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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

BOLIVIA

PROJECT PAPER

MICRO AND SMALL ENTERPRISES DEVELOPMENT

AMENDMENT NUMBER 2

AID/LAC/P-774
CR-452, 666

PROJECT NUMBER: 511-0596

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete) — Amendment Number: 2

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: BOLIVIA

3. PROJECT NUMBER: 511-0596

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): MICRO AND SMALL ENTERPRISES DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 97

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 88 — B. Quarter — C. Final FY 97

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE		FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total							
(Grant)		(2,040)	( )	(2,040)	(12,700)	( )	(12,700)
(Loan)		( )	( )	( )	( )	( )	( )
Other U.S.	1.						
	2.						
Host Country	GOB					2,850	2,850
Other Donor(s)	Private Sector					1,525	1,525
TOTALS		2,040		2,040	12,700	4,375	17,075

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE through 8/93 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ARDN	840	840		3,000				3,000	
(2) SDA	840	840		5,500		2,700		8,200	
(3) ESF	840	840		1,500				1,500	
(4)									
TOTALS				10,000		2,700		12,700	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 690 | 810 | 930

11. SECONDARY PURPOSE CODE: 810

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BUW						
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector.

14. SCHEDULED EVALUATIONS

Interim MM 07 YY 95 — MM YY — Final MM 09 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ______ page PP Amendment.)

The amended project revises the credit component, strengthening FENACRE and its member credit unions by: 1) creating a stabilization fund to assist the institutions in recovering from positions of negative net worth; 2) providing a complementary technical assistance and training program, and 3) providing assistance to the Superintendency of Banks and Financial Institutions which will begin regulation of the country's approximately 100 credit unions in 1993. The amended project also seeks authorization for an additional $2.7 million, and increases the PACD by four years.

The USAID Controller has reviewed the financial procedures described herein and hereby indicates his concurrence.

Richard Goughnour/CONTROLLER

17. APPROVED BY

Signature: [signature]

Title: Carl H. Leonard, Director

Date Signed: MM 02 DD 03 YY 93

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

PROJECT PAPER AMENDMENT No. 2

MICRO AND SMALL ENTERPRISE DEVELOPMENT PROJECT
(511-0596)

3

PROJECT AUTHORIZATION

Amendment No. 2

Name of Country: Bolivia

Name of Project: Micro and Small Enterprise Development Project

Number of Project: 511-0596

A. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, the Micro and Small Enterprise Development Project for Bolivia was authorized on August 19, 1988. The authorization was amended on August 8, 1991. The authorization is hereby further amended by restating paragraphs 1 and 2 thereof in their entirety, as follows:

"1. Pursuant to Sections 103, 106 and 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Micro and Small Enterprise Development Project for Bolivia (the "Project"), involving planned obligations of not to exceed $12,700,000 in grant funds over a nine-year period from date of original authorization on August 19, 1988, subject to the availability of funds in accordance with the A.I.D./OYB allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of project is approximately nine years from date of initial obligation on August 31, 1988, to September 30, 1997.

"2.(a) The Project will stimulate the long-term growth and development of Bolivia's small-scale enterprise sector by improving the support services, including technical assistance, training, and credit, provided to the sector by selected Bolivian national and private sector organizations. In addition to strengthening these institutions and making funds available to them to provide credit to micro and small enterprises, the Project will promote research concerning small-scale enterprise sector issues, impediments to sector growth, and training needs.

"(b) Transfer of reflows to PRODEM of loan funds loaned by PRODEM to micro-entrepreneurs under the Project to a new for-profit micro-enterprise bank and the transfer of commodities, in exchange for PRODEM's receipt of shares in the bank, under the conditions described in the Project Paper Amendment No. 1, are hereby authorized as consistent with and in furtherance of the Project purpose of stimulating the long-term, stable growth and development of Bolivia's small-scale enterprise sector."

"(c) Bolivian credit unions will be strengthened through a financial stabilization fund program, through which these institutions will be provided with resources to counter agreed-upon losses in exchange for adherence to a stringent financial management improvement program and acceptance of the supervision of the Superintendency of Banks and Financial Institutions."

B. Disbursements of funds for the credit union stabilization component will be subject to the conditions precedent and covenants described in Project Paper Amendment No. 2. A.I.D.'s policies on local currency expenditures, as periodically revised and restated in Handbook 1B, will apply to the amended Project.

C. Except as amended hereby, the authorization remains in full force and effect.

Carl H. Leonard
Director

Date: 2/3/93

Clearances:
TI:EGarcía in draft
TI:LValenzuela in draft
TI:RRosenberg
PD&I:LBarash in draft
DP:SMith in draft
RCO:CBucher
CONT:RGoughnour in draft
DD:GDavidson

SA 2/3/93
RLA:SAllen:nec - 12/23/92

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LIST OF ACRONYMS

AUDICOOP	Fundación de Auditoría de Cooperativas
BRI	Bank Rakyat Indonesia
CA	Cooperative Agreement
CEPB	Confederación de Empresarios Privados de Bolivia
CIF	Convenio de Inversión y Financiamiento
COLAC	Confederación Latinoamericana de Cooperativas de Ahorro y Crédito
DGRV	Deutscher Genossenschafts und Raiffeisenverband e. V.
DIFEM	Dirección de Financiamiento Externo y Monetización
FEBOPI	Federación Boliviana de la Pequeña Industria
FENACOAC	Federación Nacional de Cooperativas de Ahorro y Crédito (Guatemala)
FENACRE	Federación Nacional de Cooperativas de Ahorro y Crédito (Bolivia)
GOB	Government of Bolivia
INALCO	Instituto Nacional de Cooperativas
MSED	Micro and Small Enterprise Development Project
PADCO	Planning and Development Collaborative International
PGA	Project Grant Agreement
PMA	Programa de Mobilización de Ahorros
PMC	Project Management Committee
PMO	Project Management Office
PRODEM	Fundación para la Promoción de la Microempresa
SBFI	Superintendency of Banks and Financial Institutions
UNDESCOOP	Unidad de Desarrollo Cooperativo
WOCCU	World Council of Credit Unions

I. SUMMARY

Through this Project Paper Amendment, USAID/Bolivia proposes to refocus the FENACRE (and credit unions) component of the Micro and Small Enterprise Development Project, reprogram funds, seek authorization for an additional $2.7 million (for a total of $12.7 million), and extend the project by 4 years to September 30, 1997. The original design envisioned donating almost $5 million to FENACRE, which in turn would finance a micro and small enterprise credit program at the credit union level. However, given a situation of near bankruptcy in FENACRE and in many of the credit unions themselves, USAID/Bolivia has concluded that micro and small enterprises in Bolivia will be better served, and the Project's goal and purpose better promoted, if project funds are used to develop strong, healthy financial institutions. The Trade and Investment Office estimates that the strengthened credit unions will have many more resources available for micro and small enterprise credit if project funds are used for a program in institutional strengthening as opposed to direct micro and small enterprise credit.

Under the new program, currently authorized FENACRE funds will be reprogrammed and used for a FENACRE <u>and</u> credit union financial stabilization and regulatory strengthening program[1]. Approximately $2.7 million will be added to the Micro and Small Enterprise project to cover the costs of an expatriate and a local technical assistance team.

II. BACKGROUND

A. Overview of the Micro and Small Enterprise Development Project

The Micro and Small Enterprise Development Project was authorized on August 19, 1988. Its purpose is "to stimulate long-term, stable growth and development of Bolivia's small-scale enterprise sector." The total project cost (amended as of April 20, 1990) was $12.85 million, $10.0 million from Development Assistance funds and $2.85 million from GOB-owned local currency (DIFEM). The Project works with three local institutions: the Foundation for the Promotion of Microenterprises (PRODEM), the Bolivian Federation of Small Industry (FEBOPI), and the National Federation of Credit Unions (FENACRE). The World Council of Credit Unions (WOCCU) serves as the overall "Chief of Party" for the project, focusing its assistance principally on FEBOPI and FENACRE. Accion International/AITEC provides technical assistance to PRODEM. Cooperative Agreements were signed with the three local institutions and the two technical assistance providers in 1989. The original funding picture was as follows:

[1] The project will reserve the option to exclude FENACRE (the credit union cupola organization) from project benefits unless certain conditions are met.

LOP BUDGET(US$)	A.I.D.	GOB	USES
PRODEM	2,316,000	1,650,000	credit, operating expenses, training
FENACRE	4,530,000	1,200,000	credit, training
FEBOPI	607,000	---	operating expenses, training
WOCCU	1,899,000	---	technical advisors
ACCION	439,000	---	technical advisors
Other	209,000	---	project support
Totals:	10,000,000	2,850,000	

Of the $12.85 million, $8.085 million were to be used for credit for micro and small enterprises. FENACRE alone had $5.035 million of credit resources.

The PRODEM and FEBOPI components have progressed quite well. PRODEM, in particular, has been extremely successful. It currently has 23,000 active microenterprise clients. In February of 1992, PRODEM established a for-profit microenterprise bank, BancoSol S.A., which will gradually take over the urban lending operations of PRODEM in La Paz, El Alto, Santa Cruz and Cochabamba. As a bank, BancoSol will be able to offer savings services and further expand the reach of PRODEM. PRODEM will transfer the last office by the Spring of 1993 and USAID assistance will phase out by the original August 1993 PACD.

Results under the FEBOPI component have been satisfactory. FEBOPI received a strong lift from A.I.D. for operating expense support and today has high visibility as the "spokesperson" for the small industry sector. Two examples of this are worth mentioning: the Confederation of Private Entrepreneurs of Bolivia (CEPB) has formally asked FEBOPI to join the association, and the Ministry of Exports and Economic Competitiveness (formerly the Ministry of Industry, Commerce and Tourism) calls on FEBOPI frequently to assist in matters pertaining to the small industry sector (for example, FEBOPI organized the participation of arts and crafts for Bolivia at the international fair in Seville).

However, FEBOPI still has financial and institutional weaknesses. Although it has known that USAID funding would eventually end, FEBOPI has made inadequate progress in defining a financial self-sufficiency strategy--one of the issues discussed in the original Project Paper. FEBOPI is also a young institution which, despite assistance with strategic planning, has been slow defining its role and focusing its activities. FEBOPI tends to respond to opportunities, as opposed to creating them, making it somewhat unstable institutionally. USAID funding for FEBOPI is now drawing to an end; it will not continue beyond the August 1993 PACD.

If disbursements were regarded as the most important measure of project progress, then the FENACRE component would be regarded as a complete failure. Only 7% of the total Cooperative Agreement amount of $5.73 million (including GOB funds) has been disbursed in three years. Of this \$5.73, \$5.035 million was to be used for micro and small enterprise credit. The Mission, however, consciously delayed disbursements to FENACRE because of its weak financial situation.

The delay in disbursements and the lure of future funds actually served to leverage four important changes in FENACRE. First, FENACRE agreed to phaseout its Programa de Mobilización de Ahorros (PMA), a retail savings and loan window developed to support the operating expenses of FENACRE and credit needs of credit unions.[2] Second, FENACRE accepted the credit union movement's supervision by the Superintendency of Banks and Financial Institutions (SBFI) and agreed to lead a campaign to educate credit unions as to the benefits of supervision. Third, FENACRE agreed to sell its four money-losing ventures. And fourth, it agreed to downsize its operations from an organization of 120 people to 50 or less.

The Mission reprogrammed resources in order to help FENACRE implement these changes. \$325,000 of credit funds were switched to cover an education campaign on the benefits of supervision with credit unions and an invitational travel program for congresspersons responsible for reviewing the draft Banking Law. In addition, Mr. Javier Franco, COLAC advisor in FENACRE (under a subcontract with WOCCU), was asked to assume the responsibility of dismantling the PMA.

The delay in disbursing funds gave the Mission the time to reanalyze the credit union component of the Project. An in-depth analysis of FENACRE and the credit unions, aided by various consultancies and studies,[3] led the Mission to the conclusion that it was not wise to proceed with a micro and small enterprise credit program, as originally designed. Even if FENACRE made radical structural changes, the project was probably doomed to failure because:

* FENACRE and many of the credit unions were on the verge of bankruptcy. To pursue a credit program with these institutions, without addressing serious management deficiencies, would have led them into <u>further debt</u>;

* to provide more external donor funds for credit purposes would have lessened the credit unions' interest in mobilizing savings. Years of donor assistance to the credit union movement in Bolivia had created a dependence which had stymied the healthy growth of these institutions; and

[2] In USAID/Bolivia's opinion, there were two principal problems with the PMA. First, it was directly competing with member credit unions. Second, given FENACRE's negative net worth, it was capturing savings whose repayment it could not assure. FENACRE was, in essence, eating away the deposits of the public--a situation which the Superintendency of Banks considered intolerable.

