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INTERIM REPORT

Cooperative Development Bank - BANCOOP

I. INTRODUCTION - PURPOSE OF THIS REPORT

USAID submitted the subject Project's PID to AID/W on April 6, 1977. AID/W responded in State 116565 giving tentative approval subject to the receipt of additional supporting analysis in the ABS strategy statement concerning the agricultural credit situation in Peru. The Mission sent AID/W the information requested in a PID Addendum dated June 17, 1977. The last communication received from AID/W on the BANCOOP Project was State 232243, dated September 27, 1977, which requested an Interim Report on the Project specific issues outlined in paragraph four of State 116565.

Since that time USAID has submitted a new DAP which expands the FY 79 ABS strategy statement and further elaborates on the financial constraints faced by the small, market-oriented farmer population as a result of inadequate institutional credit delivery systems 1/. In addition the Mission contracted with consultants from the Agricultural Cooperative Development International (ACDI) whose report supports the need for expanded credit and technical assistance to the "traditional sector" cooperatives who are members of the BANCOOP system. Based on the ACDI report and other project development activities since the submission of the PID and PID Addendum, USAID has developed both responses to the specific questions posed in State 116565 as well as an amplified description of the Project design. The purpose of this Interim Report is to present the information and analyses conducted to date with respect to the AID/W concerns and summarize the present Project design plans for the BANCOOP Project.

Responses to the specific issues presented in State 116565 are found in the following sections of this Interim Report:

- i) BANCOOP Institutional Capacity: Section III B;
- ii) Project Inputs: Section IV A and C;
- iii) Target Group: Section IV B; and
- iv) Loan versus Grant: Section IV A and C.

1/ Development Assistance Program, USAID/Peru, April, 1978, page 88.

II. REVIEW OF PROJECT BACKGROUND

A. Purpose

The Project's purposes are: (i) to expand credit availability for the rural poor, and (ii) to strengthen a private institution's (the National Cooperative Bank) ability to provide development banking services to the rural poor.

B. Rationale

The lack of production credit is a severe constraint on the rural poor of Peru. Institutional channels for reaching the rural poor target group are largely absent. Risks of lending to the poor are high, as are the portfolio costs of administering smaller loans. Under an existing loan signed in 1976 (Agricultural Cooperative Federations Development) A.I.D. is facilitating the flow of credit to Peru's Agrarian Reform enterprises (associative groups of farmers often termed the "revolutionary sector" which were created through the post 1968 land reform). Other donors, principally the IDB and IBRD, are reaching others in this group through credit programs with the GOP's Agrarian Bank. However, a large segment of the rural poor - including over 800,000 sierra small farmer and artisan families living in states of poverty very similar to the pre-reform era - are not members of associative enterprises and have little access to official or other institutional credit. A.I.D. believes that this group's credit needs can be met, at least partially, through an expanded program of the National Cooperative Bank (BANCOOP), since many small independent farmers and artisans belong to the "traditional sector" credit unions and agricultural service cooperatives which BANCOOP services. No other donors are providing assistance to this neglected sector which falls squarely within USAID's priority target population. The strengthening of institutional channels serving the target groups is a key element of USAID's development assistance strategy. The Project's target group includes agricultural service, credit, and artisan cooperatives representing roughly 100,000 rural families in the four proposed target areas of the sierra and ceja de selva. BANCOOP will provide these cooperatives with development banking services consisting of both credit, in the form of short-term production credit for agricultural and working capital needs and medium-term credit for varied productive activities, as well as a pilot program of technical assistance in cooperative management.

III. STATUS UPDATE

A. Recent Trends in GOP Policy Toward Cooperatives

The last decade has shown a significant growth in the membership of cooperative institutions in Peru, largely as a response to

member needs, and to government policies that have considered cooperatives as having a preferred organization for different development efforts. Through the first phase of the revolution, however, the greatest support was given to the newly created, collective-style entities established under the Agrarian Reform. In 1971 the National System of Support for Social Mobilization (SINAMOS) was created as a special agency with responsibility for stimulating the formation of cooperatives and related organizations, helping them with their management and operational problems, and for overseeing and auditing their activities. In practice, SINAMOS concentrated its attention on the agrarian reform associative enterprises, particularly in the areas of social and political training and organizational development. Meanwhile, the Agrarian Bank began its practice of channeling an increasing share of its financial resources to the same agrarian reform beneficiaries. Pre-revolution assistance directed toward the small independent landholders, grouped into "traditional" service organizations, virtually ceased. Indeed, an atmosphere of doubt as to the future of the traditional cooperative movement pervaded after the passage of a law in 1974 encouraging the development of social property enterprises. Pressure to transform cooperatives into social property enterprises was exerted on the memberships of many cooperatives (but resisted strongly by most). The process of debate and questioning of the cooperative movement continued into the second phase of the revolution (dating from August, 1975). Official statements were made that the entire legislation affecting the cooperative movement was to be rewritten. The traditional cooperative movement feared the impact of such legislation, particularly efforts to redefine their legal status.

