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**TERMINAL REPORT OF ACDI
RESIDENT ADVISOR TO BANCOOP**

MARCH 1986

Cooperative Banking Services OPQ 515-0178

**Grantor: U. S. Agency for International Development (USAID/CR)
San Jose, Costa Rica**

**Grantee: Agricultural Cooperative Development International (ACDI)
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**Sub-
Grantee: Union Cooperativas de Administracion Bancaria, R.L.
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TERMINAL REPORT OF ACDI RESIDENT ADVISOR/CHIEF OF PARTY

EXECUTIVE SUMMARY

1. I am pleased to report that to a very large degree the basic purposes of the Cooperative Banking Services Project have been achieved as the following capsulized summary statements indicate:

1.1 BANCOOP is a strong viable, well organized and managed, adequately staffed and well directed cooperative financial institution which given continued good management and a constructive Board of Directors should have the capability to continue to serve the expanding financial needs of Costa Rican cooperatives for the indefinite future.

1.2 BANCOOP's primary business of lending money on a sound and constructive basis and at market rates to viable cooperative entities has been firmly established. Sound loan administration policies, procedures and practices have been installed and are being implemented on a routine basis as evidenced by the high quality of the loan portfolio and the fact that delinquency ratios have been maintained at very favorable levels according to any standards and to date no significant losses have been incurred.

1.3 Although BANCOOP's credit policies restrict its market potential in the cooperative sector, and rightly so in my opinion if the Bank is going to survive on a sound basis, the cooperatives being served are indeed beneficiaries of the unique kinds of financial services for which the Bank

was established. Most if not all of those cooperatives have benefited greatly from long-term loans to improve their operations and services to members. Additionally, most of those cooperatives have benefited from and will continue to benefit from the Bank's constructive, self-help approach to lending resulting from loan requirements to improve their financial condition, financial practices and organization and management structure which are designed to strengthen overall performance and growth capabilities of those cooperatives. Few if any of those kinds of benefits could have been obtained from conventional non-cooperative lenders.

- 1.4 Unlike many other projects with which I am familiar, the training inputs, both on-the-job skill and experience transfers provided by the ACDI consultants as well as the external training inputs, have been extremely well institutionalized. To date, all but one of the recipients of that training remain employed by the Bank which I believe has contributed significantly to the Bank's growth and success.
- 1.5 A very adequate and effective annual planning and budgeting process has been installed and thoroughly tested through quarterly variance controls. This combined with a recently upgraded and computerized management information system provides management and the Board of Directors with very effective monitoring and control mechanisms.
- 1.6 BANCOOP is probably the strongest private bank in Costa Rica and ranks among the top three in terms of performance as

evidenced by periodic reports of the Central Bank of Costa Rica. The sheet of Statistical Highlights at the end of this Executive Summary displays many of the Bank's growth and performance factors which account for its success.

2. Obviously the job is not completed nor will it ever be if the Bank continues to grow and expand its services. As mentioned in the report's recommendations the Bank's future needs and/or deficiencies can be evaluated and defined through periodic management audits such as the one conducted in late 1985. Some specific areas which have not or have only partially been addressed are detailed in the report and are highlighted below:

2.1 Engage a Chief of Bank Operations as soon as possible.

2.2 Strengthen personnel administration and human resources management.

2.3 Increase the degree of delegation.

2.4 Continue emphasis on adherence to Bank policies, procedures and normal banking disciplines.

3. Perhaps the greatest challenge to BANCOOP's long-term success as a cooperative bank lies in the area of providing development assistance to those under-achieving but potentially viable cooperatives in Costa Rica. Certainly, that is one of the basic reasons for the Bank's existence but it is also critical to expanding the Bank's market as well as its specialized kinds of services needed by cooperatives. BANCOOP's management and directors have clearly recognized this constraint to the Bank's further development and are allocating as much of its resources as possible in this

direction. However, even under the best of circumstances those resources will be limited and so, progress is likely to be painstakingly slow. On the other hand, cooperative development could be meaningfully accelerated with higher levels of technical assistance and training similar to that outlined in the proposal submitted to USAID several months ago by ACDI. I would therefore encourage USAID to give very careful consideration to the real needs for further development of cooperatives in Costa Rica and the future success of BANCOOP to which USAID has already committed its support. At this stage, BANCOOP is probably the most viable entity in the country through which cooperative development assistance can most effectively be channeled.

4. In summary, BANCOOP has achieved a remarkable degree of development and success during a period of very rapid growth. As with any relatively young institution there remain a number of rough edges which need to be smoothed out. But, those areas have been recognized by Bank management and I am confident will be dealt with in an effective manner in due course. None are of an immediate serious threat to the Bank's viability. Of equal or perhaps greater importance is the fact that as a result of developing sound and constructive policies, practices and procedures the Bank is clearly moving in the proper direction and the attitudes of the Bank's board, management and staff have been successfully oriented toward positively supporting the Bank's objectives. Therefore, given a continuation of good management and barring major external economic or political adversity over which the Bank would have no control, BANCOOP will have the proper

ingredients to fully establish itself as a strong and enduring cooperative financial institution as well as a leading and innovative banking institution in the domestic and international banking communities.

5. Lastly, and in behalf of all the ACDI consultants who provided their technical expertise to the development of BANCOOP, I would like to express our sincerest appreciation to everyone associated with BANCOOP, especially Bank management and the USAID officers, who assisted and supported all of us in this cooperative effort. Without that our inputs would have been far less meaningful. We are all pleased to have been a part of this very successful endeavor and look forward to providing additional assistance in the future if needed.

BANCOOP, R. L.

SAN JOSE, COSTA RICA

Statistical Highlights for Years Ended December 31:

(Amounts in thousands of Colones)

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Loans Outstanding (year-end)	30,396	346,018	781,451
Average Loan Per Borrower (year-end)	1,600	7,362	10,853
Number of Borrowers (year end)	19	47	72
Loans Disbursed	30,894	483,028	932,809
Loans Repaid	481	167,405	488,907
International Transactions	N/A	US\$95,262	US\$142,706
Number of Transactions	N/A	2,643	3,680
Average Amount Per Transaction	N/A	US\$ 36	US\$ 39
Commission Income	14,006	18,890	19,709
Earnings from Operations	5,709	31,356	37,006
Earnings as % of Equity Capital	40%	13%	14%
Equity Capital	14,225	233,797	267,499
Operating Expenses as % of Total Income	63%	27%	21%
Interest Expense as % of Interest Income	29%	37%	64%
Short-Term Certificates Outstanding	--	45,500	195,805
Total Debt to Equity Ratio (year-end)	2.1 to 1	0.9 to 1	2.8 to 1
Number of Cooperative Members	22	26	33
Number of Employees	22	30	44

COOPERATIVE BANKING SERVICES OPO 515-0178

SAN JOSE, COSTA RICA

TERMINAL REPORT OF THE A. C. D. I. RESIDENT ADVISOR/CHIEF OF PARTY

This report is being submitted pursuant to requirements contained in Attachment 1, paragraph E to the Grant Letter, dated March 29, 1983, issued by the Agency for International Development (hereinafter referred to as AID or Grantor) to Agricultural Cooperative Development International (hereinafter referred to as ACDI or Grantee) and to Union Cooperativa de Administracion Bancaria, R.L. (hereinafter referred to as BANCOOP or Bank or Sub-Grantee).

1. BACKGROUND

1.1 The primary objective and purpose of this Grant as described in Attachment 2 to the referenced Grant Letter is recited below:

"The objective of the project is to improve the incomes of the members of Costa Rican Cooperatives. The purpose of the project is to strengthen and consolidate the recently created BANCOOP to insure that cooperatives and their members will have timely and effective access to an efficient array of banking services from a viable cooperative banking institution. A second purpose is to also consolidate the existing cooperatives' financial and business structures, as well as their administrative and managerial procedures and operations."

1.2 Under the terms of the Grant, which at the time of writing this report had an expiration date of March 28, 1986 total funding for the anticipated technical assistance and

training was agreed to be provided as follows:

<u>COMPONENT</u>	<u>AID</u>	<u>BANCOOP/ACDI</u>	<u>TOTALS</u>
Technical Assistance	\$443,250*	\$156,138	\$599,388
Training	<u>56,750*</u>	<u>22,200</u>	<u>78,950</u>
TOTALS	\$500,000*	\$178,338	\$678,338

*Includes ACDI overhead rate of 13.5 per cent totaling \$59,455.

1.3 The \$500,000 Grant supplied by AID was programmed to provide, in addition to one project vehicle, the following:

1.3.1 Technical Assistance - 47 person months

- a. Two person years of resident technical assistance.
- b. Eight person months of financial management TA.
- c. Eight person months of cooperative credit TA.
- d. Three person months of evaluation and survey TA.
- e. Four person months of specific consulting services to be determined as needed for other special needs.

1.3.2 Training

- a. Selected BANCOOP staff and directors would be sent abroad for short-term in-service training to improve their skills, as determined, in U.S. or third-country cooperative banking institutions.
- b. Selected BANCOOP staff would participate in appropriate in-country skill development seminars, workshops, etc.
- c. Selected BANCOOP staff and/or directors would be taken on a tour of U.S. or third-country

cooperative banking institutions to observe operations and learn about their structures and problems.

1.4 The funds to be provided by BANCOOP/ACDI were to be in the form of in-kind counterpart support as follows:

1.4.1 BANCOOP--Salaries of counterpart personnel, office rent, utilities communications, office furniture and equipment, travel and transport, vehicle expenses and materials and supplies.

1.4.2 ACDI--Fees, travel and per diem for technical assistance support to be provided by David Fledderjohn, ACDI's Regional Cooperative Representative and fees for supervisory visits by Robert Flick, ACDI's Project Officer.

