

**AIRGRAM**

PD-AAN-381

ISW-32010

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**DEPARTMENT OF STATE**

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FROM . **USAID/Quito** C  
SUBJECT . **INSTIT DEV Credit Unions (CUHA) PROP**

REFERENCE .

**NONCAPITAL PROJECT PAPER (TROP)**

Country: Ecuador Project No. 518-15-995-096.2

Submission Date: 9/1/69 Original: X

Project Title: **INSTIT DEV Credit Unions**

U. S. Obligation Span: FY 1963 through FY 1972

Physical Implementation Span: FY 1963 through FY 1972

Gross life-of-project financial requirements:

U. S. dollars \$ 986,000.00

U. S.-owned local currency 0

Cooperating country cash contribution 202,000.00

Other donor (US) 0

**Totals: \$ 1,188,000.00**

**OTHER AGENCY**

PAGE 1 OF 16

DRAFTED BY Edward Hirabayashi, (Act.) (in draft)	OFFICE Soc. Dev.	PHONE NO.	DATE 9/4/69	APPROVED BY: <i>[Signature]</i> Robert J. Morgan, Mission Director
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Bolton, Cont. (in draft)  
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Miles, APO (in draft)  
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Best Available Document

## A. SUMMARY DESCRIPTION

### Necessity and Justification

Credit in Ecuador from commercial lending sources is not available to the large majority of lower and middle income Ecuadorians. The small farmer, artisan and businessman have traditionally resorted to private money lenders to solve their credit needs. The interest charges from this source vary from 5% per month upward. This credit situation creates a continuing source of frustration for these income groups and more important serves as a brake on their productive potential. Parallel to this credit situation is a general acknowledgement by all classes within the country that fundamental changes in the economic and social structures beginning at the base level have to be made if Ecuador is to develop into a modern society.

One of the principal obstacles holding back these changes is that by tradition people have been oriented to look to central government action for a solution to local problems. Credit, health, education, sanitation, and electrification problems are dependent almost exclusively upon budgetary allocations from the government rather than from funds locally raised and administered. This dependence upon central government support and initiative has resulted all too often in a stagnant situation in local communities where local resources are not being used to solve community problems for lack of motivation and orientation.

To help change this credit and social framework the credit union program was initiated in 1962 when there were only two or three functioning credit unions in operation. It has three basic objectives:

- a) Build the base for a nationwide credit union movement by forming credit unions to stimulate the mobilization of local savings which in turn would service the short-term credit needs of their members at a reasonable rate of interest. (1% per month on the unpaid balance). Special emphasis is given to orienting savings resources to loans for productive purposes in agriculture, artisan, and small business activities.
- b) Establish a self-governing credit union Federation which would provide the necessary technical services in education, field extension, insurance, publications, auditing, and fidelity bonding to build and service this credit union movement.
- c) Provide technical assistance to enable this Federation to become a financially self-supporting and growing organization.

2. Project Goals Through July, 1972

	FY 69	FY 70	FY 71	FY 72
Number of affiliated credit unions	225	255	285	315
Number of members	44,000	54,000	64,000	74,000
Savings*	82 <sup>1/2</sup>	118 <sup>1/2</sup>	154	190 <sup>1/2</sup>
Contribution	S/ 444,000	849,000	1,108,000	1,476,000
Oil Support	US\$ 187,000 <sup>1/2</sup>	138,000	111,000	100,000
Millions of sucres				

Completion of these goals will enable achievement of the first objective. The second set of goals leading to completion of the second objective consists of establishing a Federation of credit unions which will organize new credit unions. The Federation will be established and controlled by a Board of Directors elected by the affiliated credit unions. The third set of goals focuses on generating sufficient income for the Federation to be financially independent from external assistance by July 1972. To obtain this financial support the credit unions affiliated to the Federation will have to make a series of policy decisions beginning in mid-1969 and extending through 1972. The first policy decision will be to change the present dues structure of the Federation so that it will substantially increase the revenue it is now receiving from its affiliates. Presently the Federation is supported on the basis of U. S. \$0.60 per credit union member per year. There is a series of different dues formulas available to the movement for the financing of their Federation. However, any system adopted will have to entail larger expenses for the affiliated credit union as AID assistance declines.

