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UNCLASSIFIED

LESOTHO

CREDIT UNION LEAGUE DEVELOPMENT

(CUNA)

(632-0214)

UNCLASSIFIED

37 10

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR  
FOR AFRICA

FROM: AFR/DR, <sup>*J.W. Koehring*</sup> ~~John W. Koehring~~

SUBJECT: Project Authorization - Lesotho Credit Union League  
Development (632-0214)

Problem: Your approval is required for a \$630,000 Operational Program Grant (OPG), using Agriculture, Rural Development and Nutrition Funds, to assist the Credit Union National Association (CUNA), a registered private voluntary organization (PVO), in strengthening the credit union movement in Lesotho.

Discussion: Lesotho's first credit unions were established in 1961 by promoters from the St. Piux X College Extension Department (now National University of Lesotho). By 1968, rapid expansion of credit unions led to the formation of the Lesotho Cooperative Credit Union League (LCCUL), which was formed to provide support services to affiliates as well as to promote and expand the credit union movement throughout the country.

Since the LCCUL's formation 12 years ago, credit unions have increased from 30 to 52; membership has increased from 10,800 to 22,000; savings have grown from M190,000 to M850,000 and loans outstanding have increased from M168,000 to M612,000 (1M = \$1.25). In addition, LCCUL played a significant role in both initiating and supporting the Lesotho Credit Union Scheme for Agriculture (LECUSA), which brought tractor mechanization to seventeen communities, and pioneering in the introduction of Small Farmer Production Credit (SFPC) through credit unions.

However, LCCUL has also faced problems and setbacks. While savings and loans have grown, economic conditions have, to some extent, retarded that growth. Even though credit unions presently serve 52 communities, there are many areas where cooperative financial services are needed. In addition, the rapid expansion of the LECUSA program has overburdened the available personnel both at the credit union and LCCUL levels, thereby mitigating the success it may have achieved.

The SFPC program, initiated in 1974 as part of an AID-funded regional project, proved successful in educating farmers, stimulating loan demand and savings, and improving production in three pilot credit unions. CUNA assisted this project by providing a technician to develop and refine the initial design and implementation procedures of the SFPC program; however, the withdrawal of the CUNA technician in August 1976 delayed the planned expansion of the program to other credit unions. Overall, the major problems confronted by LCCUL can be largely attributed to the lack of resources and trained personnel. Given these major constraints, the accomplishments, nevertheless, are significant.

The Government of Lesotho has endorsed the need for this OPG assistance to CUNA to support and strengthen the five-year development plan (1979-1983) of the LCCUL. This project proposes to strengthen the chain of services from the LCCUL, to the credit unions, to the members. The goal of this three-year project is to make savings, credit, and related cooperative services available to an increasing number of families in Lesotho. The increase in the LCCUL staff and the strengthening of capabilities will expand and increase the performance of credit unions, resulting in increased membership, savings, credit and related services. The project proposes to strengthen LCCUL and credit unions capabilities by:

1. Adding required staff, additional field offices and the supplies and equipment needed to adequately support and service member credit unions.
2. Defining the methods and procedures essential for effective and efficient provision of support and services.
3. Training of LCCUL staff to permit ongoing improvement in the quality of technical support and services to affiliated credit unions.
4. Expanding production credit lending and services to attract the new membership and savings necessary to sustain credit union and LCCUL financial self-sufficiency.

The project includes three basic objectives reflecting the LCCUL development plan. These are:

1. LCCUL technical capabilities will permit the provision of essential technical and financial services to affiliated credit unions and their membership.
2. At the end of the project, conditions will have been created enabling LCCUL to achieve financial self-sufficiency within five years.

3. Membership, savings and productive loans of affiliated credit unions will have been significantly increased.

The beneficiaries of the project are the existing 22,000 credit union members, as well as the 10,000 new members that are anticipated over the three-year period of this project. Moreover, it is estimated that 2,100 small farmers will participate in the SFPC program. The project objectives compliment the Government of Lesotho's (GOL) development priorities, which focus on strengthening the agriculture sector through a coordinated effort to improve supplies, marketing techniques, technical assistance and expanded credit services. As an already established institutional system, credit unions offer the GOL an efficient system to reach large numbers of farmers with improved credit services.

The total cost of the CUNA proposal is estimated at \$930,209 (see attachment D). Of this amount, AID will contribute \$630,000 (67.7%), LCCUL \$135,390 (14.6%) and other donors \$164,819 (17.7%). The AID funds will be used as recapped below:

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>TOTAL</u>
I. Personnel Costs				
LCCUL	\$ 60,628	\$ 76,372	\$ 81,149	
Technical Assistance	75,473	72,215	93,111	
Sub Total	<u>136,101</u>	<u>148,587</u>	<u>174,260</u>	<u>\$458,948</u>
II. Training Costs-				
LCCUL	4,920	6,884	7,891	19,695
III. Commodities	3,313	500	500	4,313
IV. Support Costs (LCCUL)				
Office Expenses	2,713	3,399	3,602	
Staff Travel	8,740	11,957	13,667	
Contingency	6,655	7,660	8,764	
Technical Assistance	24,419	26,230	29,238	
Sub Total	<u>42,527</u>	<u>49,245</u>	<u>55,271</u>	<u>\$147,044</u>
Total AID Contribution	<u>\$186,861</u>	<u>\$205,217</u>	<u>\$237,922</u>	<u>\$530,000</u>

Designed in collaboration with the GOL, this project addresses the basic human needs of Lesotho's rural poor, the majority of which are engaged in subsistence agriculture. The program's objectives are technically, economically and financially feasible. There are presently no significant human rights issues in Lesotho. This project's financial cost estimates appear reasonably firm, thereby satisfying the requirement of Section 611(a) of the FAA of 1961 as amended. Due to the nature of the project, the initial environmental examination (IEE) concludes that no significant impact on the natural or physical environment will result. It is recommended, therefore, that a negative determination be made (see attachment A).

The Project Review Committee meeting was held on May 13, 1980, and there were no unresolved issues. CUNA was asked to strengthen its proposal with supportive financial data. This was submitted on May 20, 1980, and was acceptable.

A Congressional Notification was submitted on April 30, 1980 and the 15 day notification period expired on May 15, 1980.

The responsible AID officer in Lesotho will be Mr. Byron Bahl, Program Officer, USAID/Lesotho. The AID/W backstop officer will be Thomas G. Putscher, AFR/DR/SAP.

Recommendation: That you sign the attached Project Authorization, thereby authorizing the OPG Grant, and that you sign the IEE Face Sheet (Attachment A) indicating approval of the negative environmental determination.

Attachments:

- A. IEE
- B. Project Authorization
- C. PP Facesheet
- D. CUNA Proposal
- E. Congressional Notification

Clearances:

DAA/AFR: WHNorth                       
AFR/DP:RAStacy (draft)                       
AFR/DR/EHR:WMWaffle (draft)                       
AFR/DR/SDP:SPatton (draft)                       
AFR/SA:DFredrick (draft)                       
AFR/DR/ARD:BTWhittle (draft)                       
AFR/DR:AHarding (draft)                       
AFR/RA:RGray (draft)                       
AFR/DR/SA:WWolff                       
GC/AFR:NFrame                       
AFR/DR:NCohen                       
AFR/DP:JHicks(draft)                       
AFR/SA:RWrin (draft)                       
AFR/HA:DParker (draft)                       
AFR/DR/SDP: JHester                      *JH*

DRAFTED:AFR/DR/SA: TPutscher:rcj:6/20/80:X28818

*TP*

ATTACHMENT A

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Lesotho

Project Title : Credit Union League Development, 632-0214

Life of Project: Three years

Funding : \$629,842 (Operational Program Grant) *OPG*

Implementing Agency: WOCCU/CUNA Global Projects Office, Washington, DC

IEE Prepared By: Stephen T. Norton, Environmental Officer *SN*  
USAID/Lesotho

Threshold Decision Recommended: Negative Determination

Concurrence : *F. Correl*  
Frank D. Correl, Director  
USAID/Lesotho

Date : 3-31-80

Assistant Administrator's Decision:

Approved: \_\_\_\_\_

Disapproved: \_\_\_\_\_

Date: \_\_\_\_\_

## I. Description of the Project

The three year project will assist in the institutional development of the Lesotho Cooperative Credit Union League (LCCUL) and its member credit unions; with the long-term expectation that the LCCUL will become financially self-sufficient within five years after the end of this project.

The goal of the LCCUL and this project is to make savings, credit and related cooperative services available to a greater number of families in Lesotho.

Assistance will be provided in the following areas:

- 1) Three years of long-term technical assistance plus short-term consultancies;
- 2) Budgetary support to LCCUL for personnel costs, training costs, office expenses, staff travel and contingency allowance; and
- 3) Commodities, e.g. filing cabinets, desks, chairs, typewriter and other office equipment.

## II. Discussion of Impact

Due to the nature of this project and the activities which will take place with funds provided by A.I.D., a project checklist has not been prepared. It has been determined that no significant impacts on the natural or physical environment will result as a consequence of this project.

## III. Recommendation

On the basis of an initial environmental examination, it is clearly apparent that this project can be justifiably designated as environmentally innocuous. Therefore, it is recommended that a Negative Determination be made on this project.

ATTACHMENT B

PROJECT AUTHORIZATION

Entity: Credit Union National Association  
(CUNA)

Name of Project: Lesotho Credit  
Union League Development

Number of Project: 632-0214

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize an Operational Program Grant to the Credit Union National Association (CUNA), a registered private voluntary organization, for the Lesotho Credit Union League Development project involving planned obligations of not to exceed \$630,000 in grant funds over a three year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project consists of providing technical assistance, budgetary support and commodities to the Lesotho Cooperative Credit Union League (LCCUL) in order to strengthen the capabilities of the LCCUL and member credit unions, with the goal of making savings, credit and related cooperative services available to an increased number of families in Lesotho. A central element of the project concerns the expansion of the Small Farmer Production Credit (SFPC) program to the majority of the rural credit unions in Lesotho.

3. The Grant Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. Source and Origin of Goods and Services

Goods and services financed by A.I.D. under the project shall have their source and origin as specified in A.I.D. Handbook 1, Supplement B, Chapter 16B1c and A.I.D. Handbook 13, Chapter 4 or in the Cooperating Country.

Date: \_\_\_\_\_

Clearances: per attached  
Action Memorandum

\_\_\_\_\_  
Goler T. Butcher  
Assistant Administrator  
for Africa

ATTACHMENT C

AGENCY FOR INTERNATIONAL DEVELOPMENT

## PROJECT PAPER FACESHEET

1. TRANSACTION CODE

A

A ADD  
C CHANGE  
D DELETE

PP

2. DOCUMENT CODE  
**3**

3. COUNTRY ENTITY  
**Lesotho/Cuna (OPG)**

4. DOCUMENT REVISION NUMBER

5. PROJECT NUMBER (7 digits) 632-0214

6. BUREAU/OFFICE		7. PROJECT TITLE (Maximum 40 characters)
A. SYMBOL <b>AFR</b>	B. CODE <span style="border: 1px solid black; padding: 2px;">06</span>	

Lesotho Credit Union League Development

8. ESTIMATED FY OF PROJECT COMPLETION  
FY 8 | 2

9. ESTIMATED DATE OF OBLIGATION

A. INITIAL FY <span style="border: 1px solid black; padding: 2px;">8</span>   <span style="border: 1px solid black; padding: 2px;">10</span>	B. QUARTER <span style="border: 1px solid black; padding: 2px;">3</span>
C. FINAL FY <span style="border: 1px solid black; padding: 2px;"> </span>   <span style="border: 1px solid black; padding: 2px;"> </span>	(Enter 1, 2, 3 or 4)

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$) -

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. C	D. TOTAL	E. FX	F. C	G. TOTAL
<b>AID APPROPRIATED TOTAL</b>	<b>630</b>			<b>630</b>		<b>630</b>
GRANT	630			630		630
LOAN						
OTHER U.S.						
HOST COUNTRY	300			300		300
OTHER DONOR(S)						
<b>TOTALS</b>	<b>930</b>			<b>930</b>		<b>930</b>

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH CODE		E. 1ST FY <span style="border: 1px solid black; padding: 2px;">80</span>		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) <b>ARDN</b>				630					
(2)									
(3)									
(4)									
<b>TOTALS</b>				<b>630</b>					

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVAL. DATE SCHEDULED				
	C. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN					
(1)					630		<table style="margin: auto;"> <tr> <td>MM</td> <td>YY</td> </tr> <tr> <td style="border: 1px solid black; padding: 2px;">01</td> <td style="border: 1px solid black; padding: 2px;">82</td> </tr> </table>	MM	YY	01	82
MM	YY										
01	82										
(2)											
(3)											
(4)											
<b>TOTALS</b>					<b>630</b>						

13. DATA CHANGE INDICATOR WERE CHANGES MADE IN THE PID FACESHEET DATA BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET

1 = NO  
 2 = YES

<p>14. ORIGINATING OFFICE CLEARANCE</p> <p>SIGNATURE</p> <p>TITLE <b>Martin V. Dagata</b> Director, AFR/SA</p> <p style="text-align: right;">DATE SIGNED</p> <table style="margin-left: auto;"> <tr> <td>MM</td> <td>DD</td> <td>YY</td> </tr> <tr> <td style="border: 1px solid black; width: 20px;"> </td> <td style="border: 1px solid black; width: 20px;"> </td> <td style="border: 1px solid black; width: 20px;"> </td> </tr> </table>	MM	DD	YY				<p>15. DATE DOCUMENT RECEIVED IN AID W/ OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION</p> <table style="margin-left: auto;"> <tr> <td>MM</td> <td>DD</td> <td>YY</td> </tr> <tr> <td style="border: 1px solid black; width: 20px;"> </td> <td style="border: 1px solid black; width: 20px;"> </td> <td style="border: 1px solid black; width: 20px;"> </td> </tr> </table>	MM	DD	YY			
MM	DD	YY											
MM	DD	YY											

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE

A ADD  
 C CHANGE  
 D DELETE

PP

2. DOCUMENT CODE

3

3. COUNTRY ENTITY

Lesotho/Cuna (OPG)

4. DOCUMENT REVISION NUMBER

5. PROJECT NUMBER (7 digits)

[632-0214]

6. BUREAU/OFFICE

A. SYMBOL AFR  
 B. CODE [06]

7. PROJECT TITLE (Maximum 40 characters)

[Lesotho Credit Union League Development]

8. ESTIMATED FY OF PROJECT COMPLETION

FY [8][2]

9. ESTIMATED DATE OF OBLIGATION

A. INITIAL FY [8][0] B. QUARTER [3]  
 C. FINAL FY [ ][ ] (Enter 1, 2, J, or 4)

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$) -

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	630			630		630
(GRANT)	630					630
(LOAN)						
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY	300			300		300
OTHER DONOR(S)						
TOTALS	930			930		930

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY [80]		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) ARDN				630					
(2)									
(3)									
(4)									
TOTALS				630					

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED
	P. GRANT	Q. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
(1)					630		MM YY 01 82
(2)							
(3)							
(4)							
TOTALS						630	

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 = NO  
 2 = YES

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE

TITLE Martin V. Dagata  
 Director, AFR/SA



DATE SIGNED

MM DD YY

15. DATE DOCUMENT RECEIVED IN AID/W OR FOR AID/W DOCUMENTS. DATE OF DISTRIBUTION

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I. OVERVIEW: PROJECT PURPOSE AND DESCRIPTION

The goal of this project is to make savings, credit, and related cooperative services available to an increasing number of families in Lesotho.