[3] Two consultancies were particularly thought-provoking: the January 1992 consultancy by Mr. Richard Patten, principal advisor to the BRI; and the evaluation of the MSED project, for which Dr. Jeff Poyo reviewed the credit union component. In addition, the Mission studied numerous documents by Dr. Dale Adams and others, all of which described the reasons for the failure of donor-sponsored credit programs in Bolivia.

* FENACRE itself was not an organization which was truly representative of its credit union members. It had developed a power structure of its own wherein credit union needs or concerns formed little part.

Had the Mission proceeded with the program, it would have perpetuated a vicious dependency cycle consisting of easy donor credit, poor targeted loans, high delinquencies, loan fund decapitalization, and a need for more donor credit to avoid the system's collapse. Ironically, although one of the Project Paper goals was to increase savings mobilization, our planned actions would have had the opposite effect, by reducing the incentiv [illegible] capture deposits.

One option was to completely terminate our assistance to FENACRE and the credit unions. But the system seemed worth "saving" for the very same reasons it had received A.I.D. support before. First, credit unions were one of the few formal sources of credit for micro and small enterprises in Bolivia: if credit unions were to disappear, so would the most important source of funds for this sector.[4] Second, as had been recognized in the original Project Paper, credit unions were an important source of savings services for less affluent Bolivians. Savings constitute a key source of funds for micro and small business start-ups, and are also used to leverage loans for business expansions.

There was another reason to continue: FENACRE had successfully lobbied its members in support of supervision, and in nation-wide meetings, the credit unions had declared themselves in favor of supervision by the Superintendency of Banks and Financial Institutions. Abandoning the credit union movement at this juncture did not seem responsible, particularly since supervision was to instill a healthy and heretofore unknown financial discipline in the system.

In March of 1992, the Mission and FENACRE began discussing a redesign of the credit union component. FENACRE agreed to present a proposal to USAID.

In early May of 1992, USAID learned of a financial stabilization program which had transformed the Federation of Credit Unions (FENACOAC) and 24 (out of 48) credit unions in Guatemala. The principal architect of the program, Mr. David Richardson of WOCCU, visited Bolivia and concluded that the program could be implemented in this country as well. FENACRE's proposal to USAID became the financial stabilization program.

In mid-June 1992, representatives of FENACRE, USAID/Bolivia, and the Superintendency of Banks and Financial Institutions visited the Guatemala program. Conversations with

[4] John Magill has estimated that in Latin America about 22% (average) of credit union loans are provided to micro and small businesses. See discussion on this topic in John Magill's study Credit Unions: A Formal Sector Alternative for Financing Microenterprise Development, GEMINI Working Paper No. 22, Development Alternatives Inc. A 1989 study of the Programa de Mobilización de Ahorros of FENACRE revealed that approximately 50% of the loans were provided for micro and small business purposes. Mr. Pedro Lasa of PADCO in a 1989 study found that 51% of the volume of credit was used for small businesses. For purposes of this PP Amendment, we will assume a conservative rate of 30% for the credit union system in Bolivia.

FENACOAC and three credit unions confirmed Richardson's claim that the negative net worth of these institutions had been eliminated as a result of the program, that savings mobilization was up substantially, and that a new "entrepreneurial" mentality had taken the place of the old unprofessional cooperative mentality. In August, the World Council of Credit Unions submitted a proposal for a new program with FENACRE and the credit unions.

Through this PP Amendment, USAID/Bolivia proposes to fund a credit union stabilization program similar to that of Guatemala. If successful, the program will ameliorate the financial ills of FENACRE and about 30 credit unions. The program will also include a regulatory strengthening component, at the request of the Superintendency of Banks and Financial Institutions. The technical assistance program will be coordinated closely with the German Cooperation (DGRV), which has a training and technical assistance program underway with FENACRE.

B. State of the Credit Union Movement in Bolivia

Without question, the 1982-1985 hyperinflation hurt the credit unions. Deposits declined substantially as depositors lost millions of dollars overnight as a result of an abrupt dedollarization policy of the Unidad Democrática y Popular (UDP) regime, loans were not recovered, and dozens of credit unions shut their doors. Many of the credit unions in urban areas invested in real estate, as a hedge against inflation. Most of the credit unions that survived have not totally recovered.

However, according to David Richardson of WOCCU, who has analyzed a number of the Bolivian credit unions, the **reason** why they have not been able to recover is not that the blow was so devastating. Rather, credit unions have not developed their full potential because of the **erroneous policies** they pursue.

Credit unions in Bolivia have suffered from what Richardson describes as the "traditional" credit union development model.[5] The policies of credit unions under this model are as follows:

1.	Financing Source	External Donors
2.	Savings Interest Rate	Inferior to the Banking Sector
3.	Lending Rates	Preferential for Members
4.	Loan Amount	In proportion to Contribution
5.	Guarantees	Fiduciary or None
6.	Delinquency	High Delinquencies

[5] See paper by David Richardson, Estabilización Financiera, presented at the conference in Santo Domingo, Dominican Republic, held on February 7 and 8, 1992.

7.	Returns on Member Contributions	Generally 0%
8.	Type of Member	Generally poor. Charity mentality.
9.	Employee Salaries	Low Salaries

Richardson argues that it is primarily these policies which have weakened credit unions and kept them from realizing their full potential. These policies have led to:

* high international donor funds dependency;
* apathy toward maintaining competitive interest rates on savings and loans;
* policies which create a disincentive to savers and an incentive for borrowers;
* high levels of delinquency;
* high operating expenses vis-a-vis the volume of loans outstanding;
* unmotivated staff;
* insufficient loan loss reserves;
* weak net worth base;
* fictitious financial statements; and
* insolvency.

The symptoms of the traditional model are easily observed in the Bolivian credit unions. The credit unions have been generally cash-starved. Four particular policies have encouraged this cash-starved condition: first, capital contributions to the credit union (*certificados de aportación*) automatically entitle a member to receive a loan up to 5 times the amount of the contribution. Second, the quality of loans has been generally poor (in part because of the automatic nature of credit), leading to high delinquencies and loan losses. Third, interest rates on loans have been subsidized, not allowing the credit union to cover its costs and much less to cover decapitalization of loan funds as a result of inflation. And fourth, interest rates have been pitifully low on savings, discouraging members with excess liquidity from depositing in their own credit union.

As a result of these policies, credit unions have been unable to grow. Statistics gathered from the 104 active credit unions (out of a total of 247 credit unions registered with FENACRE) show a bleak picture. Given that there are no financial standards and that most credit unions have highly unreliable accounting and information systems, the data can only be considered "ballpark."

DATA REPORTED BY 104 CREDIT UNIONS (US$)	(as of 6/30/1992)
Total Loan Amount Outstanding	$ 31,148,461
Loan Amount in Arrears or in Legal Process	$ 7,068,206
Total Savings	$ 30,850,000

The data indicates that about 23% of the loan amount outstanding is in arrears or in legal process. Given that most of the credit unions have rather "flexible" methods of calculating delinquency, it is likely that the actual rate (measured by Superintendency standards)[6] is closer to 35% or 40%.

Of the 104 credit unions, only 87 provided profit and loss statements, and of these 16 (or 18%) showed operating losses. Of the 100 that provided a balance sheet, only 8% showed negative net worth figures. However, visits to various credit unions indicate that net profit and net worth figures are overestimated by a substantial margin. Technical advisors associated with FENACRE indicate that of the 104 credit unions, there might be up to 60 credit unions with positions of negative net worth.

These 104 credit unions claim to have once had 319,654 members. Today, they only have 120,006 (37%). Most of them (69%) are located in the central belt of the country, that is, in the La Paz, Cochabamba and Santa Cruz departments. Only 28% of these 104 credit unions are in semi-urban or rural areas.

Although most active credit unions are affiliated with FENACRE, they have very different levels of development. Some, such as Jesús Nazareno in Santa Cruz, have substantial assets and manage themselves as a bank. Others have substantial non-deposit debt and have serious management deficiencies. Most credit unions emphasize lending over savings, and have side "businesses," such as schools, consumer stores, and funeral parlors, which are typically unprofitable.

A majority of credit union members (54%) appear to be the self-employed (traders and artisans), according to a study conducted by Mr. Pedro Lasa under contract with PADCO in late 1989.[7] The second most important category is salaried employees. With a large self-employed

[6] The Superintendency requires that a financial institution calculate delinquency after a payment is late by 30 days. The calculation is to be based on the full delinquent loan balance, not just the delinquent payment.

[7] Lasa, Pedro et.al., Informe Sobre el Sistema Cooperativo de Ahorro y Crédito de Bolivia y Recomendaciones para su Supervision y Control por la Superintendencia de Bancos y Entidades Financieras, prepared by PADCO, Inc. for USAID/Bolivia.

membership, Mr. Lasa's finding that 51% of the credit was for production and commerce, seems plausible.

Only seven credit unions, of the 104 that appear to be active, are currently submitting monthly financial statements to the Superintendency of Banks and Financial Institutions.[8] These credit unions represent the largest credit unions and hold about 60% of the deposits of the system.

C. Financial Situation of FENACRE

FENACRE is in a state of technical bankruptcy, primarily as a result of its poor financial administration. According to the Superintendency of Banks and Financial Institutions and WOCCU staff, FENACRE has a negative net worth of approximately $5.1 million:

- $3,100,000 of bad debts from various loan programs related to PL-480. Given that these are loans issued a number of years ago, the Superintendency is requiring that FENACRE establish a bad debt reserve covering 100% of this loan portfolio;

- a bad debt reserve of $1,000,000, covering the loans which were granted to third parties under the PMA program, and which are over 12 months in arrears; and

- $1,000,000, the losses to be generated from the sale of the FENACRE businesses.

In actuality, if one were to include the entire amount owed to PL-480 and include a stringent loan loss reserve, FENACRE's negative net worth position would reach about $8.8 million, as shown on a Balance Sheet in Annex D. Fortunately for FENACRE, it is negotiating an arrangement which would reduce its PL-480-financed debt and loan portfolio from $9.9 million to about $1.0 million. Since a substantial part of this loan portfolio is uncollectable, this arrangement will drastically improve FENACRE's financial position. Even with this favorable outcome, a substantial amount of deposits from the public still remain which FENACRE is unable to return at present. A business plan for FENACRE's recovery is currently being developed by WOCCU staff. Should FENACRE's recovery seem impossible, USAID may choose not to continue a financial stabilization program with this institution. Work with credit unions, however, would continue.

1. PL-480 Loans

Much of the difficulty FENACRE finds itself in today is related to the channelling of nearly $14 million of PL-480 loans. FENACRE has repeatedly argued that these loans were imposed on them by staff of PL-480 and USAID, and that the "blame" should be shared by allowing

[8] They are: Jesus Nazareno, La Merced, San Jose Obrero, and San Martín de Porres in Santa Cruz; Catedral in Tarija, San Pedro in Cochabamba, San Roque in Sucre, and El Chorolque in Tupiza.

FENACRE to hold the funds in trust.[9] After months of negotiations, PL-480 has recently agreed to assume the entire risk of those loans which have a legally valid contract. All other loans (i.e. those with less than adequate documentation) would remain as a debt of FENACRE to PL-480. This would reduce FENACRE's debt to PL-480 to about $1.0 million. In this manner, FENACRE's negative worth position would be reduced substantially. Without this debt, it appears that FENACRE could, over the next few years, recover from its state of technical bankruptcy.