The second policy decision will be the charging for several specific services which credit unions now receive in exchange for dues paid to the Federation. These charges will be for such specialized services as auditing and educational courses. The third policy decision will call for the creation of new sources of income through expansion of services in such allied fields as insurance, etc. Failure to make and carry out policy changes along the aforementioned lines will prevent the Federation from becoming financially self sufficient by July, 1972.

3. Minimum Levels of Output

Minimum levels justifying continued U. S. participation should <sup>be</sup> set at 50% of the yearly programmed goals. Minimum levels following this formula would be the following:

<sup>1/2</sup> Funded through 12/31/69 with FY 69 funds.

**Minimum Levels**

	<u>1969</u> 15	<u>1970</u> 15	<u>1971</u> 15	<u>1972</u> 15
<b>Annual increase in credit unions</b>				
<b>Annual increase in members</b>	5,000	5,000	5,000	5,000
<b>Annual increase in savings*</b>	18	18	18	18
<b>Annual increase in Federation income</b>		\$/2,000,000	\$/ 130,000	\$/ 184,000

\* Millions of sucres

Minimum levels for the formation, staffing and training of the different departments within the Federation have been met as of the date of this paper with the exception of the insurance services department. Formation of this department now depends upon external financing and reinsurance agreements independent of any actions which can be taken by the Federation.

General Approach and Plan of Action

The successful completion of the credit union project in Ecuador is based on the assumption that if a strong movement is to be developed there must be a central organization capable of providing key technical services which will complement the enthusiasm and dedication of community groups interested in forming and operating credit unions for their own well being. To carry out this approach the following plan of action has been adopted:

- 1) The need for a credit union program will be determined by AID/Ecuador.
- 2) Cuna International will be contracted for services of a U. S. technician.
- 3) CUNA will form initial credit unions under contract with AID with interested groups in Ecuador providing the capital, manpower, and dedication necessary for their formation.
- 4) A Federation will be formed which will integrate the credit union movement, provide technical services to existing credit unions, and actively foment the creation of new credit unions. This Federation will receive the financial and technical support of AID through its contract with CUNA International.
- 5) Federation departments will be created with the hiring and training of personnel necessary to staff them. These departments are extension, education,

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- publications, auditing, and management.
- 6) A solid base of credit unions will be formed throughout the country in both urban and rural areas through the efforts of Federation and Peace Corps personnel.
  - 7) Obtain response by volunteers throughout the country to organizational efforts of the Federation. These volunteers take the initiative in forming, capitalizing and administering their individual credit unions.
  - 8) Expand Federation activities in the rural areas through the creation of the Production Credit Department. This department, receiving the assistance of FAO (fertilizers), Ministry of Agriculture (trained agronomists), and Cooperative Bank (loans).
  - 9) Cuna International ceases to administer Aid Contract. The Federation through its Manager and Board of Directors assuming direct responsibilities for program administration. Cuna personnel assume the role of advisors only. (1969).
  - 10) Credit Union Federation begins to increase charges for its services and make a policy commitment to assume full financial responsibility by 1972 for its operations (1969).
  - 11) Federation expands into insurance and fidelity bonding program (1970).
  - 12) Cuna Advisor leaves the program once Federation departments are fully trained and staffed (1971).

### B. SETTING OR ENVIRONMENT

An estimated 80% of the Ecuadorean population does not have access to organized savings and credit institutions. This is due to an antiquated banking system which has historically directed its activities towards serving the larger commercial and private interest in the major cities without taking into account the capacity of middle and lower income groups to play a major role in capital formation within the nation. Up to the past several years the major towns in the provinces had no commercial banking institutions. The villages which surround these provincial towns are still without banking facilities nor is it likely they will receive them in the near future. In a basically agrarian society this system excludes the majority of citizens from participation in the financial life of the country with all the benefits this participation can bring to the individual.