1.5 Additionally, AID agreed to provide \$5,000,000 in a grant to the Instituto Nacional de Fomento Cooperativo (INFOCOOP), the semi-autonomous government agency for cooperatives, which INFOCOOP would in turn invest in BANCOOP as seed capital in the form of equity.

2. BEGINNING OF PROJECT STATUS

2.1 When this Advisor took up his post in January 1984 the project had already begun. In June 1983, Vinzenz Schmack was appointed by ACDI as a part-time Financial Management Advisor. And, during the fourth quarter of 1983, ACDI had supplied two short-term specialists, one in credit administration and one in bank management, and had implemented a four-week U.S. training program for one of BANCOOP's loan officers. Shortly after arrival at post this Advisor prepared

and submitted to AID a Beginning of Project Status (BOPS) Report. Among other things that baseline report presented this Advisor's views on the status of the Bank development to date from both institutional and operational perspectives, identified major needs in relation to both and in effect set the stage for the technical assistance and training inputs from ACDI which would be necessary to achieve the objective and purposes of the project. Therefore, in order for the reader to gain perspective in terms of accomplishments in achieving the project's objectives and purposes it is appropriate to summarize, as briefly as possible, the status of the Bank's development at that time.

2.2 BANCDOOP was organized in February 1982 by 13 of the major cooperative in Costa Rica and by January 1984 the number of cooperatives owners of the Bank had grown to 22. Since the Costa Rican banking laws at that time did not provide for the organization of cooperatively owned and operated banks, originally the Bank organized as a sort of cooperative bank holding company under the Cooperative Law and under the name of Union Cooperativa de Administracion Bancaria. Subsequently, in September 1983, the Bank was successful in getting special legislation passed which authorized the organization of cooperative banks with all the rights and powers of private commercial banks and by March 1984 the Bank was re-organized as the Banco Cooperativo Costarricense, R.L., its present legal name. The Union remains in existence as a non-operating cooperative entity which now goes under the banner of UNIBANC.

- 2.3 By August 1982 the Bank had started operations with a small staff which initially included only international operations i. e. letters of credit, collections, foreign exchange transactions, etc. Shortly thereafter a small credit staff was assembled however, the first loan was not made until August 1983, shortly after the assignment of ACDI's Financial Management Advisor. By December 31, 1983 the Bank had a small loan volume of 30,396,000 Colones which was limited to a large degree by the Bank's small capital base at that time.
- 2.4 When this Advisor arrived in January 1984 the Bank had a full-time staff of 22 and three basic operating departments as follows:
- 2.4.1 International Department which was being run by one experienced professional and one lesser experienced professional, was functioning well but was constrained by the lack of U. S. dollar lines of credit.
- 2.4.2 Credit Department which had no leader and was staffed with five loan officers who had varying but minimal bank lending experience. Because of the small loan volume at that time its capabilities had not been tested.
- 2.4.3 Accounting Department headed by a professional accountant which was producing reliable and timely accounting data. However, although the management information was adequate for current needs, it was rudimentary.
- 2.5 The Bank was operating profitably and conservatively as it had from the outset. See Appendix A for comparative financial statements.

- 2.6 The Bank's first annual plan/budget had been assembled in the fourth quarter of 1983 and approved by the Board of Directors in January 1984.
- 2.7 From the institutional perspective:
- 2.7.1 The seven-member elected Board of Directors had been meeting regularly on a monthly basis as well as on other occasions as needed. Attendance at meetings was very high and the Board appeared to have good leadership and was working constructively with management in establishing policies on an as-needed basis. No general policy manual had yet been developed.
- 2.7.2 The Vigilance Committee consisting of three persons elected by the members had been meeting on an intermittent basis but appeared to lack guidance as to its proper role and function.
- 2.7.3 An informal Executive Committee made up of three Board members but with no real authority seemed to be functioning on an occasional basis and for the most part limited its activities to making recommendations to the Board on matters related to staff salaries and benefits.
- 2.7.4 The Board and management were in the process of formulating a set of credit policies and procedures.
- 2.7.5 From the outset senior management consisted of Federico G. Herrero as General Manager and Marcos A. Salazar as assistant General Manager. There were no other titled officers or key middle-management positions defined.

- 2.7.6 There was no formal organization chart, nor lines of authority and very minimal delegation being exercised.
- 2.7.7 With the exception of the Credit Department, there were no meaningful procedure manuals developed.
- 2.7.8 Personnel matters were being handled by management largely on a case-by-case basis. Only a few rather basic job descriptions were in existence.
- 2.7.9 There was an obvious need for additional training of the professional staff especially in the Credit and International Departments as well as the senior management and the Board of Directors.

2.8 The foregoing highlights in a general way the Bank's status at the time this Advisor assumed his duties. It should also be stated that the weaknesses and shortcomings mentioned were not cited in a critical vein. In fact, this Advisor was very impressed with the degree of progress made by the Bank in its brief existence particularly in view of its small and largely inexperienced staff and its relatively low level of operations up to that point. No one could have expected to find a very high level of sophistication.

3. BANCOOP'S ACCOMPLISHMENTS

3.1 For a financial institution that has been in operation for only 3 1/2 years, which includes only about 2 years of full operation, BANCOOP's overall accomplishments have been outstanding in the opinion of this consultant. Obviously, the Bank cannot yet be classified as a mature institution, but all of the basic building blocks are solidly in place. Given a continuation of good management and a strong,

constructive board of directors there appears to be no reason why the Bank cannot be a strong and enduring financial institution capable of serving the unique needs of cooperatives. Clearly, there remains room for improvement and there probably always will be as long as the Bank continues to grow. Much of that improvement will come as a natural by-product of experience but there are still some areas needing strengthening, of relatively high priority, which will be identified later in this report.

3.2 In the very early stages of this project it was determined that the highest priority needs to be satisfied by the technical assistance and training inputs would involve the development of BANCOOP as a viable soundly structured and operating cooperative bank. As will be described in this report, those objectives have been achieved. However, this was a highly collaborative undertaking between the advisors, Bank management and directors and the key members of the Bank's staff. The long-term advisors, Neis and Schmack, were constantly monitoring all the institutional and operational aspects of the Bank to identify weaknesses and providing viable recommendations to overcome them. Additionally they were constantly providing counsel and advice, on-the-job transfers of knowledge, skills and experience, identifying external training needs and developing appropriate training programs, etc., etc. At the same time many of the accomplishments also resulted from initiatives of Bank management. Therefore, the overall accomplishments resulted from the joint efforts of all parties involved.

3.3 Recently, January 1986, ACDI submitted a project evaluation

report to USAID which was an evaluation of the degree of project progress in relation to the purposes and goals originally envisioned (see Section 1.1 in this report) when ACIDI prepared its project proposal. Since the detailed information contained in that evaluation report has change very little I will not duplicate it in the body of this report. Instead that portion of the project evaluation report entitled "Purposes and Indicators of Progress" is attached here as Appendix E and I will briefly summarize BANCDOOP's accomplishments below:

3.3.1 Institutional Development

- a. The bank is soundly organized to respond to its needs for the immediate future and to provide banking services to the viable cooperative institutions. The Bank's organization chart is displayed in Appendix B.
- b. Key staff additions in 1985 included the chief of the credit department and the internal auditor. This strengthened management considerably. The only key position remaining to be filled is the chief of bank operations which should be filled in early 1986.
- c. Turnover of professional staff and board members has been minimal thus training inputs have been institutionalized extremely well and as a result the staff capabilities have been strengthened substantially. Appendix C presents the Bank's current personnel roster including dates of employment.

- a. A complete management information system (MIS) has been institutionalized in BANCOOP and is being used daily by management and monthly by the board to monitor key bank performance indicators. The MIS has largely been overhauled recently and computerized on the Bank's new Basic IV system.
- e. Procedures and manuals for all major functions of the bank have been prepared and are constantly being up-dated as changes are made. A major overhaul of the loan administration procedures and manuals was made in the 4th quarter of 1985.
- f. The recent management audit conducted by ACDI at the request of management highlighted several areas requiring additional improvement. Bank management is in the process of carrying out many of the recommendations of the audit.
- g. The Bank's Board of Directors has assumed a proper posture with regard to the separation of powers between it and management. The board works well with management in guiding bank policy yet doesn't become involved in management's areas of responsibility. The innovative policy of delegating credit decisions to the credit committee composed of management and staff persons is working extremely well.
- h. Bank management has aggressively pursued additional sources of loan funds, export credit and international banking ties which are critical to the bank's future growth.

- i. The Bank has successfully negotiated U.S. dollar lines of credit with BLADEX (Banco Latinoamericano de Exportaciones) and with BICR (Banco Internacional de Costa Rica). This will help expand BANCOOP's international operations.
- j. In June, 1985, negotiations were concluded with the Inter-American Development Bank and the Central Bank for a 30 year, \$6,000,000 loan for the improvement and development of cacao production and processing in the San Carlos area and to assist coffee processing cooperatives to improve their operations. Funds from this loan began flowing in November 1985.
- k. The Bank has successfully established itself as a short-term paper seller in the local stock exchange and the Bank recently purchased a seat on that exchange. Since November 1984, sales of BANCOOP investment certificates had grown to 311,573,000 Colones as of February 28, 1986.
- l. The bank has developed and institutionalized a very good annual budgeting process. Performance variances are effectively monitored on a quarterly basis. Actual performance in 1984 and 1985 was remarkably close to the budgets.
- m. Cooperative member owners have grown from the original 13 to 34 and include all of the major viable cooperatives in Costa Rica. Member capital investments in BANCOOP have increased from 6,890,000 Colones to 28,673,000 Colones as of December

31, 1985 and continues to expand. Attached as Appendix D is a list of the Bank's current member/owners.

