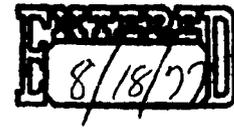


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JOINT EVALUATION OF COLAC

CONDUCTED BY AID AND IDB

DATE OF REPORT

JULY 18, 1977

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I. SCOPE OF EVALUATION

An evaluation of the Latin American Credit Union Development Program financed by AID, IDB and the federations was held at the Confederation headquarters in Panama from June 7 to 9, by personnel of COLAC and the Project Managers from AID and IDB. The purpose of the evaluation, as called for in the AID Project Paper, was to determine the status of the program to date and to permit the three institutions to identify and review problem areas, after the program had been underway for approximately one year. The program is essentially an institution building program with the stated purpose of establishing an effective, efficient and viable credit and cooperative service system. The evaluation therefore, included besides the status of the program, a brief review of COLAC credit operations, technical assistance activities and the organization of COLAC. No attempt was made at this early date in the program to review the impact of COLAC's activities in the field.

II. PROJECT STATUS

The overall program status can be summarized as follows: COLAC has undergone for the last year a major organizational effort in which it finalized its operating policies and procedures, recruited and hired a significant number of personnel, initiated a heavy technical assistance effort and is now beginning to make loans. This effort has taken longer than envisioned in the AID Project Paper. The first AID disbursement was expected in June 1976, and in fact did not take place until June 1977. The first disbursement under the IDB loan was scheduled for September 30, 1976, and took place in December 1976. The program is approximately six months to one year behind schedule depending on whether one looks at staffing or the initiation of the AID disbursements. ✓ The two major problem areas identified in the evaluation were COLAC's credit operations and financial status.

The status of each of the major areas reviewed is:

	<u>As of 6/76</u>	<u>As of 6/77 (Evaluation)</u>	<u>Projected As of 6/77 (Annual Plan)</u>
Loans Outstanding (000\$)	1,606	3,025	6,695
Technical Assistance (No. of Technical Assistance Professionals)	3	13	14
Institutional Staffing (Total Personnel including IDB financed technicians)	29	38	44

	<u>As of 6/76</u>	<u>As of 6/77 (Evaluation)</u>	<u>Projected As of 6/77 (Annual Plan)</u>
Operational Expenses (000\$) ¹	591	937	1,071
Surplus/Deficit (000\$) ²	35	(385)	(392)

1. Including AID and IDB grants.
2. Without AID and IDB grants.

The figures above show COLAC's lending program in particular has fallen behind. There are two basic reasons for the delay; start-up difficulties and lack of credit worthy sub-borrowers.

As a result of the uncertainties generated by the unexpected shift of \$8 million of the project financing from AID to IDB, COLAC was apparently not prepared to commit itself to gear up for the program prior to the actual signing of the loan. Once the loan was signed in April 1976, COLAC had to finalize operating policies and procedures as well as recruit and hire new staff. This took longer than contemplated in the AID Project Paper and as a result, conditions precedent to disbursement were not met until September 1976 rather than May 1976. COLAC's organizational build-up phase was further complicated by the fact that COLAC had differing sets of pre-disbursement conditions from its two major lenders and the U.S. Central Credit Union, and at the same time was negotiating for, and justifying additional resources from the Inter-American Foundation. In addition, COLAC found that the federations to which it proposed to lend were not in a condition to administer agricultural production credit. In the first instance, the several federations which were in good financial condition were able to obtain funds at cheaper rates from other sources. The majority of the remaining federations were either not credit worthy or did not have the capacity to administer an agricultural production credit program. This is forcing COLAC to focus its technical assistance effort on bringing its federation-borrower up to minimal financial and technical standards, for administering agricultural credit while giving less priority to helping develop sub-projects for immediate financing. It should be noted that the delay has placed COLAC under intense pressure from its federations, since they perceive COLAC with funds which it is apparently not willing to disburse, ignoring their own capacity to administer the funds.