In the/

Large cities ~~with~~ banking institutions do not make credits available to the majority of their customers. Lending policies are based on using the limited capital in existence for relatively large loans to businesses and individuals with excellent collateral thereby excluding the lower and middle income groups from access to credit. Credit facilities in a society of this nature are indispensable if it is

to develop economically. The majority of citizens are self-employed in agriculture, artisan and small business activities. Available credit is a key element if these groups are to expand their income-producing activities. This vacuum has led to the widespread practice of usury throughout the country. Apart from the individual hardships usury imposes on a populace whose annual per capita income is \$ 200, it has the additional detrimental effect of destroying individual initiatives for entering economic activities which under normal circumstances would provide an attractive profit level to the individual.

To change this environmental pattern in a significant manner the following obstacles will have to be overcome:

- 1) Convince large groups of the population that credit unions will provide a valid answer to their savings and credit needs.
- 2) Educate credit union members in the proper use of credit.
- 3) Train administrators with a low educational level to effectively administer credit unions.
- 4) Develop a national organization capable of providing adequate technical assistance to several hundreds of credit unions.
- 5) Obtain adequate financing from the credit union movement to support its national organization once it has been structured.
- 6) Obtain competent government supervision of the credit union movement once it is formed.

### C. STRATEGY

#### 1. General

This project is designed to carry out some of the basic objectives established in Title IX legislation of the U.S. Foreign Assistance Act. Successful completion will increase the production and income of the participants through the creation of democratic institutions serving the financial needs of their members.

#### 2. Alternative Approaches

An alternative to the development of credit unions in Ecuador would be that of reforming the banking system, i.e. so it would make loans to other than large commercial interests in major cities. If this were feasible (which it is not at this time) it would merely alleviate a financial problem whereas through credit unions local leadership and an institution for social change are developed as by-products of providing a source of financing to a group not served by the banking system.

### 3. Cooperating Country Leadership

The impetus for the successful development of the credit union movement depends upon the dedication and abilities of voluntary leaders at the local level who will administer their credit unions. These leaders will be elected at the annual meetings of their institutions to serve on the Board of Directors, Supervisory and Credit Committees. They will be responsible to their members for the failure or success of their efforts. Managers of the credit unions will be named by the Board of Directors and will be responsible to them for the daily administration of credit union activities. Leadership on a national level will be provided by the National Credit Union Federation governed by its affiliated credit unions. To properly implement this project the national government should have a Cooperative Division capable of providing supervision over credit union activities. This would include enforcement of minimum standards in reserves, loan delinquencies, and accounting techniques. At the present time this division is unable to provide these necessary controls. Continuing pressure on the part of the general public and the cooperative movement will be necessary to change this situation.

### 4. Cross Relationships

This project is closely related to other AID and national development activities. AID has granted \$1.2 million loans to the Ecuadorian Cooperative Bank for loans to cooperatives and credit unions. Over 90% of the loans granted by this bank have gone to credit unions who in turn have made sub-loans to their individual members for productive and consumer purposes. FAO working through the Credit Union Federation is using rural credit unions as the instrument to introduce the use of fertilizers to small farmers throughout the country. The field extension division of the Ministry of Agriculture has assigned two field extensionists to work exclusively with rural credit unions in implementing modern agriculture techniques. Both the Federation and individual credit unions coordinate their activities with other development agencies to insure maximum use of the movement's resources.

## D. PLANNED TARGETS AND RESULTS

Successful termination of this project will leave a strong credit union movement functioning throughout the entire country mobilizing local savings and providing low-cost credit to thousands of Ecuadorians. After AID terminates, the movement through its Federation will be continually increasing the number and the quality of credit unions which in turn will be increasing their membership offering them an increasingly varied package of financial and community services. Savings deposits upon termination of AID assistance should be equal to 10% of the savings deposits in private banks. People directly benefited by credit union activities will amount to

over 5% of the total population. A strong credit union movement will have been formed in every province of the country with the exception of the Galapagos Islands.