The detail of PL-480 loans as of August 31, 1992 is as follows:

LOAN PROGRAM (US$)	DISBURSED	IN ARREARS
Credit for Cooperatives	5,075,063	4,861,091
Agricultural Emergency	7,022,836	3,923,550
Under Trust (Fideicomiso)	120,498	107,551
Wheat Producti[illegible]	353,010	321,627
Garlic Production	209,370	181,046
Rice Production	246,000	164,720
PAO (USAID) Project	263,543	155,543
Seeds Program	166,886	108,982
Small Industry	222,000	50,035
Special Program	49,669	35,471
TOTAL PL-480	$13,728,877	$9,909,618

2. FENACRE Savings Mobilization Program (PMA)

As mentioned above, FENACRE's Programa de Mobilización de Ahorros, begun in 1986, is also a large contributor to FENACRE's current financial ills. Through the PMA, FENACRE has been capturing deposits from as well as lending directly to private individuals (that is, not its members, the credit unions). Estimates indicate that delinquencies in the loan program with the "public" (i.e. not credit unions) reach 56%. And, although FENACRE has agreed to phase out the PMA program, the total volume has actually increased rather than decreased from the program's heyday in March of 1991. FENACRE asserts the increase is due to the fact that deposits from the credit unions have increased, while those of the public have decreased, and that this is after all part of its *financial support* role. FENACRE also claims it must continue

[9] On the other hand, it is said that the CAE program with PL-480 was originally on a trust arrangement and that FENACRE did not have the credit risk, but that FENACRE asked to assume the funds as a loan in order to get a larger spread.

capturing deposits in order to a) have sufficient liquidity to return deposits to the public, b) provide a spread to cover its operating expenses, and c) have funds to assist with the credit needs of credit unions. For USAID/Bolivia, however, continuing to capture deposits only leads to a "catch-22" situation (incur debt to pay off debt), rather than a real solution. The chart below provides some of the statistics and shows the changes that have taken place since FENACRE decided to phase out the program:

PMA - SOURCES	**March 1991 (US$)**	**June 1992 (US$)**	**Arrears - June 1992**
Sight Deposits	3,100,000	1,000,000	--
Term Deposits	5,600,000	6,900,000	--
Credit Union Deposits	1,300,000	2,300,000	--
TOTAL:	10,000,00C	10,200,000	--
PLACEMENTS			
Third Party Loans	7,500,000	2,800,000	56%
Loans to Credit Unions	1,000,000	5,800,000	7%
TOTAL:	8,500,000	8,600,000	--

A strategy for returning these deposits is one of the principal concerns of FENACRE. It appears that the sale of fixed assets, such as buildings, equipment and vehicles, may be necessary. It may also be necessary to use credit union deposits or new equity investments in FENACRE to return deposits from the public. Regardless of which measures are taken, USAID will expect contributions and commitments from member credit unions. After all, if the credit unions are not willing to support their federation, then neither should we be. The Trade and Investment Office is assured, however, that this commitment will be forthcoming as credit unions are familiarized with FENACRE's financial situation and the effect its downfall would have on their own operations.

3. Money-Losing Businesses

During the period of hyperinflation in the early 1980's, FENACRE invested resources in four businesses, none of which generated profits for the federation.

Molle-Molle is a farm located on the outskirts of Cochabamba. It was purchased with the idea of developing a cooperative training center. The center was never built and the farm generated no returns. At the insistence of USAID and the Superintendency, Molle-Molle was sold in June of 1992 for $800,000.

COBOLDE is a sausage factory near Sucre. FENACRE has yet to sell this property because it wishes to make it profitable in order to increase its sales price. Matters are somewhat complicated by the fact that FENACRE guaranteed a COBOLDE loan with a local bank. The value of the loan exceeds $500,000. FENACRE will incur a substantial loss when this is sold.

The Print Shop was recently sold for cash. Thi olved an investment loss for FENACRE but an accounting gain since the value of the ma....iery had previously been written off beyond what was actually lost on the sale.

Machinery for what was to be a FENACRE bakery is located unpacked in warehouses in El Alto. The machinery is antiquated and will probably simply be sold at a loss.

D. Legal and Supervisory Framework

Cooperatives, including credit unions, derive their legal basis from the 1958 Ley General de Sociedades Cooperativas. Credit unions are one of six "types" of cooperatives stipulated in this law, and they are responsible for providing their "members financial resources at an interest rate never superior to that legally stipulated in the banking market." The Instituto Nacional de Cooperativas (INALCO), created in 1974 and a dependency of the Ministry of Labor, is responsible for registering and supervising all coope...ives. In actuality, INALCO has been a mere registrar and has never fulfilled its supervisory role.

The legal framework for the credit union movement is in the process of being redefined. Supreme Decree 21660 of October 7, 1987 reestablished the autonomy of the Superintendency of Banks and Financial Institutions (from the Central Bank) and Supreme Decree 22203 of May 26, 1989 provided ~~de~~ the "Organic Statutes" of the Superintendency. Article 4 of S.D. 22203 establishes that the Superintendency's jurisdiction extends to "the cooperatives of savings and credit and its federations."

In 1991, INALCO and the Superintendency signed a Letter of Agreement which specified the role of each institution vis-a-vis the credit unions. INALCO was to register all credit unions and give them their "*personalidad jurídica*", while the Superintendency was to supervise them as financial intermediaries.

Today, with this somewhat ambiguous legal framework, the Superintendency is currently supervising FENACRE and seven credit unions.

Bolivia now awaits the passage of the new Banking Law, which will replace an antiquated 1928 law. Our sources indicate that the new law will authorize the Superintendency of Banks and Financial Institutions to supervise FENACRE and the credit union system. A scheme for this supervision has yet to be defined, given that the Superintendency cannot directly supervise 104 credit unions from one day to the next, much less the 247 registered with FENACRE. It is likely that the new German-funded AUDICOOP (a FENACRE spin-off) will play an important role in collecting and analyzing credit union data for the Superintendency.

III. THE MODEL: THE GUATEMALA STABILIZATION PROGRAM

A. About the Program

USAID/Guatemala's Cooperative Strengthening Project is an institutional development program with the Guatemalan cooperative movement. Its purpose is to strengthen the service delivery and management capabilities of participating credit unions and cooperative organizations through a combination of technical assistance, training, policy guidance, and a financial stabilization fund. The project is administered by the National Federation of Credit Unions (FENACOAC) through a Cooperative Agreement with USAID/Guatemala which was initiated in early 1987. A Project Management Unit runs the day-to-day operations of the program and is staffed by local and expatriate personnel. The World Council of Credit Unions (WOCCU) provides the expatriate technical assistance.

The Guatemala project's methodology includes 1) restricting assistance to viable institutions; 2) offering assistance continually over a period of several years; and 3) conditioning the assistance on basic changes in management practices. The Project has three components: technical assistance and training, financial stabilization, and image improvement.

A WOCCU-contracted September 1991 report on the credit unions component of the project concluded that

> "The Cooperative Strengthening Project is having a significant impact upon the operation of credit unions in Guatemala. It is motivating credit unions to mobilize deposits at market rates, lend on the basis of ability to repay, crack down on bad loans, build institutional capital, and plan for the future. The Federation and its participating credit unions have adjusted operational policies and applied new financial management disciplines.... The results to date have been impressive.... Participating credit unions are shifting to a deposit-based system; marketing plans and specialized staff are in place in all organizations; asset quality has improved; and assets, deposits, capital and membership have evidenced steady and significant growth." [10]

The credit union component of the project is designed to address the financial problems of the cooperatives through policy modification, training, reorientation and development of profitable member service programs, and by providing financial resources to stabilize and rebuild lost net worth. The specific objectives of the program are to increase the volume of available resources in the cooperative system for lending and investment through mobilization of personal savings and share purchases by cooperative members; strengthen the cooperative system's financial condition by improving the balance sheets and earnings; restore member and non-member confidence in the financial soundness of cooperatives and credit unions; and establish compliance

[10] Branch, Brian, et.al., Cooperative Strengthening Project: Credit Union Financial Stabilization Options, Study and Report, World Council of Credit Unions, September 1991. Prepared for USAID/Guatemala.

with minimum operating standards and conditions that contribute to the safety and soundness of cooperative operations.[11]

The program is based on four pillars:

1. A professional "banking" mentality. Credit unions are considered as enterprises rather than as charitable organizations. Credit unions are asked to focus first and foremost on being profitable and strengthening their net worth.

2. Shape Up or Ship Out. The program is based upon a legally binding contract which establishes financial and management targets for each credit union. Should the credit union not meet the stipulated targets, the program withdraws its assistance.

3. Institutional Development. The program provides technical assistance and training to credit unions in order to correct management deficiencies.

4. Financial Discipline, which basically entails 10 "commandments": an annual business plan in which growth targets for the year are set; the establishment and maintenance of accurate and transparent accounting; control of operating budgets by the Administration Council; savings and lending interest at market rates; all profits go to the institution's net worth; credit granted on the basis of ability to repay; strict rules on liquidity management; strict control of delinquency; establishment of adequate loan loss reserves; write-off of bad loans after loan is delinquent for more than 12 months.

It should be noted that in Guatemala, the Project Management Unit serves as a superintendency of sorts, given that credit unions there are not regulated by the government's Superintendency of Banks. This constant "supervision" by the PMU is considered to be one of the key reasons for the success of the program. (In the Bolivian program, the Superintendency of Banks and Financial Institutions will be the main source of credit union supervision.)

B. Financial Stabilization Fund

Most credit unions' books show inadequate loan loss reserves, thus overstating their real worth. The financial stabilization program allows (and forces) a credit union to incorporate all of the necessary provisions and reserves, thus reflecting a truer financial picture, while at the same time avoiding a possible negative net worth. The mechanism involves the creation of a temporary "deferred losses" asset account (called *cuentas por liquidar*), which collects all of the loan loss reserves or other debt due to non-performing assets. Accounting recognition of these losses will be deferred over an agreed period of years. The stabilization fund assigned to a

[11] Drawn from the Cooperative Agreement signed between USAID/Guatemala and FENACOAC.

credit union earns interest which is used to gradually cleanse part of this "deferred loss" account. Through improved management practices, the credit union is able to generate other income which is also used to reduce the "deferred loss" account.

This process can be illustrated by the following example. Assume an initial diagnosis shows that a credit union is likely to lose $100,000 on uncollectable loans, even though it has not recorded this loss on its books. The Superintendency would allow the credit union to "defer" recognition of this loss, i.e. to deduct the loss from its reported net worth gradually, over a period of five years. Since the credit union's reported net worth is minimal at the beginning of the process (i.e. before recognizing the bad loan losses), the credit union will need to generate enough profit over the five year period to allow it to deduct the loan losses without falling into a negative net worth position. Part of the necessary profits would come from earnings on an interest-free loan (e.g. $80,000) from the Stabilization Fund: if the proceeds of this loan are deposited into a bank account yielding 11% per year, the account will produce about $55,000 in interest after compounding for 5 years. Assuming the credit union implements agreed-upon reforms, it will be allowed to use these interest earnings to offset part of its bad loan losses. In this example $100,000 in loan losses would be offset by $55,000 in Stabilization Fund interest income, leaving the remaining 45,000 to be offset by operating profits ($9,000 per year) produced by the credit union's management reforms.

The actual steps taken in the Guatemala Stabilization Fund program are as follows:

1. The Project Management Unit prepares a diagnosis of a credit union to determine its weaknesses as well as the magnitude of its loss. The PMU determines that the credit union presents conditions (including management) that will permit it to recover financial health with the stabilization fund process.[12]

2. A strictly controlled and legally binding tripartite contract is developed between the credit union, FENACOAC and the Project Management Office. The contract includes operating targets for the year, the amount and terms of the stabilization fund, and sanctions for non-compliance. A.I.D. disburses funds to FENACOAC and FENACOAC makes a no-interest loan in favor of the credit union. Although in the name of the credit union, the credit union agrees through the contract to

[12] According to the USAID/Guatemala-FENACOAC Cooperative Agreement, the eligibility criteria for credit union participation includes: demonstrated economic potential and financial viability; development of an approved stabilization and recovery plan (including, but not limited to, annual operating plans and budgets, reserve formation and surplus distribution plans, effective delinquency control and collection procedures, adoption of appropriate capitalization systems, and a program to actively seek growth opportunities); acceptance of external audit, inspection, supervision and reporting requirements established by the Project Management Office to verify both compliance with the stabilization plan and general performance; implementation of realistic pricing policies designed to cover all operating, reserve formation and capital costs; implementation of sound investment, credit and asset/liability management policies and procedures; participation in relevant project-supported institutional development training; and when necessary, negotiation of agreements with creditors to restructure external debt and prevent foreclosure and/or liquidation while undergoing project-financed stabilization.

leave the funds in the custody of FENACOAC. A "deferred losses" account is established as an asset account.

3. The agreed-upon stabilization fund amount is deposited by FENACOAC in a interest-earning account in the name of the credit union. The credit union lists the fund on its balance sheet (as a loan liability and as an investment on the asset side) and any interest earned is accrued to the credit union. This stabilization mechanism was reviewed and approved by the Regional Legal Advisor in Guatemala and LAC/GC in AID/W in May of 1989 (see Annex F).

4. After one year, the tripartite contract is evaluated. If the credit union is meeting its targets, a new contract is drawn for another one year period. If the credit union is not living up to its targets, the Stabilization Fund pulls out and the no-interest loan is returned in its entirety to FENACOAC. Any interest earned in the previous year remains with the credit union.