Today there is less of an atmosphere of doubt. First of all, in January of 1978 it was announced that SINAMOS was to be dissolved within nine months and its cooperative supervisory functions to be transferred to other GOP entities. In accordance with that decision the GOP has now decided that agricultural cooperatives will be supervised and technically backstopped by the Ministry of Agriculture, the credit cooperatives by a new Office of Credit Cooperatives located in the Superintendent of Banks, the production and work cooperatives by the Ministry of Labor, the housing cooperatives by the Ministry of Housing, etc. These changes should lead to a greater technical, rather than political, focus on the part of the cooperative supervisory agencies.

Secondly, social property is no longer regarded as the sector of foremost priority, and hence is to compete with the private sector on equal terms. The conversion of cooperatives to social property enterprises is no longer actively promoted. It is no longer expected that any new cooperative legislation will adversely affect the traditional cooperative movement.

Thirdly, the GOP has also recently acted on BANCOOP's long-standing desire to become a full scale legally recognized development bank. Legal recognition is necessary not only so that BANCOOP will have all the financial powers of a commercial bank, including access to Central Bank discount windows, but will also serve to upgrade the official status of BANCOOP as a development bank exclusively servicing the cooperative sector. BANCOOP's effort to become a full scale development bank is also based on the rationale that as such it will be able to serve better the cooperative sector by creating and channeling resources between the various cooperatives it serves and provide an institutional "self-help" solution to the financial and non-financial constraints faced by these cooperatives. In pursuit of this goal, BANCOOP commissioned a study by a firm of local banking consultants to develop the administrative, economic, and legal bases necessary for the acceptance of BANCOOP as a private development bank under the supervision of the Superintendent of Banks and the policy control of the Central Bank. On July 4, 1978, the GOP promulgated Decree Law 22228, which permits the incorporation of private cooperative development banks as an exception to a previous decree which prohibited the incorporation of any new private development banks under cooperative organization. Such action by the GOP is interpreted as being official clearance that BANCOOP may become the private financial institution for serving the traditional sector cooperatives.

Even though the policy environment is now more favorable toward the growth of the traditional cooperative institutions, financing remains a constraint. Given the present national financial crisis it is not probable that special government attention will be paid to the traditional cooperative sector because of its relatively low political profile in comparison with that of the reformed sector cooperatives. The importance of the latter - both politically and economically - was made clear again during the celebration of the Land Reform Law Anniversary on June 24 when President Morales Bermúdez emphasized the Land Reform as an important accomplishment of the Revolutionary Government, that needs to move into a stage of consolidation to take full advantage of the country's agricultural potential. From this and other recent statements, it may be deduced that, for at least the period that the military government stays in power, the revolutionary cooperative sector will continue to receive the lion's share of GOP financing available through the state-owned Agrarian Bank, thereby denying many individual small farmers and their service organizations access to institutionalized credit.

Accordingly, BANCOOP, a private bank, can play a key role in filling this gap. The Mission is convinced that institutional channels capable of delivering benefits to the rural poor need to

be strengthened. A.I.D. support of BANCOOP in its efforts to be a full scale development bank will enable BANCOOP to expand operations in the Peruvian sierra and ceja de selva.

The Mission feels that the cooperative legal situation is well enough defined now to proceed with the Project. Traditional sector cooperatives will be under the supervision of various GOP entities. However, this supervision will not adversely affect their legal or economic status. BANCOOP, as a new private development bank serving the cooperative sector, can play an important role in channeling technical and financial resources to these neglected cooperatives.

B. BANCOOP as the Implementing Institution

Recent Growth

Since the development of the PID, BANCOOP has continued to demonstrate a high growth rate. It has incorporated another 167 cooperatives into its system bringing the total number of BANCOOP participating cooperatives to 524 and making it the largest cooperative-integrating institution in Peru. In the Project's initial four sierra target areas of Junín, Cuzco-Arequipa, Cajamarca-La Libertad, and Huánuco-Tingo María, BANCOOP presently has 95 participating cooperatives out of a total target area population of 652 cooperatives. These cooperatives are serviced by field agents from BANCOOP's Lima Office and two branch offices located in Trujillo and Arequipa. In addition, plans have been approved for the immediate opening of a branch office in Huancaayo to be followed shortly by the opening of a branch office in Cuzco.

In financial terms BANCOOP has also performed well, even in light of the current Peruvian economic crisis. BANCOOP's total assets of \$2.1 million and deposits of \$650,000 represent increases in current terms of 124% and 252% respectively for these items during the last 29 months. Furthermore net income for 1978 has already more than tripled the 1977 figure. The significant growth in deposits is attributable chiefly to BANCOOP's aggressive marketing strategy and improved relations with cooperative member communities. The problem identified in the PID of a strained relationship between BANCOOP and certain cooperatives has ceased to be significant.

