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PROJECT APPRAISAL REPORT (PAR)

PAGE 1 of 2 pages

1. PROJECT NO.	2. PAR FOR PERIOD:	3. COUNTRY	4. PAR SERIAL NO.
526-15-110-050.2	TO Dec. 1975	PARAGUAY	76-10

5. PROJECT TITLE PD-AAN-437

CREDIT UNIONS

6. PROJECT DURATION:	7. DATE LATEST PROP	8. DATE LATEST PIP	9. DATE PRIOR PAR
Began FY 1969 Ends FY 1978	11/25/74	-	6/30/75

10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: $	b. Current FY Estimated Budget: $	c. Estimated Budget to completion After Current FY: $
	682,000	301,000	320,000

11. KEY ACTION AGENTS (Contractor, Participating Agency or Voluntary Agency)

a. NAME	b. CONTRACT, PASA OR VOL. AG. NO.
CUNA, Inc.	AID/PHA/C-1071 Task Order N°2

I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION (X) USAID	AID/W	HOST	B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
			The attached reports, consisting of an evaluation of the entire CREDICOOP credit union system and a financial analysis of CREDICOOP, were prepared by two private consultants, José Arroyo and Ralph Miller, and B.W. Allen, an AID/W Financial Analyst. These reports have been reviewed by the Mission and the following action decisions are considered appropriate. This submission substitutes for a regular PAR covering the period from July 1, 1975 to December 31, 1975.	
			1. Review the fidelity bond program of CREDICOOP to ensure that all rural credit unions are covered by such a bond.	Dec. 1976
			2. Develop a strategy to improve the delinquency problem and provide intensive training on how to carry out the strategy.	Open
			3. Undertake a wide reaching education program by CREDICOOP for its affiliated credit unions as well as for its own staff.	June 1977
			4. Continue placing emphasis on the expansion of the overall credit union system for constant growth in membership and share capital.	Open
			5. Credit union leaders should obtain and analyze farm operation data, such as expense and income possibilities, before deciding on loans.	Open

D. REPLANNING REQUIRES REVISED OR NEW: ☐ PROP ☐ PIP ☐ PRO AG ☐ PIO/T ☐ PIO/C ☐ PIO/P

E. DATE OF MISSION REVIEW: January 1976

PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE: Henry L. Miles

MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE: Oliver L. Sause

PROJECT APPRAISAL REPORT (PAR)

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5. PROJECT TITLE

6. PROJECT DURATION: Began FY ____ Ends FY ____	7. DATE LATEST PROP	8. DATE LATEST PIP	9. DATE PRIOR PAR

10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: $	b. Current FY Estimated Budget: $	c. Estimated Budget to completion After Current FY: $

11. KEY ACTION AGENTS *(Contractor, Participating Agency or Voluntary Agency)*

a. NAME	b. CONTRACT, PASA OR VOL. AG. NO.

I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION (X) USAID	AID/W	HOST	B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
			6. CREDICOOP should prepare a marketing plan acceptable to AID. This plan should show that CREDICOOP will have adequate financial and management resources to carry out needed marketing services.	Dec. 1976
			7. CREDICOOP auditing procedures should be streamlined to permit coverage of a greater number of cooperatives at reduced cost.	Jan. 1977
			8. CREDICOOP should separate the promotion function from the financial department.	Dec. 1976
			9. CREDICOOP should prepare cash flow projections on a yearly basis.	Open
			10. Efforts, probably through training, should be made to get more timely and better prepared reports from the credit unions.	Open
			11. CREDICOOP should begin to prepare quarterly consolidated financial reports on the credit unions for information and analytical purposes.	Dec. 1976

D. REPLANNING REQUIRES REVISED OR NEW: ☐ PROP ☐ PIP ☐ PRO AG ☐ PIO/T ☐ PIO/C ☐ PIO/P

E. DATE OF MISSION REVIEW

PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE

MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE

REPORT ON FINANCIAL ANALYSIS OF

CREDICOOP

USAID/PARAGUAY

I. BACKGROUND - INTRODUCTION - SCOPE OF WORK

USAID Paraguay initiated a credit cooperative program in 1970. In May 1973 the "Central" or CREDICOOP was legally formed under Paraguay law. Previous to the formation of the CREDICOOP the USAID had not only ~~[illegible]~~ provided funds but disbursed and accounted for the funds. Beginning in May 1973, CREDICOOP set up its own records, began handling its own funds and prepared to begin disbursing of USAID grant funds. In June 1973 CREDICOOP issued its first financial statements. In July 1973 the USAID advanced CREDICOOP funds and CREDICOOP ~~[illegible]~~ became responsible for the entire operations except for contracts and some commodity procurement that of course must continue to be administered by the USAID.

USAID, early in the life of this project, contemplated providing a loan to capitalize the establishment of credit unions and the CREDICOOP. In December 1974 a Capital Assistance Paper was prepared and in June 1975 the Loan Agreement was signed to provide $ 4.7 million for CREDICOOP Capitalization ($ 3) and UNIPACO ($ 1.7) for marketing. Subsequently it was determined that UNIPACO was not capable of continuing operations and this along with other questions which had developed caused the loan to be temporarily withdrawn before disbursements began. This, then prompted further review of CREDICOOP to determine if it was a viable organization and if the loan of $ 3 million should go forward. This paper is being presented as a part of a total report prepared by a three member team which concluded ~~the~~ CREDICOOP was a viable organization and that the loan should go forward and that certain recommendations should be implemented it order to strengthen not only CREDICOOP but the total creditcooperative organization.

This financial Analysis was conducted by review of financial statements and information available in CREDICOOP, preparation of consolidated and comparative statements, review of the CREDICCOP loan portfolio and preparation of an exhibit showing the portfolio with delinquency information, obtaining, ~~and~~ reviewing and presentation of loan information pertaining to delinquency of the various member credit unions, review of CREDICOOP actions on the high delinquency rates of member credit unions, reviews and discussion with CREDICOOP personnel concerning the adequacy of audit activity of member credit unions, review and discussion of adequacy training, competence and need of CREDICOOP personnel, review of financial and management reporting, and probably most importantly the review of revised combined financial projections and cash flow of both CREDICOOP and the total of the credit unions in the same manner

II. CREDICOOP-FINANCIAL STATEMENTS

The Balance Sheet and Income Statement of CREDICOOP were reviewed from inception through November 30, 1975 and put into a format for comparison as presented in Exhibit A (Balance Sheet) and Exhibit B (Income Statement). It is felt that too much emphasis should not be placed on what these statements might reveal in some respects because they might be misleading since CREDICOOP is a new, developing organization which is a lending/service organization depending upon capitalization in order to lend and perform services and it does not yet have sufficient capital to perform these functions except in a very insignificant manner.

A. Balance Sheet

Review of the Balance not only shows the normal expected grown in the establishment of CREDICOOP but the following indicators are established:

1. Current Ratio (Gross Liquidity)

   current assets including inventory compared to current Liabilities including USAID funds on hand.

   $$\frac{\text{Current Assets}}{\text{current Liabilities}} = \frac{6,995,578}{2,393,267} = 2.92$$

2. <u>Acid Test Ratio</u> - (Liquidity) - current assets ~~including~~ excluding inventory compared to current Liabilities including USAID funds on hand.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{5,130,590}{2,393,261} = 2.14$$

3. Working Capital Ratio (Liquidity) - Current Assets minus current liabilities

Current Assets	5,130,590
Current Liabilities	2,393,261
Working Capital	2,737,329

Again, these ratio's do not mean a great deal since funding has primarily been from donated funds, however, it is believed that these indicators, since they are very acceptable, show that management has been and is managing the available reasources in a competent manner.

B. <u>Income Statement</u>

The income statement, as has been prepared by CREDICOOP, in itself is very inconclusive since it has not been including operating expenses paid by the USAID grant funds. It has only presented income and payment of expenses ~~of~~ not covered by USAID from that income.

Exhibit B present's this information showing the net profit as carried in CREDICOOP's records and then includes a total of the USAID contribution as a reduction of the profit. It is evident from Exhibit B that CREDICOOP has [redacted] not had an operating profit after providing for reserves for depreciation, bad debts and legal reserves. Of course, after including operating expense granted by USAID has sustained losses of \$ 61,293 for 1974 and \$ 74,276 for 1975 through November before provision for reserves. It is estimated that the total operating loss for CY 1975 will be less than \$ 90,000 which is no more than had been estimated.

C. OBSERVATIONS/COMMENTS ON STATEMENT AND FINANCIAL RECORDS.

Review of the records and financial statements and reports reveal that CREDICOOP has not been preparing adequate financial statements for use of Management on a monthly basis. All that has been prepared is a "trial balance" of the accounts month by month, which has not included operating expenses contributed by the USAID nor accrued interest payable or receivable, nor reserves for depreciation, bad debts, and other reserves. Balance Sheets and Income statements including proper accruals and reserves were only prepared at year end. This is understandable at this point in the growth of the organization since it is just being organized and certain expenditures continued to be made by the USAID until beginning of calendar year 1975, however, the organization has reached the point in its growth that financial records and statements must be complete, accurate and provided to Management quickly and in such format and manner that they can be interpreted in a meaningful manner.

Review of the accounting records themselves revealed no significant problems in how financial transactions were handled, however, there could be improvements made which would result in more accurate and meaningful statements which has not been that important in the past but will in all probability take on much more importance as more funds are chanelled into CREDICOOP and the organization grows.

At the present time there are two employees handling the accounting records and financial transactions under the supervision of the CREDICOOP Manager. They appear to be reasonably competent in their jobs. However, as the organization grows and expands and assuming that the loan is granted, there will be need for a Controller. It appears that the time has been reached when serious consideration should be given to adding such a position to the organization in the very near future. Such a person should be experienced enough to not only handle the accounting, but be able to assume management duties that the Manager, CUNA advisors or other personnel may now be doing as well as expanded activities. He should be part of a management team.

D. RECOMMENDATIONS.

As a result of the foregoing, the following specific recommendations are made:

1. All income and expense that is received and expended by CREDICOOP from whatever source should be merged into the normal accounting records. Specifically, USAID and other contributions for operating expenses. These incomes and expenses should be accounted for and reflected in all financial statements and presentations.

2. All appropriate income and expense accounts should be accrued monthly, taken into the accounting records and properly reflected in the financial statements. Specifically this would include interest income, interest expense, depreciation expense and reserve, bad debt expense and reserve, other expenses and reserves and other miscellaneous expenses and accounts payable.

3. Prepare complete and separate Balance Sheets and Income Statements on a monthly basis to include the total financial accounts of the organization.

4. Prepare comparative financial statements on a monthly basis such as comparison to budgets, comparison to previous months and/or years. This can be expanded or contracted as needed and certain comparisons may not be needed each month.

5. Cash flow projections should be prepared on a yearly basis with at least quarterly comparison reports and possibly monthly when activity warrents the use and need.

6. Monthly report on Loan Portfolio with aged delinquency report.

7. Monthly Accounts Receivable report with aged delinquency report.

8. These various reports recommended above should be presented to Management, Board of Directors and USAID with necessary explanations, if needed on a monthly basis.

9. Consider hiring a Controller in the near future.

10. Consider ~~hiring~~ bringing in an expert in cooperative accounting to assist in establishing and implementing the above recommendations and train the staff to use and apply ~~it~~ the [illegible] efficiently.