Apart from economic benefits both democratic principles and social dynamics will have been strengthened in the membership area served by each credit union. Credit unions are social organisms which give courses, hold dances and sponsor other social events, all of which broaden the area of contact among people. Training and experience obtained by the thousands of directors in the administration of credit unions will serve as a useful background for other community activities which require citizen participation.

A key aspect in the credit union program is the utilization of credit unions in rural areas as an instrument to reach farmers with credits and techniques of modern agriculture. By 1972 over 50 rural credit unions with 15,000 farmer-members will be participating in this program to increase agricultural production. Farmers will receive short-term credits and assistance in the use of fertilizers, certified seeds, and proper agricultural techniques. At present the majority of small farmers have no access to any of these advantages.

The insurance cooperative organized by the Federation to provide life insurance to credit union members on savings and loan balances will also be offering family group life insurance to members belonging to credit unions. This insurance will be made available at rates substantially lower than the present commercial rates in Ecuador. Insurance protection for the average individual in Ecuador is almost unknown due to high rates and lack of organized groups through which group insurance techniques can be applied. 25,000 credit union families will be covered with this insurance program by 1972 with good prospects of increasing insurance coverage to other fields thereafter.

#### E. COURSE OF ACTION

The course of action for obtaining overall credit union growth with its individual goals calls for intensive and constant contact throughout the country of the personnel of the various federation departments with the individual credit unions.

The following departments have been or are being established in the Federation:

- 1) Extension. - Six geographic zones each staffed by a trained fieldman with vehicle to organize new credit unions and provide assistance to existing credit unions in promotion, administration, accounting and credit policy.

**2) Education**

An Education Department consisting of one director trained in adult educational techniques who organizes regional and national courses for credit union directors, managers and employed credit union personnel. This director is also responsible for the preparation of printed educational materials and the coordination of basic courses for members given by fieldmen and local credit union personnel.

**3) Publications Department**

A Publications Department which has the basic equipment and personnel to publish accounting, educational and promotional materials on multilith offset presses for the credit union movement.

**4) Auditing**

An auditing department with four trained auditors capable of providing in-depth audits of credit union operations on a regular basis.

**5) Production Credit Department**

A Production Credit Department with four Production Credit Promoters who will orient lending resources of rural credit unions towards loans for agricultural purposes. The department specializes in assisting rural groups to capitalize their institutions rapidly, obtain cooperative bank credit, and coordinate the services of agronomists of the Ministry of Agriculture in training credit union farmer-members in modern agricultural techniques.

**6) Insurance and Bonding**

An Insurance Cooperative which will initially provide life insurance to credit union members on their loan and savings balances with fidelity bonding protection for credit union administrators. As insurance becomes accepted by the movement this cooperative will provide other insurance services. It will be staffed by one insurance specialist.

**7) Legal**

One lawyer to assist pre-credit unions to obtain legal status and to advise existing credit unions on legal problems. This individual is also editor of the monthly credit union newspaper.

**8) Manager**

A manager to be trained to administer Federation departments, <sup>will</sup> work with Board of Directors, and coordinate activities of the entire credit union movement. His staff consists of one secretary, one accountant and one porter-janitor. These departments with the exception of the insurance services are to be staffed, trained, and operating effectively by 1969. The insurance services department will be operating by 1970.