5. If the credit union is in good standing, the tripartite contract is readjusted year by year until the amount identified during the diagnostic stage is eliminated. The "deferred loss" asset account is slowly reduced by interest earnings on the stabilization fund and profits generated from credit union operations.[13]

6. The Project Unit receives a monthly report on financial indicators from the participating credit unions, permitting a close watch over the trends. These indicators include ratios pertaining to asset protection, capital structure of credit unions, returns, liquidity, delinquency, and growth.

C. Preliminary Program Results

The Guatemala program works with FENACOAC as well as with 24 credit unions, out of a universe of 48 active credit unions. Nine joined the program in late 1988 and early 1989, twelve joined in 1990, and three in 1991. Some of the basic results for the first 21 credit unions are shown in the table below:

[13] In the Guatemala program, for each dollar used to reduce the loss, credit unions have drawn about one-third from the stabilization fund interest and two-thirds from the savings they generate as a result of improved management practices. This demonstrates that the stabilization fund serves as an incentive to stimulate management changes.

Indicators (21 credit unions)	1983	1987	1991	%VAR 87-91
Membership	54,844	62,985	79,984	27%
Savings (US$ real terms)	11,207,568	9,941,367	19,791,138	99%
Delinquency	30.3%	19.3%	7.7%	-60%
Net Profit (%)		8.2%	12.4%	
Net Worth ($ real terms)	828,757	725,523	2,206,518	204%

As can be seen, the results after a four year period are quite impressive. The results are even more impressive, considering that the credit unions are located in areas already served by banks.

IV. PROJECT AMENDMENT RATIONALE

A. Why Credit Unions: Are They Worth Saving?

Credit unions in Bolivia once held an impressive 13% market share of the total deposits of the formal financial sector. After the 1981-1982 period of hyperinflation, the FENACRE credit unions suffered great losses from non-performing loans. As discussed above, it was the credit unions' **policies** themselves which impeded them from fully recovering and growing. Being principally borrower-dominated institutions with little incentive to mobilize savings, credit unions did not institute sufficient safeguards to avoid a flourishing of poor credits and high delinquencies. Today, weakened and decapitalized, credit unions barely have 3% of the total formal financial system deposits.

These kinds of difficulties have been the norm rather than the exception in credit union movements in the developing world. Unfortunately, the "remedy" of international donors, including A.I.D., has been precisely the wrong one: more external finance to "bail" out the systems time and time again. This has only served to aggravate the structural weaknesses of credit unions.

Despite these long-standing structural deficiencies, there are at least five reasons for considering support to the credit union system:

1. A Source of Micro and Small Enterprise Credit: Credit unions constitute the single most important formal source of micro and small enterprise credit. (As is common knowledge, informal sources, such as moneylenders, are very expensive.)

2. A Source for Savings: Credit Unions are permitted by law to capture savings, and savings represent a key source of funding for micro and small businesses.

3. Supervision: One of the principal activities undertaken under the current project has been to educate FENACRE and the credit unions regarding the importance of supervision. At a nationwide assembly in July of 1992, the credit union movement declared itself in favor of supervision. The new Banking Law, soon to be presented to the Bolivian Congress, will provide that FENACRE and the credit unions will be supervised by the Superintendency of Banks and Financial Institutions. This independent supervision represents a real hope for avoiding the "boom-and-bust" cycle which has characterized unsupervised LDC credit union movements.

4. Semi-Urban and Rural Locations: Private banks are found in eight of the nine departmental capitals in Bolivia. But there are a myriad of other towns which have no other financial institution but a credit union. Approximately 50% of Bolivia's population lives outside of these departmental capitals.

5. Financial Services for Lower to Middle Income People: Credit unions are better able than private banks to attract lower to middle income clients. Credit unions can attract this clientele in urban centers, where there is potential competition from private banks and mutuals, as well as in semi-urban and rural areas, where formal competition is non-existent.

For the Mission, however, the decision to extend the project is not based solely on the theory that credit unions with a new entrepreneurial mentality have "potential." Rather, the principal determinant is the fact that a model has been identified which has shown impressive results in strengthening the credit union movement in Guatemala.

Given the similarity in the histories and conditions of the credit union movements in Guatemala and Bolivia, the Trade and Investment Office is fairly confident that a program similar to that found in Guatemala can also show important results in Bolivia, especially considering the advantage in Bolivia's case of obligatory supervision by a strong Superintendency. The Guatemala program worked with only a "carrot", while the Bolivian program will have both a "carrot" and a "stick".

B. Credit Unions Help Micro and Small Enterprises

Some may consider it far-fetched to be justifying a credit union strengthening program under a micro and small enterprise development project. Some might say: "before, the A.I.D. money was to be used for credit to micro and small businesses. Now it's going to the balance sheets of FENACRE and the credit unions." In actuality, under the old program, approximately $5.0 million dollars was to go FENACRE's net worth. With the new program, both FENACRE and the credit unions will benefit, and, there will be **more benefits** to the micro and small enterprise sector. The reasons:

1. Only healthy financial intermediaries can serve the micro and small enterprise sector in a sustainable manner. Under the old project conception, we ran the risk of not

reaching micro and small businesses at all because the proposed intermediary, the credit union system, was on the verge of collapse. Under the new program, emphasis will be placed on creating healthy credit unions by correcting dysfunctional and antiquated financial and administrative policies and procedures. As healthy financial intermediaries, they will be in a better position to serve the micro and small enterprise development sector.

2. More micro and small businesses will be served by healthy credit unions. The original design was to channel approximately $5 million of credit resources through credit unions to the micro and small enterprise sector. Although now directed to the credit unions, the amended project will actually reach more micro and small businesses because the strengthened credit unions will have more funds available for lending. These new funds will be derived mostly from member savings, one of the key components of the new program. In the model Guatemala program, for example, participating credit unions increased their savings by 99% (and thus their loan services) in real terms from 1987 to 1991 (4 years).

If Bolivian credit union deposits were to increase at that same rate, 18.77% percent per year (which compounds to 99% in 4 years), by 1997 (the end of the project), deposits would have increased in real terms from the actual $30,850,000 to $72,910,310. This represents a net increase of $42,060,310.[14]

If, as has been estimated earlier, about 30% of credit union loans go to micro and small businesses (see Footnote No. 3), this would mean that by the fifth year, credit unions would be channelling $21,873,093 to the sector (30% of $72,910,310). With the original design, the project would have been channelling about $14,255,000 by 1997, if we assume that the A.I.D. $5.0 million was outstanding (and had not been lost by poor loans) and that savings had not increased substantially from the current $30.850 million[15] (30% of $30.850 million is $9.255 million). Thus, by changing the design of this component, there would be an **additional $7,618,093** available to micro and small businesses within the first five years as compared with the old project.

[14] If savings increase by 18.77% per year in real terms, as they did in Guatemala, and if the current savings base is $30.85 million, the savings increases per year will be as follows: 1993-$36,640,545; 1994-$43,517,975; 1995-$51,686,299; 1996-$61,387,817; and, 1997-$72,910,310. This calculation is based on the assumption that the credit unions participating in the Stabilization Fund program hold possibly 90% or more of the total credit union system deposits.

[15] Given the fact that credit unions are in very poor shape and that the original design did not include a technical assistance program to help credit unions modify current policies on savings, it is unlikely that the savings base would have increased substantially over the next few years.

The potential impact of a credit union strengthening program can also be analyzed by assuming that strengthened credit unions can recover the 13% market share they held in the early 1980's. We assume that the formal bank deposit base of Bolivia would increase to $2.0 billion by 1997 from the actual $1.5 billion, and that credit unions would have a deposit base of about $260 million (13% of $2.0 billion). With this level of deposits, approximately 30% or $78,000,000 would be channelled to micro and small businesses. This would represent an **additional $63,745,000** compared to the old project design.

These impacts are illustrated in the table below:

CREDIT TO MICRO AND SMALL ENTERPRISE SECTOR

	Original Design	Based on data from Guatemala	Based on recovery of 13% market share
30% of deposit base	9,255,000 (a)	21,873,000 (b)	78,000,000 (c)
USA.I.D. Donation	5,000,000	---	---
Total Credit to Sector	14,255,000	21,873,000	78,000,000

NOTES:

(a) Based on current day deposits of credit unions estimated at $30,850,000. Assumes that these do not increase over the next five years because of poor credit union policies.

(b) Assumes an increase in deposits of 18.77% per year, as was seen in Guatemala. The deposit base would reach $72,910,310 by Year 5 of the project.

(c) Based on a projected deposit base of $2.0 billion in the banking system in 1997. Deposits have skyrocketed from a low of $479,600 in December 1988 to almost $1.5 billion in October of 1992.

Regardless of which one of the assumptions we utilize, the (more conservative) increase of 18.77% per year as in Guatemala or the (more optimistic) recovery of 13% market share of the formal deposit base, we are still left with the conclusion that with a new design, more micro and small enterprises are served. The added advantage, of course, is that the project leaves healthy, sustainable, financial intermediaries which can continue to provide financial services to the micro and small enterprise sector.

C. Relationship to Mission and Host Country Strategies

1. A.I.D. Strategy

In its present form, the credit union component of the MSED Project is linked to two Mission strategic objectives: increasing trade and investment, and developing alternative (i.e. non-coca) sources of employment and income. The adjustments proposed in this amendment will significantly tighten the project's linkage to those objectives.

a. Trade and Investment

This Mission objective supports the LAC Bureau goal of assisting "broadly-based sustainable economic growth." In order to focus its strategy, LAC has articulated four "sub-goals" in this area. The amended credit union component will contribute directly and substantially to three of these sub-goals.

Economic Policy Reform. Implicit in this sub-goal is a conviction that sustained economic growth is impossible except where the government fulfills its responsibility to make and enforce rational and consistent rules of the economic game. In the case of credit unions, it is clear that the disarray of the Bolivian system stems in significant part from the same policy problem which have affected most other Latin American credit union movements: the absence of effective prudential supervision by independent financial authorities.

Centuries of experience have made it clear that no system of financial intermediation can avoid periodic collapses unless the system is subject to effective independent supervision. Even if we were wildly successful in promoting voluntary management improvements in all of Bolivia's credit unions, we could predict with certainty that, absent the discipline of independent supervision, the system would revert in a few years to something like its present tattered state.

Thus, the bedrock on which all the rest of the project's activities are based is a policy reform: passage of a law which places all credit unions under the authority of the Superintendency of Banks and Financial Institutions.[16]

Indeed, approval of this amendment will simply consolidate the implementation of a target to which the Mission has already committed itself. The Mission's latest Action Plan announced passage of the credit union supervision law as a target under the "Reform Financial Markets" program output.

Encourage a Vigorous Private Sector Response. With the "stick" of supervision in place, the project will provide to credit unions an attractive "carrot" (capital and technical assistance) to

[16] This step is not without its difficulties and risks. Supervision of credit unions presents certain technical differences from supervision of banks. And the small size of many of Bolivia's credit unions makes it relatively costly to implement oversight of the entire system. In order to manage these difficulties, the project will provide an experienced credit union supervisor to assist the Superintendency in setting up its credit union department; and the supervision of the entire system will be phased in over a number of years. It is also possible that the Superintendency will delegate some of its oversight of the smallest credit unions to an institution having more direct contact with them, such as AUDICOOP, a German-financed agency which provides audit services to credit unions.

The more serious, and less manageable, risk is the possibility that at some point in the future incompetence or political influence may prejudice the Superintendency's effectiveness as a supervisor. This risk is very real: in an extreme case a bad superintendent could kill the credit union system. However, the only alternative to running this risk is to acquiesce in the present unsupervised state of the system. Years of history, in Bolivia and elsewhere, show that this is not an acceptable alternative.

facilitate the reforms necessary to comply with Superintendency requirements. Some credit unions are too far gone to be able to meet Superintendency norms: the only alternative for these will be closure or merger. A very few credit unions are sound enough so as to need no outside assistance in achieving compliance. The majority of the system lies in a middle ground, where compliance will be possible but difficult: temporary assistance to these institutions can yield large benefits in encouraging their response to the new oversight regime.

Economic Opportunities for the Disadvantaged. In Bolivia's relatively constricted capital market, credit unions -- for all their present weaknesses -- still represent the largest providers of formal financial services for the majority of the population whose limited resources or rural location make them unattractive as commercial bank customers. There are various interesting experiments underway to better reach this non-bankable clientele (BancoSol, casas bancarias, and PVO microcredit programs). However, none of these experiments shows any prospect of achieving the market penetration of the credit union system, for the medium term at least.

The project amendment proposed here entails a more radical, and somewhat more expensive, commitment to Bolivia's credit union system. The motivation for this commitment is our conviction that the credit unions represent the best immediate hope for improved financial services for Bolivians of lesser means -- including many microbusinesses.

b. Alternative Development

This activity also supports the Mission's alternative development objective. Improved financial services will have the very real -- even if indirect -- effect of increasing employment and income of poorer participants in the economy, thus decreasing the pressure for them to turn to coca to make a living.