Another BANCOOP innovation is its contractual agreement with the Banco Popular which establishes a correspondent relationship for the purpose of facilitating a check-cashing operation for checks drawn on BANCOOP accounts. This correspondent relationship has greatly expanded BANCOOP's outreach capability, as the Banco Popular maintains 164 offices throughout the country.

BANCOOP has also increased its services to member cooperatives and their members. In addition to the checking arrangement with the Banco Popular, BANCOOP has also initiated a series of technical assistance programs for member cooperatives by sending staff teams to rural areas for the purpose of conducting seminars on cooperative administration, accounting procedures, and interest rate policies. BANCOOP staff personnel and branch officers work closely with local cooperative administrators in credit analysis and the promotion of savings campaigns. In attempts to encourage more deposits BANCOOP maintains a policy of paying 1/2 of one percent more than the commercial bank interest rate and has recently initiated a program of afternoon banking hours to provide better service to its clientele.

2. Institutional Weaknesses

BANCOOP's institutional capacity is considered adequate for the amount and types of services it presently renders, but with plans to be a development bank servicing rural cooperatives it must immediately start to upgrade systems and the training of its staff to the levels required by such an operation. A heavy program of technical assistance to BANCOOP's management, staff, and selected cooperative member administrators needs to be implemented. The management audit performed by the ACDI consultants identified weaknesses and made recommendations for improvement at all levels of the BANCOOP organization. The BANCOOP Board of Directors, who have seen the results of the ACDI audit and concur with its recommendations, have already begun to implement some recommendations which are feasible without outside assistance. The remaining recommendations of the ACDI report which will be dependent upon external assistance will be built into the Project design and implemented under the proposed Project's technical assistance component. These include the hiring of additional personnel and full staffing of the new branch offices, the development of organizational, operational and credit manuals, the creation of a technical assistance department, and training of staff.

IV. PROJECT DESIGN PLANS

A. Implementation

1. BANCOOP Requirements

A.I.D. Project inputs will consist of two basic elements: a loan for the credit fund to be disbursed on a two-step basis through the Central Bank and a grant for the technical assistance component which will be disbursed directly to BANCOOP. While both elements are to be treated as distinct and separate for disbursement purposes they will not be treated as such in terms of the Project's Implementation Plan. Both the credit and technical assistance programs are interdependent components and will be managed as such during the course of Project Implementation. With respect to the credit fund, an A.I.D. Loan of \$5.0 million will be made available for disbursement over a five year period. It is expected that it will be channeled through the Central Bank's newly created Special Implementation Unit (under Loan 527-T-060). The Central Bank in turn will relend in soles to BANCOOP, thereby relieving BANCOOP of the exchange risk. Discussions are currently being held with the staff of the Central Bank to verify their willingness to assume this responsibility, and to set up operating procedures and interest rate policies for the BANCOOP Project. As an alternative to this arrangement, a direct loan to BANCOOP with a GOP guarantee would be sought.

The \$5.0 million loan amount is above what was originally requested in the PID, although included in the FY80 ABS, because of the high demand for credit encountered by the ACDI consultants as well as their favorable conclusions regarding BANCOOP's capacity to administer a program of this magnitude if supported by a technical assistance program. The Mission concurs with the ACDI in their recommendation that a concentrated technical assistance program should be undertaken in the early phases of the implementation of the Project. As a result of the recommendations made by ACDI for TA inputs, the Mission is suggesting a technical assistance grant component of \$650,000 to be disbursed over a three year period. USAID's decision to request grant-funded technical assistance is in response to paragraph 4-E of State 116565. It is based on the rationale that: (i) technical assistance is an expensive proposition for an organization during its early growth stages (especially in view of the rapid devaluation of the sol vis-a-vis the dollar over the last year); and (ii) a grant-funded component will allow the Project to attract a higher caliber of technical assistance in development banking.

2. Linkages Between BANCOOP and Member Cooperatives

a. Credit

During the early stages of the Project BANCOOP will primarily seek to expand short-term working capital and later will make medium-term financing available to the rural credit and agrarian service cooperatives (CAS). To reach the target group of small farmers two models of operation, which were suggested by ACDI, are being studied for possible utilization either separately or in combination under the Project.

Model I

This model proposes reaching small farmers through a joint effort of the credit cooperatives and CAS. Farmers would receive credit from the credit unions (CU) to finance agricultural production activities. Subloans would be made to the CAS for improving their marketing services of both agricultural inputs and sales of member crop production which would be handled on a base price payment/consignment basis. Once the marketing process is finished, the CAS, based on sales revenue and marketing costs, could pay farmers the balance of the sales income. If practical the CAS could directly credit the farmer's loan account at his credit union, thereby facilitating the latter's collection system. With the crops sold and farmers experiencing high liquidity, the CU would have savings options available for the farmers to earn interest on their incomes in varying amounts and periods, depending on the different cropping patterns which usually require cash flows spread throughout the crop cycle. This savings option is important for farmers during an inflationary period, because it will, to an extent, help farmers maintain the purchasing power of their working capital and incomes. In addition, the temporary use of farmer savings by CU will help expand and improve their operations by allowing them to render more service to other members needing short term credit. An attractive feature of this model is that it will incorporate a substantial number of small farmers into the financial system who do not already presently belong to a CU and also improve the utilization of their incomes. In addition it will foster the institutionalization of cooperative specialization which is important because credit unions should ideally specialize in credit operations, whereas agricultural service cooperatives should concentrate on input provision and marketing services for small farmers and not be required to deal in the crop financing of members, a situation which could lead to accounts receivable problems.