III. FINANCIAL REPORTING OF CREDIT UNIONS TO CREDICOOP

Reporting by member Credit Unions to CREDICOOP is minimal. The only required report is a monthly "trial balance" of their financial accounts for the month and accumulated for the current year. On the back of this report is a reconcilliation of the Loan, Share and Deposit Accounts with the subsidiary ledgers, an aging of the loan balance as well as other loan information and other statistical information pertaining to membership, savings, etc.

This report is not received in a timely manner. September 1975, reports are presently the last monthly reports which ~~has~~ have been more or less considered totally received and analyzed with statistical information abstracted for CREDICOOP use. Out of 35 Credit Unions, 28 reports had been received for October and 23 reports for November and of course December reports had not had time to be prepared and transmitted. Some Credit Unions apparently have a hapharzard attitude about submitting reports while others do not fully prepare the reports. One of the problems in getting the reports submitted to CREDICOOP appears to be poor methods of being able to transmit the reports, however, it would appear that this may be an excuse in some instances.

No other information or report other than this above mentioned report is required on a regular basis. Any other information needed or required is obtained by special request or the CREDICOOP employees make trips to prepare the information themselves.

For an ongoing, thriving, well managed and financed organization the information submitted would be sufficient and in most respects it probably has been sufficient due to size and activity of the present organization. However, with the contemplated loan and the recommended financial expert, it would be well to review this area of reporting and improve the system.

Upon receipt of the reports from the Credit Unions, personnel of CREDICOOP reviews them for problem areas on which action should be taken and a statistical report is prepared for use of CREDICOOP Management and CUNA Advisors. In order to get a better overall financial picture of the complete organization and to be able to pin-point problem areas it would be well to periodically prepare consolidated statements of all member Credit Unions. A great deal of analysis could be accomplished from such a report.

RECOMMENDATIONS

A. Efforts, probably best through training, should be made to get more timely and better prepared reports from the Credit Unions.

B. The recommended creditcooperative financial expert should review this area and make recommendations for improvement.

C. CREDICOOP should begin to prepare quarterly consolidated financial reports on the Credit Unions for information and analytical purposes.

IV. LOAN DELINQUENCIES

Delinquent loan rates have been and is a matter of grave concern for the Credit Unions and in fact is one of the major, if not the major, problem at the present.

A. CREDICOOP LOAN DELINQUENCY

Exhibit C has been prepared presenting the total loan portfolio of CREDICOOP as well as showing the delinquent loans and including various delinquency rate computations. These various delinquency rates have been computed to give a more complete picture because of the many arguments which can be made for defining what constitutes a delinquency rate.

If the assumption that the total amount of the unpaid loan balance becomes due the moment a payment is missed (when a loan is amortized by more than one payment) and this is the assumption CREDICOOP uses, then two methods of computing the delinquency rate constitutes the norm. One is the ratio of the total delinquent loan amount to total loans made over a period of time which is computation A. in Ehibit C. and shows that the delinquency rate is 10.8%. The other is the ratio of the total delinquent loan amount to total loans outstanding at any given time which is computation B. ~~which~~ and shows that the delinquency rate is 13.2%.

If the assumption is made that only the payments which have not been made constitute the amount that is delinquent then the ratios to total loans made and total loans outstanding is 1.7% and 2.3% respectively.

All of these methods are indicators. However, in this instance it is felt that computation A. is the best indicator since it covers a specific period of time, roughly two years, and meets loan requirements. It is not believed that computation B. will ever be a good indicator for this total organization since there is not, and will not, be, a static loan outstanding balance over a period of time to develope a reliable ratio.

Even though the ratio is high and over the long term unacceptable, there is strong evidence that it is decreasing. CREDICOOP ~~X~~ is fully aware of the problem and is taking steps to combat it. The rates have already decreased due to payments having been received in January.

In addition, ~~on~~ in the final analysis CREDICOOP has some leverage on the credit unions, to not make additional loans when a credit union has a delinquent loan and could recover the loan through reduction of the credit unions shares. From another stand point the amount of delinquent payments is only $ 179,875 or 2.3% of the total loans outstanding with payments constantly being collected, therefore it is felt that there should be little concern for what appears to be an unacceptable delinquency rate at this time.

B. CREDIT UNION LOAN DELINQUENCY

The delinquency rates of the member Credit Unions are much more serious than those of CREDICOOP. The Credit Unions will in all probability suffer a high loss rate, at least over the short term. Exhibit D. presents the total figures by member Credit Unions. The presentation for the Credit Unions is different from that of CREDICOOP due to nonavailability of complete data. However, the same overall picture is presented. Two methods of computation are shown. First, the ratio of delinquent loan balances to total loan balances outstanding which is 48.1%. Second, the ratio of delinquent loan balances to total loans made which is 17.6%. Again it is felt that the second method or a 17.6% delinquency rate is the better method for the reasons previously stated, although recognizing that it is clearly unacceptable.

There are various reasons which have contributed to this unacceptable delinquency rate.

1. Loans being made by the bank to the Credit Union when they already had delinquent loans and against advise of CREDICOOP.
2. Faulty lending practices on the part of the Credit Union.
3. Lack of training in good business practices.
4. Lack of any or forceful collection practices and procedures.
5. Credit Unions having no control over crop harvests.

There could be more listed, however, these are probably the major reasons.

It is believed that these rates will decrease since forceful action is being taken by CREDICOOP to collect the delinquent loans and the

Credit Unions have seemed to realize the seriousness of the problem. The following actions have been taken by CREDICOOP.

1. ~~Eight~~ Ten of the member Credit Unions have been denied further loans until they have drastically improved their delinquency rates.

2. The bank is now accepting CREDICOOP's advise on the granting of loans.

3. An Attorney has been retained by CREDICOOP to collect the delinquent loans and he has had considerable success to date. He has already put some cases into the courts and there is a consensus that this effort with and by the Attorney will prove to be sucessful, realizing of course with the magnitude of delinquency there will still be a heavy loss sustained by some Credit Unions.

4. According to findings during visits to some Credit Unions, the Managers and Board of Directors have been made much more aware of the problem and that it must be corrected.

5. CREDICOOP plans intensive training on the subject of the granting and collection of loans and overall management of the Credit Unions.

Even though the high rate of delinquency is a serious problem, it has been recognized, and intensive, and in cases drastic action, is being taken to prevent it in the future and to correct the present situation to the maximum ~~amount~~ extent. Therefore, it is believed that this should not keep the loan from going forward. Projections which have been revised will be presented in a later section and will reflect a different assumption by increasing loss rates over a period of time but continuing to project a viable project.

V. REVISED PROJECTIONS/COMBINED CASH FLOW

To assist in the financial evaluation of the viability of the Credit Unions and CREDICOOP in view of events that have taken place and additional experience gained over the past 18 to 24 months since the projections were made in the CAP, the CUNA Advisor prepared new projections. These projections were made in the same format as those in the CAP for ease of comparison.

These projections were reviewed closely with the CUNA Advisor as well as USAID Mission personnel. It was the consensus that these projections were very conservative and practical while the CAP projections were possibly more optimistic than what in reality was the case. These new projections have taken into consideration the events which have actually come to pass and those which are known for the future and are intentionally very conservative. There is also a consensus between the CUNA Advisor, the USAID Mission and the Financial Analysist that in all probability the real results of operations of CREDICOOP and the credit unions will be somewhat better than evidenced by the new projections and in actuality be somewhere between the CAP projections and the new projections.

The new projections are presented in EXHIBIT E and the original CAP projections are presented in EXHIBIT F for easy comparison. Explanation of the revised assumptions concerning the revised projections are presented as part of EXHIBIT E.

EXHIBIT E with its revised assumptions are generally self explanatory, however, the highlights of the revision are as follows:

A. Urban Credit Unions

Operating income of urban credit unions has actually increased in 1980 from the original projection of $11,534 to $45,111 and in fact shows projected profits in excess of the CAP projections except in 1975 and 1978. Whereas they were originally showing losses or barely breaking even in 1978 and 1979 they now show substantial profits in 1978 and 1979. Therefore the urban credit unions would appear to be in much better condition than originally envisioned.

b. Rural Credit Unions

The revised projection for rural credit unions show a [redacted] less optimistic picture than for the urban credit unions. They do not break even under the revised projections until 1979 whereas the original projections had them breaking even in 1977. However, with a delay in the disbursing of the loan of one year, that means that they are only one year later in breaking even since the loan was to be 50% of the borrowing. Eventhough the breakeven point is in reality delayed one year, the credit unions are projected to suffer substantial losses through 1978. This to a great extent is caused by the high loss rate. However, in the opinion of the CUNA Adviser, no more than two credit unions might have to cease operations due to decapitalization as a result of these losses. In addition to this optimism one must remember that the loss rates in the future will in all probability be less than has been projected since much greater caution is being exercised over losses as discussed under other sections.

C. CREDICOOP

CREDICOOP under the revised projections does not breakeven until 1980 rather than 1978 as originally projected. Again the year delay in the loan is primarily responsible for one year while a general overall slow down in activity and a slower loan disbursement rate would account for the loss of another year in breaking even. Considering that the revised projection is the minimum which can be expected, it is anticipated that the projected loss will be less than projected and that 1979 will be much nearer the breakeven point than now shown.

VI. AUDITING SERVICES PROVIDED BY CREDICOOP TO CREDIT UNIONS

The CREDICOOP as a "Central" for Credit Unions provides audit services to member Credit Unions on a request basis and these Credit Unions which borrow funds from CREDICOOP can be audited unilaterally by CREDICOOP as a requirement under the loan agreement.

At the present time CREDICOOP has two auditors and the Peace Corps has provided two volunteers to work with them. In CY 1975 nine audits were performed on nine different Credit Unions. These audits were reviewed and they appeared to be quite comprehensive in their coverage of all Credit Union activities. The reports were of a professional quality and quite polished. In fact considering the coverage that CREDICOOP should be making in their audits the reports could be considered too comprehensive and polished. Not meaning that a good job shouldn't be performed.

In order to increase the number of audits being performed each year, probably at least two more auditors or needed on the staff as well as some internal changes in audit procedures and methods to get anywhere near the coverage needed.

According to discussions, CREDICOOP is only recovering or charging the Credit Unions approximately 10% of the cost of performing an audit. The estimated cost of performing an audit is approximately $400 or ₡.50,000. Certainly CREDICOOP cannot continue to perform audits and absorb a 90% loss of this magnitude even though under the circumstances it is realized that some breaks must be given, especially to new organizations. In the revised projections, consideration is given to increasing the recovery cost to $200 or $25,000 which would amount to approximately 50% recovery of cost.

RECOMMENDATIONS

1. In view of the above, it is recommended that one additional auditor be hired as soon as funding can be made available and consideration be given to hiring another within one year.

2. Methods and procedures of performing audits and publishing reports should be reviewed closely with the view of cutting time required to perform audits in order to increase the number of audits performed.

3. Charges to Credit Unions which are in a financial position to absorb higher costs should be charged more in order to lower the loss to CREDICOOP for performing the audits.

VII. PERSONNEL

A detailed study of personnel was not performed, however, in discussions, dealings and review of work performed an opinion was formed of the overall attitudes and competency of the CREDICOOP employees.