2. GOB Strategy

The GOB is very concerned with the limited reach of the formal financial system, and wants to see formal savings and credit services more widely available to poor and rural sectors. This concern has become especially acute in view of the recent closure of the Banco Agrícola, the Banco Minero, and the rural retail operations of the Banco del Estado.

At the same time, the GOB is anxious to bring all financial intermediation in the country under the umbrella of prudential supervision: the government is convinced that it cannot maintain economic stability without stable and trustworthy financial institutions.

The project adjustment proposed here has received an enthusiastic response from the Superintendency, because it supports both of the above GOB strategic objectives.

V. AMENDED PROJECT DESCRIPTION

This revised Project Description pertains only to the FENACRE and credit unions component of the project. The other components of the project, namely PRODEM and FEBOPI, are not modified by this amendment.

A. Goal and Purpose

The Goal of the project remains unchanged: to promote rapid and sustained economic growth in Bolivia (specifically among small-scale enterprises in Bolivia) and to bring about a more equitable distribution of income.

The purpose also remains the same: to stimulate long-term, stable growth and development of Bolivia's small-scale enterprise sector.

To achieve the purpose, the credit union component of the Project will be implemented through three interrelated initiatives focussed on credit unions, FENACRE and the Superintendency of Banks and Financial Institutions. These are:

1. **Technical Assistance in Institutional Development** to professionalize credit union administration and finance. This includes assistance in mobilizing savings and improving credit management.

2. **Financial Stabilization** to protect mobilized savings through improved asset quality, earnings and capitalization.

3. **Regulatory Strengthening** to ensure sound financial management through effective examination and supervision.

B. End-of-Project Status

The achievement of the project purpose for this amended component will be measured against the following targets:

a. The Superintendency of Banks and Financial Institutions will be carrying out effective ongoing supervision and regulation of credit unions.

b. Thirty credit unions will have been financially stabilized, or (in the case of credit unions with less than five years in the program by PACD) will be in compliance with their stabilization contracts.

    1. Deposits in participating credit unions will have increased by at least 75%.

    2. At least 90% of loan portfolio in stabilized credit unions will be current.

3. Stabilized credit unions will be serving at least 50% more clients.

C. Project Outputs

The amended credit union component of the project will produce the following four outputs:

1. diagnostic studies of and financial stabilization contracts with 30 credit unions;

2. training of staff of 30 credit unions; and

3. design and implementation of supervision system.

D. Project Components

Institutional Development Component

The Stabilization Advisor will supervise activities under this institutional development component. Two Bolivian advisors with specialties in finance and marketing will assist him or her. FENACRE's *Unidad de Desarrollo Cooperativo*, funded by the Germans, will work with the WOCCU advisors to develop a joint, coordinated, technical assistance program for the credit unions. Technical assistance will be provided in finance and administration, savings mobilization and credit improvement.

a. Administrative and Financial Management

This component seeks to: a) strengthen the management ability of the participants (FENACRE and qualified credit unions) and create a business mentality in their leadership and managerial staff; b) professionalize financial management and institute modern financial policies and procedures; and c) establish the necessary disciplines for sound financial management and savings protection.

This component will include technical assistance and training specializing in:

(1) Policies
- Competitive interest rates on loans and savings;
- Granting credit according to repayment capacity;
- Creation of adequate provisions;
- Charge-off of bad loans; and
- Capitalization of earnings.

(2) Controls
- Updated and current accounting systems and financial statements;
- Delinquency reports;

* Annual credit union business plans; and
* Budgets.

(3) Legal Aspects
* Updated bylaws; and
* Updated documents and forms.

b. Savings Mobilization Assistance

This component will provide the technical tools needed by participants to improve the quality of their savings services, based on their successful implementation of business development plans and compliance with required disciplines. It seeks to eliminate dependency on outside borrowing and achieve financial self-sufficiency with local savings, increase the volume of funds available for lending by credit unions to their members, and improve the quality, earnings and diversity of the financial products offered to members.

Technical assistance and training will be provided to help credit unions develop a marketing program to increase local market penetration. If sufficient funding is available, the project will also help develop new products and financial services and the improvement of the physical image of credit unions. It will also establish liquidity management standards in order to avoid deficiencies in the credit union's cash flow.

c. Credit Improvement Assistance

This component will aid credit unions in developing and offering a wider variety of loan products, controlling delinquency, increasing earnings and improving loan quality. It will focus particularly on those credit unions with the greatest opportunity for expanding their loan portfolios. Given the high share of loans in credit union assets, this project component is particularly important for protecting the value of members' savings.

Technical assistance and training will be provided to update lending forms, procedures and marketing materials and models; improve credit analysis, approval, administration and collection; and develop and install computer systems and subsystems for loan analysis and management.

Financial Stabilization Component

The financial stabilization component of the Bolivia program is expected to include two distinct funds: a <u>stabilization fund</u> and a <u>capitalization fund</u>. The stabilization fund will reach $4.0 million, $3.0 of which are planned for credit unions and $1.0 for FENACRE itself. The $1.0 million capitalization fund is to help credit unions capitalize FENACRE, a program that was successfully implemented in the WOCCU program in Honduras. The mechanics for this fund are still under consideration and will be defined by the WOCCU team, subject to USAID approval through the Cooperative Agreement.

(The mechanism described here would embrace about $2 million of assistance to FENACRE: $1 million from the Capitalization fund would be loaned to FENACRE members, to finance additional capital contributions to FENACRE by these member credit unions; another $1 million would be drawn from the Stabilization Fund to support FENACRE's recovery, using the Stabilization Fund mechanism described in this paper.

A different alternative which is also under consideration is to channel the entire $2 million in FENACRE support through the capitalization funds. I.e., A.I.D. would grant the $2 million to WOCCU, which would loan these funds to credit unions, who in their turn would invest the same funds as capital contributions to FENACRE. The credit unions, of course, would retain their obligation to repay the loan. If this latter alternative is adopted, the Stabilization Fund would have only $3 million, all of which would be available for operations with the retail credit unions.)

a. Financial Stabilization Fund

Financial stabilization is necessary to improve credit unions' ability to protect members' savings. Specifically this component seeks to a) promote ongoing financial discipline with new policies and adequate controls; b) strengthen the institutional (equity) capital of the participants and improve their financial condition; c) reestablish the public's confidence in the credit union sector; and d) improve the efficiency and earnings of both FENACRE and credit unions.

The financial stabilization fund is a component of the broader financial stabilization process. In a sense, it can be considered the financial *carrot* which provides the incentive to the credit union to embark on a radical reform process.

Financial stabilization refers to an accounting process in which a credit union diagnosed to have a negative net worth (due principally to the fact that reserves for bad loans were never created) slowly improves its financial situation from interest generated from the Stabilization Fund. The interest earned from the fund becomes the property of the credit union, and is used to reduce a previously determined "deferred losses" asset account (in Guatemala, this account is called "*cuentas por liquidar*"). If, for example, the "loss" of the credit union is determined to be $100,000, the fund is also $100,000. The monies are invested in high yield instruments and the interest earned is used to offset the *cuentas por liquidar* account. In this manner, the capital position of the credit union slowly improves.

Under this component, a $4,000,000 stabilization fund will be created to reduce and eliminate losses with productive assets generated by the fund. Based on the Guatemala experience, a period of approximately 60 months is normally required to accomplish this process in each one of the participating credit unions. As noted above, the process is complemented by specific technical assistance which helps the credit union implement financial policies necessary to minimize future losses and generate future income. The Stabilization Fund Advisor will supervise activities under this component, but will work **closely** with the Regulatory Strengthening Advisor and the Superintendency's credit union examiners.

The Stabilization Fund will be used by FENACRE and the credit unions. (However, it should be noted that the Mission may decide not to work with FENACRE if: a) financial projections currently being prepared by WOCCU, as part of the business plan exercise, indicate that FENACRE is unable to recover financially and offer a valued liquidity management service; and b) if member credit unions are unwilling to contribute substantial new capital investments to help resolve FENACRE's financial ills. In such a case, a total of $5 million would be allocated to the stabilization fund, which would work only with credit unions.)

a. Stabilization Fund Implementation Mechanics

<u>FENACRE Level</u>

1. Determination of the amount of the bad loans and other non-recoverable assets of FENACRE.

2. Separation of this amount into a "deferred losses" asset account (*cuentas por liquidar*), subject to authorization by the Superintendency.

3. Preparation of a financial stabilization agreement with a life of one year between FENACRE and the WOCCU Project Management Office (PMO). This agreement shall specify the goals and conditions of fulfillment to renew said agreement and shall be subject to at least a yearly evaluation. The stabilization agreement must include a plan for dealing with the PL-480 loans which are in arrears. (See Annex on Financial Analysis of FENACRE.)

4. Approval of a $1,000,000 stabilization fund for FENACRE to cover the equity loss due to bad loans, with the fund's interest generation. The one million dollars shall be recorded in FENACRE as an asset and a liability.

5. The stabilization fund shall be administered and controlled exclusively by the PMO. All the financial income generated by these funds shall be used to offset the "deferred losses" account on the FENACRE balance sheet.

6. A semi-annual and annual evaluation and ongoing follow-up of the commitments contracted in the agreement shall be carried out to determine whether the contract will be renewed for the subsequent year. The $1,000,000 stabilization fund is subject to STRINGENT CONDITIONS which FENACRE must meet to the satisfaction of USAID, PL-480 and the Superintendency. (See Annex E for a draft of these conditions.)

8. When completing the stabilization process, the interest generated from the $1,000,000 fund shall be disbursed to FENACRE. This income, along with other income generated as a result of improved management practices, will bring the "deferred losses" asset account to zero (if the institution completes the entire process). The nominal value of the $1,000,000 will then be available to help other credit unions.

Credit Union Level

1. Selection of credit union based on its economic potential.

2. Determination of the amount of the bad loans and other non-recoverable assets (such as loss on a non-financial business) of the participating credit union.

3. Separation of this amount into "deferred losses" asset account ("*cuentas por liquidar*").

4. Preparation of a financial stabilization agreement with a life of one year between the credit union and the PMO. The agreement shall specify the goals and conditions for compliance to renew said agreement and it shall be subject to a yearly evaluation.

5. The $3,000,000 fund for credit unions is divided, as needed, among the credit unions participating in the program.

6. The fund is administered and controlled exclusively by the PMO. All the financial income generated by these funds shall be applied to the "deferred losses" asset account on the balance sheet.

7. An annual evaluation of the commitments contracted in the agreement is carried out to determine whether the credit union has complied and whether the agreement will be renewed for another year.

8. When completing the stabilization process, the amount of the interest generated is disbursed to the participant. The credit union's equity is strengthened (if it complied with the entire process).

9. The original stabilization fund principal is again invested in a new credit union and the process is repeated.

It should be noted that during the first two months of the amended project, the stabilization fund mechanism described above will be analyzed closely with the Superintendency of Banks and Financial Institutions. USAID and the project may choose to make changes in the stabilization fund mechanism in order to better adapt it to the Bolivian context. There may also be a high demand for stabilization fund resources from the credit unions, making a direct grant concept (still tied to a stringent contract, of course) a more expedient mechanism to reach more credit unions. The basic concept, however, financial stabilization in exchange for management improvements and financial discipline would remain.

b. Capitalization Loan Fund

Part of the solution for FENACRE's recovery must come from the credit unions themselves. But few of the credit unions are in a strong financial position themselves. For those that are unable to contribute fresh cash of their own, or open large term deposits in the *Unidad Financiera*, an alternative which worked in Honduras would be available. The capitalization fund provides low-interest loans to credit unions which use the funds to invest in, and thereby support FENACRE through purchase of shares ("certificados de aportación"). In this way, credit unions can support their federation, even though they do not have ready cash. The capitalization fund would be managed by WOCCU.

Regulatory Strengthening Component

To help the Superintendency of Banks and Financial Institutions set up its credit union supervision, an experienced long-term advisor will provide 24 months of technical assistance. This assistance will include the development of financial indicators, accounting and reporting standards and oversight mechanisms, inspection techniques, and training of Superintendency and credit union staff. The project, through GOB local currency counterpart, will also fund two credit union examiners for a period of two years, after which time they will be incorporated into the Superintendency's budget. The budget for the credit union department, under the Intendency of Non-bank Entities, will be derived from the Central Bank as well as from fees charged to the credit unions themselves. By the end of the first year of the amended project, USAID will require a business plan showing how the Superintendency plans to incorporate this staff into its budget by the third year.

