with the financial plan agreed to with the credit union before they approve any further disbursements. If there is evidence that adequate progress is not being made, the credit department's personnel must have the authority to suspend future disbursements. It will then be their responsibility to draw up a plan of action that will bring the project back up to an acceptable level so that the remaining disbursements can be made.

6. Have an adequate capitalization system.

The federation will be considered to have an adequate system of capitalization when; (1) the requirements for such a system are spelled out in the bylaws or in other special rules; and (2) the affiliated credit unions are meeting their obligations on a regular basis and are providing the federation with sufficient equity capital to allow the federation to mobilize or obtain external funds in amounts that will enable it to provide an adequate credit service to its affiliates.

7. Adequate accounting system.

A federation will be considered to have an adequate accounting system when the following minimum conditions are met:

- a) When a trial balance can be produced on a daily basis.
- b) When reconciliation of bank statements are made promptly at the end of each month.
- c) When information on loan due dates and loan amortizations is kept up to date and when there is in operation a loan delinquency control system that can provide at any given moment information concerning:
  - i) names of delinquent credit unions,
  - ii) total amount delinquent of loans outstanding, and
  - iii) classification of loan delinquency by length of time.

d) When financial statements that accurately reflect the financial position of the federation can be produced at any given time.

8. Adequate statistical data collection system on credit operations.

A federation will be considered to have an adequate system of collecting statistical data when it is capable of producing the following minimum information concerning loans outstanding as well as loans already collected:

- a) type of loans made and amounts.
- b) term of loans.
- c) types of guarantees.
- d) number of sub-loans made by credit unions to their individual members.
- e) the loan delinquency in credit unions that have federation loans classified by the length of time delinquent.
- f) the number of loans made and the amount of monthly recuperations.

9. Adequate reserves for bad debts.

A federation will be considered to have adequate reserves for bad debts when it has, established by the by-laws or other special resolution, an amount in the bad debt reserve account equal to 2% of outstanding loans. This bad debt reserve is in addition to the legal reserve provisions found in most of the cooperative laws of Latin America.

When a federation has obtained external loans in hard currency it must also have established an adequate reserve against possible monetary devaluation.

10. Medium range financial planning.

A federation will be considered to be meeting this criterion when it is able to determine the probable future demands for credit of its affiliated credit unions using surveys or other methods. These "future demands" should be able to be presented in such a way as to include loan amounts, types, disbursement dates, recuperations, and projected outstanding quarterly balances. Also included in the presentation should be projected cash-flow statements.

An additional requirement is that the finance department personnel be able to prepare pro-forma statements for at least a five year period.

PROJECTED IMPROVEMENT OF FEDERATION CREDIT DEPARTMENTS DURING THE PERIOD OF 1973-1976.

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
a) Assigned value (maximum 1500 for the 15 countries).	550	673	970	1034	1134
b) Assigned value expressed as a percent.	36.6%	44.8%	64.6%	68.9%	75.6%
c) N° of satisfactorily operating Finance Departments (ie. 85%-99% efficient) (non-cumulative)	0	3	2	2	2
d) N° of self-sufficient Finance Departments (ie. 100% efficient) (cumulative).			2	3	4

01(E)10

## NUMBER OF PRODUCTION CREDIT PROGRAMS

The following 10 criteria were used to determine the stage of development of each federation's production credit program. Each of the criterion is worth from 0 - 10 points depending on how advanced that aspect of the program is. With 10 criteria, each having a possible value of 10 points, and taking into account the fifteen countries in which COLAC operates, a perfect score (that is, when all the federations have the program completely developed) would be 1500 points.

A Federation will be considered to have a production credit program satisfactorily operational when it is fulfilling, with at least 75% efficiency, the following conditions:

(1) Number of Credit Unions in the Production Credit Program

Objective: That the production credit program is established and functioning in at least 10 affiliated credit unions.\*

Value: 1 point per credit union.

(2) Loans from the Federation for Productive Loans

Objective: That the federation have a loan portfolio of production oriented loans in an amount of at least US\$700,000, either from local or externally generated funds.

Value: 1 point for each US\$70,000.

(3) Training of Federation Personnel

Objective: That there be a well trained program head plus sufficient well-trained fieldmen, all of whom have the material resources to carry out their functions.

Value: 4 points for a well-trained program head.

\* See page 5 of the Rationale for a list of qualifications that a credit union must fulfill in order to be considered to have a functioning production credit program.

4 points for the required number of well-trained fieldmen necessary to carry out the program, and  
2 points for the means of transportation that will allow the fieldmen to carry out their respective functions.

(4) Credit Union Managers

Objective: That a paid, specially trained, full time manager be employed in every credit union that wishes to be included in the program.

Value: Up to 6 points when the federation has the training courses available for managers and has management contracts available.  
Up to 4 points based on the level of the training of the managers presently employed in production credit union.

(5) Plans to Expand the Production Credit Program

Objective: That short or medium term plans exist to expand the program that take into account the national development plans.

Value: Up to 6 points for having a plan, the exact number of points depending on its quality.  
Up to 4 points will be given depending how closely the plan follows the national development plan for the area.

(6) Agricultural Technical Assistance

Objective: That adequate and effective agricultural technical assistance is available for each credit union in the program, either directly from the federation, or coordinated by it.

Value: 1 point for each credit union that has this service.

(7) Provision of Agricultural Supplies

Objective: That agricultural supplies, in the quality and quantity necessary,

and at the lowest price possible, be available to the credit union members in the program. These supplies may come directly from the federation or may come from other organizations such as agricultural cooperatives and simply be coordinated by the federation.

Value: 1 point for each credit union that is receiving discounted agricultural supplies either from the federation or third parties.

(8) Marketing

Objective: That each credit union in the program receives an orientation from the federation concerning which crops offer the least growing and market risks as well as receiving assistance in arranging contracts with buyers. If the local situation requires it, the federation should also be prepared to carry out one or more steps of the marketing process.

Value: Up to 5 points will be based on the quality of the federations crop and market orientation.  
Up to 5 additional points will be based on the arrangements or contracts that the federation can make for the sale of the produce of the members of affiliates that represent improvement over the previous market conditions.

(9) Data Gathering System

Objective: That a system for gathering, storing and interpreting statistical data relevant to the program be developed and carried out by the federation.

Value: 2 points will be given when the federation names an adequately trained person to be in charge of the statistics program and gives him the resources he needs to carry out his task.  
1 point will be given for each of the following datum when the federation has it available from each affiliate in the program:

- (1) total membership
- (2) total savings
- (3) delinquency
- (4) number of farmers/members
- (5) amount of agricultural supplies sold to members in the previous year.
- (6) number of persons who received production credit loans in the last year and the amount of those loans.
- (7) on a sample basis - the effect of the program on the net income of participants.
- (8) type, quantity, and dollar value of products sold by members in the program.

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**(10) Follow-up and Evaluation**

**Objective:** That the federation have a program of follow-up and evaluation for the credit unions in the production credit program. The minimum that will be acceptable will be one evaluation per credit union per year.

**Value:** Up to 6 points will be awarded based on the existence and effectiveness of follow-up and evaluation plans.  
4 points will be awarded for the execution and results of the annual evaluation.

PROJECTED PROGRESS OF THE PRODUCTION CREDIT PROGRAM IN THE  
FIFTEEN COUNTRIES SERVED BY COLAC, 1973-1976

THE PRODUCTION CREDIT PROGRAM				
Expected improvement during the period 1973-1976	1973	1974	1975	1976
Total points assigned for the fifteen countries (Maximum 1500)	524	697	792	869
Point value expressed as a percent of 1500	35%	46%	53%	58%
Number of programs operating satisfactorily: 75-99% efficient (non-cumulative)	1	2	2	1
Number of programs operating at 100% efficiency	0	0	0	0

(E)15

SOURCES OF FUNDS FOR THE PRODUCTION CREDIT PROGRAM

1973 - 1976

(E)16

	1973	1974	1975	1976
Loan funds coming from COLAC, year end balances	\$ 467,500	\$ 705,500	\$ 725,000	\$ 750,000
Loan funds coming from the federations, year end balances	2,200,000	2,950,000	4,000,000	5,000,000
Funds generated by the cooperatives themselves, year end balances	1,189,000	2,170,500	3,502,650	5,675,250
TOTAL	<u>\$3,856,500</u>	<u>\$5,826,000</u>	<u>\$8,227,650</u>	<u>\$11,252,250</u>

ESTADO ACTUAL DEL DEPARTAMENTO DE CREDITO YPROYECCION DE CRECIMIENTO

Criterios Básicos	1973	1974	1975	1976	1977	Observaciones
1. Autosuficiencia		10				
2. Disponibilidades mínimas de \$ 1,000,000 de fondos propios y de fuentes externas.		10				
3. Personal adecuadamente adiestrado.		10				
4. Bien definidas políticas de crédito y procedimientos de trámite de solicitudes.		8				
5. Capacidad de hacer buenos estudios de solicitudes, emitir informes de crédito y dar seguimiento.		10				
6. Sistema de capitalización operante y suficiente.		8				
7. Sistema adecuado de contabilidad.		10				
8. Sistema adecuado de estadística.		8				
9. Provisión de reservas adecuadas.		8				
10. Planes a mediano plazo, incluyendo estados proforma y flujo de caja		8				
TOTALES		90				

ESTADO ACTUAL DEL DEPARTAMENTO DE CREDITO Y  
PROYECCION DE CRECIMIENTO

Criterios Básicos	1973	1974	1975	1976	1977	Observaciones
1. Autosuficiencia		9				
2. Disponibilidades mínimas de \$ 1,000,000 de fondos propios y de fuentes externas.		10				
3. Personal adecuadamente adiestrado.		8				
4. Bien definidas políticas de crédito y procedimientos de trámite de solicitudes.		8				
5. Capacidad de hacer buenos estudios de solicitudes, emitir informes de crédito y dar seguimiento.		8				
6. Sistema de capitalización operante y suficiente.		9				
7. Sistema adecuado de contabilidad.		8				
8. Sistema adecuado de estadística.		8				
9. Provisión de reservas adecuadas.		7				
10. Planes a mediano plazo, incluyendo estados proforma y flujo de caja		9				
TOTALES		84				

ESTADO ACTUAL DEL DEPARTAMENTO DE CREDITO YPROYECCION DE CRECIMIENTO

Criterios Básicos	1973	1974	1975	1976	1977	Observaciones
1. Autosuficiencia		9.1				
2. Disponibilidades mínimas de \$ 1,000,000 de fondos propios y de fuentes externas.		7.2				
3. Personal adecuadamente adiestrado.		5.0				
4. Bien definidas políticas de crédito y procedimientos de trámite de solicitudes.		7.0				
5. Capacidad de hacer buenos estudios de solicitudes, emitir informes de crédito y dar seguimiento.		3.0				
6. Sistema de capitalización operante y suficiente.		5.0				
7. Sistema adecuado de contabilidad.		6.0				
8. Sistema adecuado de estadística.		5.0				
9. Provisión de reservas adecuadas.		4.5				
10. Planes a mediano plazo, incluyendo estados proforma y flujo de caja		2.0				
<b>TOTALES</b>		<b>53.8</b>				

ESTADO ACTUAL DEL DEPARTAMENTO DE CREDITO YPROYECCION DE CRECIMIENTO

<b>Criterios Básicos</b>	<b>1973</b>	<b>1974</b>	<b>1975</b>	<b>1976</b>	<b>1977</b>	<b>Observaciones</b>
<b>1. Autosuficiencia</b>		4				
<b>2. Disponibilidades mínimas de \$ 1,000,000 de fondos propios y de fuentes externas.</b>		4				
<b>3. Personal adecuadamente adiestrado.</b>		3				
<b>4. Bien definidas políticas de crédito y procedimientos de trámite de solicitudes.</b>		3				
<b>5. Capacidad de hacer buenos estudios de solicitudes, emitir informes de crédito y dar seguimiento.</b>		4				
<b>6. Sistema de capitalización operante y suficiente.</b>		9				
<b>7. Sistema adecuado de contabilidad.</b>		5				
<b>8. Sistema adecuado de estadística.</b>		3				
<b>9. Provisión de reservas adecuadas.</b>		3				
<b>10. Planes a mediano plazo, incluyendo estados proforma y flujo de caja</b>		4				
<b>TOTALES</b>		<b>42</b>				

PAIS: PANAMA.

ESTADO ACTUAL DEL DEPARTAMENTO DE CREDITO Y

PROYECCION DE CRECIMIENTO

Críterios Básicos	1973	1974	1975	1976	1977	Observación
1. Autosuficiencia		10.0				
2. Disponibilidades mínimas de \$ 1,000,000 de fondos propios y de fuentes externas.		10.0				
3. Personal adecuadamente adiestrado.		8.3				
4. Bien definidas políticas de crédito y procedimientos de trámite de solicitudes.		7.5				
5. Capacidad de hacer buenos estudios de solicitudes, emitir informes de crédito y dar seguimiento.		6.5				
6. Sistema de capitalización operante y suficiente.		10.0				
7. Sistema adecuado de contabilidad.		8.0				
8. Sistema adecuado de estadística.		7.0				
9. Provisión de reservas adecuadas.		10.0				
10. Planes a mediano plazo, incluyendo estados proforma y flujo de caja		7.0				
<b>TOTALES</b>		<b>84.3</b>				

ESTADO ACTUAL DEL DEPARTAMENTO DE CREDITO YPROYECCION DE CRECIMIENTO

Cráterios Básicos	1973	1974	1975	1976	1977	Observaciones
1. Autosuficiencia		0				
2. Disponibilidades mínimas de \$ 1,000,000 de fondos propios y de fuentes externas.		3				
3. Personal adecuadamente adiestrado.		5				
4. Bien definidas políticas de crédito y procedimientos de trámite de solicitudes.		5				
5. Capacidad de hacer buenos estudios de solicitudes, emitir informes de crédito y dar seguimiento.		2				
6. Sistema de capitalización operante y suficiente.		5				
7. Sistema adecuado de contabilidad.		8				
8. Sistema adecuado de estadística.		4				
9. Provisión de reservas adecuadas.		2				
10. Planes a mediano plazo, incluyendo estados proforma y flujo de caja		0				
TOTALES		34				

CALIFICACION

Ecuador

Existe un formulario para esto

1.	-	5
2.	-	1.6
3.	-	6
4.	-	7.5
5.	-	6.0
6.	-	7.0
7.	-	7.0
8.	-	6.5
9.	-	10.0
10.	-	7.0
Calificación total:		<u>63.6</u>

ESTADO ACTUAL DEL DEPARTAMENTO DE CREDITO YPROYECCION DE CRECIMIENTO

Criterios Básicos	1973	1974	1975	1976	1977	Observaciones
1. Autosuficiencia	10	10				
2. Disponibilidades mínimas de \$ 1,000,000 de fondos propios y de fuentes externas.	10	10				
3. Personal adecuadamente adiestrado.	8	9				
4. Bien definidas políticas de crédito y procedimientos de trámite de solicitudes.	9	9				
5. Capacidad de hacer buenos estudios de solicitudes, emitir informes de crédito y dar seguimiento.	8	8				
6. Sistema de capitalización operante y suficiente.	10	10				
7. Sistema adecuado de contabilidad.	8	9				
8. Sistema adecuado de estadística.	7	7				
9. Provisión de reservas adecuadas.	7	7				
10. Planes a mediano plazo, incluyendo estados proforma y flujo de caja	6	6				
TOTALES	83	85				

PROPOSED PROJECT DIRECTION  
(ILLUSTRATIVE)\*

<u>DESCRIPTIVE STATEMENT</u>	<u>INDICATORS</u>	<u>GOALS</u>				<u>ASSUMPTIONS</u>
		1974	1975	1976	1977	
Increased production and productivity of increasing number of small farmer members	1. No. of farmer members in credit unions with production credit	_____	_____	_____	_____	Farm plans and marketing advice available
	2. No./value of production-type loans given by credit unions	_____	_____	_____	_____	
	3. No./value of production-type loans repaid by farmers	_____	_____	_____	_____	No natural disasters occur (drought, earthquake, etc.)
	4. No./value of delinquent loans by farmers	_____	_____	_____	_____	
	5. Increase in small farmer savings (amount/average per farms)	_____	_____	_____	_____	Marketing channels favor farmers
	6. Small industry in rural areas a. No./value of loans b. No./value of repayments	_____	_____	_____	_____	

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\* Quantitative targets to be determined by COLAC.

PURPOSE

Promote effective and efficient national federations of credit unions throughout Latin America with growing emphasis on rural credit needs of small farmers

Effectiveness (No. of federations with:)

1. Integrated production credit programs operating satisfactorily

1974	1975	1976	1977
<u>3</u>	—	—	—

ASSUMPTIONS

See Criteria

2. Agrobusiness Activities

—	—	—	—
---	---	---	---

3. Extension service (either internal or from other local agencies)

—	—	—	—
---	---	---	---

4. Marketing assistance to members - (grades, standards, prices, storage.)

—	—	—	—
---	---	---	---

5. Bonding Service -

- a. National Credit Federation
- b. Other - Annex

—	—	—	—
---	---	---	---

6. Credit life insurance

- a. Offered
- b. % coops utilizing

—	—	—	—
---	---	---	---

7. Finance departments fully operational

<u>2</u>	—	—	—
----------	---	---	---

See Criteria.