The AID Program has an additional reason for delay. In several cases, AID and IDB funds are available to the same member federations. Due to the lower interest rates of the IDB money, federations insist on using the cheaper funds before the AID monies.

III. LENDING OPERATIONS

COLAC's lending operations at this point in time are weak and will need

management attention over the immediate future. One of the purposes of the loan is to develop COLAC as a financial institution in which international lending agencies will have confidence for the proper administration of their resources, and utilize it to channel their funds to the cooperative movement. Therefore, in order to merit the confidence of these institutions, it is vital that COLAC have an adequate credit operation, i.e. loan review, approval and supervision process and a strong Financial Department.

A. Project Review and Approval Process.

It was noted that COLAC's Technical Assistance Department staff is not involved in the loan review and approval process taking place in Panama. In reviewing the documentation for several approved sub-loans selected at random, there was no evidence that the Technical Assistance Department reviewed the sub-loan from the technical point of view. In the case of an \$800,000 loan to Honduras, no technical expertise was employed either in the feasibility study or in COLAC's review of the project. Key technical data essential to determining the economic feasibility of the project was missing; for example, information regarding the capacity of the fishing boats to be financed, and technical judgments as to whether the fishing area could support nine additional boats, etc. In the case of a loan made to Costa Rica, there was no evidence that the loan request had been reviewed and evaluated by the Technical Assistance Department. In addition to the lack of technical expertise in the review process, the following deficiencies were also noted. There was no pro-forma, profit and loss statement prepared for the individual borrower in the Honduras loan, so that the profitability of the venture could not be judged. In addition, despite the size of the loan, no COLAC personnel reviewed the project proposal on site. With regard to the Costa Rica loan, the Credit Analyst noted that the federation was suffering a financial crisis. This was reflected in a declining loan portfolio and a growing delinquency rate, which at the time of loan application was 17%. In addition, the federation's Public Accountants had noted some 67 exceptions to its financial statements. The Credit Analyst consequently recommended against loan approval. The loan however, was approved, but disbursement is being delayed until the federation resolves its financial problems. The Dominican Republic loan financed under IDB funds appeared to be well prepared. It is clear from the above examples that the review and approval process needs to be strengthened and standardized.

Recommendations:

It is recommended that:

1. The Credit Committee be re-structured to include the Manager of the Technical Assistance Department and to exclude the Credit Analyst.

2. That a technician from the Technical Assistance Department simultaneously review the loan request from a technical point of view and make written recommendations in addition to the Credit Analyst's review. Both the Credit Analyst and the Technician should present the project to the Credit Committee with their recommendations.
3. The Regional Coordinator should receive the project documentation from the field and review it for completeness before submitting it to the Finance Manager for review.

B. Loan Supervision.

Loan supervision is being handled on an "ad hoc" basis.¹ Loans are receiving attention only when they have become obvious problems or the Resident Technician takes the initiative to report on them. This is because lack of personnel has prevented supervision from being done on a systematic and organized basis. The job description of the Regional Coordinator charges him with this responsibility.

Recommendations:

It is therefore recommended that a system for loan supervision be put into effect whereby the Financial Department utilizes and supervises the services of the Regional Coordinator in performing this aspect of his job as outlined in his job description. COLAC has specific guidelines for the Regional Coordinator to perform this aspect of his job; however, the guidelines need to be implemented.

C. Lack of Personnel in Financial Department.

The Financial Department currently functions with a Department Manager and one Credit Analyst. The position of Financial Planner is vacant. In reviewing loan proposals submitted to COLAC, the Credit Analyst requires between 15 and 30 days to process a loan request. Given the projection that 24 loan projects will be submitted for processing over the next 12 months, it is evident that one Credit Analyst is not sufficient to handle this responsibility in addition to the numerous

1. Loan supervision as defined here means a system by which COLAC assures itself that the money disbursed to the federations has in turn been disbursed to the cooperative in a timely manner, and that the cooperative member has received and utilized the money for the purpose under which the loan was extended. In addition, loan supervision includes the system by which COLAC monitors and resolves problems of delinquency.