The development of a credit union follows a fairly set procedure which is detailed below:

- 1) Fieldman contact with the interested group.
- 2) Brief feasibility study by the fieldman on membership, capital and leadership potential.
- 3) Formation of the organization committee.
- 4) Education of the organization committee by the fieldman on credit union philosophy, responsibilities and functions.
- 5) Legalization and affiliation of the credit union. This is done by the Federation's legal department and within this step is included the holding of the formation meeting, election of the governing boards, and the training of the manager and boards in their accounting and administrative functions.
- 6) Initiation of saving and lending operations.
- 7) Promotion campaign conducted by the credit union for members and capital.
- 8) Continued visits by the fieldman to inspect the credit union operations.
- 9) Periodic audits by Federation's auditors.
- 10) Periodic training of managers and new Board members in regional and national courses sponsored by the Federation.
- 11) Periodic educational courses for members.
- 12) . Periodic promotional campaigns conducted by the credit union.

The time procedure necessary for the legalization and initiation of credit union operations varies with the enthusiasm and ability of the interested groups. Generally it takes from two to six months before the credit union reaches this stage. Once it is legalized it expands its operations as its capital and membership grow.

Rural credit unions participating in the Production Credit Program follow the same general organizational procedure with the following variations:

- 1) Due to the low level of educational skills the governing boards and managers generally require a much more intensive training program.
- 2) Promotion Campaigns require more assistance because potential farmer-members live in the country and are generally more conservative towards new ideas than groups in the urban areas. The Production Credit Promotor spends a proportionately larger amount of time in these activities than the general fieldman.
- 3) Rural credit unions generally have lower per capita income <sup>and</sup> therefore have a greater need for external credits to complement local capital generated in the promotion campaign. Production Credit Promoters assist these credit unions prepare applications to the Cooperative Bank for credits.
- 4) Production Credit Promoters work with the Manager of the credit union in teaching farmer-members how to use credit, plan farm activities and carry out a farm journal with his inventory and budget. As local credit unions capitalize themselves they hire a country agent to do this work and supervise the loans granted for agricultural purposes.
- 5) Production Credit Promoter coordinates activities of the agronomist of the Ministry of Agriculture with the credit union. The agronomist gives lectures, helps with demonstration plots, and advises on the loan requests. Once the rural credit union is legalized, capitalized and the Production Promoter has completed the forementioned variations the credit union passes over to the control of the fieldman. The production credit promoter then begins working with another rural group. Production Credit Promoters work with four or five rural groups at a time while the fieldman has an average of 30 to 40 credit unions under his responsibility and works with two or three urban groups in formation.

The organization of the Insurance Cooperative will utilize the following procedure:

- 1) Feasibility study.
- 2) Obtaining reinsurance, technical assistance and \$50,000 of the minimum

guarantee capital requirement of \$75,000 through insurance cooperatives in the United States and Canada. (Michigan League Life, Puerto Rican Insurance Cooperative, Nationwide and Saskatchewan Insurance Cooperatives.)

- 3) Local fund-raising campaign to raise \$25,000 of the guarantee capital requirement from Federation affiliated credit unions.
- 4) Obtain first year financing of administrative costs of the insurance cooperative from AID (\$5,000).
- 5) Training of Manager in Bolivia.
- 6) Submission of documentation, insurance policies, etc. to the Ecuadorean insurance commission with a request for permission to operate.
- 7) Legal formation of the insurance cooperative by calling the formation meeting of those unions who have sponsored the cooperative. In this assembly by-laws will be approved and the governing boards elected.
- 8) Initiation of operations. This insurance cooperative although a separate legal entity will operate as a department of the Federation. It will be housed in the Federation's office in Quito and its administrator will be under the supervision of the Federation's manager.