It is the opinion of the Financial Analysist that the personnel of CREDICOOP are competent, dedicated and capable of carrying out the intended purposes and functions of the CREDICOOP. The same opinion was formed of the present CUNA Advisors.

Where there may be weaknesses, or in areas where weaknesses may develop, further training should be provided.

VIII. Conclusion

It is evident from the foregoing that the credit unions have problems which in turn reflects back to CREDICOOP. Nevertheless, the foregoing has not only attempted to discuss some of these problems but also to recognise that intensive effort has been and is being devoted to solving these problems. Since CREDICOOP itself appears to be a financially viable organization over the short term of its existence and that it also appears that the problems of the credit unions have been recognized in time to keep them from decapitalizing themselves, there is no reason for not proceeding with disbursement of the loan.

Exhibit H 1 of 2

~~[illegible]~~
Balance Sheet
Cumulative 7/1/73
thru 11/30/75

ASSETS	7/1/73 to 12/31/73 3/	3/31/74 3/	6/30/74	9/30/74	12/31/74	3/31/75	6/30/75	9/30/75	11/30/75
Current Assets									
1. Cash & Checks in Transit	-	-	-	57,255	418,724	-	-	-	4,250
2. Revolving Cash Fund	-	-	100,000	-	50,000	54,615	50,000	50,000	50,000
3. Cash in Banks	28,815	124,579	20,817	197,607	153,364	157,875	734,444	1,135,778	2,441,590
4. Bank Savings Accounts	-	-	443,055	343,087	572,624	450,836	145,687	300,420	330,410
5. Accounts Receivable	237,034	225,846	337,237	400,043	848,988	876,412	2,503,261	2,462,478	2,197,820
6. Advances	-	-	-	-	13,850	158,000	179,211	57,014	106,520
Total Current Assets:	265,849	350,425	901,109	997,992	2,057,550	1,697,738	3,603,623	4,005,690	5,130,590
Fixed Assets									
8. Office Equip. & Machines	-	-	-	1,747,699	1,747,699	1,798,666	1,798,666	1,858,078	1,863,078
9. Furniture & Fixtures	-	-	-	331,720	432,520	432,520	432,520	432,520	432,520
Total Fixed Assets:	-	-	-	2,079,419	2,180,219	2,231,186	2,231,186	2,290,598	2,295,598
Other Assets									
11. Loans Receivable	-	105,000	3,055,000	3,687,238	3,911,624	6,402,028	6,386,175	7,679,440	7,494,220
55. Interest Receivable	-	-	-	-	17,986	17,986	17,986	17,986	-
12. Unpaid Share Certif. Subscribed	1,151,000	991,933	566,133	518,241	958,859	275,650	149,650	410,150	249,000
13. Required Bank Deposit	-	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
14. Inventory	-	-	-	1,009,358	2,255,631	2,518,756	2,108,257	2,036,538	1,864,788
15. Shares-Certificate COLAC	-	-	-	-	-	-	-	126,000	126,000
16. Shares-Banco de Trabajadores	-	-	-	-	-	10,000	10,000	10,000	10,000
Total Other Assets:	1,151,000	1,104,933	3,629,133	5,222,837	7,152,100	9,232,420	8,680,068	10,288,114	9,752,208
Total Assets:	1,410,849	1,455,358	4,530,242	8,300,248	11,389,869	13,161,344	14,514,877	16,584,402	17,178,396
	$ 11,245	$ 11,550	$35,954	$ 65,875	$ 90,396	$ 101,455	$ 115,197	$ 131,622	$ 136,336

3/ Taken from CAP-All other from statements.

Balance Sheet
Inception to Present

	7/1/73 to 12/31/73 1/	3/31/74 1/	6/30/74	8/30/74	12/31/74	3/31/75	6/30/75	9/30/75	11/30/75
Liabilities & Net Worth									
Current Liabilities									
17. Accounts Payable	-	-	-	77,371	146,489	638,118	1,800	823,733	485,207
18. Salaries Payable	-	-	-	-	-	-	-	-	36,201
19. Social Security Benefits	-	-	-	-	-	-	-	-	118,456
20. Fidelity Bonds/CUMIS-Collect.	-	-	-	-	-	-	-	47,177	48,487
21. Retention-Marketing Expenses	-	-	-	-	-	-	290,769	831,649	941,834
72. Utilities-ANTELCO	-	-	-	-	-	-	-	-	31,254
Total Current Liabilities:	-	-	-	77,371	146,489	638,118	292,569	1,702,559	1,661,439
Other Liabilities									
23. Reserve for Fidelity-CUMIS	-	-	-	-	-	-	-	143,876	144,276
24. Loans Payable	-	-	-	-	1,220,000	1,850,000	3,252,000	2,213,089	1,952,000
25. Depreciation-Fixed Assets	-	-	-	-	58,263	58,263	58,263	58,263	58,263
26. Reserve for Bad Debts	-	-	-	-	-	*/ 125,545	125,545	125,545	125,545
27. Other Reserves	-	-	-	-	-	22,153	58,753	58,753	58,753
28. AID Payable-Contributions	-	-	-	(22,241)	618,159	199,446	390,071	560,534	731,822
56. Interest Payable	-	-	-	-	10,295	10,295	-	-	-
Total Other Liabilities:	-	-	-	(22,241)	1,906,717	2,265,702	3,884,632	3,160,060	3,070,659
Net Worth									
29. Suspense Account	-	-	See	-	-	-	-	-	-
30. Subscribed Capital	1,173,000	1,180,500	1,180,500	1,603,500	2,433,500	2,560,000	2,627,000	2,987,000	3,126,000
31. Donated Capital	237,034	259,218	3,389,856	6,624,660	6,755,465	7,617,[illegible]	7,746,006	8,507,418	9,040,418
Retained Earnings Prof. & Loss 3/	6,615	15,640	(40,614)	16,958	147,698 2/	79,994	(35,330)	227,365	279,880
Total Net Worth 3/	1,416.849	1,455,358	4,530,242	8,245,118	9,336,663	10,257,524	10,337,676	11,721,783	12,446,298
Total Liabilities & Net Worth:	1,416,849	1,455,358	4,530,242	8,300,248	11,389,869	13,161,344	14,514,877	16,584,402	17,178,396
	~~$ 11,245~~	~~$ 11,550~~	~~$ 35,954~~	~~$ 65,975~~	~~$ 90,369~~	~~$ 104,455~~	~~$ 115,197~~	~~$ 131,622~~	~~$ 136,336~~

*/ 3.2% of Loans outstanding at 12/31/74

1/ Taken from CAP-All other from statements.
2/ Reserve for Bad Debts and Legal Reserves (Other) required by law established from this total figure in 1/75.
3/ Profit & loss and Net Worth does not reflect the USAID Operating Expense contribution, however, the figures would not change since Donated Capital does not include the Operating expense contribution either.

INCOME	7/1/73 to 12/31/73 3/	1/1/74 to 3/31/74 3/	4/1/74 to 6/30/74	7/1/74 to 9/30/74	10/1/74 to 12/31/74	1/1/75 to 3/31/75	4/1/75 to 6/30/75	7/1/75 to 9/30/75	10/1/75 to 11/30/75
Sales									
32. Printed Materials	237,034	33,434	-	-	-	5,596	8,945	24,876	29,971
33. Office Equipment	-	-	-	-	-	-	39	39	39
34. Agriculture Implements	-	-	-	-	-	191,000	211,422	229,422	247,422
35. Containers	-	-	-	-	13,360	-	-	168,381	168,381
36. Seeds	-	-	-	-	9,500	-	-	43,125	43,125
Total Sales:	237,034	33,434	-	-	22,860	196,596	220,406	465,843	488,938
Other Income									
37. Interest Earned	-	1,209	2,135	14,633	32,757	12,372	122,598	147,037	169,741
38. Commission on Loans	-	750	750	5,509	6,149	25,330	30,733	36,948	41,623
39. Audit Fees Earned	-	-	48,452	66,179	82,559	23,602	65,741	120,495	152,997
40. Fees-Education	-	-	8,400	36,900	46,700	21,200	25,950	36,600	53,400
41. Dues	-	-	-	71,700	308,120	-	-	184,285	279,245
42. Fidelity Bonds Commis.	-	-	-	-	-	-	-	8,327	8,567
43. Other Income	6,815 1/	7,920 1/	29,323	55,827	94,648	3,973	41,885	78,654	105,152
Total Other Income:	6,815	9,879	89,060	250,748	570,933	86,477	286,907	612,346	810,725
Total Income:	243,849	43,313	89,060	250,748	593,793	283,073	507,313	1,078,189	1,299,663
Expense									
44. Bonus paymts. to employees					-	99,000	198,000	330,000	418,000
on loan from other Agencies	--	-	34,000	11,000	293,640	97,098	211,203	316,795	394,675
45. Travel Expenses of above	-	-	85,820	189,811	-	860	3,105	6,605	9,155
46. Representation Expenses	-	-	-	-	35,318	6,121	11,076	17,076	17,076
47. Other expense	237,034 2/	33,434 2/	8,800	8,600	11,349	-	106,259	167,348	167,827
48. Interest on Loans	-	1,054	1,054	1,054	24,400	-	13,000	13,000	13,000
49. Commissions on Loans	-	-	-	-	23,125	-	-	-	-
51 & 52. Misc. Exp. not paid by AID	--	-	-	23,125	68,263	-	-	-	-
53. Depreciation Expense	-	-	-	-					
Total Expenses:	237,034	34,488	129,674	233,790	446,095	203,079	542,643	850,824	1,019,733
50. Net profit (Loss) Exclud. AID Contrib. to Op. Exp.	6,815	8,825	(40,614)	16,958	147,698	79,993)	(35,330)	227,365	279,880
	($ 54)	($ 70)	($322)	($ 135)	($ 1,172)	($ 635)	($ 280)	($ 1,804)	($ 2,221)
USAID Contrib. to Oper. Exp	4/	1,372,151	3,634,979	5,301,931	7,870,661	2,035,633	4,275,330	8,138,074	9,636,645
Net Profit (Loss) Includ. USAID contrib. Exp.	-	(1,363,326)	(3,675,593)	(5,284,973)	(7,722,963)	(1,955,639)	(4,310,660)	(7,910,709)	(9,358,765)
		($ 10,820)	($ 29,171)	($ 41,944)	($ 61,293)	($15,521)	($ 34,212)	($ 62,783)	($ 74,276)

1/ Miscellaneous unidentified services to credit unions.
2/ Costs of sales to credit unions.
3/ Taken from CAP-All others from statements
4/ Not readily available.