VI. IMPLEMENTATION ARRANGEMENTS

A. Project Management Office (PMO)

This office, probably located in La Paz (possibly in the FENACRE offices, which are located within two blocks from the headquarters of the Superintendency of Banks and Financial Institutions) will manage implementation of all project activities. The Stabilization Fund Advisor as well as the two Bolivian technical assistance advisors will be based out of this office. The Regulatory Advisor, who will be working with the Superintendency, will be based at the Superintendency itself.

Key functions of the project management office will include:

1. developing project implementation policies;

2. preparing annual project implementation and disbursement plans for USAID approval;

3. managing project funds;

4. establishing participant qualification and performance criteria;

5. coordinating project activities with the federation and other donors and technical assistance organizations;

6. implementing diagnostic studies;

7. approving participation contracts and their renewal, modification or termination, in coordination with the Superintendency;

8. providing practical advisory and training services to participants and governmental organizations;

9. developing and distributing technical materials, models and publications;

10. establishing performance indicators and monitoring and evaluating participant performance.

B. Obligating and Implementation Mechanisms

By amendment of the Project Grant Agreement (PGA), financing for the Stabilization and Capitalization Funds will be obligated to the GOB. As described in the PGA amendment, these funds will be subgranted to WOCCU by USAID through a Cooperative Agreement (CA).* WOCCU will thus become the owner of the funds and their reflows during the life of the project, subject to the joint disposition rights of the GOB and USAID at the conclusion of project activities (at the PACD or earlier if deemed necessary by the two governments.)

Unless otherwise determined by the USAID Controller and WOCCU, funds will be advanced by USAID/Bolivia under the CA for the stabilization and capitalization activities on an as-needed basis, in accordance with U.S. Treasury rules limiting periodic advances to a maximum of 90 days' cash flow requirements. Any interest generated from initial disbursements to WOCCU for the stabilization or capitalization activities (as well as for the operating expenses of WOCCU), before their disbursement for these activities by WOCCU, will be returned to the U.S. Treasury. Interest earned on loans by WOCCU to credit unions of FENACRE from the

* In the event GOB/DIFEM funds are used for the Stabilization Fund, these will be granted to WOCCU through a CIF. Disposition of these funds will be determined, as with the A.I.D. funds, by the GOB and A.I.D. through a jointly signed PIL by the PACD.

Stabilization Fund will become the property of the borrower, if all applicable conditions are met and reforms adhered to, as described in section IX.A. below. Under the terms of both the PGA with the GOB, and of the CA with WOCCU, USAID will provide financing for the Stabilization and Capitalization Funds for approximately 5 years, until the PACD. Substantial reflows to WOCCU are expected from loans from both Funds: the entire principal amounts, plus interest on loans from the Capitalization Fund, should be recovered. Under the terms of these agreements, the GOB and USAID will have the right, and the obligation, to agree by Project Implementation Letter (PIL) before the PACD (or before the termination date of the WOCCU Cooperative Agreement if earlier) on the disposition of the reflows of principal and interest from both Funds held by WOCCU, and to direct WOCCU to transfer all such reflows to a successor institution or to the GOB. (See Future of Stabilization and Capitalization Funds, below.)

The essence of the Stabilization Fund proposed here is the periodic provision of limited capital assistance to credit unions which are complying with reform programs. It is possible that an adjustment in the mechanism described here might be desirable at some point during the life of the project, due to factors such as USAID budgetary constraints: for instance, annual assistance might be disbursed by WOCCU as a sub-grant to a credit union, instead of the more cash-intensive mechanism of loan funding an interest-bearing account. Regardless of which option or options are chosen, they will be cleared with the USAID/Bolivia Regional Legal Advisor and Controller. Drawing from a legal opinion prepared for the Guatemala program, the Bolivia RLA has approved the stabilization fund concept (opinion can be found in Annex F).

The project will be managed by WOCCU, subject to supervision by a Project Management Committee composed of representatives from USAID/Bolivia, WOCCU, and the Superintendency of Banks (GOB). Two advisory committees will be established under the Project Management Committee: financial stabilization and technical assistance. The financial stabilization advisory committee will be composed of the WOCCU Stabilization and Regulatory Advisor, the head of FENACRE's Unidad Financiera, and a representative from the Superintendency of Banks and Financial Institutions. The technical assistance advisory committee will be composed of the two WOCCU Advisors, the director of FENACRE's *Unidad de Desarrollo Cooperativo* (UNDESCOOP), and a representative from the German aid organization DGRV, which has been funding UNDESCOOP. In addition to the institutions named here to the two committees, the Project Management Committee may appoint up to two financially sound and self-sufficient credit unions, if any, to each of the two advisory committees.

WOCCU will form the Project Management Office, staffed by the Stabilization and Regulatory Advisors, two Bolivian technical advisors, and support personnel.

USAID/Bolivia and the WOCCU Project Management Office will work closely with the Superintendency's Intendency of Non-bank Entities, which is depending on this program in order to begin the process of incorporating FENACRE and the credit unions under its supervision. USAID/Bolivia and the WOCCU will also coordinate efforts with the PL-480 Title III Executive Secretariat, given that FENACRE's financial insolvency is largely related to the PL-480 loans.

The Superintendency and USAID/Bolivia will agree upon and approve the conditions listed in the legally binding stabilization contracts signed between the PMO/WOCCU and participating credit unions and the PMO/WOCCU and FENACRE. (See sample conditions for FENACRE in Annex E.)

C. Future of the Stabilization and Capitalization Funds

As will be required under the terms of the amended PGA and of the CA with WOCCU (and possibly the CIF with WOCCU), USAID/Bolivia and the GOB will determine whether or not, and how, to institutionalize the activities of the Funds by PIL before the PACD, or before the termination of the CA, whichever comes first. As stated above, USAID, the GOB, and WOCCU expect substantial reflows of principal and interest to WOCCU from loans under both Funds. There are a number of alternatives for institutionalization of the activities of the Funds: transfer of the reflows to FENACRE or another bank or financial intermediary to continue the stabilization and capitalization activities for credit unions, or for other intermediaries likely to loan funds to micro and small enterprises; or transfer to the Superintendency of Banks for this purpose or to expand its credit union supervision department. Any such transfer must be consistent with the overall purpose of the Micro and Small Enterprise Project, that is, to stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector. In the unlikely event that USAID/Bolivia and the GOB fail to agree on disposition of the Funds prior to PACD, WOCCU will hold all cash reflows in an interest bearing account until such an agreement is reached. WOCCU will thus hold the reflows in an account in Bolivia in its name, until receiving instructions about disposition of the reflows from USAID and the GOB by jointly signed PIL. These decisions should be based on the success of the stabilization and capitalization activities in returning the credit union system to solvency and in providing credit to the small-scale enterprise sector, and whether the need then exists to continue such a program.

D. Project Personnel

The amended credit union component of the project will require the following technical assistance personnel:

1. WOCCU International advisors

   a. Stabilization advisor (5 years, probably in La Paz)
   b. Regulatory advisor (2 years, at the Superintendency in La Paz)

2. International consultants: 50 person-days during five-year period. Potential sources include: COLAC, NCUA, CUNA Mutual and League Insurance, CUNA and affiliates, U.S. Central Credit Union, Southwest Corporate Central Credit Union, other U.S. and international credit union organizations. Key consultancy areas: central liquidity, computing, stabilization, regulation and examination, training, marketing.

3. Project support: WOCCU project advisors and home office specialists based in the USA and on TDY in Bolivia, approximately 2 person-months per year. Key support functions: program design and development (e.g., TDY assistance by Guatemala Chief of Party), preparation of technical materials, training program design and implementation, research, project monitoring and evaluation, logistical support, etc.

4. Local operations staff: Two Bolivian advisors plus 2 support staff. Two advisors (finance and marketing) are needed for all five years. These advisors would both operate the fund and provide on-site assistance and training to credit union staff.

5. Local consultants: Approximately 30 person days per year of consultancy by Bolivian financial sector professionals for assisting on-site personnel in auditing, banking systems, computer systems, training, research, technical materials production, etc.

6. Credit Union Examiners: Two examiners will be funded by the project to support the Superintendency's credit union supervision. By the third year, this expense will transferred to the SBFI's payroll.

E. Implementation Steps

The steps below are the key activities to be implemented during the project. Many activities will be implemented concurrently.

1. Administrative Matters

- Personnel selection
- Equip Office
- Hire local personnel
- Determine policies and procedures
- In-house training of personnel.

2. Credit Union Selection

- Develop selection criteria
- Identify potential credit unions
- Perform a diagnosis of each potential credit union
- Present findings to credit unions
- Undertake regional seminars with credit unions.

3. Institutional Development

a. Finance and Administration

- Determine the credit union policies to be changed
- Accounting:
  - Ensure the adequate use of nomenclature
  - Review and reformulate the accounting manual
  - Update accounts to coincide with the accounting manual of the Superintendency.
- Profitability:
  - Set interest rates on loans
  - Determine financial margins
  - Determine operating margins
  - Review loan management procedures.
- Capitalization:
  - Set reserves
  - Set member contributions.
- Business Planning:
  - Prepare & analyze financial projections
  - Set targets
  - Develop annual budgets.
- Internal Controls:
  - Update forms
  - Develop operating manuals.
- Computers:
  - Review adequacy of hardware
  - Review adequacy of software programs.
- Success Indicators:
  - Produce monthly financial indicators
  - Produce program statistics.
- Education:
  - Instill an entrepreneurial mind-set
  - Define role of credit union directors
  - Define roles of employees.

b. Savings Mobilization

- Develop market studies.
- Define products and services to be offered.
- Develop a marketing strategy for each credit union:
  - existing and new markets
  - credit union's physical image
  - promotion
  - publicity.
- Develop budgets.

- Evaluate implementation strategy.

c. Credit Management

- Update statutes, policies, and regulations related to the provision of credit.
- Update credit application and analysis forms.
- Offer seminars:
    - credit analysis
    - administration of credit
    - recovering loan
    - liquidation of goods.

4. Financial Stabilization Program

- Determine amount of fund for each credit union.
- Determine the targets for the credit union.
- Develop legally binding stabilization contracts.
- Select an acceptable investment for fund.
- Sign the contract and disburse the funds.
- Review quarterly progress reports.
- Perform annual evaluation of compliance with targets.

5. Capitalization Loan Fund

- Determine number of credit unions to participate
- Draw up loan contracts

6. Regulatory Strengthening

- Institutionalize inspection procedures.
- Review and improve norms, policies, and procedures for the credit union sector.
- Design supervision and monitoring systems.
- Offer seminars to Superintendency staff and to credit union financial managers.

F. Illustrative Implementation Schedule for Key Activities

The chart below provides an implementation schedule for key activities under the amended project. The schedule is illustrative: some activities may be moved forward, others may be delayed, as needed, by the WOCCU implementation team.

ILLUSTRATIVE IMPLEMENTATION SCHEDULE

	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
STABILIZATION AND INSTITUTIONAL DEVELOPMENT																				
Install Local Office	x																			
Hire Bolivian Advisors	x																			
Staff Training	x	x																		
FENACRE Contract Signed	x																			
FENACRE Contract Evaluated				x				x				x				x				x
First Selection CUs		x	x																	
Second Selection CUs									x	x										
CU Contracts			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
CU Contracts Evaluated				x				x				x				x				x
Training CUs: Marketing			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Note: Stabilization Advisor will be in Bolivia for a 5 year period.

	YEAR 1				YEAR 2			
	1	2	3	4	1	2	3	4
REGULATORY STRENGTHENING								
SBFI Selects Examiners	x							
Set Inspect. Procedures	x							
Impl. charter system - CUs	x	x	x	x				
Revise Norms/Standards	x	x						
Examiners' Manual		x						
Train Examiners		x			x			
Census of CUs - en situ		x	x					
Training: CU Managers				x				
Training: Merger/Liquidat.						x		
Mergers/Liquidations							x	x
Revise Monitoring System				x	x			
Supervision of CUs							x	x

Note: The Regulatory Strengthening Advisor will work with the SBFI for a 2 year period.

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VII. MONITORING, EVALUATION AND AUDIT

A. Monitoring

The project will be monitored on a day-to-day basis by the five-year Stabilization Fund Advisor. He(she) will report quarterly to USAID/Bolivia on progress achieved in fulfilling the annual operating plan and budget. WOCCU home office staff will also monitor progress and coordinate with on-site personnel and assure timely provision of off-site services.

Project impact will be assessed periodically using financial and operating statistics of participant credit unions and FENACRE processed by the Superintendency. The Regulatory Advisor will help the Superintendency install a standard reporting and analysis system to help evaluate credit union and federation safety and soundness.