3.3.2 Bank Operations:

- a. BANCOOP is a strong, conservatively leveraged and viable banking institution. The Central Bank has consistently rated it in the top three private Costa Rican banks. Financial statements for 1982, 1983, 1984 and 1985 are exhibited in Appendix A.
- b. Following explosive growth in loan volume in 1984, its first year of full operations, loan volume increased an additional 128 percent in 1985 and stood at 873,836,000 Colones (\$16,197,145) At February 28, 1986.
- c. Limited internal reviews of BANCOOP's loan portfolio indicate it is sound and reasonably well diversified to reduce risk. Management is always alert to ways to further reduce risk and diversify the portfolio even more.
- d. The Bank has not suffered any loan losses to date, has no major problem loans and has enjoyed minimal rate of delinquencies. This clearly indicates BANCOOP has achieved a high level of competence in its loan administration and procedures.
- e. The international department is operating effectively and its steady growth contributes substantially to Bank earnings.
- f. BANCOOP's constructive lending practices have led

to increased capacities, strengthened financial condition and better management in a number of cooperatives; all of which might not have occurred otherwise.

g. Since January 1984 the total number of borrowers increased from 19 to 72 and cooperative borrowers increased from 9 to 28 within this category.

3.3.3 Cooperative Development:

As was contemplated in ACDI's project proposal a by-product of the normal credit process, if administered in a sound and constructive manner, would be the strengthening of the financial and administrative structure as well as the operations of cooperative receiving financial assistance from BANCODOP. The ultimate goal was to improve and expand economic services and returns for the members of those cooperatives while simultaneously reducing risk to the Bank. To a large degree this was expected to be accomplished as a result of deficiencies recognized during the credit evaluation process which would lead to the imposition of conditions precedent and/or restrictive covenants in approved loan arrangements. This advisor is pleased to report that this type of constructive lending has been successfully incorporated in BANCODOP's lending philosophies and policies and is being implemented on a routine basis. However, the results are difficult to quantify in a meaningful way partly because some are not easily quantifiable and partly because some expected results are of a long-

term nature in which the benefits will emerge over time. Nevertheless, during the course of the recent project evaluation, the evaluator conducted personal interviews with 9 managers of member cooperatives and received completed mail questionnaires from 7 others which in total represented about 50 percent of BANCOOP's members. The evaluator's findings are detailed in Appendix E and briefly summarized below:

- a) Improved efficiency of operations and increased capacities to serve members has resulted from loans obtained from BANCOOP. In turn, this has allowed those cooperatives to expand their membership significantly.
- b) Substantial improvement in the financial condition of those cooperatives has resulted from the increased business volumes and the requirements imposed by the Bank to increase members' equity investments and improve internal financial management practices.
- c) Most wanted BANCOOP to be their principal source of borrowed funds and for the Bank to expand its services, especially technical assistance. This repetitious response was a clear indication of satisfaction with the Bank's financial services and the Bank's growing credibility in the area of providing borrowers with advice and counsel.

4. PROJECT INPUTS

4.1 Monetary inputs are detailed in Appendix F and summarized below:

<u>Component</u>	<u>USAID/ACDI</u>		<u>BANCOOP/ACDI</u>		<u>TOTALS</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Tech. Asst.	\$443,250	\$367,318*	\$156,138	\$144,872	\$599,388	\$512,190
Training	<u>56,750</u>	<u>53,407</u>	<u>22,200</u>	<u>19,400</u>	<u>78,950</u>	<u>72,807</u>
TOTALS	\$500,000	\$420,725	\$178,338	\$164,272	\$678,338	\$584,997

*Includes one project vehicle.

It is apparent from the foregoing that as of the current Project Assistance Completion Date (PACD) of March 28, 1986 there is estimated to be approximately \$80,000 of funds remaining in the original \$500,000 Grant from USAID. Since BANCOOP can effectively utilize those funds for additional technical assistance and training, ACDI/BANCOOP recently petitioned USAID to extend the PACD for one year. That request is expected to receive favorable consideration by USAID which will be of considerable additional benefits for BANCOOP.

4.2 USAID Grant funded technical assistance has exceeded the 47 person months as originally programmed. Following are the details:

<u>Technical Assistance Inputs</u>	<u>Person Months</u>
- Resident Advisor-Richard A. Neis-Jan 84-Mar 86	27.0
- Financial Mgmt-Vinzenz Schmack-Jun 83-Dec. 85 (part-time)	8.1
- Cooperative Credit	
Candido Lopez-Oct. -Dec 83	3.0
James Hairston-Oct. 85	<u>0.8</u>
	3.8
- Evaluation & Survey-Reagan & Hairston-Aug. -Sep. 85	1.5
- Other Specialists	
Richard A. Neis-Bank Mgmt. - Oct-Nov. 83	1.4
Dale Key-Computers-Mar & May 84 & Nov. 85	0.7
*Jorge Leiton-Computers-Mar-May 84- (part-time)	1.0
*Luis F. Cespedes-Coop. Develop. -Oct 84-Mar 85	6.0
David Fledderjohn-Draft TA Proposal-Oct. 85	<u>0.5</u>
	<u>9.6</u>
TOTAL PERSON MONTHS	50.0

*Locally engaged specialists.

4.3 As provided for in the Grant, considerable external training activities have been accomplished which supplemented the on-the-job training provided by the advisors for the Bank's staff and directors. To date, 10 key staff members and 10 directors/Vigilance Committee members have benefited from Grant funded training. I am also very pleased to be able to report that of those receiving external training only one person is no longer with BANCOOP so that training has been institutionalized extremely well. Additionally, it is important to recognize that the Bank has and is continuing to pay for or subsidize a considerable amount of training activities for the staff including self-motivated, self-improvement type training. Details of Grant supported training is provided in Appendix G.

5. REMAINING WEAKNESSES/CONSTRAINTS AND RECOMMENDATIONS

5.1 Perhaps it is obvious, but in spite of the tremendous progress made by BANCOOP in a very short, two-year time span, the Bank cannot yet be considered a mature financial institution. Likewise, the Board, management and staff have compacted a great amount of skill learning and experience into an equally short period. To help add perspective to these statements, it is my opinion that BANCOOP has crammed about 5 to 7 years of normal "growth and development" into a period of 2 to 3 years. Thus, while a very solid structure has been built, sound direction has been established and the people involved seem to be conscientious, dedicated, motivated and more experienced and knowledgeable about their respective roles, not all things could be fully accomplished in two

years. Hopefully, BANCOOP will never be "perfect" because I would interpret that to mean it has reached its zenith and has become stagnant or is dying. The Bank's future growth and development should be continuous and evolutionary which should constantly be confronting management and the Board with new challenges, problems and opportunities to provide financial services to and assist in the further development of cooperatives. At any rate, at this point there are some aspects which need further strengthening and development which will be cited below. Actually, most of these items have previously been raised with Bank management by the ACDI advisors or by the recent management audit and/or project evaluation. Also, many have been given varying degrees of attention by Bank management but largely because of higher priorities have not been satisfactorily completed or implemented. Therefore, they are highlighted in this report primarily for purposes of emphasis and future guidance.

5.2 Weaknesses/Recommendations

- a) A Chief of Bank Operations should be employed as soon as a capable person can be identified and the necessary financial resources are available. This will complete the current needs of BANCOOP in terms of key personnel and should lead to improved efficiencies and controls.
- b) Since the Bank's staff has grown considerably and it is likely that new people will continue to be added, maintaining employee morale, motivation and dedication becomes more important and more needs to be done in the area of personnel administration and human resources development such as:

- Job descriptions for every employee which clearly define the person's job and responsibilities. To a very large degree this has already been accomplished for existing employees but each new employee should be provided a job description the first day he/she reports for work, or before if possible. Additionally, a program requiring each employee to review and update his/her job description at least once a year would assist management and supervisors to determine if a person has grown in his/her position and whether promotion is justified.
- A salary administration program is needed which clearly sets forth minimum and maximum salary levels for each position based upon degree of responsibility, authority and other appropriate criteria and which requires at least an annual written performance appraisal by the employee's immediate supervision. This would benefit and possibly motivate an employees by letting them know the potentials for salary growth in their respective positions. If properly administered, the performance appraisal is an effective means to determine appropriate merit increases in salaries and promotions and will assist in developing training programs for individual employees that will help overcome their weaknesses or build on their strengths.
- An annual training program could be helpful to Bank management and supervisory personnel in managing financial resources available for training and in

more carefully orienting employee training to the Bank's needs.

- Centering in the personnel section normal employee orientation to the Bank, not the specific job, and providing employees with an employee's handbook which clearly sets forth the Bank's principal personnel policies, benefit programs, etc. could avoid future conflicts and misunderstandings. The size of the Bank's staff has grown to the point that inconsistencies could easily result if that function is dispersed to any great extent. The orientation responsibilities of an employee's immediate supervisor should be limited to the specific position filled by the employee.
 - While the Bank now has a very good procedure manual for its Credit Department, the same should be accomplished in the other major areas of operations especially accounting, international and internal auditing as early as possible. Although adequate procedures are being implemented they are not all in written form nor are they assembled in an organized manner.
- c. An appropriate program has not yet been developed for periodic evaluation and risk classification of the Bank's loan portfolio. Admittedly this task is complicated by the fact that such a program does not exist in the banking system of Costa Rica and therefore, the expertise to implement such a program is not readily available. However, a periodic risk analysis of the portfolio, coupled

with a determination of the adequacy of loss reserves, will rapidly become of critical importance not only for management and board control purposes but also to verify the integrity of the Bank's financial statements in order to assure the continued support of the Bank's owners and investors. Management should consider developing this capability within the Bank's internal auditing department using as a basis the loan evaluation criteria from the U. S. Federal Reserve System and/or commercial bank which have been provided. Development of such a program could be the catalyst to bringing another worthwhile innovation to the Costa Rican banking system.