Today in Lesotho there are 52 credit unions affiliated to the Lesotho Cooperative Credit Union League (LCCUL). Membership is approximately 22,000 with movement savings amounting to M850,000 (\$1,062,500) and loans outstanding of M612,000 (\$765,000). The LCCUL, which presently includes 3 Maseru-based professionals and 4 field officers supports its affiliates and their members through field visits by staff, training programs and provision of a Central Liquidity Facility. With assistance from the Africa Cooperative Savings and Credit Association (ACOSCA), LCCUL also offers savings and loan protection insurance to members and has initiated a pilot project in small farmer production credit lending.

Based on the Five-Year Development Plan 1979-1983 developed by the Board and staff of LCCUL, this project proposes to strengthen the chain of services from the League, to the credit union, to the member. The increase in League staff and strengthening of capabilities will result in an expanded number of credit unions and improved performance by credit union leadership and staff. Improved credit unions will result in increased membership, savings, credit and services. A central element of the program will be expansion of small farmer production credit program to the majority of rural

credit/ ...

1 Maloti = US \$1.25

credit unions in Lesotho with a substantial increase in participants and loans placed.

This 3-year project is the institutional development phase of a long-term development activity. This project will result in the institutional development at the League and credit union levels necessary to accomplish the significant expansion and growth envisioned to occur subsequently.

While the project proposes strengthening of the credit union movement, it is based on the thesis that credit unions have demonstrated the ability to positively affect the lives and welfare of Lesotho's people. During the last decade, credit unions have mobilized more than \$1 million in savings; cumulative loans have amounted to an estimated \$3.2 million. The credit union movement has also served as a training ground for local and national leaders and professional League programs and the experience of managing credit unions and operating the League has both enhanced the skills available to the community as well as provided professional staff to government and private organizations in the country. These accomplishments have been achieved with very limited external resources. Fundamental to this project is the assertion that significant potential has been demonstrated by the credit union movement; the provision of resources commensurate with that potential should accelerate its realization.

A. Project Objectives (Purpose)

The project includes three basic objectives reflecting the LCCUL Five-Year Development Plan. By the end of this 3-year project:

1. LCCUL technical capabilities will permit provision of essential technical and financial services to affiliated credit unions and their membership;
2. Conditions for achievement of financial self-sufficiency by LCCUL within 5 years after termination of this project will have been created;
3. The membership, savings and productive loans of affiliated credit unions will have been significantly increased

Realization of these objectives will result in increased income to and capital formation by credit union members. Reflecting the predominately rural-agricultural membership, productivity in this sector will be increased through an expansion of the League's Small Farmer Production Credit (SFPC) program.

The above-stated objectives will require the following essential activities and resources in order to be achieved (Outputs/Inputs).

Activity 1 - Expansion and upgrading of LCCUL staff, with emphasis on intensive training will be undertaken. Resources : Budget support for additional personnel, and funding for one expatriate management advisor to define critical functions and to provide training will be required.

Activity 2 /...

Activity 2 - Refinement of functions related to income-generating services, particularly the central finance operation will be performed. The SFPC program will be expanded to 33 credit unions by end-of-project; with corresponding increase in SFPC loan demand.

Resources: Budget support for LCCUL field staff to expand SFPC, coordination with Ministry of Agriculture extension services, and funding for above management advisor to refine central finance operations and SFPC program will be required.

Activity 3 - Membership and savings promotion strategies, to include expansion into urban areas, SFPC program expansion, and upgrading service capabilities of local credit unions will be developed.

Resources: Budget support for LCCUL field staff to implement promotion strategies and funding for above management advisor to identify alternative approaches will be required.

It is useful to note that the project objectives complement the GOL's development priorities which focus upon strengthening the agricultural sector through a coordinated effort to improve supplies, marketing, technical assistance, and credit services. As an already-established institutional system, credit unions offer the GOL an efficient means to reach large numbers of farmers with improved services. In a recently-issued document entitled "The New Cooperative Policy" the Government recognized the value of the credit union movement by stating that, (in a discussion of the status of the overall cooperative movement)" . . . To date, however, little success has been achieved with the exception of Credit Unions and

Wool and Mohair Associations." Recent GOL policy statements indicate that cooperatives and credit unions will be the principal vehicles for development of the rural sector. As an example of the potential use of the credit union system, the recently established Agricultural Development Bank could channel funds through the League for the SFPC program. Not only will increased efficiency and cost reduction be attained, but the GOL is relieved of some of the organization building activities, allowing it to focus its resources directly on the improvement of available services.

B. Beneficiaries

Credit union membership in Lesotho is both rural and engaged in agricultural and related enterprise. This membership is now 22,000; more than 75 percent are women. With an average annual savings rate of just M3 per member, it is quite probable that average member income falls well below the national average of \$160 per year. (Assuming that members save at least 2 percent of their available income with their credit union). This project will result in an increase to nearly 32,000 members within 3 years and the SFPC program will be expanded from three to 33 credit unions, to include nearly 2,100 participants. Each SFPC borrower will be closely monitored to evaluate the impact of expanded credit and related services on productivity and income. In addition to providing savings services to members, expanded and more intensive League support will enable a significantly greater number of small farmers, traders and artisans to increase their productive capacity and their incomes. Lending for health, education and

other / ...

other provident purposes will increase beneficiary utilization of the social services infrastructure in Lesotho.

C. Project Design and Implementation

The premise of the project is that the scope and quality of services to credit union members depends on the efficient management and integrity of the society. A competently and honestly-managed credit union both serves its existing membership and attracts increasing members and savings. Sound credit unions, in turn, depend on LCCUL to provide essential support and services. The project strategy is to systematically strengthen League and credit union capabilities by:

1. adding the new staff, i. e. , General Manager, Central Finance Manager, and 4 additional Field Officers, plus the supplies and equipment required to adequately support and service member credit unions;
2. defining the methods and procedures essential to effective and efficient provision of support and services;
3. training League staff to permit ongoing improvement in the quality of technical support and services to credit unions;
4. expanding production credit lending and services to attract the new membership and savings necessary to sustained credit union and LCCUL financial viability.

Implementation/ ...

Implementation of the project strategy depends on:

1. provision of the financial resources necessary to employ and equip an adequate League staff;
2. provision of the technical assistance necessary to assist in development of methods and procedures and in training of League staff;
3. the support and cooperation of organizations and agencies within Lesotho with the capability to supplement League technical capabilities.

The fundamental elements of the project design are outlined in the LCCUL 5-Year Development Plan. Support to this effort has been committed by several sources, including Misereor (a German donor organization that has long-supported credit union development efforts in Africa), the World Council of Credit Unions (WOCCU), the African Cooperative Savings and Credit Association (ACOSCA), and the Lesotho Institute of Extra-Mural Studies (IEMS). The technical and financial resources provided under this project will supplement income generated by the League through dues, Central Finance earnings, insurance commissions and other revenues. The project will provide those additional resources necessary to achieve the stated project objectives, while assisting the implementation of LCCUL's Five-Year Development Plan, permitting sustained expansion and strengthening of the credit union movement.

The project/ ...

The project proposes 3-year USAID funding as follows:

		1	2	3	Total
Technical Assistance	(\$)	99,892	98,445	122,349	320,686
LCCUL Support	(\$)	86,969	106,772	115,415	309,156
Total	(\$)	186,861	205,217	237,764	629,842

(See Tables for detailed USAID, LCCUL, and other donor contributions).

D. End-of-Project Status

The project will result in both qualitative and quantitative changes. Qualitative changes will include improved performance of essential League and credit union functions and processes. (See Appendix 1 for listing of functions and processes). These will be measured during the initial six months and in the course of project monitoring and evaluation. By the end-of-project LCCUL will perform all critical functions adequately or better. Credit unions will also demonstrate adequate or better performance of critical functions. These measures will permit objective assessment of the technical, managerial and financial development that has occurred. The following quantitative measures will also be employed. The measures shown are for the 3-year life of this project, the LCCUL Five-Year Development Plan, and for year 8, when LCCUL financial self-sufficiency is anticipated.

<u>Indicator</u>	<u>Project Start</u>	<u>Year 3</u>	<u>Year 5</u>	<u>Year - 8</u>
Number of Credit Unions	52	68	80	90
Number of Members	22,000	31,470	39,320	49,301
Number of SFPC Credit Unions	3	33	53	65
Number of SFPC Members	-	2,058	8,644	20,000
Total Savings (M 000)	850	1,314	1,829	3,305
Total Loans (M 000)	612	1,234	2,700	6,180
LCCUL Revenues (M 000)	34	47	91	242
% Self-Sufficiency <sup>(1)</sup>	46.7	31.8	55.9	96.1

(See pp. 24, 25 for detail)

(1) Influx of additional donor funds initially reduces percentage of LCCUL revenues to total expenses. Subsequent movement expansion results in accelerated increase in LCCUL revenues, reaching self-sufficiency five years after project termination.

## II. PROJECT BACKGROUND

### A. Credit Unions in Lesotho

In 1961 Lesotho's first credit unions were established by promoters from the St. Pius X College (now National University of Lesotho) Extension Department. By 1968 rapid expansion of credit unions led to the formation of the Lesotho Cooperative Credit Union League by leaders within the movement in association with the University Extension Department and the Department of Cooperatives. The

League/ ...

League was formed to provide support and services to affiliates as well as to promote and expand the movement in other areas of the country.

During the 12 years since its formation, the League has stimulated some significant accomplishments:

- Credit Unions have increased from 30 to 52;
- Membership has increased from 10,800 to 22,000;
- Savings have grown from M190,000 to M850,000 (M17.50 to M38.00 per member);
- Loans outstanding have grown from M168,000 to M 612,000; cumulative loans are estimated to have been M 3.2 million;
- LCCUL played a significant role in initiating and supporting the Lesotho Credit Union Scheme for Agriculture (LECUSA) which brought tractor mechanization to 17 communities;
- LCCUL pioneered in the introduction of Small Farmer Production Credit through credit unions, an ACOSCA program supported by the U.S. Agency for International Development;
- The League has supported introduction and expansion of a mohair spinning project through credit unions which has increased rural income;
- League sponsored educational programs have trained hundreds of community credit union board and committee members in bookkeeping, loan analysis, agriculture and animal husbandry, adult education techniques;
- Staff trained by the League have moved into professional positions with government and a variety of organizations such as CARE, cooperative housing services and the like. (1

Along/ ...

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(1) Although this is a valuable contribution to the nation's trained manpower pool, staff turnover is obviously detrimental to the League. The project will address this issue by, among other things, allowing the League to pay competitive salaries.

Along with its many accomplishments, LCCUL has also faced problems and set-backs. While movement savings and loans have grown, economic conditions have retarded that growth to some extent. Credit unions presently serve 52 communities, but there are many more areas where cooperative financial services are needed. The rapid expansion of the LECUSA program overburdened the available personnel both at the credit union and League level, therefore, mitigating the success it might have achieved. The SFPC program, initiated in 1974 as part of the ACOSCA regional project funded by AID, proved successful in educating farmers, stimulating loan demand and savings, and improving production in 3 pilot credit unions. However, the withdrawal of the CUNA Technician in August 1976, precluded the planned expansion of the program to other credit unions. <sup>(1)</sup> In February 1977, AID conducted an evaluation of the program, and established three conditions precedent for its continuation. These included:

- Development of an agricultural production program suitable for credit union financing including cost/returns analysis and strategies to deal with input supply and marketing problems;
- Preparation of a League staffing and organization plan;
- Preparation of a League plan for achievement of financial self-sufficiency.

*where is the plan?*

The League/

(1) The scope of work of the CUNA Technician was essentially limited to the development and refinement of the SFPC Program. The scope of work for this project's Management Advisor has been broadened so that all areas requiring development may be addressed.

The League was able to meet each of these conditions in the subsequent year. The Institute of Extra-Mural Studies assisted LCCUL to develop the methodology to assess the costs/returns impact of the SFPC program. A consultant provided by WOCCU/Global Projects assisted the League to prepare a 5-Year Development Plan which detailed the required staffing plan and proposed a strategy to attain financial self-sufficiency. The objectives and strategies outlined in the 5-Year Plan serve as the basis for this proposal. As a result of this effort, it was recognized that achievement of the plan objectives implied the need for the additional assistance outlined in this proposal. In this context, it is noted that the major problems faced by LCCUL can be in large part attributed to the very limited resources available. Given this constraint, the League's accomplishments appear far more significant than its problems.