8. Finance departments satisfactory

<u>4</u>	—	—	—
----------	---	---	---

See Criteria

9. Uniform statistics-gathering systems in place

- a. Coop to Federation - Monthly/Quarterly
- b. FED to COLAC

—	—	—	—
---	---	---	---

10. COLAC self-evaluation systems utilized

—	—	—	—
---	---	---	---

11. Detailed 5-year plans approved by Board

—	—	—	—
---	---	---	---

12. Professional trained managers

- a. Federation
- b. Coops

—	—	—	—
---	---	---	---

13. Promotion capacity

—	—	—	—
---	---	---	---

14. 60-day delinquency rates of Coops to Federation less than 5%

—	—	—	—
---	---	---	---

15. COLAC's centralization of funds system installed

<u>2</u>	—	—	—
----------	---	---	---

Viability

% of operating expenses covered by income other than AID Regional grants

- a. Total Operating Expenses (Annex)
- b. AID Regional Grants (See Inputs)

—	—	—	—
---	---	---	---

—	—	—	—
---	---	---	---

Efficiency

Average unit cost of COLAC loans

—	—	—	—
---	---	---	---

OUTPUT

Confederation responsive to technical and financial needs of federations and providing leadership to movement		BASELINE	1975	1976	1977	<u>ASSUMPTIONS</u>
		1974				
	1. Monitoring					
	a) No. of federation visits (man days)	---	---	---	---	
	b) No. of clinical histories prepared	---	---	---	---	
	c) No. of loans overseen	---	---	---	---	
	d) No. of country assessments completed	---	---	---	---	
	2. No. of loan applications prepared					
	a) COLAC loans	---	---	---	---	
	b) Other funding	---	---	---	---	
	3. No. of promotion specialists trained	---	---	---	---	
	4. No. of minimum loan standards (check-lists) prepared	---	---	---	---	
	5. Technical assistance to federations					
	Specify (No. of courses): direct/indirect					
	a) Insurance	---	---	---	---	
	b) Planning and evaluation	---	---	---	---	
	c) Professional managers course	---	---	---	---	
	d) Finance	---	---	---	---	
	e) Production credit	---	---	---	---	
	f) Ext. - Farm Planning	---	---	---	---	
	6. No. of publications prepared	---	---	---	---	
	7. Representation with Governments and at international conferences	---	---	---	---	
	8. No. of Professional Personnel in Place (Annex)	---	---	---	---	
	9. % of total cost of professional personnel	---	---	---	---	
	10. Self Evaluation System Developed (%)	---	---	---	---	
	11. Uniform portfolio audit and appraisal system developed (%)	---	---	---	---	

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	<u>INPUTS</u>			
	BASELINE 1974	1975	1976	1977
A. Sources of Revenue				
1. AID grants <sup>1/</sup>	---	<u>400,000</u>	<u>400,000</u>	---
2. Annual dues	---	---	---	---
3. Net interest income	---	---	---	---
4. Commissions and charges	---	---	---	---
a) Recruitment of technicians	---	---	---	---
b) Non loan related T.A.	---	---	---	---
c) Federation or other contracts	---	---	---	---
5. Other grants in cash or kind (equivalent)	---	---	---	---
a) World Council	---	---	---	---
b) CUNA MUTUAL	---	---	---	---
c) Federation Subgrants No/\$	---	---	---	---
6. Total Revenue, All Sources	---	<u>600,000</u>	<u>600,000</u>	---

<sup>1/</sup> AID regional grant funding to be drawn down as needed to assure total operating level of \$600,000.

ESTIMATION OF  
FEDERATION NEW CREDIT

EXHIBIT #9

DEMAND FROM

COLAC

TIME - YEARS

	0-1½	1½-3	3-5
1. Mexico	0.5 (3)	1.125 (3)	3.4 (3)
2. Guatemala	-0-	-0-	?
3. Honduras	0.85 (2)	1.1 (2)	4.5 (2)
4. El Salvador	2.025 (2)	2.0 (2)	7.350 (2)
5. Nicaragua	-0-	-0-	?
6. Costa Rica	0.425 (1)	0.5 (3)	0.5 (3)
7. Panama	0.25 * (2)	0.3 (2)*	1.75 (2)
8. Dominican Rep.	0.8 (2)	1.0 (2)	3.2 (2)
9. Curacao	-0-	-0-	?
10. Colombia	1.5 (2)	0.85 (2)	2.525 (2)
11. Venezuela	0.5 (3)	1.125 (3)	3.4 (3)
12. Brazil	-0-	?	?
13. Ecuador	0.5 (1)	0.875 (1)	2.125 (1)
14. Perú	-0-	-0-	?
15. Bolivia	0.45 (1)	0.5 (1)	2.05 (1)
16. Paraguay	-0-	-0-	?
17. Uruguay	-0-	?	?
<b>GRAND TOTAL</b>	<b>8.750</b>	<b>9.375</b>	<b>30.800</b>
<b>Total (1)</b>	<b>1.375</b>	<b>1.375</b>	<b>4.175</b>
<b>Total (2)</b>	<b>6.375</b>	<b>5.250</b>	<b>19.325</b>
<b>Total (3)</b>	<b>1.000</b>	<b>2.750</b>	<b>7.300</b>

Note: (next page)...

**Figures in US\$000,000**

- (1) COLAC has loan applications for these amounts
  - (2) Estimate generated via COLAC's Survey of Member Federations only 6 surveys completed so far.
  - (3) Estimate by COLAC's Finance Department based on subjective information.
- 

REASONING TO SUPPORT LOAN ESTIMATES

MEXICO - Recently formed regional federation will absorb small loan in first 1½ year to establish a track record. In the next time period they will absorb larger loan and additionally, other newly formed federation will take small loan to establish track records.

VENEZUELA Newly formed centrals will behave in a manner similar to that described above.

PANAMA Will borrow only for consumer purposes until it uses up recently approved bilateral funds

GUATEMALA

NICARAGUA

PARAGUAY Loan demand totally or partially reduced bilateral funds

COSTA RICA

CURACAO Too small to be a subject of credit at present

URUGUAY Pre-affiliation negotiatiation are now underway

PERU Legal and structural problem impair COLAC's ability to funnel money  
BOLIVIA through to local credit union

METHODOLOGY

The review and evaluation of COLAC's headquarters were on two levels:

- (1) An analysis of the function and efficiency of its organization and related expenditures; and
- (2) A study of the bottlenecks which now exist to obtain loans and grants and the related channels into which such loans could be funnelled to provide production credit to small farmers and reasonable consumer credit to low income workers, both urban and rural.

The evaluation was slanted somewhat by the knowledge that simultaneous evaluations and assessments were underway on printing press operations, cash flow, budget, and program personnel related to function, including computer analysis. To complement these in-depth evaluations, we concentrated on the questions in the Scope of Work and on providing independent judgements of the organization pattern; COLAC functions and indicators of performance; and on controls over loan project proposal, loan repayments, and general standards underlying the credit union movement growth.

The Scope of Work and the related ATAC Proposal define the objectives of the evaluation. While ATAC originally proposed to undertake coverage by questionnaire of all affiliated Federations, and possibly some credit unions, it became obvious that considerations of time and of objectivity made a written questionnaire undesirable. The team concluded, and the AID project manager agreed, that answers to written questionnaires could not be expected to yield great insight for several reasons:

- (1) Federation managers would hesitate to go on record against the management of COLAC, with whom long standing friendships exist and on whom future loan funds may depend;

- (2) Federation managers are not professionally similar and would interpret the questionnaire differently;
- (3) Federations had recently been sent two major questionnaires and were currently inundated with extra work to meet these requirements.

To assure representative sample coverage of the end result of COLAC's operations, performance, and relations, personal visits to several Federations were scheduled. In Panama, the Federation was visited, interviews held with five Credit Union managers, and data collected. COLAC has provided assistance to some of the Mexican state federations and the Confederation has been affiliated with COLAC for some years. A visit to the Mexican Confederation was made for pretesting purposes. A partial evaluation of the Nicaraguan situation was recently made by COLAC, so that country was not included. Honduras, Bolivia, and Paraguay were chosen for greatest in-depth evaluation. Colombia was included to determine the advisability of relocation of COLAC as well as to talk to the Federation representatives. The newly appointed manager of the Ecuadorian Federation was interviewed in Panama. Thus, effectively, two Central American federations, three South American plus Ecuador in part, and Mexico are intended to cover the variance in rural-urban mix, integrated vs. straight credit operations, good vs. poor management, and big and small characteristics which could have varying requirements on and relations with COLAC.

In addition to federation visits, the Team interviewed representatives of major donor organizations (AID, CUNA, OPIC, IAF, World Council.); Dr. Serrano, the first president of COLAC and currently an advisor stationed in Colombia; and USAID representatives in countries visited.

The Team initially concentrated on a review of services offered and other performance indicators during 1972-73, recognizing that COLAC personnel had a complete turnover during the period, had been reorganized, had a new managing director, and had not been successful in obtaining the projected level of loan funds. All professional personnel of COLAC were interviewed. Relevant studies and documents were collected and listed. This evaluation is intended for the Latin American Bureau of AID and contains recommendations to improve the effectiveness and viability of COLAC.

MATERIALS AND DOCUMENTS

1. Scope of Work
2. Proposal
3. IRR 11/19
4. Questionnaire - COLAC 11/5
5. Proj. Proposal Summary & Analysis -IAF
6. SYSTAN - Issue of Decapitalization
7. Cable to COLAC on Eval.
8. Cable - John Heard
9. Grant Agreement -IAF
10. U.N. Proposal from COLAC
11. Pub. Relation Document COLAC (Operation Prod.)
12. COLAC 5 year plan
13. COLAC Exists
14. Non Capital Project Paper- April 1973
15. Int'l Interlending Program for Credit Unions
16. Transition from LARO to COLAC
17. COLAC Reports
18. COLAC Production Credit Booklet
19. Grant Agreement - AID
20. IRR - 5 million Sept 74
21. COLAC Payroll
22. Heard Memo to Federaciones -28 Nov.
23. Reglamento de Crédito (Credit Policy)
24. Bases para Programa Educativo (Serrano Education Memo)

25. IESC Report on COLAC's Print Shop
26. Cooperativismo de Ahorro y Crédito  
America Latina - Colombia  
(Brochure - Colombian C.U. Movement)
27. COLAC's Projected Budget 1973-1979
28. Estatutos de COLAC (COLAC Bylaws)
29. Recomendaciones del Seminario Regional  
de la FAO sobre Crédito para Pequeños Agricultores  
(Recommendations of FAO/Banking/Agriculture Seminar)
30. Informe Anual (1973) de COLAC (COLAC Annual Report)
31. "What is COLAC"?
32. Informe Anual (1972-73) de COLAC (COLAC Annual Report)
33. Informe Anual (1971-1972) de COLAC (COLAC Annual Report)
34. Annual Progress Report (1971); LARO
35. Concept Paper - The Attainment of a Guarantee Required by IIP
36. SYSTAN Report: 30 decisiones Preliminarias (Interest Rates)
37. Proyecto de Reforma de los Estatutos de COLAC (Changes in COLAC's  
By-Laws-Draft)
- 38 a. Conclusiones y Recomendaciones de la Conferencia  
b. Functional Description of COLAC Services, CALI.  
(Conclusions from The Cali Conference)
39. Guía Para la Identificación de Proyectos de Inversión (COLAC)  
(Guide To Identify Investment Projects)
40. Verificación de Préstamos Concedidos por COLAC  
(COLAC Loan Monitoring Blank)
41. La Evaluación de una Federacion (The Evaluation of a Federation Guide)
42. Reporte...Desarrollo Institucional en Panama  
(Nuñez Panamanian Institutional Development Report)
43. Credit Policy of COLAC
44. Credit Policy of Costa Rica
45. Credit Policy of Honduras
46. Credit Policy of Bolivia
47. Credit Policy of El Salvador

48. Job Descriptions, Finance Department
49. Track Record of Costa Rica
50. Track Record of Honduras
51. Track Record of Guatemala
52. Balance Sheets of Costa Rica
53. Balance Sheets of Honduras
54. Balance Sheets of Guatemala
55. Investment studies for CR
56. Investment studies for Honduras
57. Investment studies for Guatemala
58. Investment studies for El Salvador
59. Audit Report -COLAC
60. COLAC's Minimum Personnel Requirements
61. Systan Report: Criteria For Credit Worthy Federations
62. Federation Financial Obligations to COLAC (Pro forma 12/31/74)
63. COLAC Organization Charts
  - A - Original Chart
  - B - First Revision
  - C - Present Structure
  - D - Proposed (1975)
64. AID Comments on COLAC 5-year plan (72-76)
65. Resume - AID/Panama Coop. Sector Loan (041)
66. Promotion Department - Results and Plans
67. Systan Report - COLAC's Goal Structure
68. Nicaraguan Coop Movement
69. COLAC Relocation Study
70. COLAC Employee Biodata
71. Federation Finance Dept. Ratings (Exhibit #7 of Final Report)
72. Survey of COLAC's Accounting System
73. Progress Report to DAEC, February 75 (See pages 104 on)

74. Resume of Federation External Debt
75. COLAC Documents of Typical Loan File
76. Farmer's Planning and Records Book
77. Manual for Supervision Committee
78. Credit Union Merger Manual
79. COLAC Balance Sheet - 1972-73-74
80. Federation Survey Results - Costa Rica
81. Federation Survey Results - Honduras
82. Federation Survey Results - Dominican Republic
83. Federation Survey Results - Bolivia
84. Federation Survey Results - Colombia
85. New Departures in Rural Development in Colombia (Leonard Kornfeld, Dec 74)
86. Mexican Confederation Data and Statutes

## SAMPLE SURVEY OF COLAC AFFILIATED FEDERATIONS

November 1974 - January 1975

### INTRODUCTION

This supplemental report of individual country credit union situations, characteristics, problems and opportunities reflect field visits by the evaluation team. One of the objectives of the survey was to develop and refine a questionnaire which provides insight into policies and programs which COLAC future action should encompass. This questionnaire is shown as Annex #1.

The major conclusions seen for each country are noted separately in the particular country reports.

For readers wishing a general introduction to the economies of the countries visited, the overall economic picture is shown in the latest A.I.D. Congressional Presentation as follows:

	<u>Bolivia</u>	<u>Colombia</u>	<u>Costa Rica</u>	<u>Ecuador</u>	<u>Honduras</u>	<u>Paraguay</u>	<u>Panama</u>
Population (1973 Millions)	5.0	24.1	1.9	6.7	3.0	2.4	1.6
Urban (% 1972)	35	62	37	40	27	37	48
Labor Force (AGR)	63	47	49	53	67	53	32
Per Cap GNP	150	349	653	335	273	327	867
Literacy Rate (%)	40	73	89	67	45	74	79

## SURVEY OF BOLIVIA

### Background on Bolivia

Bolivia is a very large and extensive country. All of Panama, for example, would fit into one-half of the District of Cochabamba, one of its medium sized districts. Most of the population is found between the two mountainous ranges which run from North to South parallel to the Pacific Coast and contiguous to Chile. The greatest population density is in the Altiplano, the high mountainous area which is cold and only somewhat arable. These mountainous areas contain the mineral wealth of Bolivia and agriculture there is concentrated in sheep raising and wool weaving. There are several steam railroads which serve the major centers and are connected to major ports in Chile.

More than half the area of Bolivia is between the mountains and Brazil and is tropical, being low and near the equator. The growth of Santa Cruz, the great increase in cotton production, citrus, and sugar, promise great opportunity for Bolivia in a time of world wide food and fiber scarcity.

Not only are exports untapped, but the domestic market is largely undeveloped. Secondary processing of crops and livestock has yet to begin, reflecting in part the low income levels of the mass of the population.

### History and General Description of FENACRE

The National Federation of Savings and Credit Cooperatives of Bolivia (FENACRE) was founded on 15 February 1962 and formally recognized in 1964. Of the founders, only four are still active in the movement. There is active turnover in leaders interested in the movement. The Federation has had six managers and has gradually developed specialized departments of insurance, accounting and audit, training, public relations and publications, finance and printing. (Exhibit #1).

The Federation currently has 30 employees and has budgeted for 35 in 1975. Of these, 6 are professional administrative/technical personnel, 4 of which have university training (Exhibit #2). The Executive Director

is a lawyer, 30 years of age, who in 10 years with FENACRE has been Director of insurance, printing, accounting and auditing. FENACRE's primary business is lending to and assisting the 170 active cooperative credit unions in Bolivia, which currently serve 120,000 active paid up members, about 60% of which are in rural areas. In addition, FENACRE is engaged in commercial printing and farming. The former returns a profit of approximately U.S. \$25,000 per year; the latter is currently likely to lose money unless some unforeseen market for garlic can be found. (The possibility of selling other hemispheric countries through national federations and COLAC might be possible in some products in future years, but, because of high prices last year for garlic, other Federations, including GUATEMALA also entered into production and are, similarly, looking for markets in an over-produced situation). (COLAC discovered a potential commercial garlic buyer for FENACRE after our visit.)

Question #1 - Would COLAC have noted the possibility of overproduction if it kept on top of these extra-curricular production enterprises? Could it have suggested alternative crop choices? Could it have arranged markets in advance of production?

FENACRE is currently occupying a three story building in central Cochabamba. Its furniture, equipment, and general space utilization reflects the peasant/consumer movement it serves. It has under construction a new 5 story modern office building next door to its present headquarters at a cost of \$132,000. This is scheduled to be completed by mid-1975 and FENACRE plans to initially rent, but will ultimately, in about 5 - 7 years, occupy. FENACRE hopes to recover its investment in the building in 3 - 4 years of renting.

FENACRE borrowed \$20,000 at 13% for one year from a local bank to finance the construction of the new building and some of its larger member cooperatives are in the market for similar loans to construct office buildings for their use. FENACRE distinguishes between borrowing for relending to members and for an investment purpose. It is evident that a significant portion of management's time is devoted to searching for and developing investment and business enterprise opportunities rather than concentrating solely on improving and controlling savings and loans by the member cooperatives.

FENACRE's management is aware that many of its member coops are economically too small, but expect many to merge or become branches of larger coops when the Government's next increase in minimum salaries makes the cost of administration prohibitive. Of the 170 coops, 8 - 10 are open to farmers only on Sunday.

#### Relations with COOPS

Unlike some other Federations, FENACRE management leaves much of the detail and local administration to the individual cooperative. In effect, it does not go below the coop management in dealing with members. It's statistical requirements from coops are concentrated on credit status, savings, and number of members. Data on default and delinquency is reported in gross numerical terms. FENACRE does not have much leverage to require complete and detailed statistics since it does not have centralized funds and/or accounting for coops and has not been in a position to fill all requests for loan funds. No statistical or financial reports from FENACRE is required by the Government of Bolivia, but a courtesy copy of the balance sheet is sent annually to the Cooperative Office of the Labor Ministry.