- d. As has already been recognized by BANCOOP management, there is a need to have the International Department reviewed by a capable person to define and recommend ways to improve efficiencies and controls.
- e. Once the Bank employs a Chief of Bank Operations the organization structure will be relatively complete and should provide the basis, along with appropriate job descriptions, for top management to exercise further delegation of authority, responsibility and accountability. With the rapidly growing size and complexity of the Bank, delegation of normal activities to the lowest decision level possible will free-up management's time for higher level tasks and equally important should lead to more rapid development of staff at all levels.
- f. Continued concentrated efforts are needed by management and supervisory personnel to get the Bank staff to adhere closely to established policies, procedures and normal

normal bank disciplines until exceptions and deviations are minimized.

5.3 Constraints/Recommendations

a. There appears to be growing concern in some circles that BANCODP may not be adequately serving the cooperative sector. That concern, I expect, is based upon the fact that 63 percent of the Bank's loans outstanding was with the non-cooperative sector as of December 31, 1985. However, an objective appraisal of the situation reveals the following factors:

- The Bank was established on the sound basis that it would follow conventional lending criteria which would clearly constrain it to serving a limited number of viable cooperatives, at least initially. Incidentally, that is a very sound philosophy to which I fully subscribe.
- Based upon the best information available it appears that BANCODP is now serving most, if not all, of the significant and viable cooperatives. Further, the loans to those cooperatives have been limited only by factors related to the Bank's legal lending limit and /or the respective cooperative's capability to increase its borrowing capacity. It is expected that loans to those cooperatives will increase as they expand their operations and more importantly their repayment ability. But, that still provides a very limited market for the Bank to serve.
- Therefore, viable cooperatives alone probably could

not support the Bank adequately and so it became essential for the Bank to depend heavily on the non-cooperative sector to build itself into a strong and viable financial institution so that it could continue to expand its services to cooperatives. Also, not inconsequential is the fact that earnings developed from business with the non-cooperative sector are all allocated to member cooperatives which in turn remains in the Bank thereby contributing significantly to growth of the Bank's capital base.

- The foregoing recitation has been made in an attempt to emphasize the fact that a very significant constraint, which I believe was fully anticipated from the beginning, has developed which severely limits the Bank's ability to serve more cooperatives. One obvious solution to this problem is to provide appropriate technical assistance and training to elevate the performance levels of those potentially viable cooperatives that are not now members of BANCOP. Under normal circumstances this type of cooperative development activity would be relatively slow at least in producing noticeable results, particularly with the Bank's limited resources. At any rate, the Bank with the approval of its Board recognizes this real need and BANCOP has budgeted 3,000,000 Colones in 1986 for cooperative development activities which is a modest beginning. However, this process could be accelerated in a meaningful way with a larger insertion of technical skills and training funds.

In fact, this matter has been adequately documented on several occasions for nearly a year by the ACDI advisors. And, certainly attention was clearly focused on this major constraint in a draft proposal for assistance involving a collaborative effort by USAID, BANCOOP and CINDE which was presented to the interested parties in October 1985. Unfortunately, and even though I believe there is agreement conceptually, no apparent action has been taken on that proposal and the basic problem remains unresolved as of this writing.

- b. Another constraint, or potential constraint, to the future growth of the Bank, especially in terms of the cooperative sector is the need for additional long-term funds for lending. In the cooperative sector there is much greater demand (or will be) for long-term loans for improving/expanding their operating facilities, long-term working capital, etc. This is evidenced by the fact that 72 percent of loans to the cooperative sector were for terms from 1 to 10 years as of December 31, 1985. And further, providing long-term loans is an important service for cooperatives which BANCOOP is capable of providing especially since most other financial institutions in Costa Rica are reluctant to make such loans. Currently the major internal source of long-term loan funds are the USAID K-040/43 and W-040 programs administered by the Central Bank. Although BANCOOP has been very successful in developing loan funds internally from the sales of its Certificates of Investment, those are

short-term funds which are utilized mostly to tide the loan needs of the non-cooperative sector and which contribute significantly to the Bank's overall operation and development. Thus, it appears that with the country's continuing economic problems the major sources of long-term funds will have to be generated from external development agencies/financial institutions such as the Inter-American Development Bank, USAID, Inter-American Development Foundation, etc. and possibly some European cooperative/development institutions. Therefore, Bank management will need to continually promote and develop those and perhaps other sources of long-term loan funds as it did recently in negotiating a \$6,000,000, 30-year loan from the Inter-American Development Bank to develop cacao production through a cooperative and to financially assist coffee cooperatives to improve their operating capacities.

5.4 Other Recommendations

- a. While BANCDOOP has made very substantial improvements in its memberships and public relations activities during the past year this is an activity which, especially in a cooperative bank, probably can never be overdone. Therefore, it should remain a high priority of the Bank ad infinitum. As the Bank expands its cooperative membership the more-or-less one-on-one contacts between Bank management and members which have characterized this activity to date will become increasingly difficult to perform. But, since that means of communication is by far the most effective it should never be abandoned totally.

However, Bank management could consider beefing-up its periodic newsletter with more informative/educational types of articles and perhaps issue it monthly instead of bi-monthly. Also, members of the Bank's Board of Directors could effectively share some of the Bank's need for personal type contacts with member cooperatives especially in situations that are non-sensitive and/or not involving specific negotiations on loans or other Bank services.

- b. The Bank should give serious consideration to the development of a group of outside and disinterested experts in various phases of banking, business and cooperatives to perform in an advisory group to management and the Board of Directors as recommended in the recent project evaluation.
- c. As Bank management is now doing, continued emphasis should be placed upon developing additional financially related services needed by cooperatives and to the degree possible on a profit oriented basis. Among other things, such services might include: computer services in accounting, employee payrolls, project analysis, etc.; acting as a collection agent; operating as an insurance agent; providing technical assistance and training services; etc., etc. These are the types of services that are or will be needed by developing cooperatives that will enhance the Bank's image as a full-service financial institution. Equally important service revenues will become more important in maintaining and improving the Bank's profitability as its profit margins on lending

could decline as its costs of borrowed funds increases. Additionally, I subscribe totally to management's concept to place such services under the UNIBANC structure so as to keep as much separation as possible between loan decisions (a BANCOOP function) and decisions and activities related to services.

- d. Consideration should also be given to the Bank serving more of the loan needs of its large cooperative clients to whom loan amounts are limited by the Bank's legal lending limit. This could be accomplished in at least two ways, through syndication and/or participations. In syndicating, the process would involve having the cooperative would apply for its larger needs directly to BANCOOP. The Bank would perform its usual loan analysis and loan recommendations. To whatever degree the amount exceeded BANCOOP's limit the Bank would negotiate with enough other banks to supply the total loan need of the cooperative. In this case, it would be the same as if each bank involved made a separate loan to the cooperative and therefore each would carry its related risk. However, BANCOOP would be the lead Bank and perform all the loan disbursing to the client, all the loan serving and act as collection agent for the other banks for which it would collect from them a loan placement and ongoing management fees. A participation loan would operate in a somewhat similar manner. Again, BANCOOP would be the lead bank but in this case it would make the entire loan to the client cooperative however, by pre-negotiations with other banks would sell-off

(participate) appropriate portions of the loan to them again, in relation to each bank's lending limit. As indicated BANCOOP would be the lead bank and perform all the loan placement and administration and activities for fees. In either case, BANCOOP would have to negotiate a syndication/participation agreement with each bank involved which would clearly define BANCOOP's responsibilities, interest rates, fees to be charged, etc. so as to limit BANCOOP's liabilities to the other banks and to limit its proportionate share of the loan risk to no more than its legal lending limit. While neither of these tactics are terrific revenue producers they could yield meaningful revenues as well as some peripheral benefits which could be more important. It could be a great service to the client who would then need to negotiate with only one bank instead of several and it would give BANCOOP greater control over the client's finances which in times of adversity could be extremely important. Additionally it could greatly enhance the image of BANCOOP's capabilities in both the internal and international banking communities which could easily lead to other opportunities for BANCOOP.

- e. It is highly recommended that BANCOOP undergo periodic management audits by capable and disinterested person(s) in order to provide Bank management and the Board with an objective appraisal of bank operations and performance similar to the one arranged by ACDI in late 1985. The frequency of such audits should be largely a function of how rapidly the Bank is growing in terms of loan volume,

international operations, personnel and/or new services.
On that basis perhaps the next audit should be scheduled
for the second semester of 1986.

6. CONCLUDING COMMENTS

It has been an extremely gratifying experience for this advisor to have participated in the extremely rapid growth and successful development of BANCOOP over the past 27 months. And, I am sure the other ACDI advisors/consultants who worked with BANCOOP during that period would echo the same feeling. However, it is at least obvious to me that BANCOOP's success cannot be totally attributed to the technical assistance and training inputs provided by ACDI under this USAID DPO. While we hope those inputs will be of lasting value to the Bank, it was the aggressive, progressive and dedicated attitudes of the management, Board of Directors and the staff that made things work and continue to propel the Bank to higher levels of achievement and maturity as a cooperative financial institution. As a result, I am satisfied that a very solid foundation has been established for BANCOOP to move forward with confidence in its future growth and development.

Respectfully submitted,


Richard A. Neis
Resident Advisor and
ACDI Chief of Party

Copies to:

- Rural Development Office, USAID/Costa Rica
- BANCOOP
- ACDI/Washington

BANCOOP, R. L.