B. PVO Experience

1. ACOSCA

Formed in 1968 by the leaders of seven national credit union movements, ACOSCA presently represents 22 national affiliates, movement savings in excess of \$100 million, and a total membership of more than 1.25 million. ACOSCA serves its affiliates from headquarters in Nairobi, Kenya and through Regional Offices and Training Centres in Maseru, Lesotho; Bamenda, Cameroon; Bukuvu, Zaire; Bobo Dioulasso, Upper Volta; Lome, Togo; and Nairobi. ACOSCA Headquarters personnel/ ...

personnel, in addition to the Executive Secretary and administrative staff, includes specialists in central financial systems, education/training, risk management/insurance, and credit union promotion, organization and development. ACOSCA has played the lead role in developing the African credit union movement and has a demonstrated capability in project development, management and evaluation. ACOSCA was instrumental in initiating the small farmer production credit programs in Lesotho and Cameroon. ACOSCA staff have also contributed to feasibility studies, project development and management in Ghana, Liberia, Zambia, Swaziland, Botswana and Togo.

2. WOCCU/Global Projects

The Global Projects Office of the World Council of Credit Unions is the major technical resource for international credit union development. Supported by the Credit Union National Association (CUNA) and by USAID grants through CUNA, the Global Projects Office responds to technical assistance, training and project development requests initiated by confederations affiliated to WOCCU.

CUNA participation in international development began in 1954 with a program designed to introduce the credit union concept to emerging nations. In 1962, the first of several agreements with AID was signed, thereby supplementing funds available from the U.S. credit union movement. A decade

of technical assistance has supported formation of regional confederations in Latin America (COLAC), Africa (ACOSCA), the Caribbean (CCCU) and Asia (ACCU). Specific involvement in Africa dates to 1964 when a grant from the Michigan Credit Union League Foundation funded technicians who helped organize the credit union movement in Kenya, Tanzania and Uganda. Since 1974, Global Projects technical personnel helped coordinate small farmer production credit programs in Cameroon and Lesotho. Through its Washington staff and access to the technical resources of the worldwide credit union movement, Global Projects is in position to provide specialized assistance to the proposed project.

### III. PROJECT ANALYSIS

#### A. Credit Unions

##### 1. Membership

Credit union membership in Lesotho is 98 percent rural. Most members are farmers, artisans, small traders and rural teachers. Although Lesotho's per capita income places it among the world's poorest nations, the relatively even income distribution (the lowest 20 percent of rural Basotho receives 16 percent) ensures a relatively broad base of potential credit union membership.

An estimated 50 percent of Lesotho's male workforce presently is employed in South Africa. Their earnings are estimated at twice the Lesotho GDP; however, only 35 percent of these funds/ ...

funds are remitted to Lesotho, and only 25 percent is reflected in savings and consumption expenditure within the country.

Lesotho's unique demographic and economic situation relates to credit union development in the following ways:

- 75 to 80 percent of credit union membership are women who borrow for agriculture, children's education and crafts production;
- the relatively low rate of adoption of improved agricultural technology limits agricultural loan demand to meeting maintenance requirements;
- the high risk and low return on agriculture and limited alternative rural vocations is a contributing factor in the migration of the male workforce to South Africa;
- limited income in the rural areas results in a modest increase in credit union savings on an annual basis;
- capture of an increasing share of elusive remittances from South Africa would substantially increase savings and investable resources within the movement.

Conditions in Southern Africa place Lesotho in a precarious situation. Sudden, forced repatriation of Basotho labor would place severe strains on the socio-economic infrastructure. The Government of Lesotho has given priority to development of commercial agriculture and creation of employment opportunities that both encourage and permit the return of its skilled workforce. Credit unions have a demonstrated potential to stimulate improvements in agricultural practices through credit and coordination of

services./ ...

services. Expansion of the pilot SFPC program should usefully complement Government development activities. Similarly, strengthening credit union management and expansion of services should act as a stimulus to savings mobilization, expanding the domestic capital available for investment in employment creation. The credit union movement has the potential to play a useful role in Lesotho's economic transformation.

2. Credit Union Technical Capabilities

LCCUL has carried out a long-term educational program for credit union leadership and officials. It has also encouraged employment of part-time staff. This combination has resulted in a relatively high quality in credit union bookkeeping and accounting and effective membership education programs. There remain areas of operation that require improvement if credit unions are to realize their potential in Lesotho. The following areas are addressed by this project:

*Are you speaking of LCCUL?*

- loan delinquency is high in a significant number of credit unions. This reflects both local economic conditions and the need for improvement in loan analysis, monitoring and collection;
- growth in movement and average member savings can be accelerated. This will require strengthening of member confidence, expanding needed services such as production credit, broadening the membership base, and establishment of office facilities for transaction of business;
- problems have been identified in risk management, maintenance of records, management of surplus savings investment, membership participation in credit union meetings and affairs.

One critical factor related to these problems has been the inability of a very limited League Field Staff to maintain the frequency and

intensity/ ...

intensity of contact with credit union leaders and officials required to identify and systematically correct problems. As indicated, a major element of the project strategy is to provide LCCUL with the resources required to employ and train a staff adequate to the needs of its affiliates.

B. LCCUL Analysis

1. Technical Capabilities

The League has demonstrated technical capabilities in a number of its important functional responsibilities. These include:

- credit union promotion and organization: more than 50 credit unions have been organized and registered in a country where the population is dispersed throughout areas where access is difficult;
- training and education: the League has reached hundreds of board members, officials and members of credit unions with effective programs in credit union philosophy, bookkeeping, production credit and adult education methods;
- supply services: credit unions are kept supplied with books and ledgers, membership cards, stationery, and other materials essential to their operation;
- insurance program: the League pioneered the introduction of share and loan insurance for credit unions in Africa and now virtually covers all member savings and loans.

Balancing the League's demonstrated capabilities are areas where improvement is required. Two principal factors account for deficient capabilities. First, LCCUL is seriously under-staffed. Presently, only 3 professionals work at LCCUL Headquarters, including the Field Services Manager, Insurance Officer, and Assistant Accountant. The positions of General Manager and

Central/ ...

Central Finance Manager are vacant, due to a lack of funds. There are only four Field Officers to serve more than 50 credit unions, a ratio that would be inadequate in a geographical setting far more favourable than Lesotho. The strengthening of credit unions requires frequent visits both to identify and correct problems and to carry out a systematic program of skill development. Until such time as the League has an adequate field staff, it cannot provide adequate technical support to its affiliates.

The addition of staff, alone, will not suffice to eliminate League performance problems. Staff must be equipped with the technical skills required to effectively and efficiently support and service League affiliates. Central to this project is both provision of financial resources to permit adequate staffing and the technical resources to strengthen the skills of that staff.

2. Agricultural Production Credit

Agricultural production leading to small farmers first began on an experimental basis in three pilot credit unions in late 1974. SFPC loans have been issued for crop production, animal husbandry and cottage industry purposes. The experience gained from the SFPC program led to refinement of the various lending strategies, establishment of credit policy and capitalization policy guidelines, and the development of new farmer training and technical assistance programs to assist SFPC borrowers. The expanded loan demand also led to increased credit union income and, as a result of the forced capitalization requirement, significant increases in farmer savings. / ...

savings. (Analysis of SFPC impact is described in detail in CUNA's 1977 Evaluation Report.)

Implementation of the pilot scheme, however, was not without problems. Both the AID and CUNA 1977 project evaluations identified certain deficiencies in the project, primarily in the area of delinquency control, input supply and marketing, and the development of more reliable costs/returns data on SFPC loans. The proposed project places special emphasis on resolving these deficiencies. Based largely on experience gained in earlier years, the League's financial role in SFPC lending will be enhanced with the League providing SFPC loans directly to credit unions for on-lending to small farmers. Likewise, the League's role in supervising and coordinating farmer support services such as agricultural technical assistance, input supply and marketing will also be strengthened. The Field Service Manager will have specific responsibility to coordinate the League's SFPC program with the agricultural support services provided by the Ministry of Agriculture (extension services), Coop Lesotho and BASP (input supply) and the Produce Marketing Corporation (marketing). In addition, all Field Officers will receive intensive training related to the SFPC program to ensure that SFPC participants are provided on-going technical assistance.

The expansion of the production credit program will be on a phased basis with ten new SFPC credit unions brought in during each of the project's three years. The intent of this phased approach is to

ensure/ ...

*appears that CUNA wants more money & allow more SFPC loans it could not resolve SFPC program!*

ensure that it does not outpace the League's capacity to administer the program. SFPC lending targets estimate that 490 small farmers will be served in the first year of the project expanding to 2,058 at the end of the project. SFPC loan volume is expected to increase from M58,800 in year 1 to about M288,120 in year 3. <sup>(1)</sup>

3. Financial Status

LCCUL has operated a deficit for several years. Even with a limited staff, operating expenses exceeded League-generated revenues. In 1978 total expenses were estimated at M 52,332, while revenues were M24,401. Donor support has met the deficit of more than M27,000.

*The element appears missing that concerning LCCUL repayments*

The financial situation of LCCUL entails a vicious circle. League revenues are linked to movement savings; progress toward self-sufficiency depends on the rate of growth of these savings. This rate, in turn, is linked to the League's ability to promote and strengthen credit unions. The limited revenues produced by a slow growth in savings effectively eliminates that ability in the absence of sustained and substantial external assistance.

The project strategy which entails providing the resources required to improve the quantity and quality of League staff, represents an attempt to end the vicious circle by stimulating a vigorous acceleration in the growth of movement savings. This is supported by the SFPC program which will substantially increase both credit union and LCCUL lending, resulting in acceleration of movement revenues.

*where all the repayments to increase revenues*

(1) Annual loan demand estimated at M120 per participant based on prior SFPC experience, increasing to M130 in year 2 and M140 in year 3

C. Strategy for Development

1. Project Objectives

As elsewhere, the credit union movement in Lesotho is a total system in which both problems and successes affect each of its elements: the member, the credit union and the League. Therefore, this 3-year project, and the LCCUL Five-Year Development Plan on which it is based, includes three objectives that treat the system as a whole.

Objective 1: By the end-of-project LCCUL technical capabilities will permit provision of essential technical and financial services to affiliated credit unions and their membership

The project strategy related to this objective involves: 1) provision of the resources required to employ and retain sufficient LCCUL staff to strengthen an expanding credit union movement; and 2) application of those technical resources necessary to define essential functions and procedures as well as to ensure League staff capability to perform these adequately or better. Using a methodology developed by WOCCU/Global Projects, League performance will be periodically assessed against acceptable standards for all critical functions and processes. By the end-of-project, League personnel will be able to provide auditing, central finance, supplies, technical assistance, training, insurance, promotion, organization and small farmer production credit services to affiliates.

Objective 2:/

Objective 2: By the end-of-project conditions for achievement of financial self-sufficiency by LCCUL within 5 years after termination of this project will have been created.

The project strategy involves: 1) strengthening LCCUL financial planning and management capability to ensure efficient utilization of available resources; 2) significant acceleration of movement savings and loan volume through expansion and strengthening of the movement and provision of small farmer production credit support to an expanded number of credit unions (see Objective 3).

(Note: Projection of LCCUL self-sufficiency within 5 years after termination of this project includes the assumption that a follow-on activity will be initiated, containing a capital grant component.

It is not assumed that AID would fund any portion of the follow-on activity. If a need for this follow-on activity was demonstrated, alternative funding sources would be consulted. It would only be considered following an end-of-project evaluation which indicated that: 1) LCCUL achieved significant success in meeting this project's objectives; and 2) loan demand projections demonstrate a real need for external capital funds. These funds would be loaned to affiliated credit unions to meet the increased demand created by an expanded SFPC program; interest earnings on these loans represent the major revenue source for LCCUL, accelerating its progress toward financial self-sufficiency. Projecting current trends, without the capital grant component, LCCUL would require more than

20 years/ ...

20 years to reach financial self-sufficiency. It should be noted that an increase in LCCUL interest rates to between 18 and 24 percent would produce an equivalent revenue. However, in the absence of a country-wide increase of commensurate magnitude, such a change would substantially reduce credit union loan demand.)

Objective 3: By the end-of-project the membership, savings and productive loans of LCCUL-affiliated credit unions will have been significantly increased.

The project strategy involves: 1) intensive promotional and educational efforts in areas with potential for substantial increase in membership of existing credit unions and for establishment of potential new credit unions; 2) intensification of the frequency and quality of technical support to existing credit unions, resulting in improved performance, strengthening of member confidence, and impetus to growth; and 3) expansion of production credit programs responsive to member needs, producing increased loan volume, member income and derivative savings.

The table below displays the growth projections developed by LCCUL staff and WOCCU/Global Projects:

Indicator \ Year	SOP <sup>(1)</sup>	1	2	3 (EOP)	5	8
Credit Unions	52	57	62	68	80	90
Rural	51	54	57	61	69	75
SFPC	3	13	23	33	53	65
Urban	1	3	5	7	11	15
Membership	22,000	24,290	27,540	31,470	39,320	49,901
Rural	21,650	23,540	26,390	29,920	36,970	46,351
SFPC	-	490	1,060	2,058	8,644	20,000
Urban	350	750	1,150	1,550	2,350	3,550
Savings (M 000)	850	963	1,117	1,314	1,829	3,305
Rural	815	908	1,028	1,176	1,551	2,803
Urban	35	55	89	138	278	502
Loans (M 000)	612	752	942	1,234	2,700	6,180
Regular	612	693	804	946	1,317	2,380
SFPC	-	59	138	288	1,383	3,800

(1) SOP - Start-of-Project, estimated June 1, 1980.