other responsibilities that comprise his job, such as, analyze quarterly reports reaching COLAC from its borrowers, prepare quarterly reports with regard to the COLAC loan portfolio, control the use of funds disbursed by COLAC and ensure compliance by the federations with COLAC's conditions as set forth in the loan contracts, etc. In addition, the Credit Department has occasional need to make field visits to borrower federations when loan supervision of a financial nature is required directly from the Credit Department, such as in the case of lending irregularities. It was also noted that the lack of a secretary assigned directly to the Finance Department has resulted in problems in the administrative area such as professionals having to file and the unavailability of prompt typing services.

Recommendations:

It is therefore recommended that: A minimum of one additional Credit Analyst be hired and a secretary knowledgeable in credit operations be assigned to the Finance Department.

D. Lack of Timely Accounting Data.

The Finance Department is responsible for COLAC's financial planning and the analysis of loan proposals with a need for up-to-date information on the credit worthiness of member federations. It is also responsible for maintaining contact with banks in all countries in which COLAC operates, resource mobilization, preparation of financial studies affecting COLAC's operations, and loan collection. It is therefore necessary that appropriate accounting data be available to the Finance Department on a timely basis. This is presently not always the case.

Recommendations:

It is therefore recommended that the Finance Department present its requirements and associated problems for accounting data to the General Manager for his review and appropriate action.

IV. TECHNICAL ASSISTANCE ACTIVITIES

In general, the Technical Assistance activities appeared to be operating satisfactorily. The Technical Assistance staff in the field and Panama are on board and operating effectively, as reflected in their monthly report and confirmed by the increasing number of loan applications received by COLAC. The current Technical Assistance focus is on improving the federations and member cooperative's financial feasibility and ability to administer agricultural production credit. Since the most credit worthy federations were able

to find other sources of credit at cheaper rates, COLAC was left with the least credit worthy federations which required such assistance. This focus should later shift to preparing sub-projects for financing as originally contemplated. With regard to COLAC's Technical Assistance activities, the following two observations can be made:

A. Inadequate Number of Agricultural Specialists.

Apart from the six full time technicians in the field, three of which are specialists in agriculture, there are only two agricultural specialists in the Technical Assistance Department in Panama. Of these two, one has been named Regional Coordinator. These two specialists cover the six other federations and are available for technical review of projects submitted to COLAC. The Integrated Production Credit Program (IPCP) which COLAC is implementing to build-up the federations' capacity to administer agricultural production credit is a time consuming program requiring the organization and establishment of an agricultural lending capability at both the federation and cooperative levels. The federations are also exerting considerable pressure on COLAC in order to take advantage of the funds which they know are available but are not taking into consideration their own financial and technical capacity. COLAC must also generate an income producing portfolio as soon as possible in order to reach financial viability. It must meet the current disbursement periods under the AID and IDB loans. In addition, the requirement for agricultural expertise in the loan review process noted under Section III will add a further drain on limited agricultural staff. It is evident from the above that COLAC needs further agricultural expertise, primarily in the field. Budget limitations, however, will not permit an increase in staff levels at this time.

Recommendations:

It is recommended that COLAC seek additional funds to temporarily contract the required expertise. Should this not be feasible, it is foreseen that a significant extension in the Program implementation period can be expected.

B. Lack of Specialized Technical Assistance.

The Technical Assistance Department does not and cannot be expected to have the array of technical expertise needed to perform feasibility studies and provide on-going technical assistance for project implementation. This was demonstrated by COLAC's inability to respond to technical requirements, i.e. fishing and agro-industrial expertise on the Honduras and Paraguay loan request. In addition to feasibility studies and project review, COLAC should also be in a position to respond to specialized short-term technical assistance needs of project implementation, should the federations not be able to fill the need.