COMPARATIVE BALANCE SHEETS AS OF DECEMBER 31

(Amounts in thousands of Colones)

<u>ASSETS</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Loans Outstanding	--	30,396	346,018	781,451
Less: Reserve for Loan Losses	--	--	<u>752</u>	<u>2,213</u>
Net Loans Outstanding	--	30,396	345,266	779,238
Cash and deposits	9,845	8,057	2,498	73,748
Investments	--	--	67,242	59,387
Interest Receivables	--	1,004	10,435	20,996
Fixed Assets-Net	1,177	1,887	11,717	27,944
Other Assets	<u>1,930</u>	<u>2,698</u>	<u>7,768</u>	<u>15,463</u>
TOTAL ASSETS	<u>12,952</u>	<u>44,042</u>	<u>444,926</u>	<u>976,776</u>
 <u>LIABILITIES AND CAPITAL</u>				
Due Clients (International Transactions)	1,689	444	18,729	61,592
Interest Payable	--	176	3,975	13,421
Other Liabilities	2,815	3,646	7,344	12,730
Certificates of Investment Outstanding	--	--	45,500	195,805
Long-term Debts Banks and Others	<u>83</u>	<u>25,551</u>	<u>135,581</u>	<u>425,729</u>
TOTAL LIABILITIES	<u>4,587</u>	<u>29,817</u>	<u>211,129</u>	<u>709,277</u>
 <u>CAPITAL</u>				
Certificates of Contribution	6,890	10,568	13,943	28,673
Certificates of Investment (INFOCOOP)	--	--	191,250	191,250
Certificates of Investment	--	--	120	120
Legal Reserves	309	865	4,001	7,702
Undistributed Earnings	<u>1,166</u>	<u>2,792</u>	<u>24,483</u>	<u>39,754</u>
TOTAL CAPITAL	<u>8,365</u>	<u>14,225</u>	<u>233,797</u>	<u>267,499</u>
TOTAL LIABILITIES AND CAPITAL	<u>12,952</u>	<u>44,042</u>	<u>444,926</u>	<u>976,776</u>

Based upon audited financial statements by Camacho, Mendez & Co., CPAs.

BANCOOP, R. L.

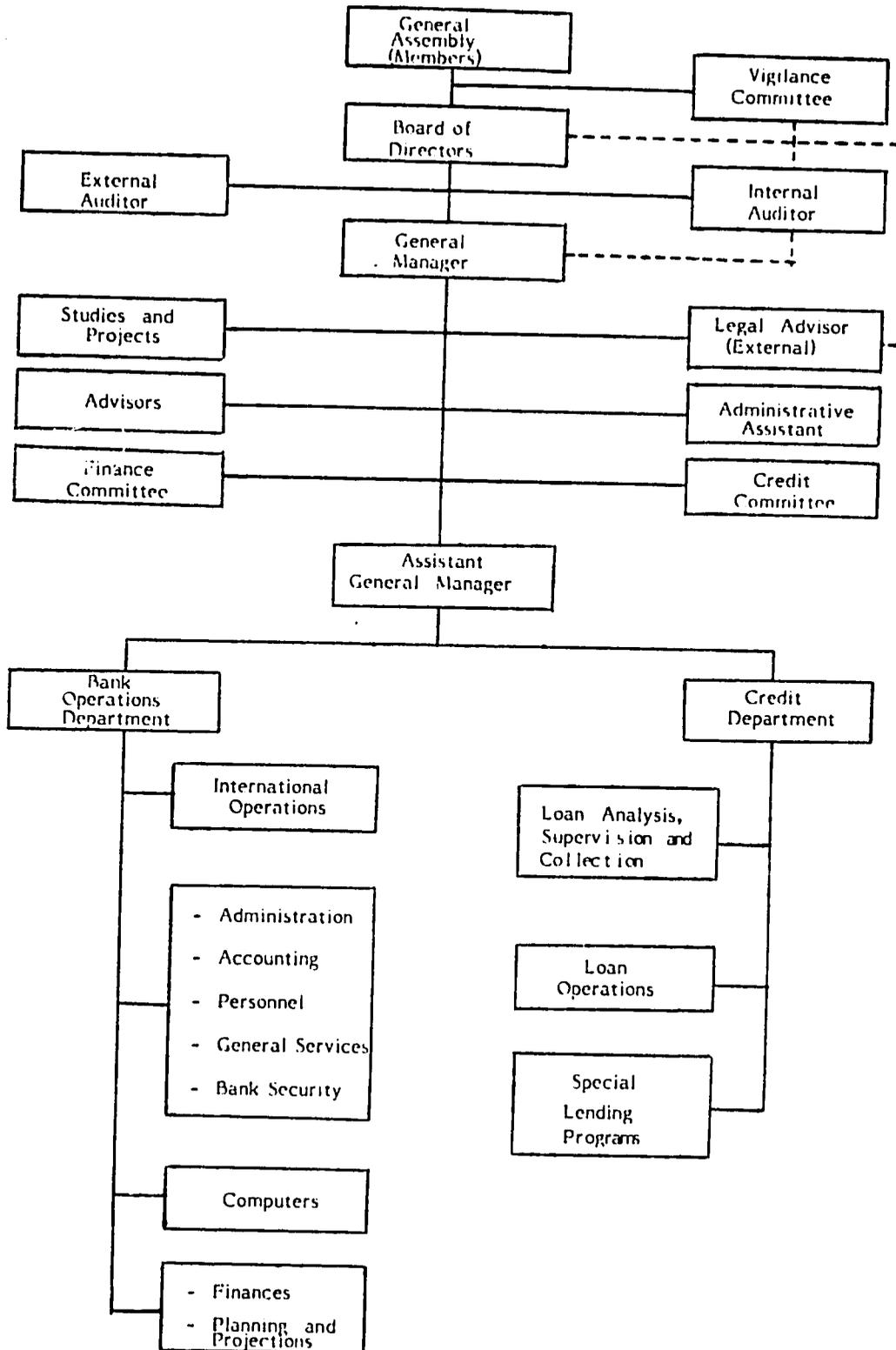
COMPARATIVE INCOME STATEMENTS AS OF DECEMBER 31:

(Amounts in thousands of Colones)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>INCOME</u>				
Interest on Loans	--	1,712	39,350	127,906
Interest on Investments	863	2,801	9,169	17,174
Commissions	6,187	14,006	18,890	19,709
Other	--	918	1,348	1,805
Total Income	<u>7,050</u>	<u>19,437</u>	<u>68,757</u>	<u>166,594</u>
<u>EXPENSES</u>				
Financial Expense	67	1,552	18,512	94,390
General & Admin. Expense	3,889	12,176	18,137	33,736
Provision for Loan Losses	--	--	752	1,462
Total Expenses	<u>3,956</u>	<u>13,728</u>	<u>37,401</u>	<u>129,588</u>
Net Earnings Before Distributions	<u>3,094</u>	<u>5,709</u>	<u>31,356</u>	<u>37,006</u>
<u>DISTRIBUTIONS</u>				
Legal Reserve	309	571	3,136	3,701
Due CONAPE	155	285	1,568	1,850
Pension Funds	--	--	685	1,105
Taxes	1,155	1,490	723	--
Undistributed Earnings	<u>1,475</u>	<u>3,363</u>	<u>25,244</u>	<u>30,350</u>
Total Distributions	<u>3,094</u>	<u>5,709</u>	<u>31,356</u>	<u>37,006</u>

Based upon audited financial statements by Camacho, Mendez y Co., CPAs.

BANCOOP R.L.
ORGANIZATION CHART
(March 1986)



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BANCOOP, R. L.

PERSONNEL ROSTER

(March 14, 1986)

<u>Dept./Name</u>	<u>Title</u>	<u>Date Employed</u>
<u>Management</u>		
Federico Herrero S.	General Manager	May. 10, 1982
Marcos Salazar G.	Asst. General Manager	Jan. 20, 1982
Jorge Salazar P.	Internal Auditor	Dec. 16, 1984
Victor Calvo C.	Administrative Assistant	Jun. 4, 1984
Luis F. Cespedes	Advisor	Oct. 16, 1984
Carmen M. Grillo R.	Secretary-Management	Mar. 23, 1983
Alexandra Segovia S.	Secretary-Asst. Management	Mar. 27, 1985
Rosario Vega Garcia	Secretary-Asst. Management	Oct. 7, 1985
<u>Credit Dept.</u>		
Manuel Guevara H.	Chief-Credit Department	Jan. 14, 1985
Osvaldo Badilla C.	Credit Executive	Jun. 20, 1982
Oscar Masis P.	Credit Executive	Oct. 14, 1982
Mariano Rodriguez V.	Credit Executive	Nov. 22, 1982
Carlos E. Sauma B.	Credit Executive	May. 5, 1983
Porfirio Ortiz G.	Credit Analyst	Nov. 6, 1985
Sylvia Morales S.	Head-Loan Operations	Nov. 1, 1982
Emilio Vargas B.	Loan Administration-San Carlos	Oct. 1, 1985
Flor Rojas A.	Asst.-Loan Operations	Aug. 12, 1985
Isabel Sanchez M.	Secretary-Credit Department	Jun. 11, 1984
Saray Steller R.	Secretary-Credit Department	Apr. 8, 1985

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<u>Dept./Name</u>	<u>Title</u>	<u>Date Employed</u>
<u>Operations Department</u>		
Unfilled	Chief-Bank Operations	
Juan Madrigal M.	Chief Accountant	May. 1, 1982
Zeidy Ugarte B.	Assistant Accountant	Mar. 12, 1985
Jesus Rodriguez L.	Accounting Machine Operator	Jun. 29, 1985
Dunnia Guzman V.	Secretary-Accounting	May. 3, 1983
Vistor Solis E.	Chief-International Dept.	Sep. 13, 1982
Carlos Morales N.	Asst.-International Dept.	Jan. 1, 1984
Rosa Castro L.	Letters of Credit-Int. Dept.	Oct. 28, 1982
Daniel Vargas R.	Free Market-Int. Dept.	Feb. 1, 1983
Nury Villalobos C.	Foreign Exchange-Int. Dept.	Oct. 31, 1984
Olman Sandoval O.	Collections-Int. Dept.	May. 2, 1985
Lilliana Marin D.	Secretary-International Dept	Aug. 22, 1983
Ricardo Brenes J.	Systems Analyst-Computer Dep	Sep. 5, 1984
Ovidio Mora A.	Programmer-Computer Dept.	Feb. 1, 1984
Freddy Ulloa A.	Programmer-Computer Dept.	Feb. 20, 1985
Jesus Valverde M.	Cashier	Feb. 25, 1985
Orietta Cercone C.	Receptionist	Jun. 10, 1985
Alvaro Arias J.	Chief-Security Department	Jul. 22, 1985
Victor Alfaro A.	Guard-Security Department	Jul. 22, 1985
Carlos Gonzalez R.	Guard-Security Department	Jul. 22, 1985
Juan Mata M.	Guard-Security Department	Jul. 22, 1985
Ricardo Freer D.	Messenger	Oct. 24, 1983
Jose Pena F.	Messenger	Dec. 13, 1985
Alexander Rojas C.	Messenger	Dec. 15, 1985
Olga Madrigal M.	Maintenance	Dec. 3, 1982
Xinia Borbon M.	Maintenance	May. 20, 1985

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BANCOOP, R. L.