No real data are available on amount loaned by the cooperatives for agricultural production since the use of loans is not reported. Dr. Tellez estimated that 30% of all loans were for agricultural production. Although the statistical and accounting data can be considered minimal, these are reported monthly and FENACRE believes they are far superior to data collected by other Federations.

With regard to loans to coops by FENACRE, the coop is advised by phone one day before the due date. All the coops except five are paying off their loans satisfactorily. Of the 1,152,898 pesos currently lent out by cooperatives, 108,153 pesos is delinquent. This is almost 10% and was not a cause for alarm to FENACRE's management, because it has been reducing the delinquency rate from 60% level of three years ago. Thus, while currently double the maximum rate for the industry, this sharp reduction is probably the best that could have been accomplished during the time period. FENACRE is not

pushing to initiate a centralized funding system, but would not be adverse to its installation.

#### Local Credit Situation

Local banks legally can charge clients 22% on loans made to them. This consists of a 13% interest charge and a 9% commission, which is a tax to be returned to the Government. (This was formerly 15% plus 7% tax). The cooperatives, on the other hand, charge members 1.25% monthly on the unpaid balances, or an effective rate of 15% per year, plus a 0.25% commission, or 3%, a total of 18%.

Banks pay depositors 10% on savings accounts as compared with only 3% by cooperatives. But cooperative members are not eligible for loans from banks, being either higher risk or not physically reachable, and cooperative members save at lower return to receive loans. To siphon off new members' savings from banks, FENACRE is starting a \$5,000 pilot program with one selected coop, members of which will be offered an 11% fixed, plus a contingent 2%, return. These special accounts will be non-voting and traditional savings deposits, the funds from which will be invested in the production of agricultural crops in the 104 hectare plot owned by FENACRE in Cochabamba. The 11% will be guaranteed and the 2% will be paid depending on profit and income from the crop, which this year is wheat and barley. If successful, FENACRE expects to gradually extend this alternative to other coops as investment opportunities appear.

FENACRE is considering an alternative suggestion that the coops offer daily interest at lower rates of interest than paid by banks, similar to that available in the U.S. This would capture funds available for periods less than three months.

FENACRE does not charge cooperatives for special services, such as appraisal, audit, etc. Management believes Bolivia has almost unlimited demand for production credit once technical agricultural services are available to farmers. These services are not available within FENACRE now, no agronomist being

part of the staff and no agricultural assistance agreement exists with either the Government or AID. The Ministry of Agriculture is assisting FENACRE in its soil and production efforts on its 104 hectares and cooperation between them is evident.

FENACRE is expecting that future loans to cooperatives will be at differential rates of interest, reflecting source and rate of original funds (e.g., COLAC) and different rates for production and consumer loans.

#### Relations with USAID

AID is presently providing \$8 million to agriculture (FRA) and additional funds to industry (FRI) under a two stage loan. AID charges the Government 4%, which in turn charges private banks 7%. The banks loan to farmers at 12% without providing any technical assistance. The 5% is purely for risk and goes, presumably, to farmers who can repay easily, i.e., the larger commercial farmer.

FENACRE suggests that repayments is only one criterion, and type of borrower, i.e., the small farmer, should be cut in on FRA loans. FENACRE is desirous of having a portion of the AID loan set aside for coop lending, with FENACRE as a principal borrower. Coops would be charged 10%, permitting them to charge 12% for agricultural production, continuing to charge 15% for consumer loans. FENACRE would agree to control the loans for repayment and would attempt to make arrangements to utilize existing Government Extension services where possible, hiring directly other agricultural technicians as the loan revenues permit. FENACRE points out that its members all carry life insurance when obtaining loans and these loans would be carefully followed by FENACRE and the cooperatives. FENACRE also proposes that some flexibility be provided initially to permit it to make loans to rural industry which produce inputs for farmers, and for liquidity until specialized personnel are available to provide a planning base for these loans.

## Relations with COLAC

FENACRE management sees COLAC primarily as a financial institution. It does not depend on COLAC for leadership or for technical assistance. FENACRE sees COLAC as a creation of AID, even as FENACRE was originally supported by AID/B. No changes in COLAC are suggested, however, admitting that COLAC is what its membership wants, not AID. While FENACRE interprets its coops desires and needs, COLAC does not and cannot do the same, given the variation and uniqueness of country situations. Bolivia could absorb at least \$1/2 million in 1975 and \$1 million more by 1977 at up to 10%, to give impetus to agriculture production credit. It would not be pleased if other Federations were given funds at 8%, seeing this as discriminatory. They point out that AID has helped those most in need, giving concessional grants to COLAC, for example, while those who have succeeded by dint of self help are left out or charged more. FENACRE would be willing to pay more if the source of funding to COLAC cost more and the loans were made sooner.

Presently, the credit analyst of FENACRE is taking a special course at COLAC, learning how to request loans. FENACRE has had visits of COLAC personnel to help request such loans and has had their requests returned three times for lack of data or other criteria.

FENACRE's manager is aware that there are numerous criteria for Federations to be eligible for loans but does not know how they are evaluated.

If COLAC were to lose its grant funding from AID, FENACRE believes it would continue in name as an institution anyway, but would be reduced to a skeleton staff providing only representation. There would be an initial negative reaction against AID from the Federations in most, if not all the 15 countries, reflecting abandonment of the movement and the smaller farmer.

FENACRE has a very successful printing operation, making a profit of about \$25,000 per year. It might be interested in purchasing some of COLAC's surplus equipment to add to its present equipment. It has and would like to use Mr. Merchan, of COLAC, to help it still further to improve its publication capability.

Dr. Tellez feels that the bigger banks, like the First National City Bank or Bank of America, which are primarily in Bolivia for investment, not commercial purposes, might consider lending to FENACRE against a COLAC dollar guarantee. He felt the concept was sound and desirable.

Dr. Tellez noted that interchange of federation technicians was desirable and would bring a cohesion to the hemispheric movement while giving insight and experience to both parties. He indicated that the requesting federation should bear the full cost of travel and per diem for the technician. He felt the six heads of departments of FENACRE could be used in this capacity.

FENACRE has no guides or standards for making loans, although it does have general credit and loan manuals. If these were developed by COLAC, FENACRE would prefer to print those for its use in its own printing plant.

FENACRE has no marketing capacity. It has not attempted to utilize either GOB or AID resources. FENACRE does have sporadic T.A. available to it from non-COLAC sources, such as the Government in the field of agriculture. This assistance normally results from friendships within the Ministry or the University. Assistance has come also from the Voluntary Executive Corp. and the International Cooperative Alliance.

Dr. Tellez made an independent suggestion regarding the make-up of the Consejo and Executive Committee of COLAC: He does not believe that managers of particular federations should be appointed to these committees; rather presidents or other leaders would be better for policy making since managers would have ulterior motives in voting to help their particular federation or country.

Dr. Tellez noted that Bolivia has a common problem with the Federations of Ecuador and Peru. COLAC is expecting to provide loan funds for agricultural production when it has funds. But the Government of Peru has prohibited the Federation from making agricultural production loans; Ecuador has had a long history of failure in such loans and will require the addition of new technicians and new controls to assure repayment and production success;

Bolivia has no experience and no personnel to assure success and control.

Question: If loans are for agricultural production, what is COLAC doing to help prepare Federations in agricultural production?

Dr. Tellez indicated that FENACRE did not need nor want general courses, seminars, or other assistance in education or philosophy of cooperatives or the current world situation (as proposed by Dr. Serrano). On the contrary, he sees this as a waste of time for participants and of operating funds better utilized for credit assistance. He also felt that such courses tended to emphasize themes which no longer held meaning for the cooperative movement (old time religion).

#### CONCLUSION:

If loan funds do not become available to FENACRE and Coops for loans to members, the growth of movement in Bolivia will suffer from unkept promises and members will view it as ineffective.

#### USAID/BOLIVIA

One day was spent with the USAID personnel, particularly the Capital Development Officer, Mr. Massey.

Mr. Massey indicated that the USAID was in the process of discussing with the Central Bank if and how FENACRE could be considered an intermediate credit institution. He noted that FENACRE had a good track record on repayment and served farmers which met the criteria of size, income, and other eligibility conditions. He also confirmed that Bolivian farmers were honest and likely to repay loans if production estimates were met. Massey was also thinking of some way to get the Federation involved in the supervised agricultural loan, perhaps as the organizer and auditor of coops.

The Rural Development Officer (Mr. J. R. Moffat), the Community Development Officer (Mr. Max Williams), and the AID/EMB Economist (Mr. Randolph Mye) were also interviewed. The USAID has some projects in process to revive and renew agricultural coops. It is not clear that a sharp distinction is being made between agricultural coops, which emphasize marketing, and credit/saving coops, which finance production and inputs.

The USAID official responsible for distribution of RTAC books and publications was asked to consider the possibility of sending some to FENACRE's library, which was woefully lacking in economics, marketing, and agriculture. He noted that the book program is terminating in August of 1975, but that the USAID could send copies of any texts and publications received during the interim period. No publications from past runs were available to the USAID. A memo to Mr. Massey proposing the above was prepared.

The USAID would be very helpful to FENACRE if it could convince the Central Bank to make FENACRE eligible to receive FRA lending. No advantage is seen in a sub loan from the Agricultural Bank to the Federation.

#### COLAC Guarantee Through Private Banks

We interviewed Mr. Vivado, the Asst. Vice President of the Bank of America and an official of the First National City Bank in La Paz re the possibility of lending to the Federation with a dollar guarantee by COLAC.

Mr. Vivado of the Bank of America explained that the bank could not lend Bolivian pesos directly because of limitations by GOB on reserves, portfolio, and other conditions. But it would be possible to lend an amount of pesos generated from Euro-dollars equivalent to the amount deposited in their branch in Panama at a 1 1/2% spread. Thus, for each dollar deposited at 9.0% by COLAC, the Federation would pay 10.5% for an equivalent amount of pesos. On \$500,000, COLAC would gain \$45,000 annually and FENACRE would pay \$52,500. Originally, until FENACRE's credit is established, the guarantee would be 100%. The only advantage would be that of passing to Bank of America the risk of devaluation and convertibility. Mr. Vivado said they would bring in the Euro-dollars through the Central Bank, guaranteeing convertibility.

Mr. Moscoso, of First National City Bank, said that the Central Bank regulations (Decree of 29 June 1974) requires banks to turn over 85% of its loanable funds from deposits to the Central Bank for investment in particular crop production. The remaining 15% is lent at 6% to commercial borrowers and 9% to industry. Hence, no funds are directly available for lending to agriculture. Re the rate of interest, if funds were available, that would depend on the creditability of the Federation.

Neither of the 2 bank officials had prior knowledge of the Federation.

## Conclusions

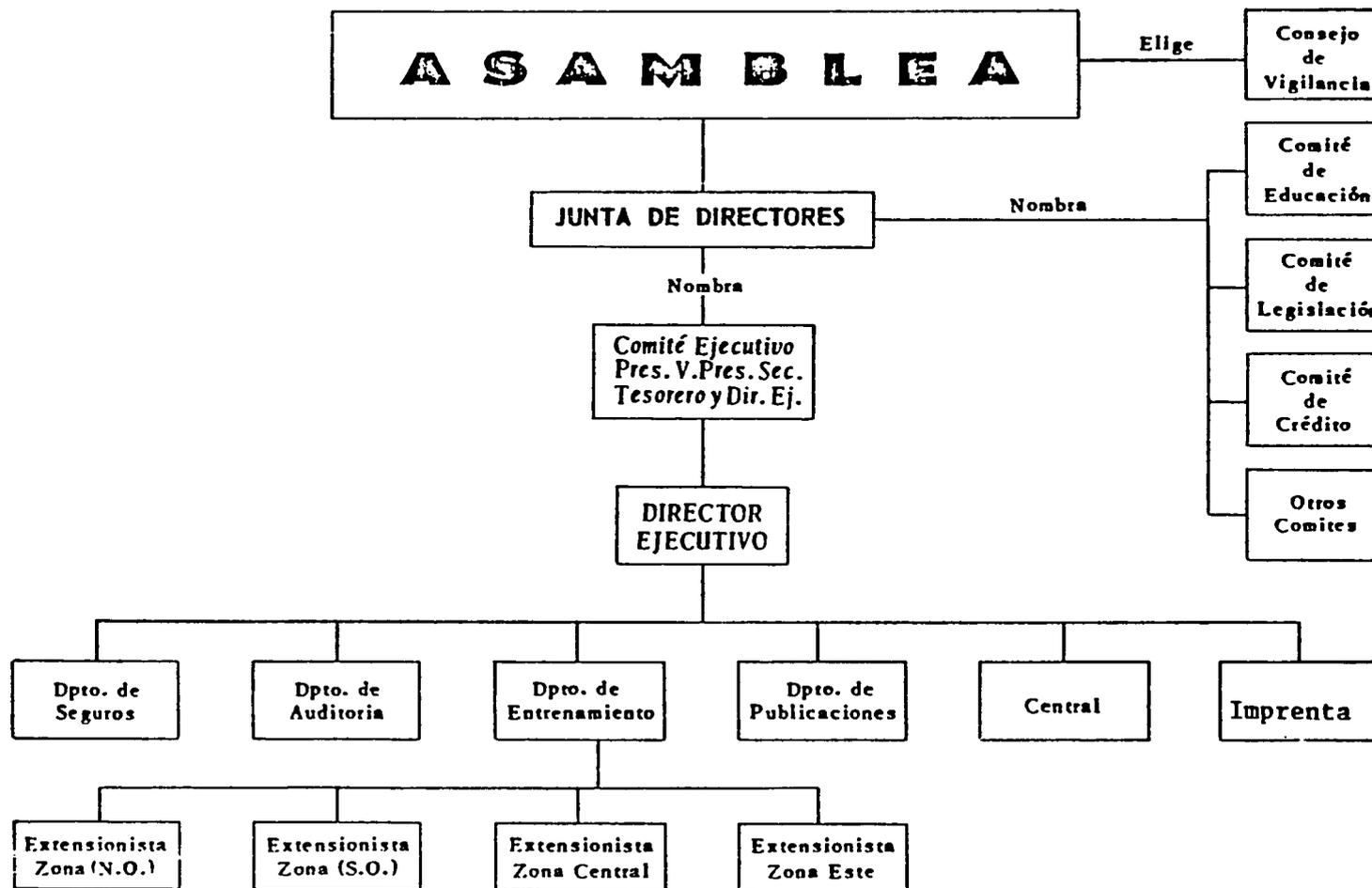
1. The most important insight from the Bolivian study results from the possibility of COLAC arranging a sizable loan for FENACRE through a guarantee with the Bank of America at 1 1/2%. Negotiation between FENACRE and the Bank will ultimately indicate the feasibility of such an arrangement, including any hidden charges for inflation.
2. FENACRE is fast getting experience with agricultural production through its growing of garlic, wheat, barley, and onions on its own land. It lacks agricultural economic expertise on a regular basis. It failed to avail itself of the services of the Agricultural Attache and the USAID to obtain material on garlic dehydration and marketing. It was not aware that a Government related facility for drying vegetables exists, unused, in Santa Cruz (the OAS has a food technology project there). FENACRE will move cautiously into agricultural production credit even though the demand is relatively unlimited.
3. The statistics available to FENACRE are deficient for COLAC's needs, even though they may be among the best in the hemisphere. FENACRE takes little interest in details and experience below the credit union (coop) level.
4. FENACRE has a basically competent, unified, and viable staff and the reduction in delinquency from 60 to 10% at the coop level speaks well for its efforts. Management of essentially private enterprises (printing and crop production) is taking excessive time from its major business of savings, loans, and development of production credit, especially in agriculture. In the long run, however, investment income from these and ownership of buildings will likely increase operating income and reduce expenses.
5. FENACRE is not anxious for COLAC technical assistance except for publications, but desperately needs financing to maintain growth. Areas which need attention include rationalization of cooperatives (merging and enlarging member/management ratios. Although officially FENACRE has enrolled 170 coops, only 140 are active and 10 are open one day only.) COLAC's minimum criteria does not carry meaning with FENACRE and no FENACRE or COLAC checklists

(standards) are systematically used by local or Federation level loan committees. COLAC's Equipo #2 needs to keep in close contact, perhaps by mail after the first visits, even though FENACRE management considers itself to be on a similar technical level as COLAC. Even greater cooperation will come naturally if a loan or guarantee is arranged.

AID/W should investigate the possibility of a set aside of a portion of FRA loan funds to be earmarked for re-lending through FENACRE.

B O L I V I A

# FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO

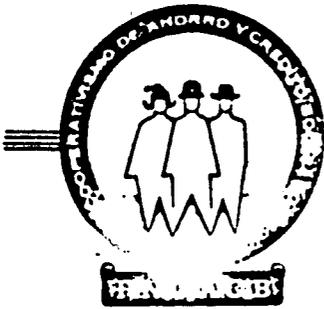


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# FEDERACION NACIONAL DE COOPERATIVAS

## DE AHORRO Y CREDITO DE BOLIVIA BOLIVIA

EXHIBIT 02



OPICINA CENTRAL: Jordán 3226 - Teléfonos 1374 - 8061 - Casilla 829 - Cochabamba-Bolivia  
OPICINA LA PAZ: Avenida Mariscal Santa Cruz 1322 (2do. Piso) Teléj. 28564 - Casilla 3190  
OPICINA SANTA CRUZ: Calle 24 de Septiembre 689 - Teléfono 2-4376 - Casilla 1117

Birc. Telegráfica: «FENACRE»

### DATOS DE LA FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO DE BOLIVIA

#### DATOS HISTORICOS:

- La FNCACB se fundó el 15 de Febrero de 1962 en la ciudad de Cochabamba
- En 1963 se asocia a O.C.A.
- También en abril de 1963 se integró a CINA Internacional
- Es socia fundadora de COLAC
- En Julio de 1964 se aprobaron, por el Gobierno de Bolivia, los Estatutos de la FNCACB y se dictó la resolución para la aprobación de la Personería Jurídica.