Under this model, specialized TA to cooperatives will be a necessary aspect of Project Implementation. The principal problem which could be encountered in utilizing this model lies in the coordination effort between the two types of cooperatives. Farmers would

need to belong to, and participate in, both the credit and CAS organizations. BANCOOP, through the technical assistance activities, would have to promote and facilitate this arrangement. The feasibility of this approach, and its applicability in the target regions, will be studied during the intensive review.

Model II

The main difference between this model and the previous one is that all efforts to assist the small farmer would be accomplished through the CAS. This model represents BANCOOP's current practice in loaning for agricultural production, but requires the CAS to perform both credit and marketing functions which has created difficulties for some of the CAS. The CAS provides inputs to the farmers (which normally includes financing until harvest time), and as in Model I, performs the marketing services for the member farmers' output. The cooperative is required to perform the credit management aspect of the operation and should organize it as a separate operation. The principal advantages of this model are that it may be somewhat easier to implement because of the lack of a need for inter-institutional coordination (CU-CAS), and that CAS members would be able to perform all of their activities with one institution. The disadvantage of this model is that in order to function properly it requires a longer and more complex institution-building process for the CAS. Separation of the credit management operation from the supplying of the physical inputs is often necessary to prevent the cooperative's incurring a high level of bad debts due to a general lack of concern for adequate credit analysis by those involved in the sales operation.

b. Technical Assistance

The technical assistance to be given cooperatives which receive sub-loans from BANCOOP as part of the Project will be of a similar nature to the technical assistance in accounting, finance, and management which is to be given to BANCOOP. Each individual TA program will be adjusted to the type of cooperative involved and the kinds of activities to be financed. However, in general, the proposed TA program will focus on the cooperative leadership level (Board of Directors, Supervisory Committee), on the cooperative executive level, and on key administrative personnel. For the purpose of providing this TA, BANCOOP will establish a Technical Assistance Department to concentrate in two key areas: Finance and Accounting, and Organization and Management. In accordance with the proposed implementation strategy of the Project, BANCOOP will make an analysis of existing cooperatives in each of the target areas before disbursing credit. This analysis will be a joint effort by the Bank's Branch Offices and the BANCOOP Technical Assistance Department, the latter of which will later be responsible for implementing any assistance given.

The task will start with an institutional analysis of potential participating cooperatives examining the different sets of relationships existing within the cooperative and how they affect performance of the cooperative. Recommendations for improvement will follow from the analysis. Examples of the different sets of relationships which would be analyzed are: Board-Membership; Board-Management; Management-Membership; and Management-Local Community.

In addition the cooperative's internal operating procedures and policies will be evaluated for their adequacy with respect to the different types of activities performed. Next, a thorough financial analysis of the cooperative will be performed to determine both the cooperative's financial status and the effectiveness of the cooperative's cost accounting system, which is commonly one of the weakest areas. If the cooperative has any sub-projects which require credit, they will be appraised, taking into consideration the impact they will have on the cooperative, and what special provisions need to become part of the implementation process.

From the above analysis a decision will be made with respect to the cooperative's ability to participate immediately in credit operations, or whether technical assistance is required before receiving credit. Assuming the latter will be the most frequent case, an administrative upgrading program for all participating cooperatives in the target areas who need assistance will be developed. Once specific goals have been reached in this improvement process, sub-loan disbursements will be made, with a strong program monitoring system.

B. Target Group

1. Credit and Agrarian Cooperatives in Peru

Over 1.68 million persons, representing 10% of the country's population, belong to some form of cooperative in Peru (see Annex I). The majority, or 1.26 million persons, belong to credit cooperatives. The agrarian coops form the second largest group of approximately 135,000 persons. Credit cooperatives are easily the most important movement as over 75% of the country's cooperative population belong to one of the 532 credit coops. Their fast growing membership more than tripled between 1970 and 1977 (from 375,342 to 1,269,842) with little variation in the number of credit coops. In 1976 total credit coops' savings represented 12.41% of the formal financial market despite the fact that an estimated 66% of their members earn a monthly income of less than S/.10,000 (\$53). The credit cooperatives thus represent an important financial institution for people whose credit needs are too small for most commercial banks to administer economically. They can collect the sporadic savings of their membership and administer many small loans.