CREDICOOP

[illegible]

INCEPTION TO 12/22/75

COOPERATIVE	1 (2 + 3) Total Loans	2 Amt. Paid	3 (4 + 5) Bal. Due	Total Amount Delinquent	4 Bal. not yet Due	5 Pmts. Due
Loans Receivable Equip.:						
From 1/2 to 3 years						
Cnel. Oviedo Ltda.	112,000	48,000	64,000	64,000 1/	23,000	41,000 1/
Yaguarón Ltda.	70,000	13,000	57,000	57,000		57,000
Del Norte Ltda.	112,000	15,000	97,000	97,000	82,000	15,000
Cnel. Bogadó Ltda.	112,000	30,000	82,000	-	82,000	-
Paraguarí Ltda.	196,400	15,000	181,400	181,400	166,400	15,000 2/
San Pedro del Yucá M. Ltda.	151,400	18,000	133,400	-	133,400	-
San Ignacio Ltda.	67,000	18,000	49,000	-	49,000	-
Yuty Ltda.	112,000	17,000	95,000	95,000	82,000	13,000
La Rosarina Ltda.	151,400	18,000	133,400	-	133,400	-
Carmeña Ltda.	67,000	18,000	49,000	-	49,000	-
Juan E. O'Leary Ltda.	67,000	18,000	49,000	-	49,000	-
Gral. Artigas Ltda.	105,500	-	105,500	-	105,500	-
La Barrereña Ltda.	105,500	-	105,500	-	105,500	-
Ypané Ltda.	10,045	-	10,045	-	10,045	-
Quiindy Ltda.	21,105	-	21,105	-	21,105	-
Sub-Total:	1,460,350	228,000	1,232,350	494,400	1,091,350	141,000
Loans Receivable-Various:						
From 1 Mt. to 3 years						
Itacurubí Ltda.	433,740	-	433,740	433,740 1/	392,640	41,100 1/
Coomecipar Ltda.	840,000	315,000	525,000	-	525,000	-
Cnel. Bogado Ltda.	348,037	140,087	207,950	-	207,950	-
Carmeña Ltda.	276,361	185,027	91,334	-	91,334	-
San Ignacio Ltda.	965,380	419,380	546,000	-	546,000	-
Quiindy Ltda.	69,000	20,700	48,300	-	48,300	-
Mburicaó Ltda.	105,000	44,454	60,546	-	60,546	-
Ñeembucú Ltda.	315,660	126,660	189,000	-	189,000	-
Coé Phajhú Ltda.	175,469	-	175,469	-	175,469	-
San Pedro del Ycuá Mandyyú Ltda.	348,370	-	348,370	-	348,370	-
Universitaria Ltda.	368,000	92,001	275,999	-	275,999	-
Sub-Total:	4,245,017	1,343,309	2,901,708	433,740	2,860,608	41,100
Loans Receivable-Agr. Production						
6 months						
Cnel. Bogado Ltda.	1,072,503	886,093	186,410	-	186,410	-

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COOPERATIVE	1 (2 + 3) Total Loans	2 Amt. Paid	3 (4 + 5) Bal. Due	Total Amount Delinquent	4 Bal. not Yet Due	5 Pmts. Due
Loans Receivable-Admin.						
7 years						
Itacurubi Ltda.	240,000	30,000	210,000	-	210,000	-
Carapegua Ltda.	240,000	-	240,000	240,000	210,000	30,000
Cnel. Oviedo Ltda.	240,000	30,000	210,000	-	210,000	-
Yaguarón Ltda.	240,000	-	240,000	240,000	210,000	30,000
Coé Pyajhú Ltda.	240,000	30,000	210,000	-	210,000	-
Del Norte Ltda.	240,000	-	240,000	-	240,000	-
Cnel. Bogado Ltda.	240,000	-	240,000	-	240,000	-
Paraguarí Ltda.	240,000	10,105	229,895	229,895	210,000	19,895 2/
San Ignacio Ltda.	240,000	-	240,000	-	240,000	-
Yuty Ltda.	240,000	-	240,000	-	240,000	-
La Rosarina Ltda.	240,000	-	240,000	-	240,000	-
Carmeña Ltda.	240,000	-	240,000	-	240,000	-
Juan E. O'Leary Ltda.	240,000	-	240,000	-	240,000	-
San Juan Bautista Ltda.	240,000	-	240,000	-	240,000	-
Ypané Ltda.	102,480	-	102,480	-	102,480	
La Barrereña Ltda.	102,480	-	102,480	-	102,480	
Quiindy Ltda.	51,240	-	51,240	-	51,240	
Mburicaó Ltda.	27,000	-	27,000	-	27,000	
Santaní Ltda.	51,240	-	51,240	-	51,240	
Gral. Artigas Ltda.	51,240	240	51,000	-	51,000	
Sub-Total:	3,745,680	100,345	3,645,335	709,895	3,565,440	79,895
TOTALS:	10,523,550	2,557,747	7,965,803	1,638,035	7,703,808	261,995
Pmts. made to Bank prior to reflection in records. 1/		82,100	(82,100)	(497,740)	(82,100)	(82,100)
Adjusted Totals:	10,523,550	2,639,847	7,883,703	1,140,295	7,621,708	179,895

1/ Paid into bank prior to date of entering records, therefore, these amounts not in fact delinquent.
2/ Collected in January - Therefore, with these payments the delinquency rates will be even less than the below calculation.

A. Delinquency rates established assuming total amount of remaining loan falls due when one payment is delinquent.

B. Due to delays in banking system records may reflect a delinquency when in fact, payment has been made. See footnote 1/

Delinquency Computations:

A. $\dfrac{\text{Total Delinquent Loan Amount}}{\text{Total Loans made}} = \dfrac{1,140,295}{10,523,550} = 10.8\%$

B. $\dfrac{\text{Total Delinquent Loan Amount}}{\text{Total of Loans Outstanding}} = \dfrac{1,140,295}{7,883,703} = 13.2\%$

C. $\dfrac{\text{Total Payments Due}}{\text{Total of Loans Made}} = \dfrac{179,895}{10,523,550} = 1.7\%$

D. $\dfrac{\text{Total Payments Due}}{\text{Total of Loans Outstanding}} = \dfrac{179,895}{7,883,703} = 2.3\%$

LOAN DELINQUENT REPORT
RURAL CREDIT UNIONS
as of September, 1975

Name of Cooperative	Total Loans Granted	Loan Balances	Delinquent Loan Balances	1/ Delinquency rate p/Loans Outstanding	2/ Delinq. Rate per Total Loan Granted
Cnel. Bogado 4/	₲ 15,343,000	₲ 7,067,000	₲ 2,000,000	28,3	13,0
Itacurubí	30,821,000	9,103,000	618,000	6,8	2,0
San Pedro	3,979,000	2,153,000	226,000	10,5	5,7
Cnel. Oviedo	39,256,000	9,770,000	2,195,000	22,5	5,6
Yaguarón	16,439,000	6,564,000	1,668,000	25,4	10,1
Paraguarí	10,726,000	5,605,000	259,000	4,6	2,4
Coé Pyajhú 5/	26,018,000	11,975,000	6,030,000	50,3	23,2
Carapeguá 4/	15,027,000	6,747,000	3,000,000	44,5	19,9
Promoción 4/	38,040,000	10,951,000	8,000,000	73,0	21,0
Del Norte 4/	9,506,000	3,853,000	1,241,000	32,2	13,0
San Ignacio 4/	51,491,000	21,862,000	20,000,000	91,5	38,3
Yuty	11,183,000	4,207,000	2,429,000	57,7	21,7
La Rosarina 4/	5,043,000	2,226,000	1,800,000	80,9	35,7
Carmeña 4/	12,152,000	2,936,000	800,000	27,2	6,6
Ypané 4/	1,406,000	539,000	141,000	26,1	10,0
J. E. O'Leary 4/	12,768,000	4,310,000	2,392,875	55,5	18,7
San Juan	8.959,000	3,607,000	2,207,000	61,2	24,6
Acahay	1,183,000	721,000	290,000	40,2	24,5
La Barrereña 4/	2,660,000	966,000	225,000	23,3	8,5
Santaní 3/	1,236,000	1,137,000	Not reported	-	Not reported
Gral. Artigas 4/	1,453,000	432,000	163,700	37,9	11,3
Quiindy	1,412,000	220,000	30,000	13,6	2,1
TOTALS:	₲316,101,000	₲ 115,814,000	₲ 55,[illegible]5,575 6/	48,1	17,3

1/ This rate becomes less useful as loans for crop production are paid off and the remaining balance due distorts the actual situation. A credit union such as Quiindy Nº 22 has only 3 delinquent borrowers and collected all but ₲ 30,000 on loans of ₲ 1,412,000 made in 75.

2/ The inverse of this rate provides the percentage of loans recuperated out of all loans made. The average life of all credit unions is around 3 yrs.

3/ Not used in totals since balances not reported.

4/ Represents amount reported as delinquent when cooperative submitted loan application to B. N. F.

5/ Amount reported as of October, 1975 by the cooperative.

6/ All or most all of the loans making this total are mature loans & are not considered delinquent due to non payment of a due payment.

REVISED ASSUMPTIONS

The below revised assumptions are presented in the same format as those in the CAP. Only those assumptions which cause a relatively major change in the projections or method used are discussed.

PART A. 1 PROJECTED NUMBER OF CREDIT UNIONS

The 74 and 75 figures are actual figures and very close to the original figures. However, beginning in 1976 the number of credit unions added each year ~~have~~ has been reduced so that by 1980 the total projected has been reduced from 70 to 56. However, note that the rural credit unions have only been reduced from 40 to 38. This reduction in the pace of opening new credit unions has come about in order to be able to consolidate efforts in improving quality of the credit Unions and being able to make sure that they can operate efficiently with less problems.

PART A.2 PROJECTED GROWTH OF MEMBERSHIP

The projected growth of credit union members is reduced significantly. This is caused by several factors primarily the slow ~~done~~ down in adding credit unions and being more selective in membership.

The important figure in the projection is the reduction in the number of farmers qualified for loans. This also is caused by several factors: (1) slow ~~done~~ down in pace of opening credit unions, (2) being more selective in making loans (3) decision to simple slow down loaning process in order to consolidate the credit unions and CREDICOOP's position and (4) most importantly the disqualification of ten credit unions to borrow until their delinquency rates ~~were~~ are acceptable and they ~~has~~ have show they ~~could~~ can

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manage their loaned funds. This reduction in members is reflected in 1975 and is carried throughout the projection. It is felt, that in fact, six of these credit unions will again become eligible to borrow funds within one year, two more within two years and two probably never will be eligible. Therefore if these members do come back in as contemplated the situation will in fact be considerably better than projected.

The membership of urban credit unions ~~have~~ has also changed since original projections contained data on credit unions that were not members of CREDICOOP which is still reflected in the 1974 figures. In 1975 and onward these figures are eliminated. Also the projection was changed to increase existing credit unions membership by 70 per year and add 100 per year in a new credit union.

PART B. PROJECTED SAVINGS

(B.1) The urban credit union member is now assumed to save $10 per year rather than $8. New members are still assumed to save $25 his first year.

(B.2.b) This item of savings of new borrowing farmer members was dropped from the new projection since it has proved to be insignificant.

(B.2.d) CAP
(B.2.b) Revised

The projection was changed from that presented in the CAP, which was complicated and possibly impractical, to the borrowing farmer saving 10% of his loan amount thru 77 and 5% of his loan amount thereafter.

PART C. DEMAND FOR LOANS

Basis for projections has changed little in this section except that the number of borrows affects the total demand.

The number of hectares per farmer borrower has been decreased a small amount so that by 1980 the number of hectares per borrower is 4.9 rather than 5.

PART D. FUNDING AND OPERATING INCOME AND EXPENSES: URBAN CREDIT UNIONS

(D.1.b) This item which stated that operating profits which were not needed for repayment of borrowing or were not distributed would be available for lending the following year. The new projections eliminated this assumption and assumed that it would be used in the credit unions for other purposes until the positions of the credit unions were much improved. However, this is a general assumption because some credit unions are already in a position to go along with the original assumption. Nevertheless it is not considered a source of funds in the new projections which intensives the conservative aspect of the projection.