Project implementation indicators may include

Institutional Development

a. Membership growth by gender
b. Savings- number savers and volume
c. Savings market share
d. Loans- number borrowers and outstanding amount
e. % loans for micro and small business
f. Loan delinquency

Financial Stabilization

g. Number credit unions being stabilized
h. Volume of Stabilization Fund outstanding
i. Stabilization fund earnings
j. Capitalization fund: # loans and outstanding

Regulatory Strengthening

k. No. of credit unions under supervision
l. Credit union examination fees/ credit union regulatory unit operating costs

B. Illustrative Targets

Illustrative targets for the five year amended project are shown in the logframe (Annex A). It is possible that experience during th first two years of implementation may require some adjustment in these targets.

C. Evaluation

It is expected that USAID/Bolivia will undertake at least two independent evaluations of the project, ideally during or at the end of years two and four. These will assess both implementation progress and impact.

Annual workshops may be held by the participating credit unions to review accomplishments, problems and lessons learned and to prepare recommendations for the future. The proceedings of these workshops could be documented for use by USAID/Bolivia, WOCCU, the participants and other interested parties.

VIII. FINANCIAL PLAN

The MSED Project Agreement (PROAG) with the Government of Bolivia will be amended to reflect the changes in this PP Amendment, including the additional A.I.D. funding.

The total cost of the amended credit union component will reach $8,300,000, of which A.I.D. funds will provide about $7,100,000 and the GOB about $1,200,000.

The current Cooperative Agreement with WOCCU will be terminated and a new Cooperative Agreement will be signed for a total of about 6.7 million. This will include about 1.7 million for the international technical assistance program (which will be financed by Letter of Credit (LOC) established for WOCCU), and $5.0 million for a Stabilization and Capitalization Loan Fund which WOCCU will manage for 5 years. Funds remaining from the current WOCCU Cooperative Agreement (estimated to be about $300,000) will be folded into the new Agreement. The current Cooperative Agreement with FENACRE will be terminated and the decommitted funds, expected to be around $4.0 million, will be used for the new WOCCU agreement.

It is expected that the Government of Bolivia funds will cover the local costs associated with the Project Management Office (PMO) which WOCCU will be managing. Such costs will include, but not be limited to, Bolivian technical advisors, travel and per diem, equipment and furniture for the local office, and office supplies. It is expected that GOB funds will also cover the two Superintendency credit union examiners for two years to the tune of $160,000. (See Local Operations budget.) The GOB local currency office, DIFEM, has recently expressed interest in funding the stabilization fund for credit unions, as opposed to the PMO's operating expenses. It is still unclear, however, if this use of funds is legally permitted by the GOB.

Based on a master 5 year budget, the WOCCU Project Management Office will prepare an Annual Operating Plan each calendar year, which will be presented to USAID/Bolivia and to DIFEM. USAID/Bolivia will approve funds associated with the WOCCU Cooperative Agreement and the Stabilization and Capitalization Funds, and will concur with DIFEM on the use of funds for local costs. Local audits will be conducted in order to verify the proper use of interest earned from the Stabilization Fund.

A. Life-of-Project Funding

TOTAL LIFE-OF-PROJECT FUNDING
(US$ 000)

	A.I.D. FUNDING (FX)			GOB (LC)*	TOTAL (FX + LC)
	Original	Increase by this Amendment	Total	Original	
PRODEM/Accion	2,775	-	2,775	1,650	4,425
Credit Union:					
- FENACRE	4,540	(4,239)	301	-	301
- WOCCU/Stabilization Fund	1,899	6,507	8,406	1,150	9,556
FEBOPI	617	-	617	-	617
Admin/Eval/Audit	169	432	601	50	651
TOTALS	10,000	2,700	12,700	2,850	15,550

* This amendment requires no increase in GOB funds programmed for the project. It does entail, however, some readjustment of the GOB funds among line items. The private sector contribution includes funds provided as counterpart to $3,150,000 in credit funds. The Mission estimates that for each $1 of credit there is at least $.50 contributed to the loan project by the entrepreneur. Counterpart therefore for $3,150,000 in credit would be half this amount or $1,575,000. With the GOB and the private sector contributions, the 25% counterpart requirement for the MSED project is met and surpassed. Counterpart contributions in the Trade and Investment Office are being calculated on a TI portfolio basis and include this MSED project.

B. Tentative Obligation Schedule

The amount already authorized for this project is $10 million dollars, of which $8,999,000 has already been obligated. The remainder, $1,001,000, is planned for 1993 obligation.

Based on the disbursement plan (see the following section), obligation of the new funds under this amendment would be scheduled as follows:

1994	1995	1996	1997	Total
647,000	823,000	818,000	412,000	2,700,000

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C. Illustrative Disbursement Plan

ILLUSTRATIVE DISBURSEMENT PLAN: CREDIT UNION COMPONENT
(US$000)

	1993	1994	1995	1996	1997	TOTAL
WOCCU (A.I.D.) (FX)						
Stabilization Fund	1,500	1,500	500	500	0	4,000
Capitalization Fund	1,000	0	0	0	0	1,000
International T.A.	523	433	232	239	294	1,721
Project Support (A.I.D.)	70	73	91	79	118	431
SUBTOTAL A.I.D.	3,093	2,006	823	818	412	7,152
GOB (DIFEM) (LC)						
Local Operations	179	185	185	191	197	937
SBFI Examiners	49	51	27	0	0	127
Image Grants	25	25	25	25	0	100
SUBTOTAL GOB	253	261	237	216	197	1,164
TOTAL	3,346	2,267	1,060	1,034	609	8,316

* All AID funds are US$; all DIFEM funds are local currency shown in US$ equivalents.

The method of implementation for the various disbursement actions follows:

Method of Implementation	Method of Financing	Approx. Amount
Technical Assistance Cooperative Agreement with WOCCU	Direct. Letter of Credit.	$ 1,721,000
Stabilization Fund: C.A. with WOCCU	Direct. Reimbursement with A.I.D. advances	$ 4,000,000
Capitalization Fund: C.A. with WOCCU	Direct. Reimbursement with A.I.D. advances	$ 1,000,000
Mid-Term Evaluation	Mission Direct Contract	$ 15,000
Final Evaluation	Mission Direct Contract	$ 35,000

Audits	Direct Reimbursement Local IQC	$ 50,000
Project Coordinator	Mission Direct PSC	$ 280,000

D. Procurement Plan

A new Cooperative Agreement will be signed with the World Council of Credit Unions. Less than Full and Open Competition is justified for four basic reasons: a) WOCCU is a registered U.S. Private Voluntary Organization, b) WOCCU has a predominant capability in the area of credit union strengthening (there is no other such institution dedicated exclusively to credit unions), c) WOCCU/Guatemala has developed the basic model which will be used in Bolivia to stabilize FENACRE and the credit unions, and d) WOCCU has an existing relationship with FENACRE and the credit unions and the stabilization program is an extension of this prior work.[17] If possible, funds remaining in the current Cooperative Agreement will be transferred to the new Agreement. Under the new Agreement, WOCCU will provide international technical assistance advisors. In addition, WOCCU will *temporarily* manage the $4.0 million stabilization fund. Three vehicles will be purchased by the project for use of the Project Management Office technical advisors.

USAID will contract the services of a personal services contractor to coordinate the project. A mid-term and a final evaluation of the project will also be funded by USAID directly.

E. Cost Estimates and Financial Plan

The tables below are divided into three general categories: the Cooperative Agreement with WOCCU, which includes $1.7 million for technical assistance; the costs of the local operations of the Project Management Unit, which are proposed to be financed by the Government of Bolivia (through DIFEM); and the estimated costs of USAID direct contracts, including a Personal Services Contract, audits and evaluations. The tables are illustrative only: they give general cost parameters for preliminary planning purposes.

[17] These arguments justifying less than full and open competition will be discussed in detail in the Selection Memorandum to the Regional Contracting Officer.

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COOPERATIVE AGREEMENT WITH WOCCU		FINANCIAL PLAN WOCCU TECHNICAL ASSISTANCE					04-Nov-92
		estimated inflation rate :			5%		
		1993 YEAR 1	1994 YEAR 2	1995 YEAR 3	1996 YEAR 4	1997 YEAR 5	TOTAL
SALARIES							
Stabilization Advisor	***	$35,000	$36,750	$38,588	$40,517	$42,543	$193,398
(at $35,000)							
Superintendency Advisor	***	$69,000	$72,450	$0	$0	$0	$141,450
(at $69,000)							
SUBTOTAL SALARIES		$104,000	$109,200	$38,588	$40,517	$42,543	$334,848
FRINGE BENEFITS							
Stabilization Adv (31% sal)		$10,850	$11,393	$11,962	$12,560	$13,188	$59,953
Superintendency Adv(31% sal)		$21,390	$22,460	$0	$0	$0	$43,850
SUBTOTAL FRINGE BENEFITS		$32,240	$33,853	$11,962	$12,560	$13,188	$103,803
ALLOWANCES							
Stabilization Advisor (family of 4)							
Temporary Lodging (30d/5d * $61)		1,830	$0	$0	$0	$305	$2,135
Housing ($1,800/mo *11mos)		$19,800	$20,790	$21,830	$22,922	$23,763	$109,105
Education		$0	$4,200	$4,410	$4,631	$4,863	$18,104
Post Differentl (25% sal)		0	$0	$0	$0	$0	$0
Superintendency Advisor (family of 2)							
Temporary Lodging (30d/5d * $56)		1,680	$0	$280	$0	$0	$1,960
Housing ($1,800/mo)		$19,800	$20,790	$0	$0	$0	$40,590
Post Differential (25% sal)		17,250	$18,113	$0	$0	$0	$35,363
SUBTOTAL ALLOWANCES		$60,360	$63,893	$26,520	$27,553	$28,931	$207,257
TRAVEL/RELOCATION							
Orientation/Relocation/Leave/Int'l							
Stabilization Advisor							
Orientation WOCCU Headq		$5,558	$0	$0	$0	$0	$5,558
Relocation Travel							
Airfare (to Bolivia)		$5,000	$0	$0	$0	$6,150	$11,150
Excess Baggage (4 * $50)		$200	$0	$0	$0	$246	$446
Unaccompanied Baggage		$2,500	$0	$0	$0	$3,075	$5,575
Debriefing at WOCCU Headquart		$0	$0	$0	$0	$3,748	$3,748
Shipping							
Household Goods		$15,000	$0	$0	$0	$18,000	$33,000
Vehicle		$0	$0	$0	$0	$0	$0
Home Leave/R&R		$0	$5,000	$4,725	$5,600	$5,292	$20,617
International/Consultation		$2,338	$0	$2,619	$0	$2,933	$7,890
Emergency Travel		$0	$2,000	$0	$0	$0	$2,000
Superintendency Advisor							
Orientation		$3,258	$0	$0	$0	$0	$3,258
Relocation Travel							
Airfare (U.S. to Bolivia)		$3,000	$3,150	$0	$0	$0	$6,150
Excess Baggage (2 * $50)		$100	$105	$0	$0	$0	$205
Unaccompanied Baggage		$2,250	$2,363	$0	$0	$0	$4,613
Debriefing		$0	$1,970	$0	$0	$0	$1,970
Shipping							
Household Goods		$15,000	$15,750	$0	$0	$0	$30,750
Vehicle		$0	$0	$0	$0	$0	$0
Home Leave/R&R		$0	$3,000	$0	$0	$0	$3,000
International/Consultation		$2,338	$0	$0	$0	$0	$2,338
Emergency Travel		$0	$0	$0	$0	$0	$0
SUBTOTAL TRAVEL		$56,542	$33,338	$7,344	$5,600	$39,444	$142,268