#### Directores Ejecutivos:

1962 - 1965 Padre José Beausoleil  
1966 - 1969 Lic. Simón Belmonte  
1970 - 1972 Lic. Jorge Navia V.  
1972 - 1973 Lic. Fernando Chinche  
1974 Sr. Fernando Laguna F.  
1974 Dr. Marco Antonio Téllez

#### JEFES DE DEPARTAMENTO:

1. Jefe Departamento de Finanzas y Personal, Freddy Canedo Canedo, Contador General, 32 años.
2. Jefe Departamento Entrenamiento y RR.PP., Víctor Hugo Arraya Lidmann, Periodista, 37 años.
3. Jefe Departamento Seguros, Alfredo Lianza Cuadros, Abogado, 37 años.
4. Jefe Departamento Imprenta-Suministros, José Luis Rioja Coronel, Dibujante Artístico, 34 años.
5. Jefe Departamento Auditoría, Ramiro Ocampo Rodríguez, Contador General, 34 años.

#### DATOS ESTADISTICOS:

AL 30-11-73 \ \ \ \ 30-9-74 \ \ \ Crecim.

Número de Cooperativas	161	170	5.59 %
Número de Socios	112.143	116.824	4.17 %
Aportaciones	180.788.005.24	205.518.431.83	13.67 %
Préstamos Pendientes	176.796.585.73	194.147.754.98	9.81 %
Préstamos Acumulados	847.724.006.02	909.458.778.41	7.28 %
Reservas	12.268.568.54	20.252.170.06	65.07 %
Activo	226.055.065.49	259.198.648.48	14.66 %

Cochabamba, Enero de 1975

## SURVEY OF COLOMBIA

Colombia was visited from January 16 - 19, 1975. In addition to an intensive review with Dr. Ramiro Valderrama C., the General Manager of UCONAL (Union Cooperativa Nacional de Credito), interviews were held with Sr. Carlos Duque, Representative of Cuna Mutual; representatives of the USAID; and officials of the Bank of America and First National City Bank. We had an unusually good opportunity to watch Sr. Carlos Flores of COLAC assist in preparing a request for AID grant assistance. Several USAID officers were interviewed.

### 1. CUNA MUTUAL and COLAC Relocation

One of the major reasons for visiting Colombia was to investigate the desirability of a shift in location of COLAC to that country. CUNA MUTUAL is financing a 16 story building and has offered COLAC a 1/3rd interest in the building and a 20 year, 6% loan to purchase its share. CUNA MUTUAL has already agreed to sell a 50% interest in the building to UCONAL, which now occupies one floor of a large office building. COLAC's share would come out of CUNA's half. At this writing, the question of relocation is almost academic, COLAC having decided that (1) Panama provides more mobility; (2) it does not gain from regional status; and (3) its costs would not be materially reduced since its salary scales are already fixed in concrete. Nevertheless, CUNA's offer is a generous one and is being held in reserve.

CUNA MUTUAL has offered to provide COLAC with 3 technicians specialized in auditing, finance, and risk management to accompany COLAC's monitors or to provide special training to the Federations. An independent highly specialized group of this sort could introduce a better basis for evaluating particular federation possibilities of loan eligibility if used properly, once loan or guarantee funding is available. An organization chart of CUNA MUTUAL's Regional Office is shown in Exhibit #1.

### 2. UCONAL - Brief History and Background

UCONAL was chartered in August 1959. The first five years were destined to organizational efforts: New cooperatives, training of extensionists, and formation of volunteer leaders. UCONAL affiliated with CUNA International in

1962, OCA in 1963, and with CUNA Mutual Insurance in 1964. From 1964 to 1968, UCONAL decentralized and improved administration and created new services. A separate department was established to purchase household electrical equipment and school supplies. PROUCONAL was established to purchase and supply office machinery and equipment, office supplies, etc. During this period, full-time managers were employed by the cooperatives. The headquarters space was acquired. In 1969, UCONAL restructured and departmentalized into 6 regional zones and organized a central checking account. In that year also, a production credit program and external auditing were initiated. In 1970, UCONAL played a principal role in the creation of COLAC and the Colombian delegate was named President of the Confederation. From 1971 - 1974, UCONAL presents a reasonably functioning organization dedicated to servicing its cooperatives with financing, assistance, and representation. UCONAL currently serves 280 cooperatives, of which 85 are rural and 195 are urban. These cooperatives have approximately 150,000 members, of which 60,000 are said by management to be engaged in rural occupations. (Other estimates are closer to 32,000). Outstanding loans to all members totaled slightly more than 171 million pesos or U.S. \$6 million. As with most other federations, the 52 management and technical personnel are practically all young professionals. Although the organization was in the process of change, UCONAL was currently organized as shown in Exhibit #2. UCONAL's President is a medical doctor; the Director General is an economist,

UCONAL has 6 regional offices which assess and monitor loans, cooperatives are audited, and technical assistance provided. UCONAL's resources come from (1) an annual 1% quota of cooperatives' loans, (2) 5% of cooperatives capitalization, and (3) fees for services and profits from business sales. Its lending policy is to limit its outstanding loans to any cooperative to 2-3 times its paid in capital. Capital and technical limitations are causing UCONAL to severely reduce its promotional efforts to create new cooperatives. No new rural cooperatives were formed in 1973.

#### Relationship to COLAC

At the present time, UCONAL puts additional training and technical assistance from COLAC as a prerequisite to financing, even though the latter is badly

needed. "Before the money, it is better to have a well trained staff. Otherwise the loan will be lost." UCONAL representation as intangible and not easily measured. UCONAL believes COLAC is superior to the Federations, because it is needed. "Where bilateral AID assistance is available, with exception of El Salvador, COLAC is considered a servant or lower than the Federation."

UCONAL is disposed to give a blanket guarantee to COLAC borrowing. It did not seem strange to them because UCONAL has lent 5 million pesos to 25 cooperatives under the same terms: "Each has the obligation to pay the entire amount back." UCONAL expects to increase its lending to 20 million pesos to the same 25 cooperatives with each co-signing for the total. This funding will be possible because the Colombian Central Bank gives FINANCIACOOP, the general Cooperative finance agency of Colombia, 250% of its paid capital for re-lending. The latter will have 6.2 million pesos and will lend the 20 million to UCONAL. Some of UCONAL's cooperatives belong to FINANCIACOOP directly.

One possibility for borrowing by UCONAL from COLAC in dollars is through the Banco Central/FINANCIACOOP. It is possible that the Central Bank would borrow from COLAC at 8%; assign the loan to FINANCIACOOP at the same rate; which, in turn, would relend to UCONAL at 9% for lending to cooperatives at 12%. This would guarantee repayment in dollars and relieve COLAC of the devaluation, convertibility, and inflation risks.

UCONAL is looking to COLAC for training of its credit analyst (currently underway) to understand COLAC's criteria and evaluation method.

#### Statistics and Financing

About 1/4th of the member cooperatives do not return the statistical questionnaire which is now required each 6 months, (Exhibit #3). UCONAL expects to go to a monthly system in 1976. It may be able to use its central funds/checking as leverage to require data to be supplied.

Currently, UCONAL has borrowed 5 million pesos from FINANCIACOOP @ 5.5%, 12 million from Banco Popular @ 9 - 10% (Banco Popular administers its central checking account which gives it information and control of loan implementation); 1.5 million in own capital, or 18.5 million pesos in total for loans to cooperatives.

The cooperatives charge 12 - 24% as compared to Colombian private banks, which charge 16 - 29%. Agricultural production loans are normally charged 24%. Savings accounts receive 12% in both banks and cooperatives for demand deposits. The cooperatives can pay up to 18% for time deposits.

UCONAL estimates it can absorb up to \$3 million from external sources in the next 18 months at 10% or less. The organization expects to charge 12-14% and farmers would pay 24%. Even if they request \$3 million, they expect to use \$1.5 million in loans to 4 cooperatives as a pilot operation and a basis for building staff and experience. Some Government Extension personnel are expected to be available. In any case, they expect COLAC to help develop the loan program and to help cooperatives with requests for loans.

#### Delinquency

Member delinquency, while officially said to be 1.5% is estimated at 5 - 8%. No delinquency exists between cooperatives and UCONAL. Partly because of scarcity of fund availability, only the strongest cooperatives receive loans and cooperatives would be charged 2% per month on the principal of the loan, or an effective 22% penalty. Strong penalties are imposed also on overdraws which provide regional directors with control over loan committees.

Neither UCONAL nor the cooperatives use standard checklists in making loans, though previous history in repayment is checked with other local banks before loans are approved.

One of the types of security which COLAC uses to protect itself against risks of repayment is to have notes of the members sequentially assigned to the cooperative/federation/COLAC. UCONAL management points out that in Colombia, at least, this does not have complete meaning, since these "pagares" do not have to be returned to the member when he repays. Thus, if the cooperative were to receive repayment and provides the member with a receipt, the member may not be forced to repay twice. A possible way to cover this contingency is to make the managers and boards of directors of both the cooperative and federation become personally liable for all loans.

### Educational Training

UCONAL management believes that the need for philosophic training, as proposed by Dr. Serrano, is not necessary at the federation level. In Colombia, especially, the movement is well advanced and several different publications are constantly providing data and ideas on cooperation. INDESCO, The Cooperative University, has 900 students and is oriented towards the personnel needs of cooperatives. It conducts courses and seminars, as requested, for cooperatives and federations. UCONAL is on its board of directors.

### USAID

There is a very close personal relationship between UCONAL and USAID personnel, especially Colombian nationals. USAID projects in process appear to stem from recommendations contained in NEW DEPARTURES IN RURAL DEVELOPMENT, prepared under contract by Leonard Kornfeld on December 7, 1974. Kornfeld, before retiring last year, was Director of Programs and Planning for the USAID.

Two projects were being processed for AID/W consideration. A grant of \$500,000, for UCONAL over a 3 year period to finance training of federation personnel; to purchase vehicles and office equipment; and to train village leaders and cooperative officials to provide a much needed impetus to new rural cooperatives. By chance, our visit coincided with the visit by Carlos Flores, of COLAC, who was helping UCONAL with their part in preparation of data for the proposal. His technical and personal relations with UCONAL were outstanding. His experience in preparing requests, in developing a data and philosophical base, and his obvious mastery of all phases of federation operation and management was accepted by UCONAL personnel, and rightly so. If he is representative of COLAC's assistance, the federations are getting much more than they are paying for.

A request is being made to USAID, also, for a \$2 million loan to the Government (Central Bank) which would channel the funds through FINANCIACOOP. Banco Nacional would pay 2%, in dollars, FINANCIACOOP 8% in pesos to the Bank. Forty percent, or \$800,000 equivalent in pesos would be relent to UCONAL at 9%, which, in turn, would lend to its cooperatives at 13%. Members would pay 18%, lower than the legal limit of 24%.

The evaluator sensed a certain amount of skepticism, if not outright opposition, to UCONAL's entry in agricultural credit from the Rural Development Advisor in the USAID. Despite this, top USAID management was high on COLAC and a credit union role in development. In answer to AID/W's Program/Budget Review request for USAID comments on existing projects (State 174969, Aug. 17, 1974), USAID/Colombia had this to say: "The programs performed by COLAC in Colombia through its local federation (UCONAL) have been outstanding, specifically in the technical adaptation of their leaders and cooperatives to improve their economic aspects. Mission considers this project of great assistance in the rural areas and in preparation of the cooperatives in the development process." (Bogotá 7730, Aug. 29, 1974).

#### Private Banking

Both Bank of America and First National City Bank were visited and cordial discussions were held with responsible officials. The possibility of a COLAC guarantee in dollars was reviewed. While it is legally possible for dollars as a guarantee to be held outside of Colombia, it is not feasible. Nor could a dollar guarantee be held within Colombia because of a 30% reserve requirement. Peso lending costs private banks between 22 - 30% with a legal interest ceiling of 16%.

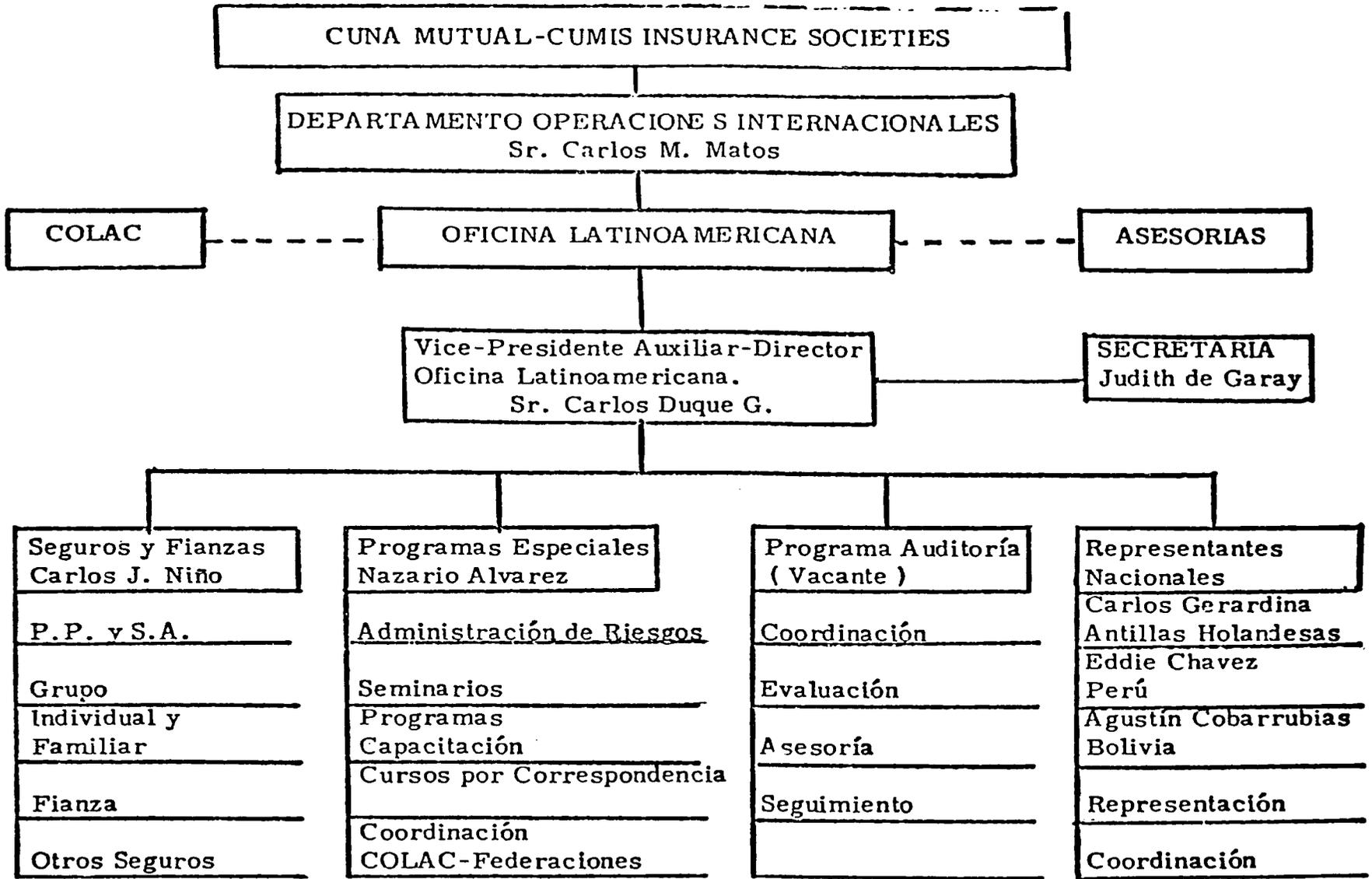
#### Conclusions

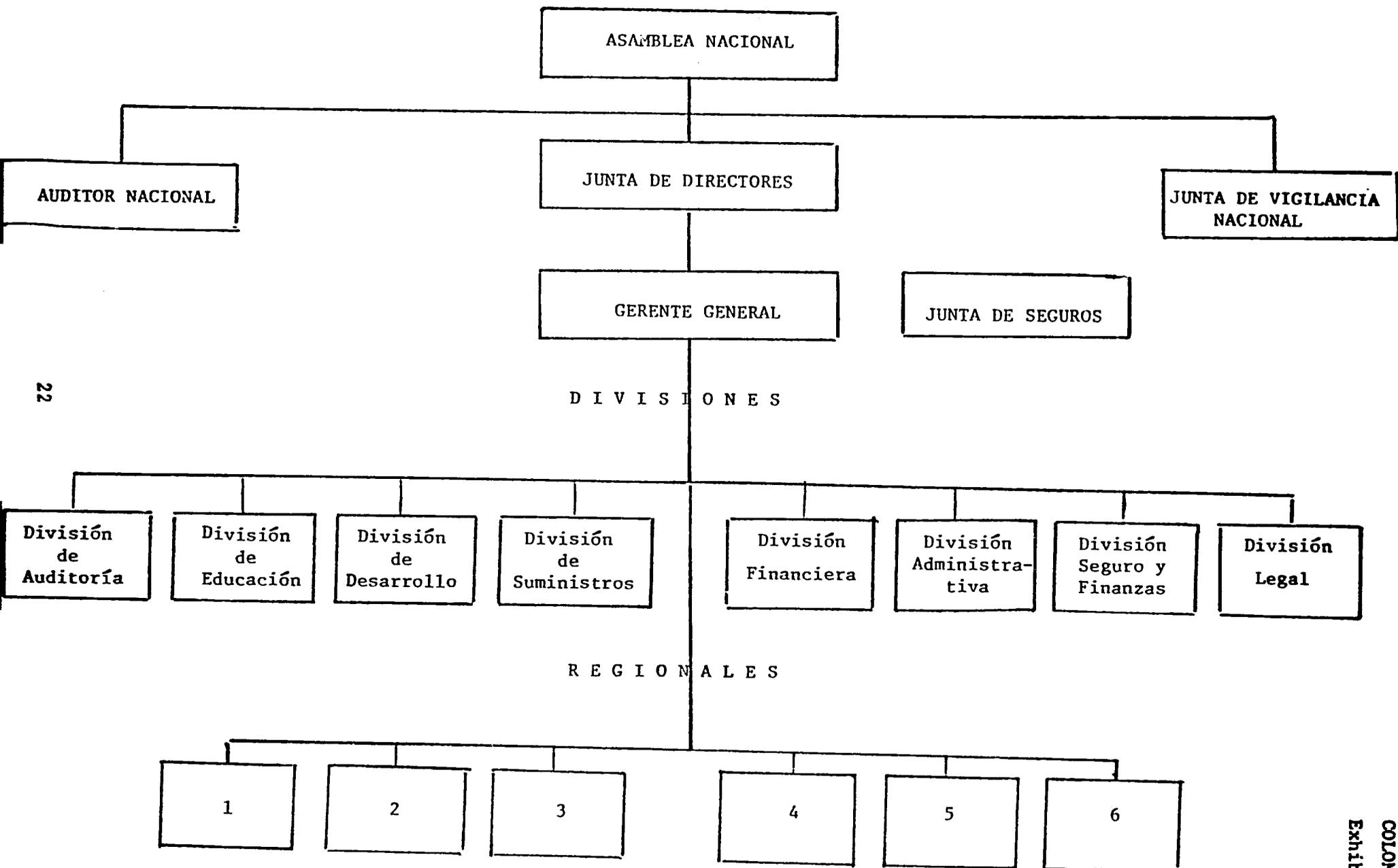
1. The promotion of rural credit cooperatives is temporarily limited by availability of funds; when available, UCONAL's management will initiate pilot operations in production credit before rushing into generalized lending.