In terms of cooperative growth the Agrarian sector has increased almost five times (from 194 to 939 coops) between 1968 and 1977 while their membership increased approximately six times from 22,667 to 135,558. The distribution of the different types of coops within this sector is presented in Anex II and indicates that the GOP-promoted revolutionary sector represents the majority of these cooperatives. The traditional sector Agrarian Service Cooperatives (CAS) represent roughly one-third of the total number of agrarian sector cooperatives and consist principally of small farmers who individually own the land they cultivate. In the sierra most (70%) of the members of these cooperatives each hold and cultivate less than ten hectares of land whereas in the 'ceja de selva' (high jungle) farm sizes are somewhat larger but are nevertheless still small for the kinds of farming operations typical to that area. In much of the sierra, the average farm size decreases to plots not larger than three hectares -- a minifundia structure that clearly limits the income potential of the owners except where the land is worked intensively and efficiently. Based on production costs for such sierra crops as potatoes, corn and cereals, average short-term production financing requirement per small farmer is estimated to be on the order of \$300.

2. Target Cooperatives and Areas

It is presently planned that the Project will initially concentrate on four areas: Junín, Huánuco-Tingo María, Cajamarca-La Libertad, and the Southern Sierra areas of Cuzco-Arequipa. The Mission's rationale for the selection of the four proposed initial Project areas is based on three factors. First, all of the areas are located in either sierra or ceja de selva departments or inland sierra areas of coastal departments; thus, the Project's geographical focus is consistent with USAID's DAP strategy of concentrating assistance in sierra and ceja de selva areas. Second, each of the four areas are located within a working distance of one of the existing or planned BANCOOP Branch Offices (Arequipa, Cuzco, Trujillo and Huancayo). And finally, all four of the proposed areas have been visited by the ACDI experts and Mission personnel and exhibit a predominance of the Project's principal target group of CAS and rural credit cooperatives. Furthermore, it bears mention that the possibility of including a pilot program under the Project for a group of pueblo joven credit cooperatives is being considered -- something which could also be easily facilitated by the BANCOOP Trujillo Branch Office. A future project expansion area may include the Tarapoto region, depending on the growth of credit unions and service cooperatives in that area. In the four initial target areas there are a total of 652 cooperatives, the majority of which are CAS cooperatives. The Project proposes to assist predominantly the CAS and credit cooperatives and possibly the artisan production cooperatives. In the four target areas there are 167 CAS coops, 82 credit coops, and 29 artisan production coops -- a total of 278 cooperatives with almost 269,000 socios (see Table 1). Of this total 95 are presently members of the BANCOOP system.

TABLE 1

Population of Project Target Cooperatives

	<u>Production Coops/Members</u>	<u>Credit Coops/Members</u>	<u>CAS Coops/Members</u>	<u>Total Coops/Members</u>	<u>BANCOOP Coops</u>
Southern Sierra	12/700	33/78,800 <u>1/</u>	44/3,800	89/93,000	40
Junin	3/300	14/33,400 <u>1/</u>	30/27,000	47/60,700	18
Cajamarca-La Libertad	14/800	28/66,800 <u>1/</u>	75/11,250	117/78,850	26
Huánuco-Tingo María	<u>-</u>	<u>7/30,000</u>	<u>18/6,000</u>	<u>25/36,000</u>	<u>11</u>
TOTAL	<u>29/1,800</u>	<u>82/209,000</u>	<u>167/58,050</u>	<u>278/268,850</u>	<u>95</u>

1/ Member population calculation based on 1977 national average of 2,387 persons per credit cooperative and rounded.

As the Project proposes to finance only those sub-projects of a productive nature (by farmers, artisans, and entrepreneurs) and not consumption loans by the credit coops a further differentiation is required. During field visits with coop leaders it was estimated that, on the average, 20% of the credit coops' members are small farmers. Assuming that an additional 10% of the credit coops' members are artisans, small entrepreneurs, or other persons with potentially productive projects, and all of the CAS and production coop members are included, the following estimation of the total universe of the Project's target group can be made:

Artisan Production Coops at 100%	=	1,800	
CAS Coops at 100%	=	58,050	
Credit Coops			
20% small farmers	=	41,800	
10% artisans, small entrepreneurs	=	20,900	
		<u>122,550</u>	members

The above calculation does not include a factor for double counting (e.g. small farmers who may be members of both credit and CAS coops or artisan production coop members who also belong to a credit coop). A fair assumption may be made that one half of the small farmers who are members of credit coops are also members of CAS cooperatives (or 20,900) with the same 50% factor applied to the 1,800 socios of the production coops. The total factor for double counting totals 21,800 persons and would reduce the estimated number of potential beneficiaries to 100,750 persons.