LIST OF COOPERATIVE MEMBERS
(March 14, 1986)

		<u>Date of Acceptance</u>
1.	COOPEATENAS, R. L.	January 19, 1982
2.	COOCIQUE, R. L.	January 19, 1982
3.	COONAPROSAL, R. L.	January 19, 1982
4.	COOPEISIDRENA, R. L.	January 19, 1982
5.	COOPELIBERTAD, R. L.	January 19, 1982
6.	COOPEMONTECILLOS, R. L.	January 19, 1982
7.	COOPENARANJO, R. L.	January 19, 1982
8.	COOPESA, R. L.	January 19, 1982
9.	COOPESANTARROSA, R. L.	January 19, 1982
10.	FEDECOOP, R. L.	January 19, 1982
11.	COOPROLE, R. L.	January 19, 1982
12.	FEDECREDITO, R. L.	January 19, 1982
13.	UNACCOOP, R. L.	January 19, 1982
14.	COOPESANCARLOS, R. L.	September 16, 1982
15.	COOPELECO, R. L.	September 16, 1982
16.	COOPETARRAZU, R. L.	September 16, 1982
17.	COOPEORECIA, R. L.	December 23, 1982
18.	COOPESERVIDORES, R. L.	December 23, 1982
19.	COOPEUNION, R. L.	December 23, 1982
20.	COONAPROCAL, R. L.	December 23, 1982
21.	COOPARAGON, R. L.	January 20, 1983

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		<u>Date of Acceptance</u>
22.	COOPEINDEPENDENCIA, R. L.	January 20, 1983
23.	COOPEDENT, R. L.	May 29, 1984
24.	COOPETIERRABLANCA, R. L.	June 12, 1984
25.	COOPEJORCO, R. L.	July 3, 1984
26.	COOPROSANVITO, R. L.	December 3, 1984
27.	COOPESAGO, R. L.	March 8, 1985
28.	COOPESANTOS, R. L.	March 18, 1985
29.	COOPELESCA, R. L.	March 21, 1985
30.	COOPEAGRI DE EL GENERAL, R. L.	May 8, 1985
31.	COOPESANJUANILLO, R. L.	July 27, 1985
32.	COOPECARTAÑO, R. L.	August 30, 1985
33.	COOPEVICTORIA, R. L.	October 14, 1985
34.	COOPECOMUN, R. L.	March 13, 1986

III. PURPOSES & INDICATORS OF PROGRESS:

PURPOSE 1:

To strengthen and consolidate the recently created BANCOOP to ensure that cooperative members will have timely and effective access to an efficient array of banking services from a viable cooperative banking institution.

INDICATOR 1: BANCOOP is functioning according to sound cooperative and business principles.

- Level of Achievement: The bank is functioning on sound cooperative and business principles and has made remarkable progress in all areas.

The Central Bank of Costa Rica reported to manager Herrero on July 15, 1985 the results of their semestral financial analysis of the 13 private banks in the National banking system as of 12/31/84. In the auditor general's letter (AG 770-85 dated July 15, 1985) BANCOOP was rated as follows:

General ranking all banks	- 9.5/10	- first place
Payment capacity	- 9.4/10	- third place
Asset quality	- 9.8/10	- first place
Efficiency	- 9.5/10	- second place
Debt status	- 9.6/10	- second place
Results	- 9.2/10	- third place
Profitability	- 9.3/10	- third place

However, in its day to day operations there is room for improvement and polishing of both policies and procedures.

A major effort of the advisors has been to encourage the bank in the establishment of sound operational policies and procedures in each department. In this role, both advisors have made many useful and constructive recommendations to management. These can be found in the many memos and reports submitted to the bank and documented in the quarterly reports. Some of these

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BANCOOP OPG Evaluation
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recommendations have not been implemented in a timely fashion. It must be remembered, however, that priorities are established by management and although an advisor may at some given moment recommend a specific action, it may not fit the priority schedule of the bank. In general, it was found that the great majority of advisor recommendations were acted upon.

ACDI performed a management audit of BANCOOP during the third quarter of 1985 and found that, by and large, the bank is indeed, functioning according to sound cooperative and business principles. The management audit, which contains many recommendations, was submitted to management and the board of directors for their review and response. A portion of it was submitted to USAID on October 29, 1985.

INDICATOR 2: BANCOOP offers a full array of efficient and effective commercial banking services and the necessary departments, staff and infrastructure to: extend credit, receive deposits from cooperative members, discount financial paper in the Central Bank of Costa Rica and mobilize local and international financial resources, foreign exchange operations, letters of credit, collections, etc.

- Level of Achievement: As early as December 1983, BANCOOP had established the necessary departments and begun providing all of the services mentioned, with the exception of receiving direct cash deposits. It has a new building, a working, sophisticated computer system and a staff of 40. This is compared to eight full time and two part time professional and three clerical employees in place when the project began.

Since November 1984, the bank has been selling certificates of investment (Certificados de Inversión), which are, in effect, time deposits of six-months. The sale of this type of debt paper was initiated primarily to develop a source of additional loan funds and at the same time to develop recognition of BANCOOP and to gain a reputation as a paper seller in the local securities market. An additional and more significant purpose in selling paper was to build the bank's asset base to permit it to expand its borrowings from the Central Bank. As of September 30, 1985, outstanding certificates amounted to \$4.58 million (C. 242,841,000). These funds are used primarily to fill short-term cash requirements of the non-cooperative sector.

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January, 1986

Law No. 6894 provided the bank with the ability to discount its paper at the Central Bank. During the past two years the Bank has mobilized financial resources such as AID's K-040 and W-040 funds and CINDE funds as well as a substantial loan from IDB for the introduction and commercial production of cocoa. The bank has also established correspondent relationships with the following banks: Irving Trust Company, Florida National Bank, Citizens Southern International Bank, Deutsch-Sudamerikanische Bank, A.G., First National Bank of Commerce, Bladex, Central Rabo Bank, Utrecht and Ibero-America Bank, A.G. These relationships facilitate trade between Costa Rican cooperatives and the U.S. or other foreign countries.

The bank also established modest lines of credit with Bladex (Banco Latinoamericano de Exportaciones) and Fopex (Fondo para el Financiamiento de las Exportaciones). These relationships add needed sources of funds which are being used by the cooperatives to facilitate the import of their products. Initial contacts have been made with the EX-IM Bank and the U.S. Central Bank for Cooperatives. However, to date BANCOOP has been unsuccessful in obtaining U.S. dollar lines of credit from these banks. The BLADEX relationship is, however, for a U.S. dollar line of credit to BANCOOP.

BANCOOP's loan portfolio has grown from zero to approximately \$13 million (C. 689,744,000) as of September 30th. Of this, approximately 35% is in the hands of cooperative borrowers, while the remainder has been lent to non-cooperatives. The delinquency is minimal.

INDICATOR 3: BANCOOP is accepted as a financial intermediary able to operate with pre-investment funds and is recognized as an "agente financiero" having similar prerogatives as the state-owned commercial banks (except checking accounts and demand deposits).

- Level of Achievement: Costa Rican banking law 6894 of September 1983, gave the bank all the rights, privileges and obligations of private commercial banks together with tax-exempt status and other benefits because of its cooperative status.

INDICATOR 4: Bank has an acceptable employee turnover so training benefits are institutionalized.

- Level of achievement: In March 1983 the following persons were employed in the bank: a) full time: Federico Herrero - general manager, Marcos Salazar - assistant general manager, Juan Madrigal - accountant, Eugenio Obaldia - chief international operations, Victor Hugo Solis - assistant international operations, Osvaldo Badilla - credit officer,

BANCOOP OPG Evaluation
January, 1986

Jorge Sauma - credit officer, Oscar Masís - credit officer and two secretaries and one messenger, and b) part time: Norman Sánchez - auditor, Marco Vinicio Tristán - legal advisor. At the time of the evaluation Eugenio Obaldía and Jorge Sauma are the only two professionals from the original staff who are no longer with the bank.

Jorge Sauma, former credit officer, is the only employee who benefited from U.S. and/or third country training and who has resigned from the Bank. For a bank that has tripled its employees during the past two years this is remarkable! The turnover ratio among key employees is practically non-existent and all the principal department heads and senior officers are stable, long term employees.

INDICATOR 5: BANCOOP has an installed and demonstrated capacity to conduct membership surveys in member cooperatives in order to determine increased member income and satisfaction with cooperative services.