2. UCONAL actively seeks funding from the Central Bank, sees this institution as a possible intermediate borrower from COLAC, and would accept technical support from other Government sources. If possible, this might be the clue to relief from devaluation, convertibility, and inflation risks.

3. If UCONAL does not obtain loan funds from COLAC or other sources soon, the momentum of the movement, especially its rural component, will lose credibility and may face massive defection.

4. COLAC could assist UCONAL with standard checklists for credit committees and improved statistical procedures.





UCONAL INFORME ESTADISTICO

en día \_\_\_\_\_ Mes \_\_\_\_\_ Año \_\_\_\_\_

Los datos de este informe deberán suministrarse a UCONAL semestralmente al 30 de junio y al 31 de diciembre

<u>SECCION A - DATOS DE LAS COOPERATIVAS</u>	<u>AREA URBANA</u>	<u>AREA RURAL</u>	<u>TOTAL</u>
1o. Número de cooperativas con personería jurídica	_____	_____	_____
2o. Socios activos	_____	_____	_____
3o. Monto de ahorros	_____	_____	_____
4o. Monto de préstamos vigentes	_____	_____	_____
5o. Monto de préstamos morosos	_____	_____	_____
6o. Monto de préstamos acumulados	_____	_____	_____
7o. Monto de reservas para préstamos incoobrables	_____	_____	_____
8o. Monto de otras reservas y fondos	_____	_____	_____
9o. Total de activo de las cooperativas	_____	_____	_____
10. Activo corriente de las cooperativas	_____	_____	_____
11. Total de pasivo de las cooperativas	_____	_____	_____
12. Pasivo corriente de las cooperativas	_____	_____	_____
13. Capital en aportaciones de las cooperativas	_____	_____	_____

	<u>AREA URBANA</u>	<u>AREA RURAL</u>	<u>TOTAL</u>
14. Depósitos de las cooperativas	_____	_____	_____
15. Obligaciones bancarias de las cooperativas	No. _____	_____	_____
16. Utilidades por distribuir de las cooperativas	_____	_____	_____

SECCION B- DATOS DE LA FEDERACION MISMA

TOTALES

10. Total de activos de la Regional	_____		
20. Activo corriente de la Regional	_____		
30. Total del pasivo de la Regional	_____		
40. Pasivo corriente de la Regional	_____		
50. Capital en aportaciones de la Regional	_____		
60. Reservas para préstamos incobrables de la Regional	_____		
70. Total de reservas de la Regional	_____		
80. Monto de recursos externos recibidos por la Regional para otorgar préstamos	(No.) _____	(Monto) _____	Tasa _____
		Otros cargos _____	
	<u>Número</u>	<u>Saldo</u>	
90. Número y saldo de créditos vigentes concedidos por la Regional	_____	_____	

	<u>Número</u>	<u>Volumen</u>
10. Número y volumen de créditos concedidos por la Regional durante el semestre		
a. Producción agropecuaria	_____	_____
b. Industria, comercio	_____	_____
c. Vivienda	_____	_____
d. Mejoras administrativas en las cooperativas	_____	_____
e. Préstamos generales	_____	_____
f. A otros tipos de cooperativas	_____	_____
TOTALS	_____	_____

11. Número y monto de los préstamos en mora concedidos por la Regional

<u>2 - 6 meses</u>		<u>7 - 12</u>		<u>más de 12 meses</u>	
(No.)	(Monto)	(No.)	(Monto)	(No.)	(Monto)
_____	_____	_____	_____	_____	_____

12. Costo del préstamos de la Regional a las cooperativas

Tasa \_\_\_\_\_ Otro Cargos \_\_\_\_\_

13. Experiencia de Crédito:

	<u>Número</u>	<u>Monto</u>
a. Préstamos vencidos y cobrados desde que la Regional inició su programa de préstamos	_____	_____
b. Préstamos declarados incobrables y aplicados a la reserva desde el inicio del programa	_____	_____

	<u>Número</u>	<u>Monto</u>
14. Préstamos recuperados durante el semestre	_____	_____
15. Por ciento de gastos sobre ingresos del departamento de financiamiento durante el semestre	_____	_____%
16. Ganancia bruta realizada por el departamento de financiamiento durante el semestre	_____	_____%
17. Porcentaje de dividendos (intereses) - anuales declarados sobre aportaciones - durante el semestre	_____	_____%

NOTAS EXPLICATIVAS SOBRE LOS DATOS DE ESTE INFORME

Sitio \_\_\_\_\_ Fecha \_\_\_\_\_

Persona Responsable \_\_\_\_\_

## SURVEY OF HONDURAS

Honduras was visited from January 6 to 9, 1975. Interviews were held with U.S./A.I.D. personnel, volunteer and paid personnel of FACACH (Honduras credit union federation), the director, and two functionaries of DIFCOOP (Honduras government cooperative regulatory agency), both former FACACH managers, three Honduran banks (Bancasa, Atlantida and Casa Propia), and several other Honduran cooperative figures, such as the manager of FEHCOVIL (housing cooperative federation).

FACACH was one of the first federations to begin lending operations for its members. It continues to do so, and today this is its major service. It also offers a wide variety of other services for its members. This includes insurance, bonding, centralization of funds (N.B. not accounting) management assistance, office supplies, printing, agricultural inputs, delinquent loan collection assistance and, beginning soon, a farm products price advisory service. FACACH has a very large staff - 42 people. However, six of these are volunteers (European and Canadian) and several of the others are part-time employees.

FACACH has two offices. The principal office is in Tegucigalpa and is located in a modern building constructed about three years ago. There is a regional office for the Northern and Western parts of the country located in San Pedro Sula.

FACACH has been lending to its own members, other types of cooperatives, and to other non-profit groups for almost eight years. Experience has generally been good and delinquency rates, although high, are under control. Almost ten percent of FACACH's loan portfolio is delinquent. It is important to note here that FACACH only reports the monthly or quarterly payments as delinquent, not the entire loan balance. Therefore, the amount of money actually jeopardized by delinquency is somewhat higher.

Part of this delinquency resides in a loan made by FACACH to the Agricultural Cooperative Federation. This A.I.D. sponsored group went

under almost immediately after receiving financing from FACACH. Two consecutive drought years and poor management were among the reasons for the failure. At the time that the Agricultural Federation went under, it owed FACACH \$225,000. This indebtedness has been reduced to \$98,000 and FACACH hopes to recover considerably more.

For the past three years, FACACH's books were closed with moderate deficits. Management believes tht this was due to an inadequate loan volume. (Of course, the large staff must be taken into consideration.) U.S./A.I.D provided FACACH with two loans. The first for \$500,000 and the second for \$1,500,000. Both were for productive purposes and much of the second was destined for the Agricultural Cooperative Federation. After approximately half of that loan was disbursed, A.I.D. withdrew the remainder. A.I.D. grant support to FACACH was terminated at about that time also. Since then FACACH has "scrounged about" for lending capital. It has had success attracting small amounts (i.e., - \$100,000 range) from German, Austrian and Canadian sources and from the IAF. If it could attact more capital, it could be lent safely.

As mentioned above, FACACH lends to many different types of groups. Presently, its loan portflio of \$2,400,000 is divided 65/35 between its own members and others. However, DIFCOOP is presently in the process of issuing a rule which will severely hamper FACACH's ability to lend to non-affiliated groups. The rule will require that FACACH obtain a favorable ruling form DIFCOOP on each loan made to a non-affiliate. If this proposed ruling holds up, FACACH will have less demand for outside capital, may have some difficulty collecting from present non-affiliated debtors and may have serious problems balancing its budget.

Its ability to extend loans for productive purposes will also be limited, as the bulk of loans to the non-affiliated groups were for productive purposes. Two years ago, FACACH loans were split 60/40 between the productive and consumer classification. Figures for last year are interesting. They are:

Productive.....	51%
Non-productive....	25%
Refinancing of old loans.....	24%

It is unknown what proportion of the last category can be considered productive, if any. In any case, such a high refinance rate is indicative of a possible hidden delinquency problem. It may, of course, be due to the two droughts and the hurricane suffered by Honduras in the past three years.

FACACH appears to be taking the necessary steps to bring and keep delinquency under control. It has a small cadre of lawyers working for it in this area. The 1973 annual report (data for 1974 were not available) notes that eight cooperatives were successfully sued and that FACACH's lawyers, representing 11 credit unions, successfully brought action against 51 credit union members.

Money is tight in Honduras. Although the interest rate is 11 percent, money is not easily available to anyone without an "in" to his friendly banker. Discussions with banking officers were not promising. They expressed interest in lending on COLAC's guaranty, but only if COLAC would deposit the dollars in Honduras. In addition, because of the 30 percent reserve requirement for dollar accounts in Honduras, they were rather gloomy on the rate of interest which they would charge.

The possibility of discounting notes received by FACACH was also discussed. For various reasons, OPIC has, on a trial basis, guaranteed \$250,000 of FACACH to credit union loans. These notes could easily be discounted or used to guaranty other loans. The bankers were interested, but talked of rates of interest in the neighborhood of 13 percent. This is too high for FACACH to use at present.

Credit unions in Honduras still believe in the sanctity of the 12 percent interest rate. FACACH management does not intend to change their thinking. Therefore, an interest rate of 8 percent to 9 percent is the maximum which FACACH can afford. Management's position is not completely without wisdom. The BNF does loan to farmers at 6 percent. Although credit union members could never hope to qualify for BNF loans, the credit unions themselves can, and have received such loans.

FACACH's management calculates that, if the rate to the ultimate borrower can be kept to 12 percent, that it can use the following amounts of new money starting in 1976,

First 18 months...\$ 750,000

Next 18 months... 975,000

Next 24 months... 1,700,000

This estimate was made without the knowledge of the proposed DIFCOOP rule.

FACACH is quite involved in agricultural production credit. It has six agronomists on its staff who work with member coops. It will soon begin the farm products price information service. Also, it is beginning the feasibility study for the construction and operation of a grain storage warehouse.

Such an aggressive move to resolve the marketing problems of its affiliates is very positive. However, marketing is a very risky undertaking and the inclusion of this function inside FACACH's corporate structure endangers its other activities.

FACACH began a centralization of funds and accounting program in 1969. The accounting part was dropped almost immediately when technical problems endangered the combined program. The funding portion of the program has gone along well however. The problem of overdrafts (described in the Panama trip report) was controlled by program design changes made in the second year of operation.

The system now operates such that each local bank in the system keeps track of the account of each credit union with which it does business and permits overdrafts at its own risk. FACACH also keeps track of each credit union's account, transfers money to and from them through the system and taps the float generated by the combined credit unions. Of course, the bank requires a higher reserve to compensate it for the additional work and the risk retained.

Honduras has an effective statistics collection system. Monthly reports flow in from the coops. Seventy-five percent of these are on time, and the rest are always caught up within three months. The data submitted is simple and all flows out of the process of preparing the credit unions' monthly statements. This simplicity, the fact that the credit unions were required from the very beginning to submit data, and that FACACH has disciplined itself are the most important reasons why the system operates as well as it does.

In addition, FACACH personnel visit each cooperative once each year for the express purpose of filling in a detailed, three-page questionnaire. (see Exhibit 1). This provides information which is not needed more frequently or which is difficult for sub or para-professional managers to provide.

A disturbing note at FACACH was the slowing down of the organization's growth. While the federation has grown marvelously in terms of employees and services offered, the movement seems to be stagnating. The organization experienced accelerated growth during its first five years of existence (i.e., 1964 to 1969). Following a sustained period of entrepreneurial growth; consolidation of administration and a slowing of growth are not unusual, or undesirable. Data provided by COLAC provides a reading of the past 5 years' activities:

HONDURAN CREDIT UNION MOVEMENT GROWTH

June 30, 19__		# of coops	# of people	Savings (U.S.\$, 000 omitted)
Source: COLAC	1969	114	20,800	2,202
	1970	117	25,800	3,322
	1971	125	29,300	4,320
	1972	120	29,000	4,320
	1973	110	28,100	5,404
	1974	110	29,400	6,311

The decrease in the number of credit unions could be accounted for by mergers of small, weak groups, or it could be accounted for by the disaffiliation of sophisticated groups. It was not possible to determine which was the case.

The growth in number of members has completely stopped. Only one hundred new members have entered in the past three years. This is an extremely ominous figure. Savings continue to flow in, which demonstrates that the present members are using the organizations in much the same manner (savings-wise) as they did four years ago. It is very likely that FACACH has abandoned membership development and is concentrating its attention on developing new programs, searching for economic resources to keep them going, or, possibly, is just wandering without a sense of direction.

The membership figure is extremely important. It represents FACACH's market, and any organization which fails to watch over and develop its market will, sooner or later, find itself in trouble. In a dynamic world, organisms which do not grow, can only decay and disappear. Standing still is not an option open to the organization.

Excluding FACACH employees, most of the people interviewed brought up the topic of politics. FACACH, they maintained, has been politicized and no longer is working to serve its members needs, but rather to advance a partisan political cause. It was not possible to determine the validity of these statements. To a considerable extent, their validity is attested to by the simple fact that the statements were made. A public organization exists in the realm of image. In Honduras, FACACH is seen as having been politicized.

The proposed DIFCOOP rule may be connected with this image, as FACACH's politicians are not of the governing party; or the rule may have been motivated by DIFCOOP's concern for the obedience of law, the integrity of the movement and safety of FACACH's members' capital. (These latter were the reasons given for the ruling.)

An organization which permits itself to acquire a political tag necessarily plays a high gain - high loss game. It has all its eggs in one basket.

The following remarks relate to a series of questions put to FACACH's management about COLAC. In general, management tended to be confused about

what COLAC really was and what it could offer. This may be because COLAC existed only on paper for a long time, and since then has often been too preoccupied with evaluations to lend concrete services to its members.

A. The COLAC-Federation relationship is seen as being similar to the Federation-credit union relation. However, it is not as direct, and COLAC's disappearance would not affect FACACH as quickly as FACACH's disappearance might affect the credit unions.

B. It is likely that FACACH would co-sign a COLAC loan, although this would take time as the matter would have to be discussed at the local level before being approved at the national level.

C. FACACH would be able and willing to pay for part of the costs of technical assistance received from COLAC. Something between the present nominal \$10.00 a day and the full cost would be possible. However, no definite figure was set.

D. FACACH would be willing to lend its people to other federations for the provision of technical assistance. It was also mentioned that in the past they had provided bio-data for this purpose.

E. The following is a list of different kinds of technical assistance which FACACH would like to receive from or through COLAC:

- Training in agricultural production credit.
- Training in evaluating the agricultural credit programs.
- Intensive training for two credit officials.
- Similar, but less intensive training for the 6 agronomists.
- Evaluation of the insurance program.
- Training for the insurance staff.
- Design of a marketing program for their family group life insurance program. (FACACH probably should not have gotten into this. It is different from their existing programs, it is more difficult to administer and they do not have a source of professional advice in the insurance field.)
- Program design, personnel training and continuing consulting for a member and savings promotion program. This service has been provided at least once, but FACACH has had considerable employee turnover and has failed to staff the program

with adequate human resources.

- Evaluation of its capitalization program.
- Financing at low interest rates.

### Conclusions

1. COLAC should determine the extent of real delinquency in Honduras. Presently, the reporting of only the delinquent payment and the refinancing of 24% of the portfolio cover too much. COLAC should evaluate FACACH's portfolio on a loan by loan basis.
2. COLAC should attempt to determine the impact of DIFCOOP's proposed rule on FACACH's ability to get repayment of its present loans and to lend in the future.
3. COLAC should attempt to determine the cause of the growth problems presently being experienced by FACACH. In part, the problem exists because FACACH has failed to adequately use previous COLAC technical assistance. Since COLAC has committed \$980,000 in loan funds to Honduras and has already disbursed \$320,000, it should insist that FACACH use the assistance in a proper manner. No further disbursements should be made until progress is made on this point.
4. The impact of FACACH's political image upon the safety of COLAC's loan should be analyzed and COLAC should take whatever steps are necessary to protect its investments.
5. The solution to the overdraft problem developed in Honduras should be made known to other federations with centralization of funds programs.
6. The possibility of COLAC extending the guaranty approach in Honduras should be discussed with the Bank of America and the First National City Bank. Their Honduran representatives were not contacted.
7. In order to operate in Honduras, COLAC will have to keep its loan rates under 9% for the foreseeable future.