(D.3.b) Original projection that dues to credit unions per member is \$2.38 per year is incorrect. This is a one time payment per new member. The revised projections reflect this correction in D.2.b.

(D.3.a.) In original projections the 2% loan commission was shown separately, however, it was combined into total interest rate in the new projection line D.2.a.

(D.3.a) CAP

(D...a) Revised

Interest charged by credit unions has been increased from 12 percent plus two percent commission to 14½ percent plus 2 percent commission. Not all credit unions have yet went to this increased rate, however, approximately 50% have and it is anticipated that the other 50 percent will within the next year.

(D.4.c.) CAP

(D.3.e.) Revised

The original projection assumed operating costs of $4,000 per year thru 1980. The revised projection assumes $4,000 per year plus 5% additional each year beginning in 1975. This takes inflation into consideration plus possible expansion.

(D.4.d.) CAP

(D.3.f.) Revised

The original projection assumed loss on uncollectable loans at 1% of the value of loans allowing for a one year lag.

The new projections provide for a 3% loss and is taken in the same year of the loan. This new rate is high, but probably is more closer to reality since the urban credit unions loans are consumer type which do not produce any revenue.

(D.4.e.) CAP

(D.3.d.) Revised

There was difficulty in determining basis for original projection of audit and education fees. However new projections are $200 per audit for 50% of the credit unions per year plus $500 total education fee each year.

(D.4.H.) CAP

(D.3.H.) Revised

Dividends to members was changed from 4% during 1973 to 1975 and assumed to be nothing. From 1976 to 1978 they were assumed to be 4%.

PART E. <u>FUNDING AND OPERATING EXPENSE RURAL CREDIT UNIONS</u>

(E.1) Profit and loss again is not considered a source of capital funds in the new projections as they were in the original projections.

(E.2.c.) CAP

(E.1.c.) Revised

In the original projections farmers were assumed to repay loans in the calendar year after they were made and the average loan was assumed to be seven months.

The new projections assumes farmers will repay loans in the same year loans were made since the projections are changed from a calendar year to a fiscal year (7/1 to 6/30) and that the average loan is for 11 months. The loan time is extended to make it better fit the yearly cycle and it takes the additional time for crops to be harvested, marketed and payment received.

(E.2.e.) CAP

This assumption is eliminated. The loans are no longer perpetual because CREDICOOP has an exemption from the stamp taxes of 1 1/2 % on loans.

(E.6.b.) CAP

(E.6.b.) Revised

Dues are not $2.38 per member per year, but $2.38 per new member, one time only.

(E.6.c.) CAP

(E.6.a.) Revised

Interest ~~of~~ and commission has been revised from 14% total to 16% total and is assumed to be all paid in same year borrowed.

(E.7.b.) CAP

(E.7.b.) Revised

Original Projection was $4,000 a year for operating cost. New projection is $4,000 per year plus 5% additional each year beginning in 1975 in order to meet inflation and possible expansion costs.

(E.7.c.) CAP

(E.7.d.) Revised

The original projections assumed a 1% bad debt loss each year. The new projection has taken into consideration what has actually happened and revised its projections upward drastically. The losses are now assumed to be as follows:

1974 - 15 %
1975 - 5 %
1976 - 4 %
1977 & 1978 - 3 %
1979 & 1980 - 2 %

These [illegible] rse are extreamly high and to a large extent are responsible for the credit unions not reaching a break even point much quicker than they are projected to.

(E.7.D) CAP

(E.7.h.) Revised

The new projection is that Audit and Education charges or $200 per audit of 50% of the credit unions plus $5.0 for education per year.

(B.7.e.) CAP

(B.7.e.) Revised

The original interest payments to C... were assumed at 5% to be paid half in the year of the loan and half the following year.

The new projection assumes % plus 1/2 of one percent commission all to be paid in the year of the loan.

(B.9) CAP

The original projections assumed payment of a dividend on saving beginning in 197?. The new projections do not assume any divident payments, however, some credit unions may very well be able to pay dividends.

PART 7. FUNDING AND OPERATING INCOME AND EXPENSES: CR..ICOOP

The original projections presented three plans which had different assumptions, however, when the loan was authorized "Plan C" was the plan used. Basically this plan was that CaliCOO... would receive successive disbursements of A.I.D. loan funds up to the full disbursement of the $3,000,000. These funds would be passed by the ... to ...EDICOOP with no commission. ... in the ... authorization, it is the assumption used in the new projections.

There are no significant changes in the new projections of sources of capital funds or ... of funds that is not ... ...atory in EXHIBIT E or that has not been ... previous ... on the same subject except as follows:

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(F.4.c.) Interest income on AID deposited .

Funds have changed from a deposit period of four months at 6% annual interest to one month at 8% annual interest. This is due to credit union loans being changed from eight to eleven months. The change in interest rate is an estimate but probably more nearly correct.

(F.5.b.) This interest expense is assumed to be on borrowing by CREDICOOP to meet loan demand in 1980 over and above funds available from the AID loan and other available funds.

(F.9.c.) CAP

(F.5.b.) Revised

The original projection assumed a loss on delinquent loans of 1/2 of one percent. The new projection to be conservative is one percent.

(F.5.a.) CAP

(F.5.d.) Revised

The cost of operations, personnel and other, was increased 10% per year over the original costs to provide for inflation possibly [illegible] [illegible] conservative.

Exhibit E Page 9

FINANCIAL PROJECTIONS (REVISED) CREDICOOP & MEMBER CREDIT UNIONS: 1974-1980
(IN EQUIVALENT U.S. DOLLARS)

FISCAL YEARS RUN FROM 1 July to 31 June

PART A- MEMBERSHIP	74	75	76	77	78	79	80
1. Numbers of Credit Unions & Precoops	30	37	38	42	46	51	56
a. Rural	18	24	24	27	30	34	38
b. Urban	12	13	14	15	16	17	18
2. Credit Unions Members							
a. Rural	5,543	6,725	8,250	10,500	13,090	15,920	19,060
(1) Farm Members	3,033	4,125	5,550	7,530	9,820	12,320	15,100
(1.a.) " " qualified f/loans	3,000	2,000	2,000	3,050	4,500	6,300	9,000
(2) Non farmers	2,510	2,600	2,700	2,970	3,270	3,600	3,960
b. Urban Credit Union-Members	6,800	4,600 */	5,600	6,680	7,830	9,050	10,340
c. Total (a + b):	12,343	11,325	13,850	17,180	20,920	24,970	29,400
PART B - PROJECTION OF SAVINGS							
1. Annual Savings of Members of Urban CU's							
a. Existing members $ 10 per yr. p/memb.	40,000	46,000 */	46,000	56,000	66,800	78,300	[illegible],050
b. New members (first yr.) X $ 25 p/memb.	45,000	- (1)	25,000	27,000	28,750	30,500	32,250
c. Total (a + b ± c)	85,000	46,000	71,000	83,000	95,550	108,800	122,300
2. Annual Savings of members of Rural CU's							
a. non Farmer members							
(1) existing members $ 8 p/yr.	19,728	20,080	20,800	21,600	23,760	26,160	26,800
(2) New members $ 25 p/yr. (1st. yr.)	1,100	2,250	2,500	6,750	7,500	8,750	9,000
(3) Total (1) + (2) = (3)	20,828	22,330	23,300	28,350	31,260	34,410	37,800

*/ INCLUDES ONLY MEMBERS OF CREDIT UNIONS WHO ARE MEMBERS OF CREDICOOP-73, 74 FIGURES INCLUDE NON MEMBER DAT.

(1) ADJUSTMENT FOR ELIMINATION OF NON MEMBER CREDIT UNIONS.

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FINANCIAL PROJECTIONS (REVISED) CREDICOOP & MEMBER CREDIT UNIONS: 1974-1980
(IN EQUIVALENT U.S. DOLLARS)

	74	75	76	77	78	79	80
(Loans to farmers) Cld.	1377000	600000	1000000	1730000	2875000	4540000	7060000
b. Borrowing Farmers 10% of loans through 1977 5% of loans thereafter)	137700	60000	100000	173000	143750	227000	353000
c. Total Rural CU's	158526	82330	123300	201350	175010	261410	390800
3. Cumulative Savings	1974 & prior yrs.						
a. Urban CU's	505000	500000 */	571000	654000	749550	858350	980650
b. Rural CU's							
(1) non farmer members	133328	155658	178958	207308	238568	272978	3.0778
(2) Borrowing Farmer Members	241706	311706	411706	584706	728456	955456	1308456
(3) Total	375034	467364	590664	792014	967024	1228434	1619234
c. Total (a + b + c)	880034	997364	1191664	1476014	1746574	2116784	2629884

PART C-DEMAND FOR LOANS

	74	75	76	77	78	79	80
1. Farmer Demand(Rural)							
a. Hectares p/farmer Borrower	3.5	3.8	3.8	4.1	4.4	4.7	4.9
b. Loan Demand p/Hect.	125	131	131	138	145	152	160
c. No. of Farmer Borrowers	3,150	2,000	2,000	3,050	4,500	6,300	9,000
d. Farmer Demand(axbxc rounded)	1377000	600000	1000000	1730000	2875000	4540000	7060000
e. Loan Repayments	228002	895313	800000	1181687	1830000	2875000	4540000

*/ Includes only members of Credit Unions who are also members of Credicoop. 74 figure includes non member data.

	74	75	76	77	78	79	80
2. Non-Farmer Loan Demand							[illegible]
a. Cumulativa Savings (B. 3. b. 1)	133328*	155658	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
b. Demand (150% Line c3. a)	199992	100000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
c. Repayments (1) Loans made same year (. 36)	71997	36000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(2) Loans made previous yr. (. 57)*	64125	113995	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(3) Loans made 2 yrs. prior (. 07)*	3500	7875	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(4) Total	139622	157870	[illegible]				[illegible]
d. Available Savings (B. 2. a. 3.)	20828	22330	[illegible]		[illegible]	[illegible]	[illegible]
e. Total Supply (2. c4 + d)	160450	180200	[illegible]				
3. Urban Demand					[illegible]	[illegible]	[illegible]
a. Cumulative Savings	505000	500000	[illegible]				
b. Demand (150% c. 3. a.)	757500	750000	[illegible]			[illegible]	[illegible]
c. Repayments							
1. Loans made same yr. (. 36)	280275	270000	[illegible]			[illegible]	[illegible]
2. Loans made previous yr. (. 57) *	342000	431775	[illegible]			[illegible]	[illegible]
3. Loans made 2 yrs. prior(. 07) *	35000	42000	[illegible]				[illegible]
4. Total	657275	743775	[illegible]				
d. Available Savings (B. 1. c.)	85000	46000			[illegible]		[illegible]
e. Total Supply (c + d).	742275	789775	[illegible]				

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PART D - FUNDING AND OPERATING INCOME AND EXPENSES

URBAN CREDIT UNIONS

	74	75	76	77	78	79	80
1. Supply and Demand of Funds							
a. Loan Demand (3b)	757500	750000	856500	981000	1124325	1287525	1470975
b. Supply of Funds	742275	789775	859865	976865	1194432	1281844	1464443
c. (Borrowing) or Savings	(15225)	39775	3365	(4135)	(4893)	(5681)	(6532)
2. Operating Revenues							
Interest 18% on repayments line C.3.4.	15150						
a. 1974-75 2% of demand + 12%	78873	89253	141996	160896	184299	211148	241586
b. New member joining Fee $ 2.38	4284	-	2380	2570	2737	2904	3070
Total	98307	89253	144376	163466	187036	214052	244656
3. Operating Expenses							
a. Due per member .32	2176	1472	1792	2138	2506	2896	3309
b. 1/2 of 1% of Savings 75 onward Capitalization Dues	-	2500	2855	3270	3748	4292	4903
c. Total Credicoop Dues	2176	3972	4647	5408	6254	7188	8212
d. Audit & Educ. Exps.	228	1800	1900	2000	2100	2200	2300
e. Operating cost $ 4000 + 5% thereafter	48000	54600	61770	69458	77792	86787	96486
f. Loss on Delinquent Loans 3%	27725	22500	25695	29430	33730	38626	44129
g. Interest on Borrowed Funds 15%	2284	-	-	620	734	852	980
h. Interest & or Dividends to Members 4% 76-80 of line C.3.a.	-	-	22840	26160	31582	34334	39226
Total	75413	86844	121469	138484	158446	177175	199545
4. Operating Profit or Loss	22894	2409	22907	24982	28590	36877	45111

Profit is assumed saved in Credicoop to meet capitulation requirements and maintained in checking accounts. (i.e. these funds do not produce extra income for the C. Unions).