A preliminary demand survey by the ACDI consultants indicated that the credit requirements of these 100,000 cooperative members would be approximately \$25 million (see Table 2). While it is clear that a joint A.I.D.-BANCOOP credit fund of \$5.5 million will not be able to benefit all of these 100,000 families, it is felt that it will be able to benefit over 18,000 members based on an average of \$300 per sub-loan on the first roll-over of the credit fund. This number represents almost one-fifth of the total target group and is much larger if the effect of families is taken into consideration, bringing the entire number of persons which will benefit from the Project to over 90,000 people (assuming five people per family).

Results of field trips made to all four target areas have led to the following additional observations concerning the target group:

1. Practically all CAS and artisan production coop members fit within the USAID target groups defined in the DAP. In addition it is estimated that at least 30% of credit union coop members are either small farmers or artisans who also form part of the USAID target group.

TABLE 2

ACDI Estimates Of

Initial Credit Requirements In The Four Proposed Project Areas

(In US.\$000)

Cooperative Sector

	<u>Artisan Production</u>	<u>Credit</u>	<u>CAS</u>	<u>Total by Area</u>
1. Southern Sierra	0.12	3.50	3.80	7.42
2. Junin	0.02	1.87	8.93	10.82
3. Cajamarca - La Libertad	0.10	1.40	3.10	4.60
4. Huánuco - Tingo María	<u>-</u>	<u>1.60</u>	<u>1.10</u>	<u>2.70</u>
Total By Sector	\$0.24	\$8.37	\$16.93	<u>\$25.54</u> =====

2. CAS cooperatives especially are suffering from a lack of financial and non-financial resources. Complaints were often heard from members of these cooperatives about the Agrarian Bank's incapacity or disinterest in serving their needs. Technical assistance to improve cooperative management is also needed.

3. Nearly all of the CAS cooperatives were able to present ideas for potential agricultural projects but many were incapable of performing the feasibility studies required for determining the economic merit of the projects presented. BANCOOP will have to offer technical assistance in this area.

C. Project Inputs/Financial Plan

1. Inputs

A.I.D.

A.I.D. will provide a \$5.0 million loan to capitalize a credit fund for expanding credit availability among the target group for productive purposes. In addition a grant of \$650,000 is requested to provide technical assistance, data control equipment, and foreign technical training for BANCOOP during the first three years of the Project, as well as providing some budget support for BANCOOP until it is able to generate sufficient income to pay for its increased overhead costs. The technical assistance component will provide for a long-term project manager plus 30 person months of short term TA in accounting, financial management, credit analysis, resource mobilization, and systems design. Also to be financed under the A.I.D. technical assistance component will be 100 person months of local TA primarily directed at the cooperative level plus local and foreign training in cooperative development and banking operations for the BANCOOP staff. For the purpose of installing the necessary management information system required for the monitoring of credit operations, the grant will also finance the acquisition and initial maintenance of some data control equipment.

BANCOOP

BANCOOP will fund \$500,000 of the credit fund and \$650,000 in institutional support activities and technical assistance. The BANCOOP technical assistance component will consist of 200 person months of local technical assistance to cooperative members in management, accounting, and feasibility study preparation. Included under institutional support are the costs of the new rural branch offices, equipment, and administration.

Participating Cooperatives

It is expected that the Project will observe a financial policy of maintaining a 1:5 ratio between deposits required and sub-loans made from the Project's credit fund. Based on a joint A.I.D.-BANCOOP capitalized credit fund of \$5.5 million, such policy translates into a \$1.1 million cooperative contribution to the Project.

GOP

The major GOP contribution for the Project will be the guarantee of the A.I.D. Loan which constitutes a significant element during the current period of devaluation. USAID is also discussing other possible GOP inputs for the Project with the Central Bank and the Ministry of Economy and Finance. At a minimum the GOP will contribute some administrative support but a minor financial contribution by the Ministry of Economy and Finance toward the Project is possible.

2. Tentative Financial Plan
(in US \$000)

	<u>A.I.D.</u>	<u>Counterpart</u>			
	<u>Loan</u>	<u>Grant</u>	<u>BANCOOP</u>	<u>Coops</u>	<u>TOTAL</u>
I. Credit Fund	5,000		500	1,100	6,600
II. <u>Technical Assistance</u>					
1. Project Manager (2 yrs)		130			130
2. Foreign Consultants (30 pm)		210			210
3. Local Consultants (300 pm)		75	150		225
4. Local Training		35			35
5. Training Seminars Abroad		40			40
		<u>490</u>	<u>150</u>		<u>640</u>
III. <u>Institutional Support</u>					
1. General		100	500		600
- Administration					
- Regional Offices					
- Office Equipment					
- Miscellaneous					
2. Data Control Equipment		40			40
		<u>140</u>	<u>500</u>		<u>640</u>
IV. Contingencies		20	50		70
	<u>5,000</u>	<u>650</u>	<u>1,200</u>	<u>1,100</u>	<u>7,950</u>
	63%	8%	15%	14%	
	71%		29%		100%

V. SUMMARY

A. Conclusions About the Project

BANCOOP appears to be the appropriate vehicle for accomplishing the task of expanding credit to the rural poor because of its wide contact with the target group, demonstrated growth as an efficient institution, and willingness to institutionalize the required organizational changes necessary for Project success. Although the Agrarian Bank may work in cooperation with BANCOOP on the Project, its primary focus in cooperative lending is on the reformed sector cooperatives for which purpose it has received A.I.D. Loan No. 527-T-058, Agricultural Cooperative Federations Development, as well as other donor assistance. The Project's dual purpose of expanding credit availability for the rural poor and strengthening a private institution's ability to provide development banking services will be achieved through the incorporation of BANCOOP as a development bank and the input of the A.I.D. credit fund and technical assistance.