The growth targetted represents the best judgment of League and WOCUU staff as to what is realistic. Although conservative, the targets represent significant growth. By the end of the third year:

- 16 new societies will be formed, a 31 percent increase. The economic base will be broadened by a sevenfold increase in urban credit unions with their wage-earning membership;
- total membership will be increased by more than 43 percent, including a 343 percent increase in urban members;
- movement savings will increase by 55 percent with the urban member share increasing from 4 to 11 percent;
- nearly 2100 members will be brought into the SFPC program; SFPC lending will increase by almost M290,000 to 23 percent of the movement loan portfolio;
- Movement loan volume will increase by M622,000 a growth of 102 percent; loan/savings ratios will increase from 72 to 94.

The nature of the growth, rather than the magnitude, is of the most importance. First, the LCCUL strategy involves intensive promotion in the urban areas. Here the wage-earning member has the ability to save regularly and in significant amounts. This effort will provide a stimulus to movement savings. The urban credit union member also tends to save more than borrow. Thus an increasing surplus saving becomes available for relending in the rural areas, reversing the normal flow of capital.

Second, the expansion of the SFPC program will substantially increase the availability of production credit. Experience in the three pilot project credit unions suggests that introduction of the program stimulates loan demand: aggregate loan

volume/ ...

volume increased by twenty-four percent between 1975 and 1976. Experience indicates that production credit loans, particularly those for spinning and livestock, have proved profitable and result in increased income to the members participating.

Third, there is an emphasis on stimulating movement savings. Lesotho's credit unions already have an admirable record of mobilizing substantial capital from persons once believed too poor to save. In many parts of the country, the credit union represents the only modern institution that offers a place to save and is most likely the only form of organization that can provide this service economically.

2. Estimated Impact

a. Credit Union Membership

The impact of this project on credit union membership includes:

- 1) expansion of the opportunity to save to as many as 10,000 new members in 10 rural communities and Maseru during the 3 years;
- 2) increased access to production credit for almost 30,000 rural members of credit unions with an estimated A1288,000 available to almost 2,100 members by the end of the third year;
- 3) improved access to inputs, extension and marketing services for members of 33 credit unions by the end of the third year;
- 4) participation in LCCUL training programs in bookkeeping, financial management, adult education methods, and agricultural technology for over 2,000 credit union members by the end of year three.

b. / ...

b. Appropriate Technology

Appropriate technology usually focusses attention on production technology. In this respect the project will promote Government approved agricultural and animal husbandry technology as well as continue support for the CARE-sponsored mohair spinning project.

The concept of appropriate technology can also be applied to institutions. Credit unions with their largely voluntary staff, simple procedures, and reliance on the community and cooperation qualify as an appropriate institutional form.

The rapid growth of credit unions in Lesotho and in 21 other African nations, is testimony to the appropriateness of the institution. Today in Africa there are almost 10,000 credit unions, more than 1.25 million members, and movement savings in excess of \$100 million. This growth would not have occurred had not the institution and its technology been appropriate.

c. Women in Development

More than 75 percent of credit union members in Lesotho are women. Women are also predominant on the Boards and Committees responsible for credit union policies and operations and are a significant majority among credit union bookkeepers and accountants. The AID-assisted mohair spinning project, which provides credit for purchase of equipment and supplies, is comprised almost

entirely/ ...

entirely of women. Similarly, more than 50 percent of the SFPC borrowers have been women. The LCCUL has consistently included women Accountants and Field Officers. In summary, the majority of beneficiaries of credit union activities as well as those responsible for direction and operation of the movement are women.

d. Poorest Majority

Fundamental to credit union membership is the ability to save, however limited. The segment of the population with no income available for savings does not belong to credit unions. By the same token, the credit union does not serve the wealthy who have easy access to commercial banks for both savings and loans. At present, the composition of credit union membership in Lesotho is predominantly rural and poor.

One of the principal benefits of the project is the expansion of the SFPC program to greater numbers of poor farmers. Without access to other credit channels, the rural poor must rely on their credit unions to provide the necessary financial resources. To assess the impact of the SFPC program on member productivity and income, information will be compiled during the project via the loan application forms, supplemented by direct interviews and observations, for a sampling of SFPC participants.

One / ...

One component of the LCCUL Five-Year Development Plan is the expansion of the credit union promotion to lower-middle and middle-income wage-earners. This group has the capacity to save in greater increments than the rural membership and thus expands the capital base of the movement. There is ample evidence from other African countries that the surplus savings created will move through the League's Central Finance program to meet the credit needs of rural credit union members. This should increase the movement's impact on its poorest majority.

e. Increased Employment

The direct employment impact of the project is limited. LCCUL staff will increase from 7 to 13, and the employment of part and full-time staff by credit unions will be only marginally increased.

*This accounts for their goods*

*This is limited*

Indirectly, the SFPC program through provision of credit will permit some movement from subsistence to surplus agriculture. This should modestly affect underemployment in the rural areas. Second, the training provided by the League, e. g., accounting, cooperative management, loan portfolio management, etc., equips credit union members with skills useful for employment within the private and public sector. Third, increased capital formation is a necessary condition for development; it is essential to increased employment. Credit union savings mobilization has an indirect effect in this area.

f. Institutional Impact

Fundamental to credit union development is the assumption that sustained and expanded impact on individuals is contingent on a technically sound and financially viable institution. The objectives of this project are wholly directed to strengthening LCCUL technical and financial capabilities so as, in turn, to strengthen the credit unions. The goal of the project is to expand and improve an institutional system that can provide cooperative savings, credit and related services to an increasing number of families in Lesotho.

3. Project Compatibility with Government of Lesotho Development Priorities

The Government of Lesotho's principal development objective is strengthening of the agricultural sector. The Government's second Five-Year Plan emphasized the need for an effective agricultural credit system. As of 1975, 85 institutions were involved in providing some form of agricultural credit; of these, 48 were credit unions. At that time, membership and assets of credit unions represented 63 and 69 percent respectively of the total cooperative sector. The second Five-Year Plan specifically noted the success of the League pilot production credit program. The Government's policy clearly indicates that cooperatives will remain a principal vehicle for credit delivery. The Plan targeted R 187,500 in funding and technical support to the credit union movement over the five year period (1975/76 - 1979/80).

The close/ ...

The close working relationship between the League and the Government will be intensified during the project period. The Ministry of Cooperatives and Rural Development has provided 1 field inspector to LCCUL to undertake and complete audits of the member credit unions. In addition, the Ministry is channelling \$100,000 from the United Nations Capital Development Fund (UNCDF) to LCCUL for on-lending to member credit unions for production credit purposes.

A major emphasis of the Government's agricultural development efforts is the Basic Agricultural Services Program (BASP). This project encompasses the entire lowland and foothills area of Lesotho where the majority of credit unions are located. The BASP project focusses on provision of inputs, marketing, technical assistance and credit. The latter is to be provided by the recently-established Agricultural Development Bank which is seen as the national apex organization for agricultural credit. As stated in the Second Five-Year Plan, the ADB "... will service the residual credit needs ... that are not met by existing institutions ... Every effort will be made to strengthen lending through credit unions, cooperatives, and perhaps farmers associations." It is expected that as the League's SFPC program expands, with the corresponding increase in farmer loan demand, the ADB will be interested in channelling credit through the credit union system. This will not only provide needed capital resources to the credit union movement, but will enable the ADB to lower its overall lending costs.

Finally,/ ...

Finally, Government support is again demonstrated in the draft Third Five-Year Plan, in which this specific project is included, with a brief description of the project objectives and targets. Government policy, which increasingly appears oriented toward the cooperative approach to develop the rural sector, has consistently supported LCCUL's efforts in savings mobilization, productive lending, human resource development and adult education.

4. Analysis of Resource Utilization

Estimation of resource utilization for this project involves substantial complexity and requires measurement of benefit in areas where there is little uniformity or agreement on methodology.

The complexity is inherent in the calculation of project benefits at the member, credit union and League levels and in the sequence of institutional development relationships. Questions of methodology arise in assessing attributable movement growth both directly and in relation to their contribution to national development.

To deal constructively with problems of measurement, emphasis is given to the growth of the credit union movement membership, savings and loans, and to the intermediate impact on credit unions and LCCUL. To simplify the estimation of beneficiary ratios, funding is not allocated on a percentage basis to specific objectives; rather each element of benefit is related to total funding.

Movement/ ...

a. Movement Growth

Strengthening LCCUL capability is of value only to the extent that it results in a demonstrable increase in members served by credit unions; in accelerated mobilization of savings; and in expanded lending to members. The ultimate financial viability of the movement at each level depends in turn on growth in these areas.

b. Savings

In assessing project impact on movement growth, two approaches can be used: 1) gross increase in growth divided by project costs; 2) attributable increase in growth divided by project costs. While both methods are used, the latter provides a more accurate assessment of project impact. The basic assumption is that credit union movement savings and membership growth trends, once established, can be reliably projected using regression analysis. There is a high degree of probability that, in the absence of additional resources, member and savings growth will correspond closely to projections based on established trends. The table below compares movement savings growth at the end-of-project, and upon attainment of self-sufficiency 5 years hence, using both current trends and the growth projected by this development effort.

Movement Savings at Current and Targetted Rates  
(M 000)

<u>Year</u>	<u>Current Trend</u>	<u>Targetted</u>	<u>Difference</u>
3 (EOP)	1,138	1,314	+ 176 (\$ 220)
8 (League (Self-Sufficiency)	1,493	3,305	+ 1,812 (\$2,265)

The/ ...

The three-year expenditure totals \$930,051 of which the USAID contribution would be \$629,842. Since the incremental difference in savings results primarily from the proposed AID inputs, a benefit/cost comparison indicates that by the end of year 3, \$35 in additional savings will have been mobilized by each \$100 in AID inputs.

Application of basic macroeconomic theory substantially magnifies this impact. If it is assumed that marginal propensity to save in Lesotho is 0.2, a multiplier effect on income results equal to 5 (the reciprocal of MPS). Assuming the adequacy of the theory, the impact of increased savings on national income in year 3 would be \$1,100,000; thus \$100 of AID investment would produce \$175 in national income.

Two considerations relate to these estimates. First, credit unions in Lesotho compete marginally with other financial institutions. Savings in credit unions are unlikely to be captured by commercial banks, savings banks and other **repositories**. Second, the targets of accelerated growth in movement savings are conservative and are likely to be exceeded.

c. Loans

A second measure of impact is in loan volume. In examining impact attributable to the project, the following table compares cumulative lending at current trends with that targetted by the project:

Cumulative Lending at Current and Targetted Rates  
(M 000)

<u>Year</u>	<u>Current Trend</u>	<u>Targetted</u>	<u>Difference</u>
3 (EOP)	2,008	2,928	920 (\$1,150)
8 (League Self-Sufficiency)	6,746	22,145	+15,399 (\$19,249)

Over the life of the project, \$ 100 in AID investment will result in \$ 183 in cumulative movement lending.

d. Movement Self-Sufficiency

Credit union and LCCUL financial self-sufficiency are directly linked to movement savings and loans. In the case of credit unions, revenues on loans less the cost of capital (dividend rate) and statutory reserve, represent the major source of earnings. If it is assumed that the project will produce an increase in cumulative loan volume of M 920,000 and that the margin on lending averages 4 percent, funds available to meet operating costs will increase by M 35,800, an average of M 541 per credit union. LCCUL income is largely attributable to the margin on lending, dues based on loan volume, and insurance commissions based on both shares and loans. A subsequent section of this proposal details the impact on LCCUL financial self-sufficiency as a result of this project. In sum, the project will establish the foundation for LCCUL to reach break-even within 5 years following the completion of the project, as opposed to more than 20 using current trends.

The impact estimates provided should demonstrate that the project will produce benefits substantially greater than donor costs. As

such/ ...

such the project represents a defensible use of available resources, comparing favorably with similar alternatives.

5. Project Institutionalization

The project purposes and objectives are directed at consolidating the technical and financial self-sufficiency of credit unions and ensuring the technical and financial self-reliance of LCCUL.

- a. Technical Self-Sufficiency. The objectives and design of this project include: 1) ensuring a technically self-sufficient national association with the ability to; 2) develop and maintain technically viable credit unions. The approach involves: 1) establishing measurable outcomes for performance of essential national association and credit union functions and processes, as listed in Appendix 1; 2) analysis of current performance and identification of factors inhibiting adequate performance; 3) establishment of an institutional development plan to systematically define procedures and develop skills; and 4) periodic monitoring and correction of institutional development activities. Project personnel will focus their efforts on the procedures and skills necessary for LCCUL to both manage its operations and carry out the institutional development of affiliates.
- b. Financial Self-Sufficiency. This is defined as meeting all real costs from internally-generated income. In assessing potential for self-sufficiency, the distinction must be drawn between the

credit/ ...

credit union and a national association. In the case of the former, costs are generally modest and potential revenues relatively high. The situation is reversed for the national association: costs are high and revenues, which are a direct or indirect derivative of credit union income, are initially low. National associations are victims of an unfortunate paradox. In the absence of a national association, growth of the credit union movement proceeds at an uncertain pace and is unlikely to reach a level that will sustain a national service organization; to promote the growth required to sustain a national association, that association is essential.

Financial break-even at the local level is largely dependent on savings mobilized. Savings levels determine loan volume which, in turn, determines interest revenues. These are the major source of income from which most expenses are met. During the initial years, most credit unions have insufficient income to meet the expenses of part - or full-time employees. In Lesotho, a substantial proportion of credit unions are small: twenty-five have savings less than M10,000; fourteen have savings between M10,000 and M20,000. While these credit unions could employ part-time staff, they could do so only by foregoing or significantly reducing dividends. Full break-even, which entails payment of a competitive dividend and meeting the operating costs necessary to provide adequate service, is attainable only with significant increase in savings.

Most/ ...

Most credit unions in Lesotho presently show an operating margin: revenues exceed variable and fixed costs before calculation of reserves and dividends. This margin is generally between 1 and 4 percent of total savings, leaving little available for reserves and dividends.