- Level of achievement: The task of building a solid financial banking institution from scratch in three years has taken tremendous effort, enthusiasm and dedication from all concerned. Neither the board, management or the advisors felt that the ability to carry out membership surveys was of sufficient priority to justify assigning resources during this initial period. Hopefully, in the future, BANCOOP and/or UNIBANC will be able to undertake this function.

INDICATOR 6: BANCOOP members are active in guiding bank policy.

- Level of achievement: Since the creation of BANCOOP, the board of directors has taken an active role in establishing the general policies of the bank. Yet the board has learned the proper role of a board of directors and has not meddled in areas which are the responsibility of management. A reading of board minutes and vigilance committee correspondence confirms that most of the board members make a clear distinction between policy and operations. They clearly have delegated management of the bank to the general manager and his staff. This is demonstrated by the fact that, unlike other private banks in Costa Rica, the loan committee consists of staff members and the general manager. Credit decisions are made by the staff credit committee and not the board of directors. This is a real strength of the bank and facilitates swift approval of credit.

There appears to be a healthy relationship between the board and management and this is, no doubt, one of the reasons for the success achieved by BANCOOP.

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INDICATOR 7: BANCOOP is its members principal source of banking service.

- Level of achievement: For some members BANCOOP is their principal source of credit. However, given the fact that the bank has been operational less than 3 years, it is not realistic at this time to expect that the members would have shifted all of their demands for service to BANCOOP.

In general, most members are still receiving financial services from several institutions, although most expressed a desire that perhaps someday they could increase their business with BANCOOP. In reality, Costa Rican banking laws only permit a bank to loan up to 15% of the bank's capital reserves to any one borrower and Central Bank approval is required to lend more. The maximum is 25%. Therefore it is likely that most bank members, particularly the larger cooperatives, will continue to depend on other sources for financing part of their operations.

INDICATOR 8: BANCOOP conducts regular businesslike board meetings at least monthly at which financial statements are analyzed and discussed, policies are established, results monitored and the performance of the manager is effectively appraised.

- Level of achievement: The board has met on a monthly basis for the past three years according to their minutes. They have held extraordinary meetings on several occasions to resolve policy issues and address internal problems of the bank. During the past 12 months they have received financial data and variance reports which allow them to better understand the operations of the bank and to monitor its progress.

Much of the current management information system can be attributed to the collaborative efforts of the ACDI-provided technical assistance team. Both of the advisors have worked with management to develop a series of reports which are useful to management and the board. The current system is being improved and programmed into the computer.

INDICATOR 9: BANCOOP clients are satisfied with the services offered.

- Level of achievement: Members who have become borrowers are satisfied with the services offered to date and want even more services in the future. Non-cooperative clients seem to be satisfied with the quick service they receive when requesting short-term credit.

The evaluator gathered data from a 48% sample of the cooperative managers through personal interviews or mail questionnaires in order to affirm to what extent the members are

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satisfied with the services of the bank, as well as the extent to which they currently use the bank and plan to use it in the future. All of those interviewed expressed their primary reason for joining BANCOOP as the need for better financial services. This was amplified by a desire to see a bank created which would cater to the special needs of the cooperative community; a bank which understands cooperatives.

Several managers and respondents indicated that they would like to have the same services available to them through BANCOOP which currently are offered by other private and government banks. At this point in the growth of the bank, it may not be advisable to offer services such as: checking (only government banks can offer this service) and savings accounts, lines of credit, local branch banking and automatic, pre-authorized payments.

In the long run, probably the only effective way of measuring the extent to which clients are satisfied with the services offered is to examine the growth in membership and particularly member patronage. It will be important to observe to what extent the members come back to the bank for continued service as well as additional financing of their own future growth.

INDICATOR 10: BANCOOP is a viable cooperative bank.

- Level of Achievement: Comparative financial statements since December 1982 indicate the steady growth of BANCOOP and document its viability. A brief summary indicates:

ITEM	12/31/82	12/31/83	12/31/84	9/30/85*
(Figures in Thousands US\$. US\$1 = C. 51.70 - Current Dollars)				
ASSETS	\$251	852	8,667	17,632
Loans	0	588	6,678	13,312
Other assets	251	264	1,989	4,313
LIABILITIES	89	577	4,130	12,594
EQUITY	162	275	4,537	5,038
Member equity	133	204	272	553
Other equity	0	0	3,699	3,699
Retained earnings	29	71	566	786
EARNINGS	29	110	606	523

* Data from September 30th unaudited internal bank financial statement.

PURPOSE 2:

PURPOSE 2: To strengthen and consolidate existing cooperatives financial and business structure as well as their administrative and managerial procedures and operations.

EVALUATOR COMMENT: At the time the OPG proposal was drafted in early 1983, it was envisioned that through the credit process an impact could be made at the cooperative level. Cooperatives would approach the bank (or vice-versa) for assistance and the credit officials would carry out reviews (management and financial) to determine the credit worthiness of the firms. In this process, certain changes (improvements) would be required by BANCOOP prior to granting the loan or prior to and during the disbursement process. By monitoring performance, keeping complete records of field visits, quarterly financial statements and annual reports of the borrowers, an evaluator could, by reviewing the data in the files, make some statement regarding the impact BANCOOP was having at the cooperative level.

Of course, key assumptions inherent in the above were that the borrowing cooperatives would be willing to accept the conditions precedent established by the bank and that the data collection, loan monitoring and filing systems of BANCOOP would include the gathering of systematic information to facilitate such an evaluation.

It was not envisioned that the long term resident advisor would work directly with the borrowing cooperatives, nor was that responsibility included in his scope of work (See pg. 30 of the original OPG proposal). Likewise, neither was work with the borrowers envisioned as a duty of either the financial management specialist or the cooperative credit specialist.

Indicator 5 corresponding to PURPOSE 1, i.e., the institutionalization of member survey capacity, has never been given priority by BANCOOP. This is understandable given the need to build the basic structure of the bank, consolidate operating systems and procedures, and launch the bank as a viable private financial institution in the national banking system. No small task in two years! However, if this aspect of the original project design had been fully implemented, it is possible that through the survey mechanism data could be gathered so as to permit a more complete analysis of the improvements at the cooperative and federation levels.

Similarly, one of the recommendations of the management audit recently submitted by ACDI, was that more attention be placed on gathering complete data from borrowing cooperatives

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and on the systematic review of the data. With better data in the loan files, a more complete evaluation of PURPOSE 2 could have been undertaken within the time allowed.

In order to systematically evaluate the majority of the indicators of PURPOSE 2, a review of the borrowing cooperatives' financial statements and actual visits to the cooperatives would be necessary. Following project completion, such a review would no doubt provide ample data to evaluate the effectiveness of a cooperative financial institution on improvements within the borrowing cooperative firms.

Nevertheless, while hard data have not been maintained to allow one to make definitive statements regarding the achievement of the following indicators, one can say with a certain amount of certainty that many significant changes have been achieved within the cooperatives due to their relationship with BANCOOP.

INDICATOR 1: Improved efficiency in providing services.

- Level of Achievement: Since systematic surveys are not being carried out by BANCOOP specific hard data regarding the above indicator is not readily available from the bank. However, from field visits and the questionnaires it appears that those cooperatives which have received loans for capital improvements to their cooperatives are now providing better and more efficient services to their members. In 1984 alone the Bank made 46 loans to 24 cooperatives for a total of 181 million colons. These were placed with cooperatives as diverse as beef, coffee, milk, and salt production, to handicrafts and small industry. The Bank's financing was used to meet various needs such as: working capital, improvements to processing plants, funds for additional productive loans (FEDECREDITO), diversification of production, increased member capitalization, etc. The following table documents data from seven coffee cooperative borrowers (Fanega is a measure used in the Costa Rican coffee industry) and was taken from bank files.

COOP	CAPITAL RETAIN		CAPACITY		DEBT TO EQUITY	
	BEFORE (COLONES/FANEGA)	AFTER	BEFORE (FANEGAS)	AFTER	BEFORE-	AFTER
A	10	50	40,000	45,000	6.2	3.6
B	15	50	40,000	60,000	2.4	1.8
C	40	60	60,000	75,000	7.0	2.8
D	20	40	70,000	90,000	7.0	4.0
E	13	30	75,000	90,000	6.4	4.9
F	30	60	45,000	65,000	2.3	2.0
G	30	141	30,000	35,000	3.5	2.2

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These seven borrowers represent approximately 40% of all long term loans to cooperatives as of August 31, 1985. In all cases financial improvements were required by the bank. The data indicates a 28% increase in processing capacity of these cooperatives as a result of the loans received from BANCOOP. Also as a result of BANCOOP, members' equity will increase from C. 8.4 million to C. 24.9 million per year. An increase of 300 percent! A normal U. S. standard on debt to equity is not over 2.0, so as the above table demonstrates, progress is being made in increasing member investment in their cooperatives and improved services are being offered to farmer members because of the cooperatives' increased capacities.

The evaluator visited several of the members who are borrowers and found that in those visited the services now being provided to the members appear to be more efficient. In the case of the coffee cooperatives, most now have increased storage capacity and therefore can receive and process a larger portion of the members' coffee production. Prior to the loans and addition of new storage facilities, many members had to sell their production either to a non-cooperative buyer or another cooperative. In either case the grower-member would incur additional expense in transportation and was placed in a weak bargaining position regarding the sale price of his coffee.

INDICATOR 2: Improved administrative structures.

- Level of achievement: Several of the conditions precedent in loans to members have required changes in management, the hiring of more professional staff and other improvements. It appears that perhaps additional effort made by the bank in this area could have significant effects at the cooperative level. There is a fine line, however, between taking an "arms length" approach, customarily the case in banking circles, and delving into the internal affairs of a borrowing client. While the second approach may have significant impact in certain areas, it also exposes the bank to higher risk if something goes wrong. Borrowers may blame the bank for failure.