ESTUDIO DE SITUACION

OCIOS 1973

1. Número de socios: Activos \_\_\_\_\_  
Inactivos \_\_\_\_\_  
Total \_\_\_\_\_
2. Promedio de socios ingresados por mes: \_\_\_\_\_
3. Promedio de socios retirados por mes: \_\_\_\_\_

RESTAMOS

4. Inversión de los préstamos otorgados por la Cooperativa en 1973
- |                                       |          |          |         |
|---------------------------------------|----------|----------|---------|
| a) Compra o mejora de vivienda --     | Nº _____ | L. _____ | % _____ |
| b) Agricultura _____                  | Nº _____ | L. _____ | % _____ |
| c) Ganadería _____                    | Nº _____ | L. _____ | % _____ |
| d) Industria _____                    | Nº _____ | L. _____ | % _____ |
| e) Comercio _____                     | Nº _____ | L. _____ | % _____ |
| f) Compra vehículos transporte _____  | Nº _____ | L. _____ | % _____ |
| g) Compra vehículos personales _____  | Nº _____ | L. _____ | % _____ |
| h) Servicios médicos _____            | Nº _____ | L. _____ | % _____ |
| i) Pago de deudas _____               | Nº _____ | L. _____ | % _____ |
| j) Muebles y enseres del hogar _____  | Nº _____ | L. _____ | % _____ |
| k) Otros préstamos para consumo _____ | Nº _____ | L. _____ | % _____ |
| l) TOTAL _____                        | Nº _____ | L. _____ | % _____ |

PLAN ANUAL DE TRABAJO Y PRESUPUESTO

5. Tiene Plan Anual de Trabajo?
- |                                        |               |
|----------------------------------------|---------------|
| a) Consejo de Administración _____     | Si ( ) No ( ) |
| b) Comité de Crédito _____             | Si ( ) No ( ) |
| c) Junta de Vigilancia _____           | Si ( ) No ( ) |
| d) Comité de Educación _____           | Si ( ) No ( ) |
| e) Plan global de la cooperativa _____ | Si ( ) No ( ) |
6. Se lleva control del cumplimiento del Plan de Trabajo? \_\_\_\_\_ Si ( ) No ( )
7. Tiene presupuesto de ingresos y gastos? \_\_\_\_\_ Si ( ) No ( )
8. Se lleva control del presupuesto? \_\_\_\_\_ Si ( ) No ( )

FUNCIONAMIENTO DE LOS CUERPOS DIRECTIVOS

Consejo de Administración:

9. Está totalmente integrado? \_\_\_\_\_ Si ( ) No ( )
- |                           |  |
|---------------------------|--|
| a) Presidente: _____      |  |
| b) Vice-Presidente: _____ |  |
| c) Secretario: _____      |  |
| d) Tesorero: _____        |  |
| e) Vocal: _____           |  |
10. Con qué frecuencia se reúnen?
- |                         |     |
|-------------------------|-----|
| a) Quincenalmente _____ | ( ) |
| b) Mensualmente _____   | ( ) |
| c) Ocasionalmente _____ | ( ) |
| d) Nunca _____          | ( ) |

Tienen Libro de Actas autorizado? \_\_\_\_\_ Si ( ) No ( )  
Se ejecutan los acuerdos tomados? \_\_\_\_\_ Si ( ) No ( )  
Por qué? \_\_\_\_\_  
\_\_\_\_\_

Comité de Crédito:

11. Está totalmente integrado? \_\_\_\_\_ Si ( ) No ( )
- |                      |  |
|----------------------|--|
| a) Presidente: _____ |  |
| b) Secretario: _____ |  |
| c) Vocal: _____      |  |
12. Con qué frecuencia se reúnen?
- |                         |     |
|-------------------------|-----|
| a) Semanalmente _____   | ( ) |
| b) Quincenalmente _____ | ( ) |
| c) Mensualmente _____   | ( ) |
| d) Ocasionalmente _____ | ( ) |
| e) Nunca _____          | ( ) |
13. Tienen Libro de Actas autorizado por el Consejo \_\_\_\_\_ Si ( ) No ( )
14. Entrevistas a los socios prestatarios algunas veces \_\_\_\_\_ Si ( ) No ( )
15. Trabaja en coordinación con el Tesorero \_\_\_\_\_ Si ( ) No ( )
16. Presenta informes mensuales al Consejo de Administración \_\_\_\_\_ Si ( ) No ( )

Junta de Vigilancia:

17. Está totalmente integrada? \_\_\_\_\_ Si ( ) No ( )
- Propietarios:
- |                      |  |
|----------------------|--|
| a) Presidente: _____ |  |
| b) Secretario: _____ |  |
| c) Vocal: _____      |  |
- Suplentes
- |          |  |
|----------|--|
| a) _____ |  |
| b) _____ |  |
| c) _____ |  |

18. Con qué frecuencia se reúnen?
- |                          |     |
|--------------------------|-----|
| a) Mensualmente _____    | ( ) |
| b) Trimestralmente _____ | ( ) |
| c) Ocasionalmente _____  | ( ) |
| d) Nunca _____           | ( ) |
19. Tienen libro de Actas autorizado por el Consejo? Si ( ) No ( )
20. Hacen Arqueos de Caja y reconciliaciones bancarias?
- |                         |     |
|-------------------------|-----|
| a) Mensualmente _____   | ( ) |
| b) Ocasionalmente _____ | ( ) |
| c) Nunca _____          | ( ) |
21. Revisan las operaciones contables del Tesorero?
- |                         |     |
|-------------------------|-----|
| a) Mensualmente _____   | ( ) |
| b) Ocasionalmente _____ | ( ) |
| c) Nunca _____          | ( ) |
22. Hacen confrontaciones entre las Libretas de Asociados y el Libro de Registro respectivo?
- |                         |     |
|-------------------------|-----|
| a) Mensualmente _____   | ( ) |
| b) Ocasionalmente _____ | ( ) |
| c) Nunca _____          | ( ) |

**Comité de Educación:**

23. Cuántas personas lo integran? \_\_\_\_\_  
 \_\_\_\_\_  
 a) Presidente: \_\_\_\_\_  
 b) Secretario: \_\_\_\_\_  
 c) Miembros: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

24. Con qué frecuencia se reúnen?  
 a) Semanalmente \_\_\_\_\_ ( )  
 b) Quincenalmente \_\_\_\_\_ ( )  
 c) Mensualmente \_\_\_\_\_ ( )  
 d) Ocasionalmente \_\_\_\_\_ ( )  
 e) Nunca \_\_\_\_\_ ( )

25. Presentan informes mensuales al Consejo de Administración? \_\_\_\_\_  
 Si ( ) No ( )

26. Enumere las cinco actividades más importantes realizadas por este Comité en los últimos seis meses:  
 a) \_\_\_\_\_  
 b) \_\_\_\_\_  
 c) \_\_\_\_\_  
 d) \_\_\_\_\_  
 e) \_\_\_\_\_

**E. ARCHIVO**

27. Se archivan todos los documentos de la cooperativa? \_\_\_\_\_ Si ( ) No ( )  
 28. El sistema de archivo que se usa permite encontrar rápidamente los documentos? \_\_\_\_\_ Si ( ) No ( )  
 29. Describa brevemente la forma en que está organizado el archivo:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**F. CONTABILIDAD**

30. Nombre de la persona que lleva la contabilidad: \_\_\_\_\_  
 31. Nivel educativo:  
 a) Primaria \_\_\_\_\_ ( )  
 b) Media \_\_\_\_\_ ( )  
 c) Superior \_\_\_\_\_ ( )  
 32. Título: \_\_\_\_\_  
 33. Cursos recibidos sobre contabilidad:

CURSO	PATROCINADO
_____	_____
_____	_____
_____	_____

**34. Cargo que desempeña:**

- a) Tesorero \_\_\_\_\_ ( )  
 b) Tesorero-Gerente \_\_\_\_\_ ( )  
 c) Gerente \_\_\_\_\_ ( )  
 d) Contador \_\_\_\_\_ ( )

**35. Jornada de trabajo:**

- a) Medio tiempo \_\_\_\_\_ ( )  
 b) Tiempo completo \_\_\_\_\_ ( )  
 c) Indefinida \_\_\_\_\_ ( )

36. Cuánto tiempo tiene de llevar la contabilidad? \_\_\_\_\_

37. Cuántas personas trabajan en la administración contable de la cooperativa?

CARGO	ESCOLARIDAD	SALARIO
_____	_____	_____
_____	_____	_____

38. Posee oficina \_\_\_\_\_ Si ( ) No ( )

Explique donde funciona: \_\_\_\_\_  
 \_\_\_\_\_

**39. Equipo de oficina:**

- a) Archivos \_\_\_\_\_ N° \_\_\_\_\_  
 b) Tarjeteros \_\_\_\_\_ N° \_\_\_\_\_  
 c) Sumadora \_\_\_\_\_ N° \_\_\_\_\_  
 d) Calculadora \_\_\_\_\_ N° \_\_\_\_\_  
 e) Máquina de escribir \_\_\_\_\_ N° \_\_\_\_\_  
 f) Cajas de seguridad \_\_\_\_\_ N° \_\_\_\_\_

40. Tiene servicio permanente de electricidad? \_\_\_\_\_ Si ( ) No ( )

41. Tiene la contabilidad al día? \_\_\_\_\_ Si ( ) No ( )  
 En cuántos meses está atrasada? \_\_\_\_\_  
 Por qué? \_\_\_\_\_

42. Se concilia mensualmente los registros auxiliares con los saldos del Libro Mayor General?

- a) Caja \_\_\_\_\_ Si ( ) No ( )  
 b) Bancos (Cta. de Cheques) \_\_\_\_\_ Si ( ) No ( )  
 c) Aportaciones Obligatorias \_\_\_\_\_ Si ( ) No ( )  
 d) Aportaciones Voluntarias \_\_\_\_\_ Si ( ) No ( )  
 e) Préstamos \_\_\_\_\_ Si ( ) No ( )

Por qué? \_\_\_\_\_  
 \_\_\_\_\_

43. Deposita diariamente en el banco los ingresos en efectivo? \_\_\_\_\_ Si ( ) No ( )

Por qué? \_\_\_\_\_  
 \_\_\_\_\_

44. Envía mensualmente el Estado Financiero a FACACH? \_\_\_\_\_ Si ( ) No ( )

Por qué? \_\_\_\_\_  
 \_\_\_\_\_



## SURVEY OF MEXICO

The visit to the Confederation Mexicana de Cajas Populares was less intensive than to federations in other countries. The Confederation shares in a minor way some of the same problems and functions vis-a-vis the seven Mexican State Federations that COLAC has with its members.

The Mexican Confederation is a very low key operation. Two full-time professionals, a half-time volunteer retired U.S. professional, and a secretary make up the work force. The physical facilities are minimal. After 23 years in operation, the movement in Mexico is just awakening. Only in May 1974 were the federations permitted to borrow funds from external sources. Until then only the savings of members were available for relending.

The latest data on the size and financial operations of the movement in Mexico are for November 1974 and are shown for each of the state federations in Exhibit #1. Comparison with the similar data for 1970 shows a decided reduction in number of cooperatives while increasing the number of members, the amount of savings, and the level of loans. Even so, at the present time, the movement has savings of only US\$ 5 million equivalent and \$7 million in loans to its slightly more than 46,000 members.

The Mexican federations do not request financing from COLAC. In general, they can't handle more and would consider it expensive at present rates of interest. The state federations think of COLAC as a weight on the Mexican movement, and to some extent consider their own confederation a burden. "COLAC was started with external funds and was organized with too many employees and much too much in facilities. When COLAC is self-sufficient, i.e., no longer obtains external assistance, it will be too expensive for the federations to support."

During 1975, the first year of using external funds, absorption will be minimal. The Confederation considers 5 percent in delinquency as the limit and believes the federations are within this limit.

Mexico was assigned \$15,000 to be provided COLAC as a one-time extraordinary capital pledge. The Confederation does not expect to meet this amount, suggesting that perhaps \$1,000 a year, starting in 1976, for eight years would be the maximum amount possible. There appears to be some feeling that Mexico should not be expected to help capitalize COLAC as long as it is not likely to borrow from COLAC. It will, however, continue to provide \$500 per year to COLAC in ordinary capital.

The Confederation believes the CALI criteria describes COLAC's role in serving the federations. Some skepticism was reflected in COLAC's ability to do financing, assistance, and representation all at once. The latter is considered the easiest, but since the federations use bilateral sources it indicates they do not depend on COLAC. Technical assistance is the most important of the three to Mexico. No difficulty was seen if COLAC charged for such assistance. The Confederation felt that COLAC should move to Colombia or to a Central American location, Panama not being representative of the hemisphere.

COLAC has supplied the Confederation with assistance in promotion among others and similar assistance will be sought in the future. COLAC has also supplied assistance directly to the Occidente Federation which covers the state of Jalisco. Specifically, the Confederation would welcome courses, seminars, promotion, production credit, and institutional development (planning and management), though not necessarily from the same technicians.

The Mexican movement does not provide agricultural credit. One cooperative is looking into credit for fertilizer and the Confederation plans to investigate possibilities during 1975.

Although a COLAC guarantee, as compared with a loan, was seen as a good idea, Mexican banks lend at rates in excess of 11 to 15 percent, much too high for cooperatives to utilize. Rates in Mexico could follow those in the U.S. and Mexican cooperatives would become credit subjects at rates of about 8 percent since the Confederation must lend at 9 percent by statute, the cooperatives at 12 percent, except Occidente which lends at 9 percent.

In some ways, the Mexican Confederation competes with COLAC (e.g., a new credit manual for the Credit Committees is expected to be prepared in 1975). But without professional staff, the Mexican Confederation could utilize COLAC to good advantage.

#### General Conclusions

Farmers in Mexico have several sources of subsidized credit. Without technical staff or experience in production credit, the credit union movement is not likely to be a prime borrower of COLAC, even at lower rates of interest. The movement is just beginning to awaken and COLAC could be an important catalyst while earning some additional income, even if negligible, if non-credit technical assistance is provided at cost.

CONFEDERACION MEXICANA DE CAJAS POPULARES.

Datos Estadísticos de 1974.\*

O C T U B R E

<u>Federación</u>	<u>Cajas Popul</u>		<u>Ahorros</u>	<u>Préstamos Concedidos en el año.</u>		<u>Saldo de Préstamos</u>	<u>Intereses Cobrados.</u>	<u>Reservas.</u>	<u>Otros Activos</u>
	<u>Socios</u>	<u>Cantidad Prestada</u>							
DUZACHI.	32	5,995	6'056,154	- - -	4'613,843	4'613,843	481,700	279,034	1'287,590
GUANICH.	33	6,099	11'711,230	9,599	18'087,503	11'867,831	1'102,162	390,362	1'784,704
MEXICAL.	10	2,739	3'041,698	1,620	3'833,053	3'185,934	243,797	117,551	421,917
NORESTE.	12	690	1'132,490	606	1'303,656	1'120,808	90,737	41,790	251,187
OCIDENTE.	37	14,303	21'510,295	10,546	32'414,046	23'935,009	2'003,416	967,371	4'601,016
POCUMC.	37	4,666	3'584,038	2,320	3'731,223	3'543,022	311,583	222,749	908,206
SAN LUIS - PRO.	27	8,438	12'040,482	- - -	14'721,917	12'545,251	1'163,380	435,625	1'568,888
<u>T o t a l:</u>	<u>188</u>	<u>42,930</u>	<u>59'076,387</u>	<u>24,681</u>	<u>78'705,241</u>	<u>61'528,025</u>	<u>5'396,775</u>	<u>2'451,182</u>	<u>10'826,838</u>

<u>N O V I E N B R E</u>									
DUZACHI.	32	5,961	6'401,187	4,696	5'531,860	5'977,436	561,501	289,771	1'962,363
GUANICH.	34	8,500	12'339,900	10,757	21'012,296	12'495,679	1'475,662	391,428	2'007,127
MEXICAL.	10	2,797	3'141,632	1,707	4'273,188	3'312,816	259,448	120,673	407,051
NORESTE. (+)	12	690	1'132,490	606	1'303,656	1'120,808	90,737	41,790	251,187
OCIDENTE(+)	37	14,303	21'510,295	10,546	32'414,046	23'935,009	2'003,416	967,371	4'601,016
POCUMC.	37	5,482	4'653,477	2,976	4'243,206	3'237,156	428,080	356,198	908,206
SAN LUIS - PRO.	27	8,677	12'813,572	- - -	17'223,970	12'867,346	1'377,820	446,153	2'568,159
<u>T o t a l:</u>	<u>169</u>	<u>46,110</u>	<u>61'992,553</u>	<u>31,288</u>	<u>86'002,222</u>	<u>62'946,280</u>	<u>6'163,661</u>	<u>2'613,381</u>	<u>12'706,939</u>

(+) Datos corridos de octubre.

\* Pesos shown are 12:50 = \$1.00

## SURVEY OF PANAMA

Several interviews were held with FEDPA (Panamanian Credit Union Federation) personnel during the various occasions that the team was in Panama. Interviewed were Simon Pastor G., FEDPA Manager, Blas Rodriguez, Director of Education and Extension and Antonio Richa, Director of the Finance Department. Messrs. Pastor, Rodríguez and Richa are the three key professional employees in FEDPA and are, respectively, an accountant, teacher and economist. FEDPA's management were articulate and well informed about the problems with which they deal.

FEDPA itself is housed in a very modern office which occupies the first two floors of a condominium apartment building in Panama City. The efficiently organized lay-out of the offices reflects well on the capacity of management. At the same time, the offices are a bit fancy and one wonders if this organization really represents a peasant movement. The 82 member cooperatives are evenly divided between urban and rural groups. The offices are probably considered quite proper by the standards of the urban credit union members.

The services which FEDPA offers to its members are: education/extension, financing, bonding and insurance, centralization of funds, mechanized accounting, and loan collection assistance.

FEDPA has received two A.I.D. loans for a total of \$3,900,000. Both are for relending for agricultural purposes, and both are two step loans channeled through the Government. The first loan (\$1.9 million) was granted several years ago and FEDPA experienced considerable difficulty lending it out to the credit unions. For a period of time, approximately \$900,000 was kept in government bonds. Obviously, FEDPA was not able to develop enough projects of sufficient magnitude to use the funds. Wisely, they refrained from putting their funds in poor projects even to avoid the embarrassment of having it sit in the bank.