Expansion of the SFPC program should provide a stimulus to the savings growth of participating credit unions. During 1975/1976, member savings in the three pilot project credit unions increased by twenty-three percent; this compares more than favourably with the national average of 7.5 percent. This can be attributed to the following factors: 1) each SFPC borrower was required to augment his savings by 10 percent. In most instances the actual increase was approximately 30 percent; 2) the presence of a full-time manager not only facilitated the deposit of savings by all members, but also enhanced other services which, in turn, strengthened member confidence; 3) the stimulation of member interest caused by the SFPC program activity also led to high levels of saving; 4) the initial income gains experienced by SFPC participants found their way into increased savings. There is reason to believe that these factors will lead to accelerated savings mobilization in other credit unions that participate in the SFPC program.

LCCUL self-sufficiency represents a more substantial problem. Income from dues, insurance commissions, supplies, and loans to affiliated credit unions do not match the costs incurred by even

a skeletal organization providing minimal services. The possibility of increasing revenues significantly lies mainly with the volume of the central finance program which, in turn, can be increased significantly by the SFPC program.

Savings and deposits of member credit unions with LCCUL are projected to increase dramatically during the project's 3 years, from M164,000 to M313,000. In addition, as mentioned above, UNCDF has committed M180,000 to LCCUL for its central finance program. As projected, SFPC lending will increase to M288,000 in year 3, two-thirds will be financed by LCCUL, one-third by the credit unions. Accordingly, the League's lending to credit unions will increase from the current M20,000 to M215,000 by year 3; and interest income on these loans will increase from M3,601 in year 1 to M14,836 in year 3.

In order to meet projected SFPC loan demand beyond year 3, additional capital funds will likely be required from external sources. Assuming such capital is available, at concessional rates similar to the UNCDF loan (2%), LCCUL would be able to earn interest income on its loans sufficient to break-even within 5 years after project completion.

IV. PROJECT DESIGN AND IMPLEMENTATION

A. Design

During the 3 years of the project, the credit union movement in Lesotho will be strengthened and stabilized, creating a strong base for subsequent growth and expansion. The project will result in an expanded League staff, with skills adequate to meet needs of member credit unions; defined operational policies and procedures for both LCCUL and credit unions; and significant increases in movement membership, savings, and loans.

By the end-of-project, three objectives will be achieved:

- 1 - LCCUL technical capabilities will permit provision of essential technical and financial services to affiliated credit unions and their membership.
- 2 - Conditions for achievement of financial self-sufficiency by LCCUL within 5 years after termination of this project will have been created.
- 3 - The membership, savings, and productive loans of affiliated credit unions will have been significantly increased.

Critical design elements for each objective are summarized as follows:

1. / ... .

1. Technical Capabilities

Required Inputs:

- Budget support for salaries, benefits and related administrative and operating costs for additional LCCUL staff;
- Sufficient qualified and motivated personnel to fill additional positions;
- Technical support to define critical LCCUL and credit union processes and procedures as well as to ensure adequate training of LCCUL staff in their operation.

Anticipated Outputs:

- Staffing of all positions specified in LCCUL Five-Year Development Plan with qualified and motivated personnel;
- Detailed definition of critical LCCUL and credit union processes and procedures consistent with statement of acceptable outcome and available skills and resources;
- Training of League staff resulting in ability to perform all processes and procedures as defined;
- Acceptable or better performance of critical credit union processes and procedures by committees and officials of representative credit unions, directly attributable to improved LCCUL technical capabilities.

2. Financial Self-Sufficiency

Required Inputs:

- Budget support for League personnel necessary to promote and expand credit union membership, savings, and loans;
- GOL Ministry of Agriculture extension services, input supply and marketing support necessary to expansion of SFPC program;
- Technical assistance in strengthening LCCUL Central Finance Department processes and procedures.

Anticipated/ ...

**Anticipated Outputs:**

- Establishment of 16 new credit unions; increase in membership by 9,470; increase in savings of M463,850; increase in loans of M 622,000;
- Increase in credit unions participating in SFPC program from three to 33; increase in SFPC participants and loans to 2058 and M 288,120 respectively;
- Definition of LCCUL Central Finance processes and procedures to ensure maximum return on investment consistent with acceptable levels of risk and provision of required financial services to membership;
- Increase in LCCUL revenues from M24,401 to M46,834; establishment of savings and loan trends combined with estimated increases in administrative and operating costs that suggest acceptable probability of LCCUL Revenues reach M 281,372 within 5 years after project completion, equivalent to 96.1 of self-sufficiency.

**3. Significant Increase in Credit Union Movement Growth**

**Required Inputs:**

- Budget support for required League Staff and related costs;
- Technical assistance in design and implementation of promotion strategies that produce maximum growth of movement indicators consistent with efficient use of resources and the League's mandate to serve its affiliates.

**Anticipated Outputs:**

**Increases over current trends in movement:**

- Membership by 5,000 to 31,470;
- Savings by M. 176,000 to M1,314,000;
- Cumulative loan volume by M 920,000 to M 2,928,000.

B. Implementation

Five organizations will play significant roles in project implementation: LCCUL, ACOSCA, WOCCU, AID and The Ministry of Cooperatives and Rural Development. The Ministry of Agriculture and the Institute of Extra-Mural Studies (IEMS) will provide supporting services while continued financial support from Misereor will be provided during year 1. The major inputs of each participating organization are as follows:

1. LCCUL: LCCUL will provide the staff, organizational resources and an increasing proportion of project costs. At present, the staff includes the Field Services Manager, Insurance Officer, Assistant Accountant, and 4 Field Officers. Project implementation will permit employment of the General Manager, Central Finance Manager, and 2 additional Field Officers in the first year, increasing by one in years two and three. LCCUL in its Five-Year Development Plan emphasizes that numbers alone will not suffice; the League is committed to an ongoing program of staff development to ensure continued improvement in the quality of service to affiliates.
2. ACOSCA: ACOSCA is the major resource available to the credit union movement in Africa. ACOSCA staff include professionals with technical capability in central finance development, risk management program operation, training and education. The ACOSCA Southern Regional Office, based in Maseru, will provide and coordinate training and technical assistance to LCCUL

throughout/ ...

throughout the project. ACOSCA personnel will assist in League planning, financial management, evaluation of potential SFPC credit unions, and liaison with Government of Lesotho and other development agencies. ACOSCA Headquarters personnel in Nairobi will provide support to central finance program operation, risk management and training programs. ACOSCA will also play a central role in project monitoring and evaluation.

3. WOCCU/CUNA Global Projects: A 3-year resident advisor will be recruited and selected jointly by ACOSCA, LCCUL and Global Projects. This advisor will assist in League institutional development and expansion of the SFPC program. Specifically, he/she will assist LCCUL staff to complete an institutional analysis; to develop minimal performance standards for LCCUL processes; to define processes and procedures; and to assist in development of on-the-job training programs to strengthen staff skills. The advisor will also assist in developing systems for SFPC data collection and analysis and development of appropriate loan programs. (See job description, Appendix 2).
4. AID: It is proposed that AID provide three years of funding totalling \$629,842. Funds will be provided for 1) three years of long and short-term technical assistance (\$320,686), 2) LCCUL budgetary support, i. e., personnel costs, training costs, office expenses, staff travel, and contingency allowance (\$304,843), and 3) commodities (\$4,313). (See Tables 1 through 5 for specific project costs).

5. Government of Lesotho: One cooperative officer will be provided by the Ministry of Cooperatives and Rural Development to LCCUL to undertake audits of member credit unions. In addition, Ministry field staff which will include 10 senior cooperative officers and 20 cooperative officers will continue to contribute at least 20% of their time for monitoring and support of primary level credit unions. Current plans call for Ministry staff to be decentralized in the 10 Districts, also corresponding with LCCUL plans to decentralize its field staff. Closer coordination and sharing of resources, particularly with respect to transportation, is expected to result.

In addition, the Ministry of Agriculture will provide agricultural technical assistance to credit union members, with special emphasis on the SFPC participants, who will receive training at subsidized rates at government training centres. Input supplies for credit union members as well as marketing services will be coordinated by the organization to be established by the proposed merger of Coop Lesotho and the Produce Marketing Corp.

Project implementation will proceed according to the schedule shown in Appendix 3.

C. / ...

C. Monitoring and Evaluation

Monitoring will be jointly carried out by ACOSCA and WOCCU/Global Projects. The monitoring approach will be based on registering achievement of interim objectives that will be developed by the LCCUL staff and resident advisor on a periodic basis. Where problems are identified that inhibit achievement of interim and/or project objectives or which imply modification of project design, a detailed analysis and recommended solutions will be provided to LCCUL's Board and General Manager. USAID and other participating organizations will receive quarterly monitoring reports.

The project will be evaluated after 18 months and at the end-of-project to meet AID evaluation requirements. Performance will be measured against the stated quantitative targets, e.g., movement membership, savings, loans, SFPC participants and loans, etc. Secondly, improvement in LCCUL and credit union institutional capabilities will be measured using an approach developed by Global Projects that compares actual performance against minimal standards for each institutional function and process. Thirdly the financial status of LCCUL and the credit unions will be assessed primarily in terms of the degree of self-sufficiency attained. Finally, project impact on SFPC participants, in terms of resultant changes in productivity, income, and standards of living will be measured using information collected from loan applications, interviews, and observations for a sample of program participants.

It is/ ...

It is also proposed that an internal evaluation be conducted by LCCUL during the third year of implementation. The purpose of the evaluation would be: 1) assess progress made toward achievement of project objectives and outputs; 2) identify those factors related to achievement and non-achievement of objectives and outputs; and 3) identify any follow-on activity required, including, if appropriate, objectives, strategies, resources, and alternative sources of support.

V. FINANCIAL PLAN

The total estimated three-year cost of this project is U.S. \$930,051. Of this amount, LCCUL is expected to contribute \$135,390 or 14.6 percent. Other donors are expected to provide \$164,819 or 17.7 percent of total costs. It is requested that USAID fund the project at the level of \$629,842 or 67.7 percent. It should be noted that the LCCUL contribution to non-Technician project costs will increase from 23.2 percent in the first year to 32 percent in the third year.

## BUDGET TABLES

1. Project Costs
2. AID Project Contribution
3. Technical Assistance Support Budget
4. Commodities Budget
5. Other Donor Contribution
6. LCCUL Operating/Administrative Costs
7. LCCUL Income
8. LCCUL Source and Use of Capital Funds
9. Estimation of Number of SFPC Participants, Loan Demand, and Amount Financed by LCCUL

Table 1:  
Project Costs  
(\$)

		1	2	3	TOTAL
	%				
LCCUL	14.6	32,485	44,363	58,542	135,390
Misereor	1.5	13,750	-	-	13,750
ACOSCA	2.3	6,875	7,219	7,580	21,674
Labor Council of Workers	1.0	3,000	3,000	3,000	9,000
Ministry of Cooperatives & Rural Deve.	9.0	26,295	27,610	28,990	82,895
IEMS	4.0	12,500	12,500	12,500	37,500
AID	67.7	<u>186,861</u>	<u>205,217</u>	<u>237,764</u>	<u>629,842</u>
LCCUL Operating Budget (Table 2)		83,656	106,272	114,915	304,843
Technical Assistance (Table 3)		99,892	98,445	122,349	320,686
Commodities (Table 4)		3,313	500	500	4,313
TOTAL PROJECT COSTS		281,766	299,909	348,376	930,051

Table 2

## AID Project Contribution

(\$)

	1	2	3	TOTAL -
1. Personnel Costs				
LCCUL	60,628	76,372	80,991	
Technical Assistance	75,473	72,215	93,111	
TOTAL	136,101	148,587	174,102	458,790
2. Training Costs - LCCUL	4,920	6,884	7,891	19,695
3. Commodities	3,313	500	500	4,313
4. Other Costs				
LCCUL				
Office Expenses	2,713	3,399	3,602	
Staff Travel	8,740	11,957	13,667	
Contingency	6,655	7,660	8,764	
Technical Assistance	24,419	26,230	29,238	
TOTAL	42,527	49,246	55,271	147,044
Total AID Contribution	186,861	205,217	237,764	629,842

Table 3:

Technical Assistance Support Budget

	1	2	3	Total
<b>1. <u>Personnel Costs</u></b>				
Long-Term-WOCCU Advisor				
Salary	28,305	30,753	33,321	
Fringe Benefits	6,227	6,788	7,331	
Allowances	11,631	13,140	14,826	
R & R	-	7,123	-	
Relocation	16,300	-	19,730	
Sub-Total	62,463	57,904	75,208	
Short-Term				
ACOSCA Consultation	5,720	6,292	6,921	
WOCCU Consultation	7,290	8,019	8,821	
AID Evaluation (EOP)			2,161	
Sub-Total	13,010	14,311	17,903	
Total Personal Costs	75,473	72,215	93,111	240,799
<b>2. <u>Other Costs</u></b>				
Long-Term-WOCCU Advisor				
In-Country Travel	1,830	2,105	2,420	
Overhead	17,832	19,437	20,992	
Contingency	4,757	4,688	5,826	
Total Other Costs	24,419	26,230	29,238	79,887
Total Technical Assistance Costs	99,892	98,445	122,349	320,686

Notes - Table 3

1/ Fringe benefits calculated at 22% of salary.

2/ Allowances as follows:

<u>Item</u>	<u>Year</u>	<u>1</u>	<u>2</u>	<u>3</u>
Housing/Utilities <sup>a)</sup>		7,500	8,625	9,919
Education <sup>b)</sup>		1,300	1,430	1,575
Post Differential <sup>c)</sup>		2,831	3,085	3,332
Total		11,631	13,140	14,826

a) Housing at \$575 plus utilities at \$50 per month increasing at 15% per annum;

b) \$650 per year for two children increasing at 10% per annum;

c) 10% of salary.

3/ R & R calculated as 3½ full-fare round trips to Rome at \$2035 per trip (10% above current round trip at \$1850).