Recommendations:

It is recommended that the Technical Assistance Department establish a procedure or mechanism that will provide the necessary short-term specialized technical assistance. Possibilities include global contracts with consulting firms, reimbursement mechanisms for feasibility studies, etc. Actual work performed under the contract could be paid for by COLAC, Federations, Cooperatives, or individual members.

V. INSTITUTIONAL

Over the course of the last year, there has been a significant expansion of staff as the organization has organized itself to carry out its increased and more complex responsibilities. A considerable effort has been expended in the preparation of documents laying out goals, policies and operational procedures. It is now a question of seeing that the goals are met and procedures followed, and appropriate adjustments made as required. It would be useful to have periodic meetings individually between department heads and the General Manager for the expressed purpose of resolving administrative concerns, problems of departmental coordination and reviewing progress against stated goals. Several institutional problem areas in general were noted:

A. Legal Status of Panama Based Foreign Technicians.

COLAC is recognized as "an auxiliary entity to the cooperative movement". This results in having to comply with laws affecting Panamanian institutions, e.g. Labor Code and financial requirements. While it would be preferable for COLAC to be recognized as an international organization, exempt from these laws, COLAC's legal counsel believes that the absence of this status does not preclude it from operating as contemplated under the program. Its present legal status does affect however, its ability to hire and pay, with appropriate benefits, (i.e. tax exemptions, import privileges), its non-Panamanian technicians. This has not been a problem to date since COLAC has been covered under the AID bilateral agreement which expires June 30, 1977. However, COLAC will no longer be included in the new bilateral agreement, which begins July 1, 1977. At the time of the evaluation, COLAC was awaiting Presidential signature of the proposed law already approved by the Panamanian Legislative Assembly, exempting COLAC from compliance with Labor Law, with respect to their non-Panamanian employees, and permitting COLAC to hire an unlimited number of non-Panamanian technicians, and exempting them from taxes, etc. There was no apparent alternative plan being developed should the law not be signed by July 1.

Recommendations:

In light of the questions on legal status raised by AID auditors, COLAC

should have its legal counsel confirm in writing that its present legal status permits it to carry out the activities envisioned under the AID/IDB program. Furthermore, to avoid disruption of activities, COLAC should decide what will be done should the proposed law not be signed upon expiration of the bilateral agreement.

B. Organization Chart.

The organization chart neither reflects COLAC's present situation nor does it fully reflect the organization required over the near term to implement the program. The evaluation has revealed the priority need for several positions which are not included, such as additional Credit Analysts, Deputy Manager, Agricultural Specialists, etc. In addition, several existing positions appeared to be of low priority, given COLAC's limited budget, i.e. General Services, Librarian, etc.

Recommendations:

The organization chart should be up dated to reflect COLAC's current organizational goals.

C. Deputy Manager.

The job requirements of the General Manager position are considered excessive. At present, he is expected to maintain relations with the federations, attend assemblies and cooperative movement meetings, represent the cooperative movement's point of view to government and private development organizations and maintain relations with the international lenders. It was noted that these responsibilities required the Manager to travel some 70% of his time during the first half of 1977. This leaves little time for the Manager's other priority duties such as, planning, policy formulation, organization, coordination and control of operations, and attendance at Credit Committee meetings.

Recommendations:

It is clear that COLAC requires a Deputy Manager to administer and coordinate the day-to-day operations, and should therefore, initiate recruitment as soon as possible.

D. Evaluation System.

Due to financial and personnel constraints, COLAC's impact evaluation system remains to be implemented.

VI. FINANCIAL

COLAC's financial situation is the second major problem area. Delays in lending activities have resulted in lower levels of interest income than were originally contemplated. In addition, there was a loss of revenues resulting from the lower interest spreads permissible under the IDB financing. These delays have increased and prolonged COLAC's deficit situation. Excluding AID grant funding, the deficit for the period ending June 30, 1977 will be approximately \$385,000 as against \$293,000 in the Project Paper, and \$392,000 in COLAC's projected budget for the period. The projected deficit 1977/78 is \$312,000 as against a projected \$10,000 surplus in the Project Paper, and \$169,000 deficit presented in COLAC's three year budget of July 1, 1976.