There are few rural credit unions in Panama - just 41. With such a reduced number of groups, FEDPA must work closely and intensively with each one to develop loan demand. With a small or inefficient extension staff, the loan demand will not be stimulated.

With the new loan, FEDPA intends to overcome this problem by utilizing a corps of trained agronomists supplied by the Government of Panama. A total of 60 will be provided, but the bulk of these will be assigned to COAGRO, the agricultural cooperative federation. FEDPA may get 15-20 of these people. Job descriptions and a specification of skills of the agronomists have not yet been written. A policy for hiring, firing, supervision and control of the agronomists has not yet been agreed to by the parties. These are matters that should be attended to as soon as possible. Until these people begin working in the field, FEDPA will not have projects and loan requests towards which to respond.

Because it presently has enough capital to handle its agricultural credit requests, FEDPA will not be borrowing from COLAC for this purpose for some time. However, urban credit unions and the non-farmers in rural credit unions will require funding. It is important that this sector of the movement receive support because doing so allows FEDPA to diversify its portfolio and spread its risks and because these groups provide a pool of potential leaders and additional income for FEDPA.

FEDPA operates a combined centralization of funds and accounting system. The accounting program appears to be functioning well. However, the funds program is plagued with a serious overdraft problem. FEDPA permits its members to overdraw their checking accounts. They must first receive permission to do so and must pay 9 percent interest on the amount overdrawn.

Some credit unions, however, overdraw without prior authorization. To discourage this, FEDPA charges an additional 12 percent on the amount overdrawn. Note, however, that this measure is designed to discourage and not to prevent abuses. That the abuses do continue is testified to by the fact that one small credit union had an overdraft of almost \$25,000!

Clearly, this situation is dangerous. FEDPA has taken away the check book of the credit union referred to above, but this is somewhat like closing the barn door after the cows have gone.

Credit unions' deposits in the account totaled approximately \$100,000 at the time of our visit, and their indebtedness to the fund was \$250,000. FEDPA is using the fund as a quick loan mechanism. This may not be desirable since a credit union is analyzed more carefully when soliciting a formal loan than when soliciting an overdraft privilege. The implication is, of course, that credit may be granted when it should not.

There is an interesting legal question involved here. When a credit union treasurer uses the centralized checking account as an adjunct to the act of embezzlement, is he stealing the credit union's or FEDPA's money. Will the credit union's or FEDPA's fidelity bond cover the loss? Or will neither respond?

FEDPA collects statistics on a monthly basis from 100 percent of its affiliates who are utilizing its centralization of accounting program. These data are very replete, providing even details such as the names of delinquent individuals. This allows FEDPA to assist, and even take the lead, in the collection of outstanding loans. This is fine as a means of dealing with a dangerous problem, but tends to involve FEDPA unnecessarily in the details of the credit unions' management. Given the low number of cooperatives and members (about 21,000) and the fact that it will have to lend out an amount which approximates the entire movement's capital, FEDPA might better utilize its resources elsewhere. Straight extension work, a membership and savings promotion campaign, or agricultural development assistance, might be a more profitable investment of management's time.

Regarding COLAC, FEDPA's management expressed the following opinions:

A. COLAC is important to FEDPA's long term survival and growth. When asked what would happen if COLAC disappeared, the answer was ...

We would not stop right then, but we would be isolated.

When we got into trouble, there would be no one to help us out. "Probably our growth would diminish and we would become moribund; a faded dream, an embarrassment to those who worked to bring us this far."

- B. Cosigning COLAC's loan was seen as feasible, but also time consuming. It would probably have to be discussed in each cooperative before being brought up at a FEDPA assembly. Since a COLAC loan was a large obligation, it would have to be approved by the FEDPA assembly. The substance of the guarantee was not seen as being problematical, rather the formalities would have to be followed, and that would take time.
- C. FEDPA would be willing (indeed, pleased) to lend its people, for reasonable periods of time, to work with other federations. This had been done on two occasions in the past. CUNA/LARO used to promote the lending of technical assistance between federations, and used to maintain a roster of qualified personnel in the movement.

### Conclusions

1. FEDPA is trying to move a lot of money among few credit unions. Essentially, \$3,900,000 among the 41 rural entities. This is almost \$100,000 per cooperative and is a heavy burden. FEDPA will not be borrowing from COLAC, except for consumer purposes. FEDPA will need a great deal of assistance in managing its agronomists and developing projects. It is in COLAC's long range interest to help it in this area.
2. The centralization of funds program presents considerable danger to FEDPA. COLAC should provide technical assistance here with the intent of resolving the overdraft problem. The Honduras system presents one possible solution.
3. FEDPA's small size is a handicap. Growth in members, savings and, if possible, number of credit unions should be pursued. The development of strong, independent credit unions, able to work with minimum assistance from FEDPA should also be pursued.

### ADDITIONAL NOTES ON FEDPA

During the second visit to Panama, the Credit Analyst of FEDPA was interviewed. Like many of his counterparts in other federations, he is a recent graduate in Economics from the National University. Some additional insights into FEDPA's activities are as follows:

1. FEDPA has developed four sequential letters to be sent to delinquent members. Each is more demanding than the previous one; the last one notifies the member that legal action is being instituted against him. In each of the local areas of credit unions, individual attorneys have been employed to follow up on delinquency. They charge a straight 5 percent which is paid by the member. These attorneys are beginning to take an interest in the local credit coops. In Panama, it is considered insulting to notify the member that his loan is coming due on a particular date. Hence, members are often allowed to let their debt go unpaid for a short time before the first reminder letter is sent. FEDPA is the only federation which had data on individual members.
2. The Government of Panama provides a subsidy of 4 percent for agricultural and 3 1/2 percent for industrial loans. Private Panamanian banks charge a net 9 3/8 percent as compared with the credit unions, which charge a net of 8 percent after subsidy to farmers. To partially cover the cost of the subsidy the banks and the credit unions pay 1/2 percent to the GOP for any consumer loans made. The statutes of FEDPA and the credit unions limit the amount charged at 9 percent and 12 percent respectively.
3. FEDPA would like to see crop insurance available to farmers. Coupled with life insurance, the risks of repayment would be considerably reduced.
4. Panamanian law provides for a maximum interest paid of 6 percent by credit unions and 5 1/2 percent by banks. FEDPA would like to get this law changed to 2 percent over the banks at any rate.

## SURVEY OF PARAGUAY

The Paraguayan movement is the youngest in Latin America. Credicoop, the national credit union organization, recently received its charter and expects to vote on the question of affiliation to COLAC at its annual assembly in March of 1975. The USAID began funding the movement in 1970 and expects to continue until 1978. The movement is still quite small. At the end of 1974, it was estimated that there were 26 credit unions, 12,000 members and savings of \$850,000.

Unlike credit union movements elsewhere, this one was designed for the specific purpose of making credit available to small farmers and for increasing their real productivity. As this time, about one half of the members are farmers. Each credit union has a paid manager and a paid field man. The field man acts as an agricultural and credit extension agent from the cooperative to the farmers.

Recognizing that credit is only one of the obstacles to increasing agricultural production, AID assisted in creating UNIPACO. UNIPACO is a federation of agricultural cooperatives and its primary function is the marketing of farm products. Credit unions have channeled their members' produce through UNIPACO wherever possible.

An immediate and important problem facing Credicoop and its members is marketing. If the agricultural production programs are to be successful, there must be reasonable stability and predictability in the marketing of the products. The farmers must have some measure of effective control over the marketing of their own produce. If not, they will be at the mercy of capricious market forces.

Credicoop members are generally not represented in UNIPACO. UNIPACO's members are several large agricultural cooperatives, some larger than UNIPACO, and most already have satisfactory marketing facilities built into their own organization. UNIPACO is not, at this time, crucial to them and they have no particular need to closely supervise management. UNIPACO seems to be

having some difficulty deciding whom it will serve. It, apparently, does little business with its own affiliates, but does buy from both the credit unions and the general public. A serious financial loss last year has left it in a difficult position. Credicoop is now pressuring it to make concrete plans for this year, but it is unable to do so. Credicoop may have to make financial arrangements for marketing of its members' product for the coming year.

Progress towards the resolution of this problem could be made by the incorporation of the credit union members in UNIPACO. This could be done by the creation of parallel agricultural cooperatives wherever credit unions exist. This has been attempted and in the majority of locations, unfortunately, was not possible because of a variety of reasons. Another approach would be to have the credit unions join UNIPACO directly.

Having UNIPACO and Credicoop under common control would tend to cause them to work more harmoniously towards common objectives. The present AID Project Agreement calls for a working agreement between these two upper level organizations. (see Exhibit 1). It is conceptualized as an arrow between the two, and has never gotten any further than that conceptualization. A more effective manner of bringing this about would be to have two arrows emanating from the common membership source. (see Exhibit 2) That is, credit unions should join both organizations.

If Credicoop is unable to resolve its marketing problems so as to permit this year's agricultural credit investment, it will have to create its own marketing organization. To not do so would be to leave its loans open to too great a risk.

Another immediate and serious problem facing the credit unions is that of loan delinquency. Apparently, in the effort to get the movement started, not enough attention was paid to loan repayment. This is not uncommon, but it is serious. Credicoop management is presently placing great emphasis on this problem.

- Credicoop fieldmen, and in some cases its lawyers, are showing credit unions how to collect past due loans.

- The definition of what delinquency is, and the reporting system are being overhauled. In the future, the entire principal of any loan which is one month past due will be considered delinquent.
- Delinquency, as a percentage, will be measured in relation to the cooperative's own capital as well as in relation to the loan portfolio. In the past, it was only measured in the latter manner. The deficiency of a measurement in relation to the portfolio is that the receipt of loan capital from outside (e.g. - Credicoop or the BNF) automatically reduces the rate without affecting the delinquency.
- Bad debt reserving practices are being revised. Presently, the law requires that a loan which is three years behind be written off completely. The long delay before the arrival of the day of reckoning is unwise. Presently under study at Credicoop is a plan which would require the funding of a reserve based on a quarterly evaluation of the loan portfolio. This might work as follows:

<u>Time Delinquent</u>	<u>% of Principal to Be Reserved</u>
2 - 6 months	X%
6 - 12 months	Y%
12 - 24 months	Z%
More than 24 months	100%

The amount placed in reserve would be taken from the cooperatives earnings, and in cases where these were insufficient, from their capital. Since the credit unions are presently supporting two paid employees, capital would most likely have to be reduced. Such a system should be put into operation gradually so as not to force credit unions with good prospects over the brink in the short run.

Credicoop had not had a great deal of success generating statistical data from its members. It was suggested that this was because the demands for data were too great (34 different items at one time). Currently, the data requested has been reduced and compliance has improved. The data now generated include:

- balance sheet
- delinquency report
- loan purpose report
- membership change report

- report of number of farm members and their savings and loans. This is the minimum information which the cooperatives and Credicoop need for management purposes. (See Exhibit 3) Anything more is a considerable burden for a new and unsophisticated organization. Information wanted by outsiders can be provided by yearly surveys as is done in Honduras.

There is presently being negotiated with USAID a loan for \$3,000,000. Credicoop will re-lend these funds for agricultural purposes. Credicoop will be able to use the loan for supporting operations in the basic grains, soy beans and the like. However, they will be unable to use these funds to support the growing of cotton or tobacco. These are the two major cash crops in Paraguay, and credit unions are still obtaining financing through the Banco Nacional de Fomento.

Because of the impending AID loan, it is not reasonable to assume that Credicoop will be borrowing from COLAC for productive purposes in the immediate future. There will be some demand for consumer loan funds, but the amount is undefined. Credicoop should be able to disburse its AID loan funds within three years, perhaps two, and should become a heavy borrower from COLAC after that. Credicoop's own estimates of the loans that they will make are shown below. The figures include new money and turnover. It was not possible to determine just how optimistic this schedule is. It begins in 1976.

first 18 months. . . . .	\$3,700,000
next 18 months. . . . .	.\$7,500,000
next 24 months. . . . .	.\$9,000,000

Interest rates are high in Paraguay. Private banks lend at 18% plus a 1 1/2% tax. The BNF lends at 11% plus a 1% commission plus a 3/4% tax. Credit unions are limited by law to that sacrosanct old 12%. However, here in Paraguay, they have been more foresightful and have added commissions and service charges to get themselves up to more realistic levels. On the average, agricultural credit is made available by the credit unions at about 14% to 15%.

Because of the high interest rates at the private banks, COLAC's lending schemes which utilize the banks are not feasible for the time being.

As mentioned above, the Banco National de Fomento will be lending to the credit unions for cotton and tobacco production. It is already lending for many different purposes, but will presumably withdraw once Credicoop enters the lending field with adequate capital. Having the credit unions borrow from two sources is not desirable because, to the extent that they have alternate sources of capital available, they will be able to resist Credicoop recommendations and demands for administrative improvements. Since rural credit unions are largely peasant organizations, they lack a great deal of sophistication. One of the main tasks of a national federation is to inject professionalism into the autonomous groups which are its owners. (This is a very important difference between a cooperative federation and the usual trade or industrial organization.)

Since change involves pain, the credit unions will tend to resist demands for increased professionalism. Credicoop must have leverage to bring about needed change. The presence of the Banco National de Fomento reduces Credicoop's leverage. It would be desirable for Credicoop to negotiate with the Bank an arrangement whereby all lending to the credit unions was channeled through Credicoop.

Management and personnel of Credicoop are young, very well trained, aggressive and dedicated. They take an analytical, problem-solving approach to the problem of the development of their movement.

Exhibit 5 is the organization chart of Credicoop. The following observations are in order:

- The MAG (Ministry of Agriculture and Cattle) and the BNF people are representatives of those two institutions working inside Credicoop. They are primarily liaison people, but are also useful for their technical expertise. The BNF man, for example, transmits the opinion of Credicoop to the Bank with respect to all loans that the Bank is considering for credit unions. This appears to be a very positive and productive relationship.
- The auditing function is a one man operation and has encountered problems in the past. Since audit reports tend to have a negative tone about them, and since they came from Credicoop, the credit unions became angry with Credicoop. An attempt to "sweeten up"

the reports was not very successful. The risk of their becoming subjective and insipid was great.

It might be wise for Credicoop to get rid of this function altogether and negotiate with the Direccion del Cooperativismo (i.e., the government cooperative regulatory agency) for them to provide the audits. It should be possible to persuade the Government to provide, as a counterpart to AID's contributions, for a once a year audit of all affiliated credit unions and cooperatives. This, of course, would be done at Government expense. The Direccion would probably need some training for its auditors. Doing this would remove a small financial burden from the cooperatives, would remove an oppressive and difficult-to-manage function from Credicoop and would allow the Government to play a quasi-police function for which governments are uniquely qualified.

The discussion of COLAC with Credicoop personnel found them to be vague and confused. This may be because they are a very young organization and are not yet even affiliated to COLAC. It may be because COLAC is very young and still is not delivering many concrete services to the field.

Credicoop would like COLAC to do two things. First, provide it with lending capital, and, second, transfer successful cooperative technology from other countries to Paraguay. Specifically, they would like COLAC to help by:

- Setting up visits to other countries with ongoing, successful programs;
- Bring in people to stage courses; and
- Writing up case histories of programs attempted in different countries. Programs referred to were: centralization of funds, centralization of accounting, credit departments, marketing services, insurance services, professional managers program, promotion campaigns, auditing and agricultural production credit.

### Conclusions

1. This is a small, well managed movement with very good potential. It has a serious problem with delinquency, but has set about the task of resolving it. The prospects are good.

2. COLAC should study what is being done with delinquency here and assist the adoption of similar standards on a continent-wide basis.

3. Marketing is a key function and has not been resolved here yet. The credit unions must control their own marketing outlet, either through UNIPACO or Credicoop. "Working agreements" on organization charts will not hold up in the long run.

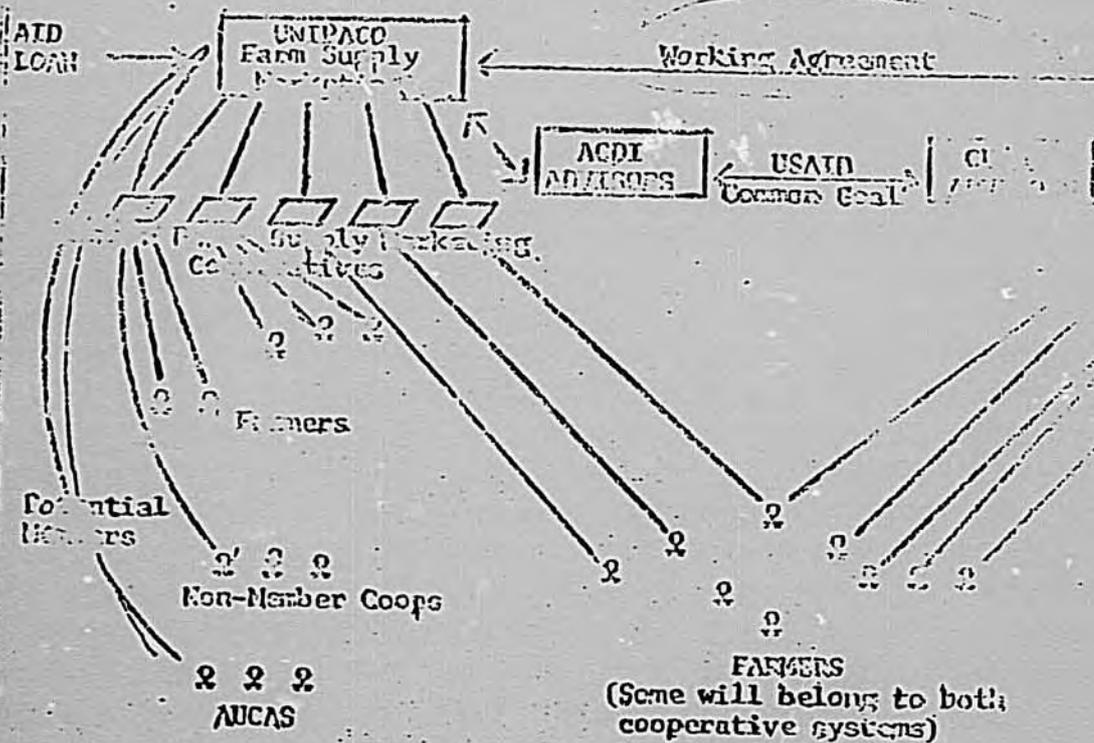
4. Credicoop will probably not be borrowing significant amounts of capital from COLAC for two to three years. Beginning then, however, it will place heavy demands on COLAC.