4/ Relocation calculated as follows:

<u>Item</u>		<u>Year 1</u>	<u>Year 3</u>
Air Fare			
(Wash-Maseru)	\$900 x 3½	3,150	
(Maseru-Wash)			1090 x 3½ 3,815
Excess Baggage	200 x 3½	700	242 x 3½ 847
Unaccompanied	700lbs x 3.50	2,450	708 x 4.24 2,968
Surface		<u>10,000</u>	<u>12,100</u>
		<u>16,300</u>	<u>19,736</u>

5/ ACOSCA Consultation:

Airfare \$800 . 4 Trips/year, increasing 10% annually.

Per Diem \$ 42/day . 60 days, increasing 10% annually.

6/ WOCCU Consultation:

Airfare \$1800 .3 Trips/year, increasing 10% annually.

Per Diem \$ 42/day . 45 days, increasing 10% annually.

7/ AID Evaluation (EOP)

Airfare \$1090

Per Diem \$51/day . 21 days.

- 8/ In-Country Travel calculated at 6000 miles/annum at \$ .20/mile plus 84 days per diem at \$7.50 per day increasing at 15% per annum. .
- 9/ Overhead calculated at AID-approved rate of 63% of advisor salary.
- 10/ Contingency calculated at 5% of totalcosts.

**TABLE 4:**  
**COMMODITIES BUDGET**  
**(M)**

	1	2	3	TOTAL
Filing cabinet (2 @ 125)	250			
Desks and chairs (7 @ 200)	1,400			
Typewriter - manual (1 @ 400)	400			
Office equipment (calculators, etc)	600	400	400	
<b>Total</b>				
(M)	2,650	400	400	3,450
(\$)	3,313	500	500	4,313

1 M= U.S. \$ 1.25

**TABLE 5:**  
**OTHER DONOR CONTRIBUTION**  
**(M)**

		1	2	3	TOTAL
<b>Contribution to LCCUL Budget</b>					
Misereor		11,000	-	-	11,000
ACOSCA		5,500	5,775	6,064	17,339
Labor Council of Workers		2,400	2,400	2,400	7,200
<b>Total</b>	(M)	18,900	8,175	8,464	35,539
	(S)	23,625	10,219	10,580	44,424
<b>In-kind contribution:</b>					
Ministry of Co-operatives		21,036	22,088	23,192	66,316
I.E.M.S.		10,000	10,000	10,000	30,000
<b>Total</b>	(M)	31,036	32,088	33,192	96,316
	(S)	38,795	40,110	41,490	120,395
<b>Total other Donor Contribution</b>	(M)	49,936	40,263	41,656	131,855
	(S)	62,420	50,329	52,070	164,819

NOTE - TABLE 5

- 1- Misereor - Commitment to provide funding for LCCUL Budget through CY 1980.
- 2- ACOSCA - Provides support for salary and related expenses of Insurance officer.
- 3- Labor Council of Workers: Provides support for salary of one field officer to organize Credit Union among worker groups.
- 4- Ministry of Co-operatives - Contribution based on combined salaries of senior co-operative officers (10) and co-operative officers (20) multiplied by 20%, approximate time provided to support credit union movement. Also 1 co-operative officer provided full-time to LCCUL to complete audits of credit unions.
- 5- IEMS - Contribution based on participant training days provided (800) @ M 10/days plus M2,000/year for research and other activities related to credit union movement.

Table 6:

LCCUL Operating/Administrative Costs

	1	2	3	Total
<u>Personnel Costs</u>				
Salaries:				
General Manager	8,667	9,100	9,555	
Field Services Manager	7,290	7,655	8,037	
Central Finance Manager	7,290	7,655	8,037	
Insurance Officer	5,184	5,443	5,715	
Assistant Accountant	4,293	4,508	4,733	
Field Officer:				
No. 1	4,293	4,508	4,733	
No. 2, 3	7,614	7,995	8,394	
No. 4 - 6	10,741	11,278	11,842	
No. 7	-	3,580	3,759	
No. 8	-	-	3,580	
Clerk/Bookkeeper	2,300	2,415	2,536	
Senior Secretary	2,300	2,415	2,536	
Secretary/Typist	1,717	1,803	1,893	
Janitor/Messenger	810	850	893	
Security Officer	810	850	893	
Gardener (P/T)	540	567	595	
Total Salaries:	63,849	70,622	77,731	
Pension Contributions (5% salaries)	3,192	3,531	3,887	
Total Personnel Costs	67,041	74,153	81,618	222,812
<u>Office Expenses:</u>	3,000	3,300	3,630	9,930
(Supplies, postage, communications, stationery)				

Staff Travel/ ...

	1	2	3	Total
<u>Staff Travel</u>				
Public Transport	600	743	908	
Vehicle:				
Petrol/Oil	2,025	2,530	3,040	
Maintenance/Repairs	600	660	726	
Insurance/License	400	440	484	
Mileage (personal vehicles)	1,000	1,100	1,210	
Per Diems	5,040	6,138	7,405	
Total Staff Travel Costs:	9,665	11,611	13,773	35,049
<u>Education/Training</u>				
SFPC Program				
Participants	3,000	4,000	5,000	
Credit Union Managers	240	264	290	
Materials	400	440	484	
Member/Board Courses	1,000	1,100	1,210	
Staff Development	800	880	968	
Total Education/Training Costs:	5,440	6,684	7,952	20,076
<u>Representation</u>				
Board Allowance	1,000	1,100	1,210	
ACOSCA Dues	664	725	832	
ACOSCA Biennial Meeting	1,120	-	1,680	
Total Representation Costs	2,784	1,825	3,722	8,331
<u>Pig Project:</u>	3,600	7,200	9,000	19,800

	1	2	3	Total
<u>Depreciation</u>				
Vehicle	1,200	1,200	1,200	
Furniture/Fixtures	922	922	922	
Total Depreciation Costs:	2,122	2,122	2,122	6,366
<u>Outside Services</u>				
Audit	300	330	363	
Surety Bond	300	330	363	
Bank Charges	300	330	363	
Miscellaneous	200	220	242	
Total Outside Services Costs:	1,100	1,210	1,331	3,641
<u>Finance/Investment Costs</u>				
Interest				
Capitalization Fund 3%	1,190	1,488	2,118	
Member Savings 6%	6,287	7,822	9,873	
Fixed Deposits 6.5 %	1,170	1,300	1,430	
Lecusa Deposits 5%	265	265	265	
UNCDF Loan 2%	150	500	1,150	
<u>Credit Union House Operating Costs</u>				
Utilities	750	825	900	
Maintenance/Repairs	1,700	2,000	1,000	
Insurance	225	250	275	
Total Finance/Investment Costs:	11,737	14,450	17,011	43,198
Sub-Total	106,489	122,555	140,219	369,263
Contingency Allowance (5%)	5,324	6,128	7,011	18,463
Total Operating/Administrative Costs M	111,813	128,683	147,230	387,726
(S)	139,766	160,854	184,038	484,658

Notes - Table 6

1 - Salaries: First year salaries set according to equivalent positions in Ministry of Cooperatives and Rural Development, with 35% increase based on anticipated increase in GOL salary schedule. 5% increment in subsequent years.

2 - Office Expenses: Includes supplies, stationery, postage, communications, maintenance/repairs, and publications. Increased 10% annually.

3 - Staff Travel: Assumes 4 field officers located outside Maseru, 2 in Maseru.

Public Transport:

	<u>Trips</u>	<u>Cost/Trip</u>	<u>Total</u>
Field Officers (6)	15	5	450
Insurance Officer	15	10	<u>150</u>
			<u>600</u>

Per Diems:

	<u>Trips</u>	<u>Days/Trip</u>	<u>Cost/Day</u>	<u>Total</u>
Field Officers (6)	15	12	3	3240
Headquarters Staff (4)	15	5	6	<u>1800</u>
				<u>5040</u>

Vehicle Expense: Based on previous years' costs, increased by 35% in year 2, and 20% in year 3. Other staff travel costs increased by 10% in second and third years, plus costs related to additional field officer in each year.

4 - Education/Training:

SFPC Participants - 300 trained at Government Training Centres @ M10 per person in first year, increasing by 100 each year. Assumes that in second and third year increasingly greater proportion of new SFPC participants will be trained at village level, with no additional direct cost to LCCUL.

Credit Union Managers - 10 credit unions entering SFPC program each year. Training provided by LCCUL, ACOSCA, IEMS for 12 days @ M2 per day.

Other Costs increased 10% annually.

5 - ACOSCA Dues: .98% of total movement savings.

6. / ...

- 6 - Pig Project: Lack of reliable data precludes determination of accurate cost estimates. Accordingly, costs have been estimated to exactly equal expected income, producing net income of 0 for LCCUL.
- 7 - Depreciation:
  - Vehicle - Original cost of M6000 depreciated over 5 years.
  - Furniture/Fixtures - Current furnitures increased by project contributions depreciated over 8 years.
- 8 - Outside Services: Based on previous years' costs, increased 10% annually.
- 9 - Finance/Investment Costs:
  - Interest - Stated rate of interest times average balance during year for each type savings/deposit.
  - Credit Union House Operating Costs - Normal maintenance/repairs costs about M1000, augmented by major repairs required in years 1 and 2.

TABLE 7 :  
 LOCAL INCOME (M)

	1	2	3	TOTAL
<u>Loans/Investments</u>				
Credit Union House Rent	10175	10176	10176	
Non Credit Union Loans	11% 1100	1100	1100	
Fixed Deposits	7.5% 1428	1640	2081	
Bank Savings	5% 407	547	694	
Credit Union Loans	10% 3601	7865	14236	
Total Loans/Investments	16712	21328	28887	66,927
<u>Insurance Commissions:</u>	571	657	785	2,013
<u>Pig Project:</u>	3600	7200	9000	19,800
<u>Stationery Sales:</u>	800	900	1000	2,700
<u>Dues:</u>	4305	5405	7152	16,872
Total Income (M)	25988	35490	46834	108,312
(₦)	32485	44363	58543	135,391

Notes - Table 7

- 1- Interest received on Credit Union loans estimated at 90% of amount due.
- 2- Income from Insurance program calculated as follows:  
(Total Movement Savings + Total Movement Loans) x .0065=  
Premiums Receivable. LCCUL Commission is 6% of Premiums Received.
- 3- Dues calculated at 1% of Total Movement Loans.  
Amount received estimated at 70%, 75%, and 80% for years 1, 2, and 3  
respectively of Total amount due.
- 4- Interest receivable on loans and deposits based on average balance for  
year.

Table 8:

LCCUL - Source and Use of Capital Funds (M)

		SOP	1	2	3
<b>Source of Funds and Cost of Capital</b>					
<b>Internal</b>					
Shares	0%	5200	5700	6200	6800
Capitalization Fund	3%	36000	43340	55828	85400
Member Savings	6%	94000	115572	145152	183939
Fixed Deposits	6.5%	17000	19000	21000	23000
Lecusa Deposits	5%	5300	5300	5300	5300
Miscellaneous Creditors	0%	6000	7000	8000	9000
Sub-Total		163500	195912	241480	313439
<b>External</b>					
UNCDF Capital	2%	-	15000	35000	80000
Total		163500	210912	276480	393439
<b>Use of Fund and Rate of Return</b>					
<b>Non Revenue Assets: Current A/c</b>					
Fixed Assets, Working Capital	0%	48000	50000	55000	60000
<b>Fixed Investments</b>					
Credit Union House		61000	61000	61000	61000
Non Credit Union Loans	11%	10000	10000	10000	10000
Fixed Deposits	75%	18500	19591	24148	31344
Bank Savings	5%	6500	9796	12074	15672
Loans to Credit Unions	10%	19500	60525	114258	215423
SFPC		-	39200	91867	192080
Financed by LCCUL		-	24200	56867	112080
Financed by UNCDF		-	15000	35000	80000
Other		19500	21325	22391	23343
Total		163500	210912	276480	393439

Table 9:

Estimation of Number of SFPC Participants, SFPC Loan Demand, and Amount Financed by LCCUL

Pilot SFPC <sup>/1</sup>	3000 · .07 = 210	3120 · .10 = 312	3270 · .15 = 490
New SFPC <sup>/1</sup>	4000 · .07 = 280	4400 · .10 = 440	4900 · .15 = 735
		4400 · .07 = 308	4900 · .10 = 490
			4900 · .07 = 343
Total # SFPC Part.	<u>490</u>	<u>1060</u>	<u>2058</u>

Loan Demand

Per Participant	M120	M130	M140
SFPC Loan Demand	58,800	137,800	288,120
Financed thru LCCUL Central Finance (2/3)	39,200	91,867	192,080

/1 Calculated as follows:

Credit Unions in SFPC program:	1 year	-	7%	of total membership
" " " "	: 2 years	-	10%	" "
" " " "	: 3 years	-	15%	" "

## APPENDIXES

1. Listing of Functions and Processes of Credit Union National Association
2. Job Description of WOCUU Management Advisor
3. Project Schedule

- x 1. Operational Planning and Evaluation
  - x a) Breakdown Analysis
  - x b) Operational Plan Objectives
  - x c) Action Planning and Scheduling
  - x d) Monitoring and Evaluation
- 2. Financial Planning and Budgeting
  - x a) Breakdown Analysis
  - b) Determination of Capital Requirements
  - c) Loan Grant Application for Operating Capital Budget Support
  - x d) Price-Formula and Collection Procedures
  - e) Investment Portfolio Management
  - x f) Budget Preparation
  - x g) Budget Controls and Analysis
- 3. Personnel
  - x a) Mission Task Analysis
  - x b) Job Description/Salary and Benefits Identification
  - c) Recruitment and Selection
  - d) Staff Training
- 4. Accounting
  - x a) System Design
  - x b) Bookkeeping
  - x c) Financial Statement Preparation and Analysis
- 5. Marketing
  - a) System Design
  - b) Information Analysis and Report Preparation
- 6. Office Management
  - x a) Files and Records System
  - x b) Funds Receipt and Disbursement
  - x c) Information System
  - d) Materials and Equipment Management
  - e) Office Location and Space Design

- x 1. Preparation of Immediate Action Plan: Establi.
  - a) Pre-Operational and Operational
  - b) ...
  - c) ...
- 2. Supervision and Management Support
  - x a) Inspection/Accounting Records and Management Procedures
  - b) Financial Statistical Analysis
  - c) ...
  - x d) Monetary Savings Promotion Strategies
  - x e) ...
- 3. Marketing
  - x a) ...
  - x b) ...
  - x c) Training Implementation
  - x d) Evaluation
- 4. Statistical Systems Development and Dissemination
  - a) System Needs Identification
  - b) System Research and Development
  - c) ...
  - d) Effectiveness Assessment
- 5. Credit
  - x a) Loan Portfolio Management
  - x b) Loan Policies and Procedures
  - x c) ...
  - x d) Loan Portfolio to Ratio Projections
- 6. Supplies
  - x a) Supply Needs Identification
  - x b) Procurement Purchase Inventory
  - x c) ...
  - d) Transport/Delivery
- 7. Insurance
  - a) Market Assessment Risk Calculation
  - b) Sales Strategy
  - x c) Premium Collection Procedures
  - x d) Claims Payment Procedures
- 8. Information
  - a) Taxation Group/Office Identification
  - b) Communications Development
  - c) ...
  - d) Effectiveness Assessment
- 9. Coordination: Related Public and Private Organizations
  - a) Identification of "Latent" Services Re.
  - b) Identification of Service Sources
  - c) Agreement to Provide Acquired Services
  - d) Monitoring/evaluation of Services

BEST AVAILABLE DOCUMENT

Position: Management Advisor/Lesotho Cooperative Credit Union League

Supervisor: Director of Programs/Global Projects Office

Grade: 23

The Management Advisor will be responsible for providing on-site technical assistance to the Lesotho Cooperative Credit Union League and its affiliated credit unions.