B. Project Issues/Elements to be Resolved

In addition to the standard administrative, financial, economic and social feasibility analyses, the following items will be studied during the development of the Project Paper:

1. BANCOOP's Application to Become a Development Bank

The study which will form the basis of an application for the official transformation of BANCOOP into a development Bank should be completed in late August. USAID will receive a copy of the study, analyze any adverse conclusions, and monitor BANCOOP's application with the Superintendent of Banks.

2. GOP Contribution

USAID will continue discussions with the Ministry of Finance and the Central Bank on this matter to ascertain the manner in which the GOP will assume the exchange risk for the loan.

3. Guarantee Fund

During further Project development activities the concept of utilizing Project credit fund reflows to finance a high risk guarantee fund for sub-loans made to the most marginal beneficiaries will be reviewed.

4. Pueblo Joven Program

The possibility and merit of incorporating a few urban pueblo joven production cooperatives under the Project will be analyzed.

5. Relationship to other USAID Projects

The relationship of the BANCOOP Project as a credit delivery system to other input delivery systems will be examined. Specifically there exists an opportunity for having such proposed FY80 projects as the Agriculture Research Extension and Small Farmer Organizations Projects mutually support the BANCOOP Project.

C. Project Paper Development

USAID and BANCOOP management will undertake further study and development of the Project. This will include the completion of the GOP-required study proving the economic viability of BANCOOP as a development bank, a thorough financial analysis of the Project, and complete economic and social analyses of the Project's impact.

For the purpose of performing the Project's technical analysis, two contract TDY assistance personnel will begin work in late August. One will analyze the status of BANCOOP's credit cooperatives while the other will analyze the CAS cooperatives. Both will work in developing a strategy for implementing an institutional relationship between these two types of cooperatives. A social analysis is expected to be performed under a PSC contract in late August and will provide a more detailed description of the target group. The Project's economic and financial analyses will be performed during September by personnel from USAID's Office of Development Resources.

It is expected that the Project Paper will be submitted to AID/W during the first quarter of FY79.

ANNEX I

GROWTH AND EXPANSION OF THE COOPERATIVE MOVEMENT IN PERU BETWEEN 1968 AND 1977

IN NUMBER OF ORGANIZATIONS AND MEMBERS

	<u>1968</u>	<u>1971</u>	<u>1974</u>	<u>1977</u>
Credit				
Organization	435	524	525	532
Members	363,199	463,627	736,117	1,269,849
Agrarian				
Organization	194	350	759	939
Members	22,667	65,506	123,006	135,558
Community				
Organization	---	29	53	---
Members	---	2,006	7,402	---
Consumer				
Organization	121	150	144	133
Members	56,706	50,050	79,631	79,787
Student				
Organization	---	---	2	--- (a)
Members	---	---	437	---
Fishing				
Organization	---	16	28	23
Members	---	480	1,817	1,346
Artisan				
Organization	26	77	138	137
Members	1,296	3,121	7,783	7,762

	<u>1968</u>	<u>1971</u>	<u>1974</u>	<u>1977</u>
Service				
Organization	44	84	191	230
Members	9,677	25,987	143,395	103,945
Housing				
Organization	292	398	420	430
Members	48,948	48,878	66,561	69,619
Transport				
Organization	---	76	81	69
Members	---	13,541	9,693	7,564
Education				
Organization	---	---	---	13 (a)
Members	---	---	---	5,664
TOTAL				
Organization	1,184	1,704	2,341	2,506
Members	502,493	673,196	1,175,842	1,681,094

Source: OEIS (Dirección de Organizaciones Económicas de Interés Social - SINAMOS) and the Directory of Cooperatives, December 31, 1977

(a) Student cooperatives were merged into Education Cooperatives in 1977

ANNEX II

TYPES OF AGRICULTURAL COOPERATIVES

ZONE	Agricultural Production Cooperatives (CAP)	Agricultural Service Cooperatives (CAS)	Communal Cooperatives (CC)	Cooperative Centrals	Smallholding Integration Cooperatives (CAIP)
I. Piura	96	23	18	7	-
II. Lambayeque	91	24	1	4	1
III. Trujillo	35	51	1	5	3
IV. Lima	77	44	4	5	-
V. Ica	65	18	-	4	-
VI. Arequipa- Tacna	10	46	-	3	-
VII. Iquitos- Tarapoto	23	23	-	1	-
VIII. Huancayo	45	30	19	7	1
IX. Cuzco-Puno	64	33	5	5	1
X. Ayacucho	33	8	3	2	-
TOTAL:	539	300	51	43	6