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Exhibit E

Page [illegible]

PART E - FUNDING & OPERATING [illegible] CREDIT UNIONS

							80
1. Sources of Capital Funds	[illegible]	[illegible]	[illegible]	[illegible],013.[illegible]	1,750.10	[illegible],614.10	[illegible],[illegible]
a. Member Savings				[illegible]	[illegible]	[illegible]	[illegible]
b. Repayment of Loans from [illegible] credit [illegible] prior years	[illegible]	[illegible]	[illegible]	[illegible],416.[illegible]	[illegible],548.65	32,461.51	[illegible]
c. Loan Repayment [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14,375.00	[illegible] .00	35[illegible]
[illegible]					[illegible]		[illegible]
[illegible]							
f. [illegible]							
g. [illegible] supply (a + b + f)							
2. [illegible]							
a. [illegible] to [illegible] 5% [illegible]							
3. [illegible] to [illegible]							
a. [illegible]							
b. [illegible]ission [illegible]							
c. [illegible]							
4. [illegible]							
5. [illegible]							
5. Total Interest							
6. Operating [illegible]							
a. Total loan [illegible] 16% [illegible] 11/12=.1467							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]14	[illegible]	[illegible]
b. Dues $ 2.38 new members only	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11,[illegible]
Total	[illegible]	1,[illegible]	1,[illegible]	[illegible]	1,[illegible]	7,[illegible]22	[illegible]

1978 arbitrary CUs

* Includes projected [illegible] of [illegible] funds.

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	74	75	76	77	78	79	80
7. Operating Expenses							
a. Capitalization Dues - 1/2% one percent of savings	-	23.37	29.53	39.60	48.35	61.42	80.95
b. Credicoop Dues .32 per member	17.73	21.52	26.40	33.60	41.88	50.94	60.99
c. Cost $ 4,000 + 5% per yr. per C.U.	720.00	1,008.00	1,058.40	1,250.10	1,458.60	1,735.36	2,036.60
d. Loss on deliquent loans 15% 1974, 1975 5% 76-4% 77-78=3% 79-80=2%	2365.49	350.00	507.37	612.29	969.86	989.89	1,505.23
e. Interest to [illegible] & Credicoop Line E 6	2,102.16	647.24	971.41	1,610.74	2,549.48	3,095.64	5,922.70
f. Audit & Education 5 200 per audit 1/2 of CUs balance = education 76 onward	~~9..~~ 500	15.00	25.00	30.00	35.00	40.00	45.00
g. Total	4,210.48	2,065.03	2,618.11	3,576.33	5,103.17	6,773.25	9,651.68
8. Operating Result: Profit or Loss	(2,151.50)	(1,010.43)	(721.01)	(528.69)	(304.44)	554.97	1,463.54
9. Dividends - None	-	-	-	-	-	-	-

The credit unions may however pay interest to attract savings at less cost than other borrower funds.

PART F - FUNDING AND OPERATING INCOME AND EXPENSES: CREDICOOP

	74	75	76	77	78	79	80
1. Sources of Capital Funds							
a. Capitalization and other dues							
(1) Urban CU's	21.76	39.72	46.47	54.08	62.54	71.88	82.12
(2) Rural	17.73	44.89	55.93	73.20	90.23	112.36	141.95
(3) Total	39.49	84.61	102.40	127.28	152.77	184.24	224.07
b. Savings of Credit Unions	21.25	11.50	17.75	20.75	23.89	27.20	30.58
(1) Urban 2.5% of Savings 5% of loans	7.61	-	-	2.07	2.45	2.84	3.27
(2) Rural 2.5% of Savings increase	39.63	20.58	30.83	50.34	43.75	65.35	97.70
(3) Rural 5% of loans	1.50	40.00	250.00	432.50	718.75	1,135.00	1,765.00
(4) Total	69.99	72.08	298.58	505.66	788.84	1,230.39	1,896.55
c. Borrowing of CREDICOOP	-	15.39	4,599.02	8,017.06	13,433.39	21,285.37	33,179.38

	74	75	76	77	78	79	80
2. Uses of Funds							
a. Loans to Rural CU's	50.00	500.00	5,000.00	8,650.00	14,375.00	22,700.00	35,300.00
b. Deposits in banks & other misc. uses	141.30	273.38	213.38	213.38	213.38	213.38	213.38
3. Cumulative							
a. All dues	59.49	144.10	246.50	373.78	526.55	710.79	934.86
b. Savings of all CU's	151.81	253.89	552.47	1,058.13	1,846.97	3,077.36	[illegible]
c. Borrowing of Credicoop		15.39	4,614.41	12,631.47	26,064.86	47,350.23	50,529.61
d. Reserves grant fully invested		700.00	700.00	700.00	700.00	700.00	700.00
e. Available for loans to rural CU's	241.30	1,113.38	6,113.38	14,763.38	29,136.36	51,[illegible]	37,138.38
f. Loans to Rural CU's	100.00	900.00	5,900.00	14,550.00	28,925.00	51,625.00	36,925.00
4. Operating Revenues							
a. Annual Dues F.1.a.3.	39.49	84.61	102.40	127.28	152.77	184.24	224.07
b. Program Revenues (Audit & Education)							
(1) Urban CU's	2.28	18.00	19.00	20.00	21.00	22.00	23.00
(2) Rural CU's	5.00	15.00	25.00	30.00	35.00	40.00	45.00
(3) Total	7.28	33.00	44.00	50.00	56.00	62.00	68.00
c. Interest & Commission Income from Rural CU's	-	70.00	437.50	756.88	1,257.82	1,986.25	3,058.75
d. Interest on Deposited AID funds 1/12 of yr. 1 yr. lag.	-	-	-	22.99	58.02	67.17	106.42
e. Total Operating Revenues (a+b3+c)	46.77	187.61	583.90	957.15	1,524.61	2,[illegible]9.66	[illegible],487.24
5. Operating Cost							
a. Interest cost AID funds	-	1.54	91.90	160.34	268.67	425.71	600.00
b. Interest on other funds 8% X 11/12	-	-	-	-	-	-	228.65
c. Loss on Delinquent Loans .01	-	8.00	30.00	86.50	143.75	227.00	353.00
d. Personnel and Special Education 15.000 75 - 76	1,012.25	1,420.00	1,547.00	1,536.70	1,690.37	1,859.41	2,[illegible].35
e. Total	1,012.25	1,429.54	1,668.90	1,783.54	2,102.79	2,512.12	3,227.00
6. Operating Results	(965.48)	(1,241.93)	(1,105.00)	(826.39)	(578.18)	(612.46)?	260.24

*** Includes 73**

** Cost of BNF funds 75 only.

417

89,251

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REPORT ON THE SURVEY AND EVALUATION OF CREDIT COOPERATIVES IN PARAGUAY

I. <u>Background</u>

1.1. Credit cooperatives in Paraguay were developed under the CUNA/AID program in Latin America, starting in 1970 with a full time advisor attached to USAID/Paraguay.

1.2. As of December 31st, 1975, 37* credit cooperatives had been organized and chartered, with a total membership of 12,057, and Gs. 123,222,000 ($977,000) total savings. (*One credit cooperative withdrew from the program in 1975.)

1.3. Besides the promotion and organization of credit cooperatives, a central or federation second level institution was formed by the credit cooperatives to provide financial and technical assistance to the affiliated unions. It is similar in nature, scope, and objectives to the credit union leagues in the United States, but for legal reasons it is chartered as a "central" and not as a federation or league.

1.4. The central took over the functions of the CUNA/AID office in 1973, assuming the responsibilities ~~of the latter,~~ under the name of CREDICOOP.

1.5. Operational budgets of the central and credit unions have been subsidized by USAID, with a total input of $701,000 ~~since~~ from their inception until December 1975 The current budget is $255,000.

1.6. The ProAg under consideration by USAID/Paraguay ~~will~~ would provide a grant to cover budgetary expenses until FY 1977, at least at the present level, which is 177 $301,000. ~~All~~ these figures include CUNA/AID contract.

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II. Loan Agreement

2.1. On June 30, 1975, a loan agreement was signed between USAID and the GOP to provide $6 7 millions for seed capital to UNIPACO and CREDICOOP; the latter would use $3,000,000 for 40 years, gradual at 2 percent for 10 years and at 3 percent for 30 years.

2.2. The loan was processed as a package, with UNIPACO as the second party with intermingling conditions that linked to some extent the operations of CREDICOOP to the operations of UNIPACO.

2.3. Later evaluations demonstrated that UNIPACO was not as efficient and viable as it had been reported, casting serious doubts as to its capacity and responsibility as well as its role in the marketing picture of the loan users' production.

2.4. The loan went through the usual motions in the Paraguayan Congress that must ratify the GOP guarantee. There it attracted heavy fire from different angles because it would be the first loan to a private sector component to be guaranteed by the Government. That was the situation by late November, when it was withdrawn from further discussion at the request of USAID/Paraguay.

2.5. This action caused a fury and up to certain point, embarrased those who had been fighting for its approval. CREDICOOP leaders were annoyed and frustrated by ~~what they considered~~ the unilateral decision of USAID/Paraguay.

III. Study Team

3.1. The study team consisted of Mr. Jose Arroyo-Riestra, expert on cooperative financing and management on leave from ILO; Mr. Ralph Miller, private consultant on agricultural credit and rural development; and Mr. Robert Allen, financial analyst, AID/Washington.

3.2. Mr. Arroyo-Riestra arrived to Asuncion on December 1st., ~~while~~ Mr. Miller arrived on the 29th, and Mr. Allen on the 30th. Mr. Arroyo-Riestra and Mr. Miller ~~will~~ departed on January 9, 1976, while Mr. Allen will depart on January 15, 1976.

IV. Purpose and Scope of Work

4.1. The principal purpose of the study is to review the progress of the AID/CREDICOOP project to date and to assess the project's prospects in order to make recommendations regarding its continuation and/or restructuring.