## I. Description of Tasks

### A. Institutional Development

In collaboration with LCCUL Board and Management, the Management Advisor will undertake a systematic strengthening of the League's capabilities and services, focusing on the following functions and processes:

#### 1. Organizational Planning and Evaluation

Establishment of a systematic process to enable the League to identify near and long term objectives, formulate rational plans, implement and evaluate.

#### 2. Financial Planning and Budgeting

Identification of requirements for LCCUL to achieve self-sufficiency, including capital requirements, operating income and expense projections, and establishment of appropriate financial and budget controls.

#### 3. Personnel

Establishment of rational personnel system, including detailed job descriptions based on function/task analysis, effective recruitment system, appropriate staff development programs and useful personnel evaluation procedures.

#### 4. Accounting

Establishment of effective bookkeeping and control procedures, preparation of timely and accurate financial statements.

#### 5. Office Management

Establishment of appropriate procedures for handling of LCCUL information, funds receipt and disbursement, and management of materials and equipment.

## 6. Training

Establishment of training system for LCCUL staff and Board and for credit union leadership, including identification of training needs, design of training programs, implementation and evaluation.

## 7. Promotion

Design of strategies to expand membership and increase savings in member credit unions.

## 8. Central Finance

Establishment of appropriate capitalization strategy, lending policies and investment decisions to best serve credit unions and LCCUL long term self-sufficiency needs.

## 9. Small Farmer Production Credit Program

Coordination of credit and related services, including marketing and technical assistance, development of system to collect and analyze cost returns data.

## B. Project Monitoring and Reporting

The Management Advisor will be primarily responsible for monitoring project performance and submitting required reports to participating organizations. Regular monitoring reports will be prepared in the prescribed format describing achievement/non-achievement of scheduled objectives; plus special reports as required dealing with exceptional problems or situations. The Advisor will also monitor project expenditures and submit regular financial reports.

## C. Representation and Liaison

The Advisor will serve as the principal liaison between Global Projects, ACOSCA, LCCUL, USAID/Maseru, and the Government of Lesotho. With respect to this function, the Advisor will:

1. Regularly meet with the project participants to determine and ensure mutual agreement on responsibilities and obligations.
2. Identify appropriate communications channels with responsible parties in GOL and interested development organizations.
- 3: Identify additional resources that can be made available to assist LCCUL pursue its stated objectives, from public or private organizations in or outside of Lesotho.

#### D. Project Management

The Advisor will have principal responsibility for the efficient management of the project, including:

1. Coordination of all logistical requirements connected with the financial and technical implementation of the project.
2. Completion of all required formalities and protocols with the GOL and donor agencies.
3. Efficient acquisition and management of all physical assets required for project implementation.
4. Prompt identification of problems affecting successful implementation of the project and development of appropriate situations.

#### II. Required Skills

##### A. Demonstrated Professional Competence in the Following Areas:

1. Institutional analysis and development
2. Planning and Evaluation
3. Accounting and Financial Management
4. Training
5. Agricultural Credit Systems

##### B. Demonstrated Capabilities in:

1. Loan Investment portfolio management
2. Office Management systems
3. Personnel systems

##### C. Demonstrated ability to monitor project implementation, to promptly identify problems, and propose appropriate solutions.

##### D. Demonstrated ability to analyze financial and non-financial information, to identify problems and propose appropriate solutions.

##### E. Demonstrated interpersonal skills in a cross-cultural context resulting in the development of appropriate attitudes by host country counterparts.

..  
III. Other Requirements

- A. Good physical and mental health
- B. At least two years overseas field experience, preferably in Africa.
- C. Previous working experience with credit unions or co-operatives.

Project Schedule

<u>MONTH</u>	<u>ACTIVITY</u>	<u>RESPONSIBILITY</u>
-1	Project Approved	AID/W
-1	Allotment of Funds	AID/W
-1	Management Advisor Nominated	WOCCU/ACOSCA/LCCUL
0	Grant Signed	AID/WOCCU
1	(July 1980) Advisor Arrives	WOCCU
4	New LCCUL Staff Employed	LCCUL
4	Quarterly Report	MA/LCCUL
6	New Staff Orientation Complete	MA/LCCUL/ACOSCA
6	Detail Inst. Dev. Plan Prepared	MA/LCCUL/ACOSCA
8	Quarterly Report	MA/LCCUL
12	Quarterly Report	MA/LCCUL
12	LCCUL Self-Support At 23.2 Percent	LCCUL
12	12-15 Inst. Dev. Objectives Completed (See Inst. Dev. Plan, Month 6)	MA/LCCUL ACOSCA/WOCCU
12	Movement Growth Indicators as per LCCUL 5-Year Plan	LCCUL/MA
12	UNCDF Loan Portfolio at M 15,000	LCCUL/MA
16	Quarterly Report	MA/LCCUL
17	Mid-Term Evaluation Initiated	AID/L
18	Quarterly Report	MA/LCCUL
19	Mid-Term Evaluation Completed. Recommendations Incorporated in Second Half Plan	LCCUL/MA
20	Quarterly Report	MA/LCCUL
24	Quarterly Report	MA/LCCUL
	LCCUL Self-Support at 27.6 Percent	LCCUL

24	20 Inst. Dev. Objectives Complete (See Inst. Dev. Plan, Month 6)	MA/LCCUL ACOSCA/WOCCU
24	Movement Growth Indicators as per LCCUL 5-Year Plan	LCCUL/MA
24	UNCDF Loan Portfolio at M 35,000	LCCUL/MA
26	LCCUL Internal Evaluation Initiated	LCCUL/MA/ ACOSCA
28	Quarterly Report	LCCUL/MA
30	LCCUL Internal Evaluation and Outline Plan for 1984-88 Complete	LCCUL/MA/ ACOSCA
32	Quarterly Report	LCCUL/MA
36	Final Report	LCCUL/MA
36	LCCUL Self-Support at 32 Percent	LCCUL/MA
36	15 Inst. Dev. Objectives Complete (CUM. Total @ 50) (See Inst. Dev. Plan, Month 6)	LCCUL/MA ACOSCA/WOCCU
36	Movement Growth Indicators as Follows	
	New Credit Unions	16
	Inc. Savings	M 464,000
	Inc. Loans	M 622,000
	SFPC Participation-	33 Credit Unions
	SFPC Loans	M 288,000
	Central Finance Operating	
	LCCUL Revenues	M 45,000+
36	Advisor Departs	WOCCU

ATTACHMENT D

PROJECT TITLE: LESOTHO CREDIT UNION LEAGUE DEVELOPMENT

PVO NAMES AND  
LOCATIONS: AFRICA COOPERATIVE SAVINGS & CREDIT ASSOCIATION  
BOX 43278  
NAIROBI, KENYA

WOCCU/CUNA GLOBAL PROJECTS OFFICE  
1120 19th ST. N.W.  
WASHINGTON, D.C. 20036 USA

CONTACT PERSONS: MR. BARTHOLOMEW QUAINOO  
EXECUTIVE SECRETARY, ACOSCA

MR. THOMAS CARTER  
PROGRAM DIRECTOR, WOCCU/GPO

DATE OF SUBMISSION  
TO AID: MARCH 19, 1980

DATE OF PROJECT START: JUNE 1, 1980

TOTAL OPG REQUEST: U.S. 629,842

CUNIA



**Credit Union National Association, Inc.**

1120 19TH STREET, N.W. • WASHINGTON, D.C. 20036 • 202-659-4571

May 21, 1980

Mr. Warren Wolff  
Director, Southern  
Africa Projects Division  
AFR/DR, Room 2884  
Agency for International Development  
Washington, D.C. 20523

Dear Mr. Wolff:

I would like to thank you, your staff, and the other participants in the LCCUL Project Review for providing us with the opportunity to share in the discussions last week. I would like to apologize for the delay in providing our response.

Enclosed please find an Addendum to the Grant Proposal which includes discussion of the interest rate issue, the question of loan delinquency and collection and a clarification of the item in the financial plan that indicates ACOSCA contribution to the project.

I am enclosing a copy of "Assessment Report on the Small Farmer Production Credit Project Operated by LCCUL" and "Report to the Board of LCCUL on USAID Conditions Precedent" with the relevant appendices. I believe that a review of these materials will provide your staff with the detailed background that to some extent is implicit in the presentation of these issues in the Grant Proposal.

We are of course available, and would be happy to address any additional questions concerning these or other issues connected with the project. We appreciate the positive reception given to the proposal and hope that our responses will help clear the way to ultimate approval.

Again, please accept our sincere thanks.

Sincerely,

A handwritten signature in dark ink, appearing to read "T. R. Carter".

Thomas R. Carter  
Director of Programs

cc: Mr. Frank Correl, Director, USAID/Lesotho  
Mr. Alfred Harding, AFR/DR/SA  
~~Mr. David Fredrick, AFR/SA~~  
Mr. Bartholomew E. Quainoo, Executive Secretary, ACOSCA  
Mr. Henry Makakole, Manager, ACOSCA SRTC  
Mr. Augustin Bohloa, Acting Manager, LCCUL

TRC/tr

Enclosures

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## ISSUES

### I - INTEREST RATES

The importance of establishing realistic interest rates has become increasingly recognized by development institutions involved in credit programs. In an effort to decrease costs for various target groups such as small farmers, lending rates have often been set at low levels, without taking into account the distortions that result in the capital market, as well as the potentially adverse effects upon the financial institution. With rates of inflation continuing at high levels for most developing countries, credit union movements, along with other financial institutions have been forced to re-examine their operating policies, including the maintenance of interest rates at artificially low levels.

#### A. Operating Principle

CUNA Global Projects, in its assistance efforts to Third World credit union movements, recommends that flexibility be maintained to allow each movement to adjust its interest rate structure appropriate to existing market conditions. No single rate can be proposed that is applicable at all times in all countries. Each credit union movement should periodically analyze its interest rate structure and revise as necessary to reduce the detrimental effects caused by inflation or other economic forces.

As a guide, we suggest that interest rates be established that result in a real cost for the borrower, as well as a real return for the saver. With 12 percent inflation, for example, any lending

rate that does not exceed that figure will not impose a real cost; in fact the borrower is being subsidized. An appropriate structure in this situation might establish lending rates at 24 percent, allowing for a return on savings of 18 percent. Any return on savings that did not exceed 12 percent would serve as a disincentive for savers to continue savings.

This latter point, i.e., the effect of interest rates on savings mobilization, has until recently been virtually ignored by development agencies whose focus has been largely on the credit side. The inability, due to low lending rates, to provide an adequate return on savings has resulted in significant inflation-induced decapitalization for financial institutions worldwide in recent years. Credit unions have been effective in mobilizing savings among lower income groups; accordingly they have a special obligation to maintain their value.

Again, the key to this issue is for the movement to maintain flexibility so that rates can be moved up or down to correspond to economic conditions.

#### B. Constraints

Although a credit union movement may recognize the need to set realistic interest rates, there are at least two constraints that affect implementation.

First, one of the most significant attractions of the credit union movement worldwide is its traditional role as a source of inexpensive credit. Lower and middle income groups, generally unable to obtain credit from commercial lending institutions, whose only alternative previously has been the money-lender, have become conditioned to the availability of credit at reasonable terms from the credit union. In many countries the 1 percent per month interest charge is regarded as one of the unchanging tenets of the credit union movement. Efforts to raise rates to compensate for the effects of inflation meet considerable resistance from the membership.

Secondly, although credit unions do not compete directly with commercial banking institutions, Government sponsored and subsidized institutions may offer a substantial challenge, at least in loans for productive purposes. For example, the Lesotho Agricultural Development Bank, with substantial GOL subsidies, plans to provide credit to small farmers at 10 percent or less. Government development policies that redistribute income via the interest rate structure may be sound; yet non-governmental institutions, operating without this subsidy are vitally affected. Any unilateral increase in interest rates by the credit union movement would likely cause a sizeable portion of the membership to obtain their productive loans from one of the Government programs.

Given these constraints, the leadership of the credit union movement in Lesotho and elsewhere must exercise considerable caution and discretion. The interest rate question is not solely an economic issue, but contains political and psychological variables of equal importance. Conceivably an economically sound decision to raise interest rates could result in declines in both membership and saving.