For this and other reasons, BANCOOP is very interested in building the technical assistance capacities of UNIBANC so these services can be undertaken outside the bank proper; a system commonly used by the U.S. cooperative banking industry.

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INDICATOR 3: Improved member equity or net worth of cooperatives.

- Level of achievement: See the table presented above. BANCOOP has a requirement for members to increase their equity in the cooperative as a standard clause in the majority of loans. Some loans have been made solely for the purpose of building member equity. They work as follows: BANCOOP approves a loan to cooperative A for capitalization on the condition the cooperative and its members sign capitalization agreements in which members authorize the withholding of additional per unit capital retains on each fanega of coffee processed. The loan capital provided by BANCOOP is used by the cooperative to buy shares in BANCOOP, to build additional facilities, increase farm supply inventories or for other fixed, productive assets. Loan repayment to BANCOOP is facilitated by the increased retains on member production, which in turn is credited to the member capital account.

INDICATOR 4: Improved return on member equity.

- Level of achievement: See comments above.

INDICATOR 5: Acceptable business ratios (liquidity, ownership, indebtedness, etc.)

- Level of achievement: ACDI advisors have counseled and trained BANCOOP staff in the use of standard ratio analysis techniques as a tool in the loan process prior to requesting approval from the credit committee. Acceptable ratios are required as prerequisites to approval. However no composite data has been compiled and systematically analyzed by BANCOOP officials, apparently. The evaluator did verify, however, that those cooperatives which are borrowers have increased the level of member per unit retains as their method of paying off the loan and increasing equity. BANCOOP's Annual Report for 1984 indicates that in those cooperatives which borrowed, the average debt to equity ratio was reduced from 5:1 to 3.15:1.

INDICATOR 6: Principal banking services provided by BANCOOP.

- Level of achievement: Within the limits of Costa Rican banking laws, BANCOOP is providing substantial financial services to its members.

On the other hand, the members do want additional services to be provided to them by the bank. The evaluator interviewed 9 member managers and an additional 7 members completed a member survey questionnaire regarding their use of BANCOOP and the extent to which they plan to use the bank in the future. Many expressed a desire to do all of their business

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with BANCOOP including checking (not authorized under current law) and savings deposits. Some felt, however, that it might be better to have several sources of credit. In the survey administered some respondents suggested local branch banking, automatic pre-authorized payments, lines of credit, etc. Each of these services have both start-up and operational costs which the bank may not be able to justify in the immediate future.

The primary reason expressed by the members surveyed for joining BANCOOP was a desire for better financial services. Many felt a cooperative bank could cater to the special needs of the cooperative community. While most of those surveyed appear satisfied with the current loans and the speedy service offered by BANCOOP, several expressed a need to receive additional technical assistance from the bank in the future; and, as they take on more sophisticated operations, they felt additional assistance in project analysis, cost projections, administrative and financial consulting services would be needed. And those respondents hoped BANCOOP could provide these services.

INDICATOR 7: Percentage of business with members increases steadily.

- Level of achievement: No data has been compiled by BANCOOP to determine to what extent the percentage of business with members at the cooperative level has increased as a result of doing business with BANCOOP. However, the survey carried out did document membership increases among BANCOOP's member cooperatives and this is a sign that individuals may feel their local cooperatives are now offering better services and are willing to increase their patronage. See the discussion under Indicator 10 below.

INDICATOR 8: Improved member communications and participation in the affairs of the cooperative.

- Level of achievement: No data available to determine the extent to which this is happening.

INDICATOR 9: Installed and demonstrated membership survey capacity in selected second-level cooperatives.

- Level of achievement: No efforts were made by either the bank or the advisors to implement this aspect of the project. The advisors and management felt a lower priority should be given this aspect of the project and that initial efforts should be focused on establishing the bank and consolidating it financially and administratively.

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Of those cooperatives surveyed by the evaluator only one had carried out a store exit interview during the past year. Most of those interviewed did not express any urgency in addressing this need.

INDICATOR 10: Membership satisfaction with services offered by the cooperative.

- Level of achievement: No specific data have been gathered by any of the cooperatives or BANCOOP, to measure the extent of member satisfaction with the services they receive. However, one item on the survey conducted by the evaluator inquired whether or not the volume of business with members has increased during the past year. Eleven of sixteen cooperative managers indicated that it had increased substantially. When asked why this had occurred they all attributed it to their increased capacity to provide greater services to their members. To a great degree, this increased capacity to provide services is a direct result of BANCOOP's financial services to its members.

INDICATOR 11: Increased membership and business volumes.

- Level of achievement: Of those BANCOOP members surveyed who are also borrowers, all indicated a substantial increase in their membership and volumes of business with members. These increases can be directly attributed to increased capacity, increased available credit, and increased technical assistance to cooperative members which result from the loans provided by BANCOOP.

INDICATOR 12: Regular businesslike board meetings.

- Level of achievement: All BANCOOP members surveyed reported bimonthly board meetings (apparently a requirement of cooperative legislation). Agendas are announced, minutes kept, and boards are involved in major policy decisions.

During the fall quarter of 1984 the BANCOOP board of directors spent two weeks in the U.S. studying the U.S. cooperative banking system and participating in an ACIDI organized board training program. Individual board members testified that this training helped to clarify roles and responsibilities. All of these board members are either active cooperative managers and/or board members of local cooperatives or national cooperative institutions. Although not documented by the evaluator, it is surmised that some of what was learned in the U.S. may also have been institutionalized at the local cooperative level and is contributing toward better board roles and actions.

INDICATOR 13: Functioning according to acceptable cooperative principles.

- Level of achievement: The BANCOOP by-laws require that a new member be legally constituted and function as a cooperative for five years prior to becoming a member of the bank. As part of its membership application a new member must present sufficient documentation to BANCOOP to document compliance with their by-laws and Costa Rican cooperative law.

INDICATOR 14: Steady growth of the loan portfolios and loan delinquency at acceptable levels (only for those cooperatives providing credit to members as a regular service).

- Level of achievement: The evaluator did not obtain portfolio and delinquency data from the two major federations which are making loans to members (FEDECREDITO and FEDECOOP). As of July 31, 1985 C. 38.25 million were advanced to FEDECREDITO by BANCOOP for re-lending to the members of the federation and then to individuals. FEDECOOP has embarked on an ambitious coffee rehabilitation and diversification program with resources from outside BANCOOP. Both federations keep records regarding delinquency and portfolios of their member cooperatives, although this information is not generally kept in BANCOOP.

In the future, BANCOOP probably should monitor portfolio and delinquency data from the credit union federation and their members so alarms might be triggered if individual delinquency at the cooperative level begins to become a problem.

<u>Line Items</u>	<u>Budget</u>	<u>Actual</u>
III <u>ACDI</u> (continued)		
- Miscellaneous costs	\$ <u>1,000</u>	<u>--</u>
Sub - Total	\$ <u>21,538</u>	\$ <u>13,472</u>
IV GRAND TOTALS	\$ <u>678,338</u>	\$ <u>584,997</u>

Note: USAID/ACDI inputs are based upon actual figures up to February 28, 1986 and estimated expenditures/commitments through March 28, 1986.

GRANT SUPPORTED EXTERNAL TRAINING INPUTS

<u>Individual/Title</u>	<u>Place/Purpose of Training</u>	<u>Date Accomplished</u>
- Oscar Masis, Loan Officer	INCAE, Costa Rica-Management Training Workshop (4 weeks)	Aug. 1983
- Jorge Sauma, Loan Officer	New Orleans (U. S.) Bank for cooperatives-Credit training (4 weeks)	Nov. 1983
- Carlos Sauma,	SIDFCOOP, Buenos Aires- Credit Training (3 weeks)	Apr, May. 1984
- Victor Solis, Chief Int'l Dpt.	Citizens & Southern Int'l Bank, Miami-International Operations (2 weeks)	May. 1984
- Mariano Rodriguez, Loan Officer	Omaha (U. S.) Bank for Cooper- atives-Credit Training (4 weeks)	Aug. 1984
- Board of Direc- tors, Vigilance Committee, General Manager (11 persons)	Washington area, Virginia, Maryland and Massachusetts- Familiarization with U. S. Farm Credit System, national cooper- ative organizations, banks for cooperatives and cooperatives.	Sep. 1984

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<u>Individual/Title</u>	<u>Place/Purpose of Training</u>	<u>Date Accomplished</u>
	Also included 2-day seminar on board responsibilities and board/management relationships. Also, 4 persons participated in a regular monthly meeting of the Springfield (Mass.) Bank for Cooperative Board of Directors. (10 days)	
- Marcos Salazar, Asst. Manager & Carlos Morales, Dept. Chief, Int'l Dept.	Citizens & Southern Int'l Bank, Miami-Recent changes in foreign transactions (1 week)	Oct. 1984
- Oscar Masis, Loan Officer	Peru, Chile, Colombia-Familia- rization with cooperative management problems and credit institution, credit procedures & practices (3 weeks)	Jun. 1985
- Jorge Salazar, Internal Auditor	Bank of Boston, Panama-Internal auditing procedures & techniques (2 weeks)	Sep. 1985

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<u>Individual/Title</u>	<u>Place/Purpose of Training</u>	<u>Date Accomplished</u>
- Osvaldo Badilla, Loan Officer	Bank Admin. Institute, Chicago and commercial banks in Virginia and rural New York State-Development & Marketing of bank services. (4 weeks)	Oct. 1985
- Federico Herrero, General Manager	INCAE, Costa Rica - Seminar on micro-computers in banking. (1 week).	Nov. 1985