4.2. Among other things, the team reviewed the following:

(a) Loan procedures

(b) Credit objectives and policies

(c) Interest rates

(d) Loan collections policies and delinquency ratios

(e) Accounting practices, both at the central and affiliated cooperatives

(f) Internal audit and control procedures and practices

(g) Budget and cash flow

(h) Staffing and personnel regulations at CREDICOOP and affiliated cooperatives

(i) Loan portfolio

(j) Physical facilities and other standard indicators applied to evaluate a rural credit cooperative

(k) Loan regulations, reporting procedures from field staff to managers, committees, and board of directors

4.3. Analysis of long-run profitability and net worth. This included among other things:

(a) Current assets

(b) Current liabilities

(c) Net worth

(d) Sources of funds

(e) Uses of funds

(f) Income

(g) Expenses

(h) Net earnings

(i) Membership dividends

(j) Cost-benefit analysis

(k) Assumptions underlying financial projections including date when credit unions and CREDICOOP could become self-sufficient financially

V. Methodology

5.1. Meetings with CREDICOOP staff, USAID/Paraguay Director and officials concerned with rural development and cooperatives.

5.2. Interviews with CREDICOOP staff to discuss their job description duties and responsibilities. These were long interviews in order to assess their abilities to understand their assigned tasks and their knowledge of their specific areas of work.

5.3. Meetings with the Standing Committee of CREDICOOP and frequent discussions with the manager and CUNA/AID advisors aboard.

5.4. Visits to the field and meetings with managers and field assistants, members, board of directors and other committees.

5.5. The following affiliated cooperatives were visited:

(a) Coronel Bogado

(b) Roseña

(c) Paraguari

(d) Yaguaron

(e) Coronel Oviedo

(f) Santani

5.6. Two exercises were undertaken with all the staff and officials of CREDICOOP and advisors with Mr. Arroyo-Riestra acting as moderator. Forty-two indicators were given and applied to twenty-four rural credit cooperatives during the first exercise; the second one concerned the capacity of the field units to absorb and utilize inputs of financial assistance with minimum additional training equipment and personnel.

(a) The 24 units were divided in three categories and given A - B - C categories according to the priority that the group felt they deser applying the indicators previously worked out.

(b) Eleven were grouped under priority A with a capacity to use ₲s. 100,000,000 ($789,000) for production and ₲s. 67,000,000 for equipment and machinery; category B included eleven units that could use ₲s. 45,000,000 ($357,000) for production and ₲s. 8,000,000 ($63,492) for equipment and farm machinery; and finally category C - that some time later can use ₲s. 15,000,000 ($119,000) for production and ₲s. 8,000,000 ($63,492) for machinery. The total needs for the 1976 planting season, according to this superficial estimate, can reach ₲s. 160,500,000 ($1,273,809) for production and ₲s. 106,500,000 ($845,238) for light equipment and farm machinery. ($1 = ₲s. 126) EXHIBIT "F"

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VI. Findings and Observations

6.1. CREDICOOP leadership was struck and its morale heavily damaged with the withdrawal or the loan ratification from GOP. For all of them the loan is dead, no matter how much emphasis was given to the presence of the team as the best evidence of USAID interest in it.

6.2. Problems affecting the central now are only an extension of the problems affecting the affiliated cooperatives. Since the central is a compendium of all the components, or a natural outgrowth of its parts, the basé cooperatives, therefore, whatever problems hit the bases send problem-waves to the central. Its artificial rather short life has not given time to build up shock absorbers to insulate it from the negative effects of this closed relationship. So to analyze its problems it is imperative to analyze the original source of them.

6.3. Affiliated cooperatives are completely autonomous in their operations and decisions; their legal binding to the central comes from the latter's by-laws and from any contractual clause arising from business relationships

6.4. Affiliated cooperatives are completely free to carry on their operations as they deem best, provided they are not violating the central's by-laws or some contract. Thus, the leverage the central may have to guide their decisions is limited, depending mostly on the good will and loyalty of the local leadership toward the central.

6.5. To build up the loyalty from the affiliates to the central, there is only one effective way: intensive education at all levels, concentrating in the areas of typical weakness of this type of institution.

6.6. Education and training in the past years focused on only the basics for a community savings and mutual help institution, elementary Bookkeeping, human relations, reporting and cooperative legislation, and government regulations.

6.7. Management as such, budgeting, cash flow, institutional reporting to the decision making level, planning in its fullest meaning, financial accounti legal aspects of the enterprise, and many other elements for a rational admin- istration of a cooperative are lacking in their educational experience. Maybe they have been postponed until the people graduated from the mere doctrinaire and phylosophical aspects of cooperatives, but it is evident that the afore- mentioned elements are not present in the thinking and doing of the cooperatives leadership.

6.8. The poor experience of the affiliated cooperatives in handling productive credit in its various phases, tends to indicate that they were extremely ignorant of the business side of cooperatives or naive regarding the behavior of small farmers when left to their wishes and whims after they get all the inputs for production. In various interviews in the field and from reports from different sources, managers and board members expressed their discomfort and frustration because loan users did not come up to pay on time without any follow-up, prodging, or formal request from the credit cooperatives. They accept the blame and feel ashamed of being so optimistic, not only in regard to the crop results, but also in the response of the fellow members toward their own institution.

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6.9. The staffing of the affiliated cooperatives, although lacking in-depth experience in management and other entrepreneurial skills, is adequate to start handling funds from sub-loans, provided they all receive intensive and up-to-the-point training previous to any disbursement of funds from the loan.

6.10. Nevertheless, internal controls are quite lax. Of the 24 affiliated cooperatives, only six have a full time accountant or bookkeeper aboard. It means that in 17 of them the manager is doing all accounting, including financial statements, at the end of the business cycle. This situation is accepted by the central although it is completely aware of the risks involved because the low volume of operations and low gross income is not enough to cover additional expenses. Nevertheless, this arrangement cannot be accepted after they start using sub-loans funds.

6.11. Area managers come from the rank and file of local membership, thus providing to the members a touch of confidence in the man to fill their expectations of honesty and integrity, whatever that means to them. So, in many instances, they prefer their peer instead of some outsider with a better curriculum. There is not a chance for the time being for the central to get somebody fired or to influence openly and directly in the selection of the staff.

6.12. An assessment using 43 basic indicators performed by the technical staff of the central, the two CUNA advisors, and team member Mr. Arroyo-Riestra, gave the following picture, a sort of X-Ray diagnosis of the credit unions situation.

(a) They all follow the standard accounting system recommended by CREDICOOP; 88 percent or 21 of the total prepare the trial balance or a monthly report within 10 days after the end of the month; the total 24 use receipts and passbooks in an orderly manner.

7 (b) Using a 10 percent delinquency ratio as an acceptable one, 11 or 46 perce[illegible] of the total were below that level; 41 percent or 10 of the total were above; with 10 around the average and three had no delinquency because they were just starting business. Under the same theme, 23 of them had some delinquency follow up procedure, but only 66 percent or 16 of the total were getting some results.

(c) In relation to their outstanding debts with the central, 10 or 43 percent had no debts from any source with CREDICOOP; five were in arrears in their share payments; three had loan debts and four had loans and shares pending payments.

(d) Managers - of the 24, only seven or 29 percent were part [illegible] 21 had employment contracts as prescribed by local labor laws; 17 were making less than $110.00 monthly; seven were earning between $110.00 and $140.00; and only two were making over $140.00 monthly. It was considered that all were in full charge of operations, had job descriptions and clear working hours [illegible] schedules.

(e) Internal controls of funds: the managers keep the check book all the time and also receive the banks monthly statements or any other document related to the bank account; in 15 cooperatives the manager was the only person making deposits to the bank while three used messengers, and in six it was either the manager or a messenger. Twelve or 50 percent of the total deposit daily and 12 deposit every two days. None of the 24 has a safety [illegible] or vault to keep funds or other valuable documents; 16 keep the monies inside the premises until next deposit and six take the monies out of the premises under the custody of the manager. A petty cash system is used by 23 of them and the manager is responsible for it.

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(f) Marketing: none of the 24 is reported as having enough wor[illegible] capital to take full charge of marketing the production of their members; 18 a[illegible] access or possess their own warehousing facilities; they also claim to have personnel who can handle the marketing operations, they all have access to transportation equipment and all sort of containers and bags for their needs. The 24 have accepted a marketing scheme through CREDICOOP.

(g) Loan procedures and policies: all 24 have clear loan [illegible] lations quite similar to those of CREDICOOP; 20 or 83 percent apply those regulations; in 24 of them the credit committee have formal meetings to [illegible] loan applications through a standard procedure and keep minutes of the [illegible]

(h) Loan and risk protection: none of the rural cooperatives [illegible] covered with the standard CUNA mutual loan and shares insurance, although the central is ready to provide that service.

(i) Premises and equipment: all 24 have a private place to [illegible] their transactions although 18 of them are considered inadequate from the [illegible] angle. Three own the building and land; all others pay rent. Sixteen have basic equipment to protect, to some extent, documents and to perform their operations with bare comfort. Some of that equipment has been paid with [illegible] from the central.

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(j) Human resources: twenty or 81 percent have in their own group people that can replace the manager in case they have to, four do not have anybody that can do a similar job.

(k) Budget and cash flow: seventeen prepare an annual budget; it is a legal requisite that the General Meeting approve a budget, although in most cases members have no idea of what they are discussing and approving. None of the 24 ever prepares or uses a cash flow.

6.13. Credit objectives and policies - The whole credit objectives, policies, procedures, requisits, colateral, guarantees, terms and interest rates were discussed in-depth, starting from the actual documents in use as of now.

(a) A new set of guidelines, covering all the aforementioned items had been prepared by Mr. Perez CUNA/AID advisor. It was reviewed by Mr. Arroyo-Riestra and the two CUNA advisors. A final draft is ready for submission to the general manager and the standing committee of the board. - EXHIBIT "A"

(b) The team's specific recommendations in this area were accepted and incorporated in the guidelines that now reflect the unanimous thinking of the team and CUNA advisors. Copies of the document in Spanish are attached herewith.

(c) Interest rates now in force, nine percent on unpaid balances for production loans from the central to the local cooperatives and 12 percent from the local to its members is considered realistic, in accordance with the market for those same purposes. These rates can cover administrative costs, provided the volume of operations generated by the sub-loans reaches the break even point in the first two years.

(d) Loans for other purposes than production, that is, consumer's loans, should pay a higher interest rate. Credit unions charge 18 percent that can be increased to 24 percent per annum to members: the central should charge no less than 15 percent per annum to the affiliates, if they have enough liquidity to apply funds for consumers' needs.

6.14. The loan collection policy, both at the central and local units, has been weak and not clear for all concerned. Now the picture has changed for good

(a) The central has contracted the services of legal advisors to handle all aspects of past due debts for the affiliates and the central.

(b) A campaign is underway to bolster collections. Written instructions have been circulated to all managers and directors with specific and detailed instructions as of what to do to take legal action to bring down the rate of delinquency.

(c) Legal action has brought a high response; in one instance 40 percent of those members in arrears with the credit union paid the first letter of the attorney. If they do not answer the attorney's appeal, their cases are taken to the court which in most instances decides without a preliminary audience After that, it is a question of getting a tangible asset or property of the debt to forclosure and sell it to cover the debt.