C. Project Approach to Interest Rates

The interest rate on loans to credit union members is currently set at 12 percent; on loans from LCCUL to credit unions the rate is 10 percent. Until recently, the inflation rate has been relatively low. The past couple of years, however, has seen inflation rising to 12-14 percent, still substantially lower than that experienced in much of the developing world. Because of the close linkages with the South African economy, Lesotho continues to be somewhat sheltered from the factors causing rampant inflation worldwide.

As stated previously, the rate of inflation is one of the key variables that must be considered in determining an interest rate structure. In turn, several important institutional concerns are potentially affected by the level at which interest rates are set, including 1) the rate of return on productive investment, 2) the attraction and maintenance of value of institutional savings, and 3) financial break-even.

- 1- For most types of productive loans, agricultural, small business, or other, the interest costs are a relatively small portion of the total production costs. The costs of raw materials or input supplies, labor, and marketing substantially exceed interest costs. Accordingly it is likely that even if interest rates were doubled or tripled, the rate of return on productive investment would only be slightly affected.

Interest rates are likely to have little bearing on the decision to borrow for productive enterprise; existing market conditions will largely determine that decision. With respect to credit, the key requirement is having it available at the time required by the borrower. Failure of institutional credit sources to meet this requirement will likely lead borrowers to utilize the informal credit market, at rates substantially higher, which would appear to demonstrate the relative insignificance of interest rates in the investment decision process.

The credit union movement in Lesotho could accordingly consider interest rate increases with the expectation that no significant impact would result in the rate of return experienced by their member borrowers.

- 2- High inflation rates can pose a threat to any financial institution's asset base unless it can successfully mobilize savings at an even higher rate; otherwise the value of the

institution's assets will likely decline in real terms. Credit unions and other financial institutions having experienced this phenomenon in countries with unchecked inflation. Even though credit union assets may show increases in nominal terms, in constant currency terms, significant declines have occurred. Without taking adequate measures, this inflation-induced decapitalization can seriously erode the institution's asset base.

By continuing to increase savings at a rapid rate, the asset base of the credit union can be maintained. The interest rate paid on savings is a key variable in determining whether or not a potential saver invests funds with the credit union. If the credit union is not competitive, the saver will select alternative investments, if available, including other financial institutions or investments outside the financial market. The investment selected will likely be one that provides at least a positive return discounted for inflation.

Accordingly, the credit union movement in Lesotho might consider an analysis of the likely impact on savings mobilization resulting from an increase in the dividend rate on savings. A pilot effort might be mounted in 2-3 credit unions initially to assess the effects, and if successful, expanded to the movement as a whole. Of course, comparable increases in lending rates are implied by this approach.

3- As the preceding discussion implies financial break-even would likely be little affected at either the League or credit union level by changes in interest rates. Any strategy to increase lending rates to counter the effects of inflation implies a need to correspondingly increase dividends paid on savings. Presumably the margin between the lending rate and the dividend rate would remain approximately the same, resulting in no change in net income with the same volume of lending.

Accordingly, even if interest rates were adjusted during the course of this project, we would expect no significant change from the current projection estimating that LCCUL will reach financial break-even approximately 5 years after the completion of this 3 year project.

The League Board of Directors has the ultimate responsibility for any decision regarding the interest rate structure. The Management Advisor will be available to analyze and discuss the various implications of any rate change. On an issue as complex as this one, all project participants are involved in a learning process. For that reason, flexibility is essential to allow the participants to work out the most appropriate structure.

## II - LOAN DELINQUENCY AND COLLECTION PROCEDURES

Because of inexact and incomplete data, an accurate measure of loan delinquency for the entire credit union movement is unavailable. However, for a small number of credit unions, loan delinquency is estimated at 20-30 percent, an unacceptably

high level for an effective financial institution. It should be noted however, that loan defaults are extremely rare; members eventually do repay their loans. Thus, although a credit union's income and cash flow position is adversely affected by the loan delinquency situation, actual loan losses are most uncommon.

This problem is endemic for nearly all financial institutions in the developing world. Credit unions, because of the realization that the funds being utilized have been mobilized from members within the common bond, as opposed to external government subsidies, have compiled a relatively successful record of loan repayment. Peer pressure is often an effective force to discourage loan delinquency or default. Excessive delinquency is probably indicative of both inadequately developed management capabilities as well as a failure to provide effective member education. Many members have little previous experience with institutional credit; accordingly the credit union, through continuing education programs, should stress the need to use credit wisely, and the obligation to repay promptly.

Under the project, League resources will be utilized to increase both the scope and quality of member education programs, which, by itself should have a measureable effect on the loan delinquency situation. In addition, technical assistance provided by LCCUL field staff to credit union leaders and managers will result in the installation of effective loan delinquency control and collection procedures. To be effective, the procedures should detail the means to perform:

- o loan analysis - the adage that delinquent loans become delinquent the moment they are granted is still valid. Failure to perform adequate analysis, to assess the borrower's 3 c's (character, collateral, and capacity to repay), to require co-makers, etc., is one of the principal causes of loan delinquency.
- o delinquency analysis - study of the characteristics of the types of loans that become delinquent is essential to reduce future risk. Delinquency may be correlated to loan purposes, amounts, repayment periods, and/or to the borrower's age, occupation, marital status, etc.
- o control procedures - member cards for loans that are delinquent need to be identified and separated out. Information should be compiled, analyzed (including an aging of delinquent accounts analysis), and reported to management and Board of Directors.
- o collection procedures - should include written notices before loan due date, follow-up letters, personal visits, referral to collection service, and legal action. Standard forms and procedures prepared so that loan collection becomes routine operation. Active participation of Board and Committees in process should be solicited.

During its more than 20 years in credit union development, CUNA has acquired the experience to successfully handle this most basic of operational problems. The continued flourishing of credit unions in Latin America, Asia, Africa, and the Caribbean is substantial evidence that loan delinquency has not been an unmanageable problem. In Lesotho, as elsewhere, tested techniques can be implemented to bring it within manageable bounds.

### III - FINANCIAL SUPPORT PROVIDED BY ACOSCA

AID has recently entered into grant agreement with CUNA and ACOSCA to support ACOSCA's 5-year development program. Approximately 40 percent of the program's costs will be met by AID; the remainder will be funded from ACOSCA's own internally generated revenues and by various European donor agencies.

:10:

The AID funds to ACOSCA will be used to meet some of the costs of the head-quarter's operations in Nairobi, and identified training costs, plus the costs related to support a CUNA Training Advisor. None of those funds will be channeled to individual leagues.

Accordingly, the ACOSCA support shown for this project, which covers costs related to the insurance program, is derived from non-AID sources.

In reply please quote: CP/3/1  
Your Reference: ML/DE/jal



504  
632-0214  
Cable address: PLANNOFF  
Telephone: 3811 Maseru

CENTRAL PLANNING AND  
DEVELOPMENT OFFICE  
P.O. BOX MS 630  
MASERU  
LESOTHO

17th October, 1979.

K. Sherper, Esq.,  
Assistant Director,  
U.S.A.I.D.,  
MASERU

Dear Mr. Sherper,

L.C.C.U.L. PROJECT

We are pleased to submit to you for consideration and approval three (3) copies of the above-mentioned project document. The delay in sending it over is greatly regretted but unfortunately it could not be avoided.

Your co-operation and speedy response will be greatly appreciated.

Yours sincerely,

*[Signature]*  
Q. M. Mofu (Mrs.)  
Acting P.S. Planning and Statistics

Received  
19 Oct. 79  
*[Signature]*

UNITED STATES OF AMERICA

MISSION TO LESOTHO

AGENCY FOR INTERNATIONAL DEVELOPMENT

c/o AMERICAN EMBASSY, P.O. BOX 333 MASERU 100, LESOTHO

TEL. 1354

March 28, 1980

Mr. M. Sejanamane  
Permanent Secretary  
Planning and Statistics  
Central Planning and  
Development Office  
Maseru

Dear Mr. Sejanamane:

With reference to your letter dated 17 October 1979, we have submitted a copy of the attached project proposal to A.I.D./ Washington for review and approval.

The proposal which you submitted under cover of your letter was found to be unacceptable to our Mission and we therefore worked with Augustin Bohloa from the Lesotho Cooperative Credit Union League (LCCUL), Henry Makakole from ACOSCA and Gordon Hurd from CUNA Global Projects Office in producing an acceptable project proposal. As you will note, the major changes were to clarify the nature and activities of the three-year project and update all budget figures. After carefully updating total project costs and the proposed A.I.D. contribution, we found that the requested A.I.D. contribution exceeded the approval authority vested in this Mission. Consequently, this project to assist the LCCUL must be approved and authorized in Washington, D.C.

This office will keep you abreast on all matters related to this project.

Sincerely,

*Frank D. Correl*

Frank D. Correl  
Director

Attachment: as stated

ATTACHMENT D

AFR/SA

AGENCY FOR INTERNATIONAL DEVELOPMENT  
Advice of Program Change

Date: 30 April 1980

Country : Lesotho  
 Project Title : Lesotho Credit Union League Development (LCUD)  
 Project Number : 532-0214  
 CP Reference : FWA980-CP, P. 476  
 Appropriation Category : Agriculture, Rural Development and Nutrition  
 Intended FY 1980 Obligation: \$631,000

This is to advise that A.I.D. intends to authorize an Operational Program Grant (OPG) to the Credit Union National Association (CUNA), a registered private voluntary organization. The goal of the OPG is to make savings, credit, and related cooperative services available to an increasing number of families in Lesotho. The \$631,000 grant increases the Lesotho development assistance Operational Year Budget from \$3,553,000 to \$9,519,000.

The OPG's purpose is to strengthen the institutional base of the Lesotho Cooperative Credit Union League (LCCUL) and its 52 affiliated credit unions. A central program element will be expansion of the small farmer production credit through credit unions. Seventy-five percent (75%) of the 22,000 credit union members in Lesotho are women who save and borrow for agriculture, education of children, and craft production.

Inputs funded by this OPG are three person-years of technical assistance (\$220,700); budgetary support to LCCUL - e.g., training costs, personnel costs, office operations, contingency allowance (\$305,000); and commodities (\$5,300). The LCCUL is expected to contribute \$135,000, approximately 14 percent of total project costs (\$932,000). No other donor agencies are involved.

Beneficiaries of this OPG are the current 22,000 credit union members, the estimated 10,000 new credit union members to be gained over the next three years, and an estimated 2,100 farmers who will participate in LCCUL's expanded Small Farmer Production Credit services.

AFR/SA:DFredrickson:4-9-80, Ext. 24732

Clearances:

AFR/RHA:CDParker (draft) Date 4/3/80

AFR/SA:MYDagata Date 4/12/80

GC/LPIA:RLlester Date

AA/AFR:STButcher Date

AFR/SA:DACohen (ditto) Date 4/9/80

AFR/DP:RAstacy Date

DAA/AFR:WHHorta Date 4/12/80

AGENCY FOR INTERNATIONAL DEVELOPMENT - AFRICA BUREAU

OPERATIONAL YEAR BUDGET: PROGRAM REVISION REQUEST

*Haidens  
Rutcher*

TO: Mr. James L. Govan  
AFR/DP/PAB, Room 6671 NS

DATE: May 16, 1980

OYB/PRR No.:

FROM: AFR/SA, Martin V. Dagnan *[Signature]*

Country/Program: Lesotho  
Loans or Grants: Grants  
Appropriation Category: Agriculture, Rural Development, Nutrition

AMOUNT (\$000s)

	(1)	(2)	(3)	(4)
	Original OYB	Most Recent Total	Amount of Change (+ or -) from 2	New Total
TOTAL	4,472	4,472	+ 630	5,102
INCREASE				
632-0214, Credit Union Development (CPG - CUNA)	-	-	+ 630	630
DECREASE				
			-	
			-	
			-	

Summary justification of change by program or activity:

To add CPG project to the Lesotho program.

Is Congressional notification required as result of change?  yes  no

If yes, give date notification was delivered or is to be delivered (15 days must pass before obligation). April 30, 1980

In the case of individual country or international organization programs has an increase in the total program level requiring justification under Section 653(b) of the FAA be effected? (e.g. has the program been increased by at least \$1 million and by 10%).  yes  no

If yes, give date justification was delivered or is to be delivered (10 days must pass before obligation). N.A.

Concurrences:

AFR/Geographic Office DFredrick *[Signature]*

AFR/DR: Wolff (info) AFR/SA, DACohen *[Signature]*

Other: AFR/DP, JHicks

AFR/SA, CDCapoferrri

~~Harding~~  
Harding  
Putzler

REQUEST FOR ALLOTMENTS

Date: May 20, 1980

TO: AFR/DP, Mr. James L. Govan  
FROM: AFR/SA, Martin V. Dagata

COUNTRY: Lesotho  
LOANS/GRANTS: Grants  
APPROPRIATION CATEGORY: Agriculture, Rural Development and Nutrition

(1) Project Title: Credit Union Development <sup>a/</sup>  
Project No.: 632-0214  
Amount: \$630,000

(2) Project Title: \_\_\_\_\_  
Project No.: \_\_\_\_\_  
Amount: \_\_\_\_\_

(3) Project Title: \_\_\_\_\_  
Project No.: \_\_\_\_\_  
Amount: \_\_\_\_\_

(4) Project Title: \_\_\_\_\_  
Project No.: \_\_\_\_\_  
Amount: \_\_\_\_\_

CLEARANCES  
AFR/SA Desk: DFredrick  
AFR/FR/SAP: W Wolff (info)  
AFR/SA: DACohen  
AFR/DP: JHicks

FOR AFR/SA USE  
Appropriation: 72-1101021.3  
Allotment: CA3-50-632-00-89-01  
Previous Total: \$ 842,000  
Change: \$ 630,000  
New Total: \$1,472,000

AFR/SA, CDCapoferri

<sup>a/</sup> Operational Program Grant to Credit Union National Association (CUNA). Congressional Notification period expired May 14, 1980. Project authorization is in process. USAID should await notification that authorization process completed.