5. Credicoop should attempt to channel BNF loans to credit unions through itself.

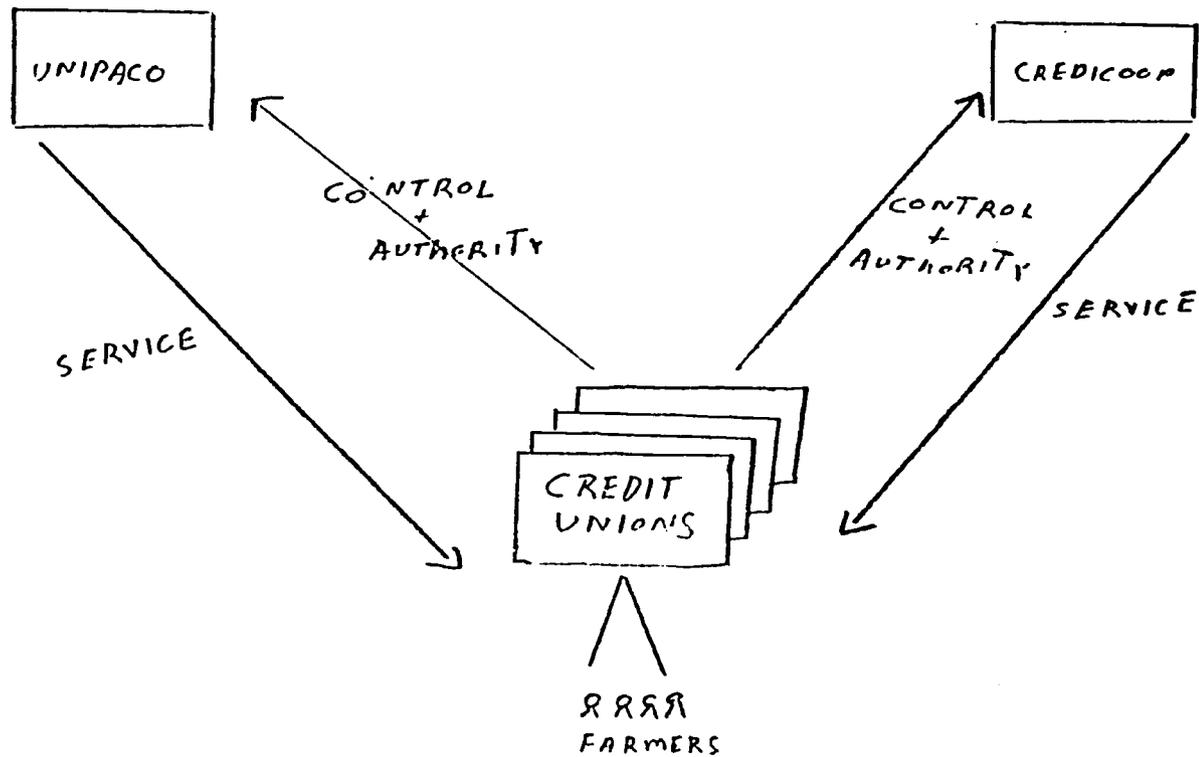
6. The auditing function should be moved to the Government cooperative agency if possible.

EXHIBIT 1

UNIPACO - CREDICOOP RELATIONSHIP



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NOTE: SERVICES PROVIDED ARE COORDINATED AT THE CREDIT UNION LEVEL, NO UNIPACO-CREDICOOP COMMUNICATION LINE OR WORKING AGREEMENT NEED BE ADDED.

**INFORME FINANCIERO MENSUAL**

**PARAGUAY**  
**EXHIBIT #3**

Mes de ..... de 19....

**COOPERATIVA DE AHORRO Y CREDITO .....**

Cuenta No.	Detalle	Operaciones del mes		Saldo del Libro Mayor	
		Db	Cr	Deudor	Acreedor
111	Caja				
112	Caja Chica				
113	Fondo de Cambio				
114	Banco Nacional de Fomento - Cta. Cte.				
121	Préstamos				
123	Intereses devengados no cobrados				
124	Socios Suscriptos				
125	Obligaciones por cobrar				
126	Cuentas por cobrar				
128	Anticipo a empleados				
131	Insumos agropecuarios				
141	Certificados de Aportación				
142	Otras Inversiones				
151	Inmuebles				
152	Muebles y Utiles				
153	Máquinas y Equipos de Oficina				
154	Vehículos				
161	Gastos de Organización				
162	Seguros pagados por adelantado				
163	Mejoras al local				
164	Impresiones de materiales				
171	Productos agrícolas en tránsito				
211	Gastos administrativos				
212	Gastos financieros				
311	Depósitos a la vista				
312	Depósitos en caja de ahorro				
313	Depósitos a plazo fijo				
314	Préstamos Banco Nacional de Fomento				
315	Otras deudas de financiamiento				
316	Obligaciones por pagar				
318	Cuentas por pagar				
319	Instituto de Previsión Social				
321	Previsión Préstamos Incobrables				
323	Provisión Gastos de Organización				
325	Provisión Aguinaldo Empleado				
331	Capital Social - Aportaciones				
332	Capital Irrepartible - Donaciones				
333	Reserva Legal				
334	Fondo Fomento Educ. Cooperativa				
335	Fondo de Amortizaciones				
341	Pérdidas y Excedentes				
351	Socios Cuenta Consignación				
441	Intereses				
412	Comisiones Cobradas				
413	Intereses Penitorios				
414	Otros Ingresos				
	<b>TOTALES</b>				

SAVINGS -

STOCK -

## DETALLE DE GASTOS

Sub-cuenta No.	Detalle	del mes	Saldo del año
211.1	Sueldos y Jornales		
.2	Aguinaldo		
.3	Bonificación Familiar		
.4	Aporte Patronal IPS		
.6	Viático y Gastos de Movilidad		
.8	Alquileres Pagados		
.9	Luz, agua, teléfono		
.10	Útiles y papelería		
.11	Primas Seguros: Aportes y Préstamos		
.12	Primas otros seguros		
.13	Auditorías, Asesoramiento		
.14	Gastos de Educación y Promoción		
.15	Conservación Bienes de Uso		
.16	Amortización Bienes de Uso		
.17	Amortización Cargos Diferidos		
.18	Gastos Varios		
212.1	Intereses Préstamos		
.2	Comisiones Préstamos		
.3	Intereses pagados a socios		
.4	Intereses, Comisiones, Otros préstamos		
<b>TOTAL DE GASTOS</b>			

**CONCILIACION  
DE CUENTAS  
INDIVIDUALES**

Cuentas	Saldos según el Mayor General	Saldos según auxiliares	Diferencias
Préstamos			
Aportaciones			
Depósitos			

**DESTINO DE LOS PRÉSTAMOS APROBADOS**

Propósito	En el mes			En el año		
	Has.	No.	Cantidad	No.	Cantidad	Has.
Cultivos						
Animales						
Aves						
Implementos						
Pña. Industria						
Veículo (Trabaj.)						
Comercio						
Personales (C.M. P.A.C.)						
<b>TOTALES</b>						

**MOROSIDAD**

Tiempo	No. Prést.	Cantidad
12 meses o más		
de 6 a 12 meses		
de 2 a 6 meses		
menos de 2 meses		
<b>TOTAL</b>		
No. total Préstamos Vigentes		
No. Préstamos Morosos		
Porcentaje en Número		%
Saldo Préstamos Vigentes	¢	
Saldo de Préstamos Morosos	¢	
Porcentaje en Valor		%

**Informaciones Adicionales**

**SOCIOS:** Ingresados en el mes ..... Retirados en el mes ..... Total de socios .....

**APORTACIONES EN EL AÑO:** Ingreso ..... Retiro ..... Ingreso neto anual .....

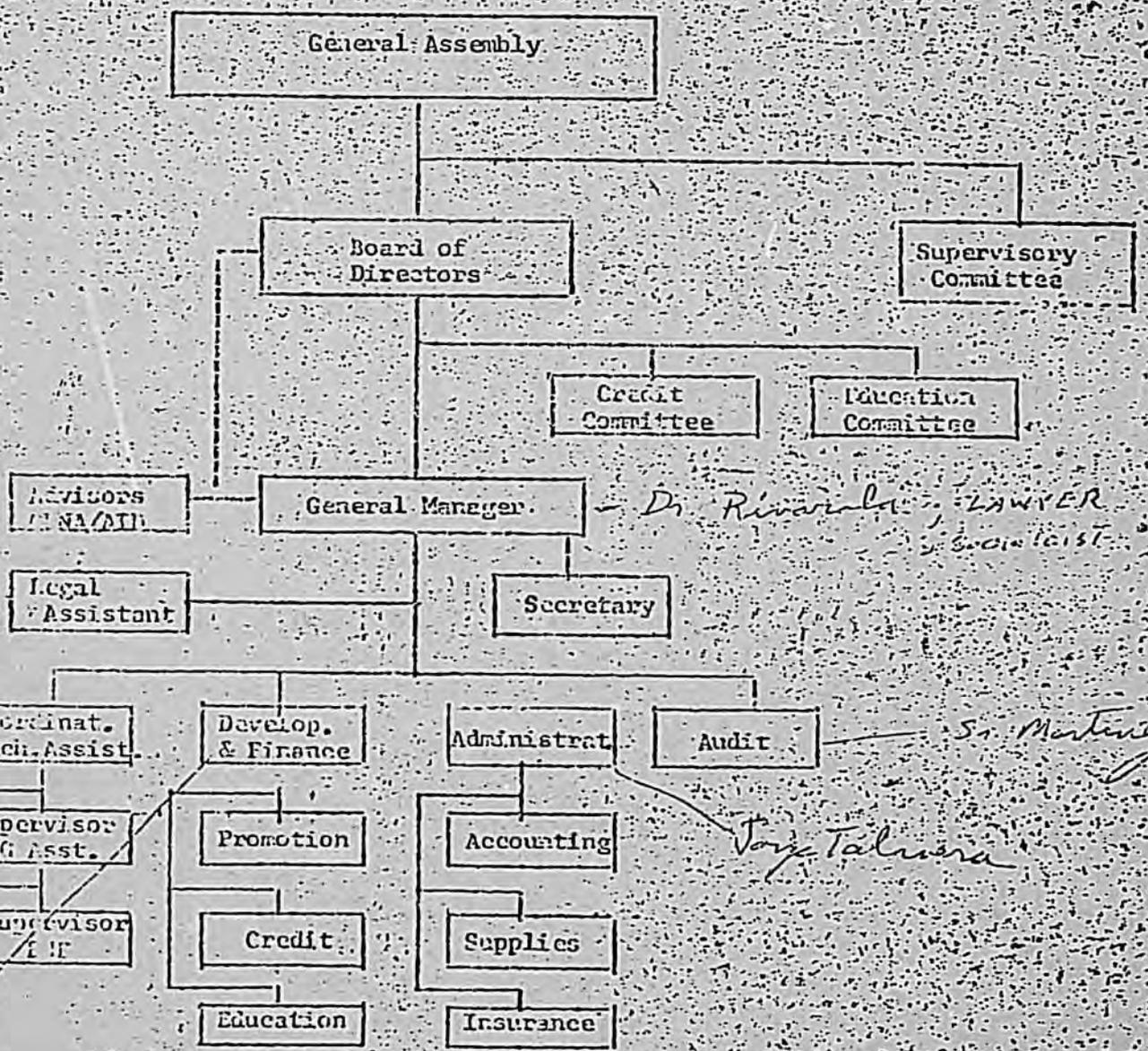
**PRÉSTAMOS CONCEDIDOS EN EL AÑO:** ..... Por ¢ ..... DESDE EL INICIO: ..... Por ¢ .....

**SOCIOS AGRICULTORES:** No. .... Saldo aportaciones ¢ ..... Saldo Préstamos ¢ .....

**OBSERVACIONES:** .....

Vo. Bo.

EXHIBIT #4  
 ORGANIZATION CHART - CREDICOOP



*Dr. Rivarola* - LAWYER  
 Socialist

*St. Martinez*

*Jorge Talavera*

*Dr. BARRIENTOS*

*Dr. Juan Pineda*  
 Socialist

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PROJECT NO. 52-110-050-2  
 ORIGINAL

PARAGUAY  
 EXHIBIT #4

## FIELD QUESTIONNAIRE

1. HISTORY OF FEDERATION
  - A. When chartered, organization chart, age and profession of staff.
  - B. Rate professionalism of Federation
  
2. HOW DOES FEDERATION RELATE TO COLAC?
  - A. Is COLAC a servant or master or both?
  - B. What function(s) does COLAC serve? What services, leadership?
  - C. What would be effect on Federation if COLAC were to disappear?
  - D. Does Federation identify with COLAC as a regional institution?  
Would Federation give blanket full faith guarantee to COLAC borrowing from U.S. Central/OPIC? Would Federation supply technicians to other Federations?
  
3. COLAC CHARGES
  - A. Would Federation pay for technical assistance and training?
  - B. Are dues schedules fair? adequate? should they reflect size, services, other?
  
4. COLAC STANDARDS, GUIDES, DEFINITIONS
  - A. What checklists or guides are available?
  - B. What are minimum criteria? How do they affect Federation activities?  
How realistic are definitions of "operational" and "satisfactory"  
Finance and Production Credit Developments?
  
5. FUNDING AVAILABILITY
  - A. Compare COLAC projected loans to Federation and actual situation (see attachment).
  - B. What bilateral and/or concessionary financing available? What funding will Federation have in long run?
  - C. What private bank funding available to Federation at particular interest rates? What is possibility of private local currency funding with COLAC dollar guarantee of 100%, 50%? What role would COLAC play in such a situation?

## 6. FEDERATION LENDING PRACTICES AND CONTROLS

- A. (1) Are good records coming in on defaulted loans?  
(2) Is there follow-up at 30-60-90 days?  
(3) Is Federation taking legal action if necessary?  
(4) Describe collection process.
- B. Does Federation use separate policies when lending COLAC money as compared with its own capital? Is it loaned to specific credit unions? How can COLAC audit down to individual credit unions?
- C. (1) What reporting problems does Federation have with credit unions?  
(2) Can they get separate data on use of loans? How much for agricultural production?  
(3) What leverage does Federation have and is it built into loan and overdraw agreements?  
(4) Does Federation or Credit Union send reports to Government?
- D. Does Federation charge for loan services - e.g., appraisals?
- E. Are different interest rates charged for different terms or risks? What does Federation think of a multi-tier system?
- F. What are the prospects for increased production credit programs? Are there any Government subsidies? How does credit union rate compare with the private bank?

## 7. AGRICULTURAL PRODUCTION AND LENDING

- A. What percent of loans are for agricultural production?
- B. What technical services are rendered?
- C. What marketing services are available? Inputs?
- D. What relation, if any, is maintained with other agricultural cooperatives?
- E. Are loans made to rural industry?

ESTIMATION OF  
FEDERATION NEW CREDIT  
DEMAND FROM  
COLAC

TIME - YEARS

	0-1½	1½-3	3-5
1. Mexico	0.5 (3)	1.125 (3)	3.4 (3)
2. Guatemala	-0-	-0-	?
3. Honduras	0.85 (2)	1.1 (2)	4.5 (2)
4. El Salvador	2.025 (2)	2.0 (2)	7.350 (2)
5. Nicaragua	-0-	-0-	?
6. Costa Rica	0.425 (1)	0.5 (3)	0.5 (3)
7. Panama	0.25 * (2)	0.3 (2)*	1.75 (2)
8. Dominican Rep.	0.8 (2)	1.0 (2)	3.2 (2)
9. Curacao	-0-	-0-	?
10. Colombia	1.5 (2)	0.85 (2)	2.525 (2)
11. Venezuela	0.5 (3)	1.125 (3)	3.4 (3)
12. Brazil	-0-	?	?
13. Ecuador	0.5 (1)	0.875 (1)	2.125 (1)
14. Perú	-0-	-0-	?
15. Bolivia	0.45 (1)	0.5 (1)	2.05 (1)
16. Paraguay	-0-	-0-	?
17. Uruguay	-0-	?	?
<b>GRAND TOTAL</b>	<b>8.750</b>	<b>9.375</b>	<b>30.800</b>
<b>Total (1)</b>	<b>1.375</b>	<b>1.375</b>	<b>4.175</b>
<b>Total (2)</b>	<b>6.375</b>	<b>5.250</b>	<b>19.325</b>
<b>Total (3)</b>	<b>1.000</b>	<b>2.750</b>	<b>7.300</b>

Note: (next page)...

Figures in US\$000,000

- (1) COLAC has loan applications for these amounts
  - (2) Estimate generated via COLAC's Survey of Member Federations only 6 surveys completed so far.
  - (3) Estimate by COLAC's Finance Department based on subjective information.
- 

REASONING TO SUPPORT LOAN ESTIMATES

- MEXICO - Recently formed regional federation will absorb small loan in first 1½ year to establish a track record. In the next time period they will absorb larger loan and additionally, other newly formed federation will take small loan to establish track records.
- VENEZUELA Newly formed centrals will behave in a manner similar to that described above.
- PANAMA Will borrow only for consumer purposes until it uses up recently approved bilateral funds
- GUATEMALA  
NICARAGUA  
PARAGUAY Loan demand totally or partially reduced bilateral funds  
COSTA RICA
- CURACAO Too small to be a subject of credit at present
- URUGUAY Pre-affiliation negotiation are now underway
- PERU  
BOLIVIA Legal and structural problem impair COLAC's ability to funnel money through to local credit union