6.15. Accounting system and practices - The system in the central provid basic information, but it can be improved so as to provide a daily balance sheet, if needed, and daily information to the manager in regard to the cash availability, loans due on that date and any other financial information to help the management in the day-to-day decision making task.

6.16. Auditing services to affiliated cooperatives - Fourteen of 24 have signed contracts to provide auditing services by professional auditors. During 1975, nine audits were performed. An analysis of the audit reports evidenced that the job done is highly professional and covers not only the accounting field but also the board of directors, manager, credit committees performances, internal organization and business practices. Compared with similar audits in other countries for similar activities, these are far superior. The reports provide first class information for follow up, supervision, planning of training and educational activities, and timely detection of troubles.

6.17. Cooperation with GOP agencies - Interviews with the Minister of Agriculture, the Director of the Extension Service and President of Development Bank dispelled any doubt about their unconditional support to CREDICOOP.

(a) The Minister of Agriculture, a staunch supporter at the highest level of the loan agreement believes that if the loan for CREDICOOP only is sent again for ratification, he can pilot it again if got on time for the next planting season that will start by mid year. He promised to appoint the replacement of the technician attached to CREDICOOP who passed away last month. That technician is paid by the Ministry of Agriculture, but attached full time to CREDICOOP.

(b) The same commitment was granted by the BNF and Cooperative Bureau in regard to their respective technicians deployed permanently to the central.

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(c) An agreement will be signed in the next few weeks whereas the Extension Service will coordinate and provide field support in the agronomic aspects to users of cooperative credit.

6.18. Credit Cooperatives Staffing Pattern - This area was thoroughly reviewed by Mr. Arroyo-Riestra and their actual staffing and organization is acceptable for the present needs. See Part VII.

(a) The professional staff is academically qualified, with most of them having completed higher education; the others are enrolled or nearly finishing their careers.

(b) There exists a clear procedure to select, place, evaluate, and promote personnel. Dossiers are up-to-date.

(c) Organizational charts or organigrams provide for a strong highly centralized management. That is the way it should be in a small unit like this one, providing close supervision to all activities from the manager's office.

(d) After the financial activities take off substantially, some adjustments are mandatory to place the best people in activities related directly to the loan department and internal controls.

(e) The absence of credit-trained personnel is understandable since credit unions promotion emphasized mutual or self-help institutions attitudes; besides, personal credit was almost unknown in the country. The agricultural credit for small farmers or producers is a development of the last few years. Even the cooperative tradition, so well developed in Argentina and Southern Brazil, is almost alien in Paraguay.

6.19. Growth and development - There is not a definite plan with an approach for horizontal and vertical growth. CUNA advisors are working in a plan for promotion and organization of regional cooperatives. New developments are limited to a few cases where education and promotion were already finished and the groups were ready to request its legal charter from authorities.

(a) Reasons given for halting the promotion of new groups are mainly for the urgent need to consolidate and raise the quality of what they have.

(b) The regional concept is a reasonable one, if the sociological pattern of the area supports it. Otherwise it can be beautiful on the paper, but it could develop into a big flop.

(c) The promotion and incorporation to the system of new cooperatives and a steady flow of new members is vital to the outcome of the loan purpose. So, it is of utmost importance that the working plan ~~in detail~~ to accomplish the goals set on should be ready to be implemented by mid year.

6.20. Marketing through CREDICCOP The central handled some of the production of the cooperative members in 1975 acting as an agent or broker. With only one person in charge of that operation they managed to market 744 tons of cotton, nine tons of tobacco, 683 tons of rice and 36 tons of soy beans. F[illegible]ctions for 1976 harvest are as follows: cotton 3,000 tons., soy beans 2,000 tons, rice 2,000 tons, and tobacco 300 tons. Another official

joined the staff on January 7th to increase that activity. It is important to
point out that, although there is always a great risk in view of the changes
in prices, interest, and handling costs, the possession of the physical commodity
after the harvest is the best guarantee of repayment of production loans. But
it also means that local units staff must be trained intensively in all the
phases of warehousing, controls, weighting and measuring, classification and
all details involved in a marketing scheme. [illegible]

6.21. Marketing outlets - Commodities like sugar, tobacco, cotton, and
rice have established marketing channels that follow traditional ways of fixing
prices and controlling production in the areas where they have been established
for many years. The use also made of local agents who are advanced some funds
and who provide transportation and in some instances interim warehousing. With
that kind of establish [illegible], it would be very up hill to the
cooperatives to try to replace them; only by intensive education, outsmarting
their offer and close field supervision can cooperatives take over the production
they have financed.

VII. Conclusions and Recommendations

7.1. The foregoing conclusions and recommendations are based on a
broad view of the whole picture of the credit cooperatives as autonomous units
and the central (CREDICOOP) as an extension of the former. The central cannot
fulfill its goals or even succeed as a viable economic enterprise if it does
not prove its worth to the affiliated units by providing skilled technical
assistance on the spot professional guidance in the lending (banking) business
field support to help change attitudes, mores and practices hindering the

modernization of the agro-pecuarian economy. It must live up to the expectations of its owners the affiliated cooperatives.

7.2. CREDICOOP thrust must be to provoke changes; people do not need more of the same old stuff. Another intermidiate lending institution taking money from one source and transferring to small farmers so that they can survive, and indirectly taking over the burden of traditional middlemen, does not deserve even a thought, has not justification at all.

7.3. An efficient self-control rural savings institution, with emphasis in production to improve the standard of living of the small towns and rural dwellers, must be the ultimate goal. An abundant and good life through cooperatives

7.4. In order to meet that goal local credit cooperatives must change from the informal self help organizations, which they are now, into saving and lending dynamic businesses, becoming in the long run the centre of economic activity in the area. Their image and reality must be one of confidence, security, efficiency, modernism, keeping the balance between a sound social institution and a efficient financial enterprise.

7.5. Education in its broader meaning is the key for change. The human resources are there, they can be modeled into a capable body of administrators, accountants, executives, and producers-consumers.

(a) A specific recommendation in this area was discussed with CREDICOOP manager, Mr. Miguel Angel Rivarola, and with Mr. Oliver L. Sause Director, USAID/Paraguay. A request from CREDICOOP has been forwarded to AID

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asking for a special grant to pay for training and education for 309 persons during a two year period during 109 working days. "EXHIBIT B".

(b) It is recommended that the central, with or without the USAID grant, puts forward at once the training program discussed with education department officials by team member Mr. Arroyo-Riestra. The themes or subjects for the training listed in Exhibit No. "B" , will cover the areas of major weakness as detected during the review. The plan must focus the business side of a cooperative society and provide for developing managerial skills and other related knowledge and skills needed for the smooth operations of this type of society.

7.6. Cost consciousness must be developed at all levels. This is quite difficult to achieve in a group whose expenses have been taken care of by a third party, in this case, USAID. The central, as well as the local units, must develop through intensive training to their staff the business attitude. Budget and cash flow and their rational applications must become a routine in their business agenda.

7.7. A good accounting system is the Heart of reliable financial information. It is recommended that an expert in cooperative financial accounting be invited under TDY come to/CREDICOOP to establish a bank-type accounting system and train the staff to use and apply it efficiently. A request has been submitted to USAID/Paraguay to provide a $4,000.00 grant to invite Mr. Gonzalo Zurita, former auditor of the Cooperative Bank of Ecuador, to come to Paraguay and do that job.

7.8. Internal organization and staffing pattern, although acceptable, can be improved. The institution needs a controller in full charge of the accounting department to strengthen internal controls and to feedback the manager with financial and other information. (Exhibit No. "C")

7.9. The finance or loan department is now mixed with promotion. Since the lending operations up to here have been rather low, that set-up was acceptable. Those operations must be separated, transferring promotion to the education department.

7.10. The finance or loan department must deal only with matters related to loans applications, analysis, evaluation, and loans follow up. It must be a highly technical staff with basic training and/or college education in higher accounting.

7.11. Growth for an incipient institution like CREDICOOP is a matter of life or death. They keep growing constantly or they perish. Growth in this case means a constant flow of savings and a constant increase in membership at the base level or local units. A rational and planified increment of the share capital (savings) and membership (people) within the limits of their financial resources should try to achieve the national goal of 50,000 members in the rural sector integrated in no more than 75 local units, in ten years.

7.12. Good farm planning setting forth estimates and income possibilities farm and family operating expenses and margin for loan payments are basic to a good credit program. Loan officers and credit committees cannot make sound judgment on loans applications without this type of information. This was listed by credit union officers in an auto-evaluation exercise as one of the major causes for present delinquency.

7.13. From the results, it appears that the loan collection process in a systematic way has hardly existed in the past. Some strong measures are being taken, including legal action against past due loans users, which should be continued as an institutional measure. To prevent the recurrence of delinquency in the future and to erase that in the books as fully as possible, it is recommended that all parties concerned with this serious problem should come into an intensive training immediately to develop a strategy, including the best reporting system, to make everybody aware of the mortal dangers of delinquency. A crash program should follow at all levels, central and affiliated.

7.14. Better coordination in individual and credit union loans evaluations is needed between credit [illegible] officials handling credit unions applications and CREDICOOP. Actually there is evidence of conflicting instructions and approaches between the [illegible] in handling funds from the Bank; the latter did not care about CREDICOOP's evaluation or just did not ask for their opinion, although CREDICOOP was giving the field services.

7.15. CREDICOOP should continue with its policy of not paying rebates, even if they have net income, while their budget is being subsidized by USAID. All net income should go into a contingency reserve or any other reserve not subject to distribution to members under any form.

VIII. Summary

8.1. It is the conclusion of the team that, after weighting all information available, written and verbal, the USAID should continue with the Loan Agreement to provide financial assistance to CREDICOOP as it was originally planned.

Best Available Document

The UNIPACO part of the deal should be withdrawn. There is no evidence that the latter ever did anything to foster and enhance the operations of CREDICOOP, being them two institutions legally separated and aliens in their objectives, manners and ways of operations. CREDICOOP, as a broker or agent, can take care of the marketing minimizing risks and costs. So UNIPACO is not a <u>sine qua non</u> partner in the marketing business and no reasons remain anymore to tie down their operations.

8.2. The team strongly recommends the Loan Agreement should be sent back again to finish the ratification process with minimum amendments, if any, in order to speed up the [illegible] of whatever legal or bureaucratic steps might be needed. It is the feeling of the team that all efforts should be made to make funds from the loan available to farmers when they start the planting season by mid year. That period of approximately six months would enable CREDICOOP and the base cooperatives to correct the weak spots pointed out in this report and to train officers of credit committees and the staff that will be in charge of operations in the field.

8.3. The team estimates that the actual scheme or set up of CREDICOOP and the base cooperatives is capable of handling in an orderly manner the funds provided in the Loan Agreement, if they are trained and motivated accordingly. The CUNA/AID advisors in the country should play a vital role in this area and they should assume the leadership in providing the experience in agricultural credit now lacking and the entrepreneurial spirit that must permeate everybody in the cooperative endeavor.

8.4. A complementary report with an analysis of the long-run profitability, liquidity and net worth of the [illegible] ([illegible]) will be submitted by [illegible] Robert [illegible]

Signed: [illegible]
Jose Arroyo-[illegible]

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R. [illegible] [illegible]lker