SOURCE: BANCOOP - SINAMOS - Ministry of Agriculture

TOTAL: 939 Cooperatives

ANNEX III

SYNOPSIS OF VISITED COOPERATIVES

I. Junin

1. Cooperative : Margen Derecha al Mantaro
Activity : Marketing Inputs and Agricultural Produce
Size : 649 members
Observations :
 - a. The average landholding per member is around five hectares.
 - b. The cooperative has been able to obtain only short term credit from the Agrarian Bank for purchasing fertilizer.
 - c. The cooperative has an agricultural project that would require about \$500,000 in financing.

2. Cooperative : Ganaderos del Centro
Activity : Cattle
Size : 150 members
Observations :
 - a. Eighty of the 150 members are comunidades indigenas with large populations.
 - b. Not counting the comunidades indigenas, the cooperative's members have an average landholding of 25 hectares each.
 - c. The cooperative's estimated financial requirements are \$100,000.

3. Cooperative : Mercado Catalina Huanca
Activity : Marketing
Size : 850 members
Observations : a. Members are small agricultural merchants.
b. The cooperative has a project to build a new market place in Huancayo which would incorporate other CAS cooperatives.
c. Estimated financial requirements are \$150,000.

4. Cooperative : Protectora
Activity : Credit
Size : 10,000 active members
Observation : Made over \$600,000 in loans during 1977. Approximately 2,000 small farmers are part of the active membership.

II. Southern Sierra

1. Cooperative : El Cural
Activity : Irrigation
Size : 800 members
Observations : a. Each member has a 2 1/2 hectare lot.
b. The cooperative has not had access to institutional credit but nevertheless has put 1,750 hectares into production from its internal resources. Financing is required to intensify production.

2. Cooperative : Pachacútec (Fongrapa)
Activity : Fowl and Swine Production
Size : 50 members
Observations : a. Average land size is 0.20 hectares per member.
b. Credit requirements are estimated to be approximately \$200 per member.
3. Cooperative : El Copal
Activity : Garment Production
Size : 25 members
Observations : a. The cooperative has total assets of \$16,000 with credit requirements of about \$6,500 for working capital purposes.
b. The cooperative appears to be in need of management technical assistance.
c. The cooperative is located in a pueblo joven district of Arequipa.
4. Cooperative : El Misti
Activity : Wool Production
Size : 23 members
Observations : a. The cooperative is located in a pueblo joven district of Arequipa.
b. The cooperative needs working capital and management technical assistance.

5. Cooperative : Fondo de Fomento Ganadero
Del Sur
- Activity : Milk Production
- Size : 7,000 members
- Observations : a. Eighty percent of the cooperative's
7,000 members are small farmers who
own between 3 and 7 dairy cows.
- b. The cooperative has a strong demand
for credit (both short and medium
term). The cooperative's credit needs
will not be entirely met with the
BANCOOP Project - the Agrarian Bank
will be made aware of this.
6. Cooperative : Valle de Lares
- Activity : Commercialization of Coffee
- Size : 1,530 members
- Observations : a. The cooperative is diversifying
into transport services.
- b. The cooperative serves farmers
located in Lares, Lacco and
Occobamba.
7. Cooperative : San José
- Activity : Credit
- Size : 5,200 active members
- Observations : a. About 1,550 of the cooperative's
members are small farmers.
- b. Average loan size for agricultural
loans is approximately \$400.
8. Cooperative : Textil Estrella
- Activity : Wool Textiles
- Size : 110 members
- Observation : Sales in 1977 grossed about \$260,000.

III. Cajamarca

1. Cooperative : Agricultores y Ganaderos de Cajamarca
Activity : Milk and Cheese Production
Size : 1,400 members
Observations : a. Over 60% of the cooperative's members own two cows or less, while 90% own less than six cows.
b. The majority of the cooperative's members own less than 2 hectares of land.
2. Cooperative : San José
Activity : Credit
Size : 427 members
Observation : Approximately 15% of the active members are small farmers owning between 2 and 5 hectares of land.
3. Cooperative : San Pio X
Activity : Credit
Size : 14,600 active members
Observations : a. Average loan size is around \$135.
b. Approximately 3,500 members are small farmers or artisans.

IV. Huánuco - Tingo María

1. Cooperative : Tingo María Ltda.
Activity : Credit
Size : 4,000 active members
Observations : a. The cooperative reported that 104 loans averaging \$330 each were made to small farmers in 1977.
b. The cooperative estimated that average income of its small farmer members is about \$65 per month (roughly \$13 per capita).