## SESSIONS

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Table 1

Page 1 of 2

COUNTRY: Ecuador

NONCAPITAL PROJECT FUNDING (Obligations  
in \$ 000)

Project Title: Credit Unions

PROP Date: June, 1969

Original: x

Rev. No.:

Project No. 518-15-995-098-2

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Fiscal Years	Ap	L/G	Total	Cont <sup>1/</sup>	Personnel Serv.		Participants		Commodities		Other Costs		
					AID	PASA	CONF	U.S. Agn.	CONF	Dir U.S. Ag.	CONF	Dir U.S. Ag.	
Prior through Act. FY 69			637.0	637.0	-	-	563.0	-	12.0	-	25.0	-	37.0
			187.0	187.0	-	-	154.0	-	2.0	-	4.0	-	27.0
Oper. FY 1970			133.0	133.0	-	-	91.5	-	-	-	6.0	-	40.5
Budget. FY 1971			111.0	111.0	-	-	75.0	-	-	-	2.0	-	34.0
B + 1 FY 1972			100.0	100.0	-	-	65.0	-	-	-	2.0	-	33.0
B+ 2 FY _____													
B + 3 FY _____													
All Subs.													
Total Life			936.0	936.0	-	-	794.5	-	12.0	-	35.0	-	144.5

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16 Table 1  
Page 2 of 2 Exchg rate \$ = 6/13.13

15 Fiscal Years	AID-controlled Local Currency		Other Cash Contribution Cooperating Country	Other Donor Funds (\$ Equiv.)	Food for Freedom Commodities		
	U.S.- Owned	Country Owned			Metric Tons (000)	000 Value & Freight (\$000)	World Market Price (\$000)
Prior through Act. FY <u>1969</u>			48.0				
Oper. FY <u>1970</u>			25.0				
Bulg. FY <u>1971</u>			41.0				
B + 1 FY <u>1972</u>			51.0				
B + 2 FY _____			62.0				
All Subs.							
Total Life			202.0				

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ANNEX A

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**ANNEX B: MANPOWER ANNEX: CREDIT UNIONS  
(MAN-MONTHS)**

Position Title	FY 69				FY 70				FY 71			
	US	E	US	E	US	E	US	E	US	E	US	E
	MI	MI	CONT	CONT	MI	MI	CONT	CONT	MI	MI	CONT	CONT
1. Program Director	-	-	12		-	-	12		-	-	12	
2. Prod. Credit Spac.	-	-	12		-	-	12		-	-	6	
3. Adm. Ins. Cred. Coop.	-	-	-		-	-	-	12	-	-	-	12
4. Extensionist	-	-	-	43	-	-	-	60	-	-	-	43
5. Auditor	-	-	-	36	-	-	-	18	-	-	-	-
6. Manager FECCOAC	-	-	-	12	-	-	-	12	-	-	-	12
7. Director Pl. Depart.	-	-	-	-	-	-	-	-	-	-	-	-
8. Dir. Audit Depart.	-	-	-	12	-	-	-	12	-	-	-	12
9. Mgl. Secretaries	-	-	-	36	-	-	-	36	-	-	-	24
10. Dir. Prod. Cred. Dept.	-	-	-	-	-	-	-	12	-	-	-	12
11. Promot. Dtd. Cred. Prod.	-	-	-	60	-	-	-	60	-	-	-	43
12. Porter Janitor	-	-	-	12	-	-	-	12	-	-	-	12

Position Title	FY 72				FY 73				FY 74			
	US	E	US	E	US	E	US	E	US	E	US	E
	MI	MI	CONT	CONT	MI	MI	CONT	CONT	MI	MI	CONT	CONT
1. Same as above	-	-	12		-	-	-		-	-	-	
2. " " "	-	-	-		-	-	-		-	-	-	
3. " " "	-	-	-	12	-	-	-		-	-	-	
4. " " "	-	-	-	43	-	-	-		-	-	-	
5. " " "	-	-	-	-	-	-	-		-	-	-	
6. " " "	-	-	-	12	-	-	-		-	-	-	
7. " " "	-	-	-	12	-	-	-		-	-	-	
8. " " "	-	-	-	12	-	-	-		-	-	-	
9. " " "	-	-	-	24	-	-	-		-	-	-	
10. " " "	-	-	-	12	-	-	-		-	-	-	
11. " " "	-	-	-	36	-	-	-		-	-	-	
12. " " "	-	-	-	12	-	-	-		-	-	-	

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