COLAC is currently projecting a surplus of \$60,000 in 1979 given its current staffing levels. Therefore, COLAC's break-even point will be reached approximately one year later than originally contemplated. Furthermore, it is very possible that the break-even point may not be reached in 1979 given the history of the many changes in COLAC's investment plan on which budget projections are based, and the need for additional staff.

The evaluation has determined that COLAC will need additional staff over the next two years for effective program administration. This will in turn increase the projected deficit. It has, therefore, formally asked both IDB and AID for additional grant support. It was noted that AID would take the COLAC request under advisement.

VII. PROBLEMS IDENTIFIED BY COLAC

Several problems were raised by COLAC during the evaluation in administering the AID and IDB programs. The problems raised below are those that were not covered elsewhere,

A. Flexibility of AID Funds.

While AID was sympathetic, it was pointed out that these funds were authorized for agricultural uses from a specific category of funds approved by Congress (Food and Nutrition). It would require a major change in the authorization to permit lending in another category such as housing. It was suggested that this not be invoked until it became clearer that money could not be used under the existing category.

B. Competition from Bilateral AID Programs.

It was recognized that nothing could be done on existing loan

agreements; however, for future loans, the AID representatives would attempt to have AID follow a policy whereby federations would be sent to COLAC prior to receiving consideration from bilateral programs.

C. Possibility of Channeling UCONAL /AIDColombia Funds Through COLAC on a Regional Basis.

COLAC was informed that there was no possibility that AID could channel an already authorized bilateral loan through COLAC.

D. Project Management by IDB and AID.

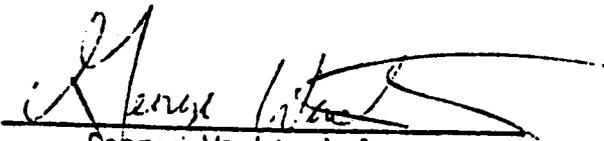
The General Manager of COLAC expressed concern about certain aspects of project management as performed by the two major lenders. Specifically his feeling was that COLAC should be consulted and provided copies of all reports and correspondence relating to COLAC, between AID and IDB Project Management in Panama, and their respective offices in Washington. Furthermore, he felt that AID and IDB should not hold meetings nor exchange correspondence regarding the COLAC Project without including COLAC in the discussions. It was pointed out that the role of the AID and IDB Project Managers in Panama was not that of advisors to COLAC, but Project Managers, and while it is their desire to collaborate with COLAC in achieving the success of the program, their ultimate responsibility is with their offices in Washington. Therefore, COLAC cannot expect to be privy to AID's and IDB's internal communications. It was further stated that at no time had AID or IDB made decisions affecting the COLAC Project without first discussing the action with COLAC. In addition, because the AID and IDB programs are similar in nature, communication between the two organizations regarding progress, problems and coordination of efforts is natural.

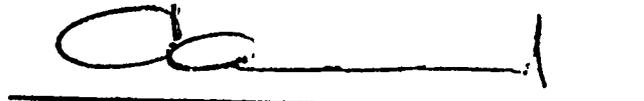
VIII CONCLUSION

The COLAC Program has been delayed thus delaying the projected achievement of financial viability. However, at this point, from the number of loan applications received by COLAC, and the fact that the technical assistance personnel have been hired and are working satisfactorily, indications are that the program will function smoothly and implementation will be more rapid.

There are, however, two major problem areas identified by the evaluators that require immediate management attention. Assuming that COLAC takes remedial action on these as well as other problems raised in the evaluation, there is no reason to believe that the program will not be successful.

Joint evaluation report submitted to COLAC by The Agency for International Development (AID) and The Inter American Development Bank (IDB).


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