VEHICLES/EQUIPMENT						
Vehicles (3)	60,000	0	0	0	0	$60,000
Miscellaneous Equipment	2,000	$2,100	$2,205	$2,315	$2,431	$11,051
SUBTOTAL VEHICLES/EQUIPMENT	62,000	2,100	2,205	2,315	2,431	71,051
CONSULTANTS: pers mo/yr=	1	1	1	1	1	
Fees (10d/year x $322 each)	3,220	3,220	3,220	3,220	3,220	$16,100
Airfare (@ $1,500 Rd.Trip)	1,500	1,500	1,500	1,500	1,500	$7,500
Per diem (14d/year x $98)	1,372	2,940	2,940	2,940	2,940	$13,132
Misc. Travel	200	200	200	200	200	$1,000
Other direct costs	300	300	300	300	300	$1,500
SUBTOTAL CONSULTANTS	$6,592	$8,160	$8,160	$8,160	$8,160	$39,232
TECHNICAL/PROJECT SUPPORT						
(Home Office)						
Salaries: Tech./Training Support	$30,000	$31,500	$33,075	$34,729	$36,465	$165,769
Fringe Benefits (31%)	9,300	$9,765	$10,253	$10,766	$11,304	$51,388
Travel (4 trips/yr)	10,800	$11,340	$11,907	$12,502	$13,127	$59,676
Telecommunications	5,000	$5,250	$5,513	$5,789	$6,078	$27,630
Office Supplies/Photocopies	700	$735	$772	$811	$852	$3,870
Postage/Delivery Services	600	$630	$662	$695	$730	$3,317
Miscellaneous	1,200	$1,260	$1,323	$1,389	$1,458	$6,630
SUBTOTAL PROJECT SUPPORT	$57,600	$60,480	$63,505	$66,681	$70,014	$318,280
						$318,280
OTHER DIRECT COSTS	$10,000	$10,500	$11,025	$11,576	$12,155	$55,256
TOTAL DIRECT COSTS	$389,334	$321,524	$169,309	$174,962	$216,866	$1,271,995
INDIRECT COSTS						
Indirect Costs (32.2% of direct)	$125,366	$103,531	$54,517	$56,338	$69,831	$409,583
Stabiliz.Fund Pass-Thru	8,000	8,000	8,000	8,000	8,000	$40,000
SUBTOTAL INDIRECT COSTS	133,366	111,531	62,517	64,338	77,831	449,583
WOCCU TECHNICAL ASSISTANCE	$522,700	$433,055	$231,826	$239,300	$294,697	$1,721,578

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DIFEM AGREEMENT WITH WOCCU	LOCAL OPERATIONS					
	estimated inflation rate :			5%		
	1993	1994	1995	1996	1997	
ITEMS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
1. SALARIES						
a. Finance Advisor	23,000	24,150	25,358	26,626	27,957	127,091
b. Marketing Advisor	20,000	21,000	22,050	23,153	24,311	110,514
c. Credit Union Examiner I	18,000	18,900	19,845	0	0	56,745
d. Credit Union Examiner II	18,000	18,900	0	0	0	36,900
e. Bilingual Secretary	12,000	12,600	9,261	9,724	10,210	53,795
f. Messenger	6,500	6,825	7,166	7,524	7,900	35,915
2 FRINGE BENEFITS (35%)						
* a. Finance Advisor	8,050	8,453	8,875	9,319	9,785	44,482
b. Marketing Advisor	7,000	7,350	7,718	8,104	8,509	38,681
c. Credit Union Examiner I	6,300	6,615	6,946	0	0	19,861
d. Credit Union Examiner II	6,300	6,615	0	0	0	12,915
e. Bilingual Secretary	4,200	4,410	3,241	3,403	3,574	18,828
f. Messenger	2,275	2,389	2,508	2,633	2,765	12,570
3. UTILITIES	4,000	4,200	4,410	4,631	4,863	22,104
4. OFFICE SUPPLIES	1,000	1,050	1,103	1,158	1,216	5,527
5. TRAVEL & PER DIEM						
a. Local PD ($100*300days)	30,000	30,000	30,000	30,000	30,000	150,000
b. Plane Trips (90/yr X $150)	13,500	13,500	13,500	13,500	13,500	67,500
c. International (2 trips)	6,000	6,000	6,000	6,000	6,000	30,000
d. Int'l PD ($150*12d)	1,800	1,800	1,800	1,800	1,800	9,000
e. Vehicles/Insur.($3600 ea)	10,800	10,800	10,800	10,800	10,800	54,000
6. LOCAL TRAINING COSTS	5,000	5,250	5,513	5,789	6,078	27,630
7. LOCAL HONORARIUMS	9,000	9,450	9,923	10,419	10,940	49,732
8. OTHER DIRECT COSTS($450/mo)	5,400	5,670	5,954	6,252	6,565	29,841
TOTAL LOCAL OPERATIONS	218,125	225,927	201,971	180,836	186,773	1,013,632
Institutional Dev. Grants						
1. Credit Unions	25,000	25,000	25,000	25,000	0	100,000
Audits	10,000	10,000	10,000	10,000	10,000	50,000
TOTAL GOB CONTRIBUTION:	253,125	260,927	236,971	215,836	196,773	1,163,632

USAID PROJECT SUPPORT						
Project Coordinator	60,000	63,000	66,150	69,458	72,931	331,539
Audits & Miscellaneous	10,000	10,000	10,000	10,000	10,000	50,000
Evaluations	0	0	15,000	0	35,000	50,000
SUBTOTAL USAID DIRECT	70,000	73,000	91,150	79,458	117,931	431,539

F. Financial Plan Summary by Project Element: Credit Union Component

The data in the various financial tables above can also be summarized by project element as follows:

	A.I.D.	GOB	TOTAL
Technical Assistance	1,650,527	959,581	2,610,108
Training	0	27,630	27,630
Commodities	71,051	0	71,051
Stabilization Fund	4,000,000	0	4,000,000
Capital.Loan Fund	1,000,000	0	1,000,000
SBFI Examiners	0	126,421	126,421
Evaluations	50,000	0	50,000
Audits/Miscellaneous	50,000	50,000	100,000
Project Support	331,539	0	331,539
TOTALS	7,153,117	1,163,632	8,316,749

A.I.D.: Technical Assistance and Commodities (for a total of $1,721,578), the Stabilization Fund, and the Capitalization Fund Grant, are included in the WOCCU Cooperative Agreement. Evaluations, audits and Project Support costs (for a total of $431,539) will be managed directly by USAID/Bolivia.

GOB: It is expected that the GOB (through DIFEM) will cover the local currency costs of the amended credit union component, including Technical Assistance, Training, salaries of two SBFI credit union examiners, and Audits.

G. Audits

With the exception of funds administered directly by USAID and DIFEM, this project will be implemented through a Cooperative Agreement with the World Council of Credit Unions (WOCCU), a U.S. non-profit organization. A.I.D. audit standards for U.S.-based non-profit organizations require compliance with the Office of Management and Budget Circular A-133, which provides for an organization-wide audit and not a project-specific review. Responsibility for ensuring audit compliance rests with a cognizant U.S. based federal agency, while the A.I.D. Inspector General's Office in Washington (RIG/A/W) serves as liaison for A.I.D. funded activities.

The A-133 Circular requires not less than bi-annual U.S.-based audits, which provide an opinion regarding a given institution's compliance with laws and regulations, a statement of positive assurance on items tested and negative assurance on programs that were not tested, a presentation of material findings, the relationship of the findings to particular awards as appropriate, and the auditor's recommendations for corrective action. Sample testing of various USG grants and contracts is used to establish the institution's ability to adequately manage and account for federal monies, in compliance with Generally Accepted Accounting Standards and generally Accepted Government Accounting Standards. This type of audit precludes the necessity of performing single audits of individual federal awards such as the Cooperative Agreement contemplated under this project.

Since negotiated overhead rates must include funding for A-133 audits, USAID/Bolivia is not required to budget for audit as a separate line item for the $1.721 million which will be obligated under a Cooperative Agreement with WOCCU.

However, $50,000 of DIFEM funding has been set aside to finance two local audits of project activities. The scope of work for these audits will conform to the general requirements of USAID recipient audits, and be subject to USAID clearance. DIFEM or WOCCU will contract the audits.

IX. CONDITIONS PRECEDENT AND COVENANTS

A. Conditions Precedent

It is proposed that the 1994 disbursement of funds (see illustrative disbursement schedule in Financial Plan section above) to WOCCU have as a condition precedent:

- Passage of the Ley de Bancos y Entidades Financieras and a certification from the USAID/Bolivia Chief of the Trade and Investment Office to the effect that the Superintendency has the authority to supervise most credit unions.

(The project can currently work with FENACRE and the seven credit unions that are already supervised by the SBFI.)

Prior to the disbursement of any funds in favor of FENACRE:

1) Execution of a financial stabilization contract with FENACRE which includes stringent financial and administrative conditions. The contract will be signed by FENACRE and WOCCU, and include the approval of USAID, PL-480 and the SBFI. The contract will include specific targets for the dismantling of the *Programa de Mobilización de Ahorros*.

2) A demonstration satisfactory to USAID of the credit union's financial commitment to capitalizing FENACRE.

Prior to the disbursement of funds in favor of individual credit unions:

- Execution of a financial stabilization contract signed between WOCCU and the credit union, with the approval of USAID and the SBFI.

B. Covenants

The following covenants are proposed to be included in the Amended Project Agreement for the Micro and Small Enterprise Development Project, in the new WOCCU Cooperative Agreement and in the Stabilization Agreement between WOCCU and FENACRE:

1. FENACRE will maintain three separate cost centers represented by the *Unidad Financiera* (which acts as a second story institution), the *Unidad Central* (which is the representational arm of the credit union movement), and the *Unidad de Desarrollo Cooperativo* (which handles all technical assistance and training to the credit unions). The *Unidad Financiera's* balance sheet will include all financial activities of FENACRE.

2. The Unidad Financiera will provide loans only to those credit unions which are in good standing with the Superintendency.

3. FENACRE shall notify USAID of any international aid negotiations.

ANNEX A

LOGICAL FRAMEWORK

LOGICAL FRAMEWORK
(Amended Credit Union component only)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Project Goal:			
To promote rapid and sustained economic growth in Bolivia (specifically among small-scale enterprises) and to bring about a more equitable distribution of income.	(This project component will not track a "Goal" indicator.)		
Project Purpose:			
To stimulate the growth and development of Bolivia's micro and samll enterprises.	<u>End of Project Status</u>		
	A. Effective credit union supervision in place at Superintendency.	Project reports.	Banking law is passed and includes supervision of the credit union system.
	B. 30 credit unions stablilized or in full compliance with stabilization contracts.	Financial statements and project reports.	A continuation of political and economic stability in Bolivia.
	1. 75% increase in credit union deposits.	Financial Statements.	
	2. At least 90% of loan portfolio current.	Financial Statements.	
	3. 50% increase in clients served.	Credit union membership records.	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Project Outputs:			
1. Diagnostic studies and stabilization contracts with credit unions.	30 credit unions	Project reports, agreement and contracts executed.	
2. Training of credit union staff.	30 credit unions	Project reports, agreement and contracts executed.	
3. Design and implementation of supervisory system for credit unions.	1 system	Project reports, agreement and contracts executed.	
Project Inputs:			
A.I.D. Funding			
Stabilization Fund $4,000,000	WOCCU Cooperative Agreement and stabilization contracts.		
Capital. Loan Fund $1,000,000	WOCCU Cooperative Agreement and stabilization contract		
Int'l Tech. Asst. $1,721,578 Project Support $ 431,539 $7,153,117			
Counterpart Funding			
Local Tech. Assist. $1,037,211 SBFI Examiners $ 126,421 $1,163,632	CIF Agreement between DIFEM and WOCCU		

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ANNEX B

INITIAL ENVIRONMENTAL DETERMINATION

ACTION: AID-1
INFO: ECONO-1 DCM-1 AMB-1

Rec'd 12/29

File: PD&I

DISTRIBUTION: AID
CHARGE: AID

VZCZCLPO312
RR RUEHLP
DE RUEHC #4716 3600025
ZNR UUUUU ZZH
R 250023Z DEC 92
FM SECSTATE WASHDC
TO RUEHLP/AMEMBASSY LA PAZ 3147
INFO RUEHQT/AMEMBASSY QUITO 4830
BT
UNCLAS STATE 414716

Action: ~~TI~~
Info: D/DD
EXO
ARD
PD&I
C
RF 1
SF

AIDAC LA PAZ FOR M.E. VALENZUELA AND M. YATES, QUITO FOR

Reply due 1/6

E.O. 12356: N/A
TAGS:
SUBJECT: ENVIRONMENTAL THRESHOLD DECISION FOR MICRO AND SMALL ENTERPRISE DEVELOPMENT PROJECT (511-0596)

Action tkn ____________

NAN 12/30
RR

H. CLARK

REF: BOLIVIA FAX, YATES TO HESTER/MENCZER, 12/21/92

1. LAC CHIEF ENVIRONMENTAL OFFICER, JAMES HESTER, HAS REVIEWED AND HEREBY APPROVES MISSION REQUEST FOR A CATEGORICAL EXCLUSION FOR SUBJECT PROJECT.

2. IEE NUMBER IS LAC-IEE-93-07. COPY OF ENVIRONMENTAL THRESHOLD DECISION IS BEING SENT TO MISSION FOR INCLUSION IN PROJECT FILES. KANTER
BT
#4716

NNNN

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USAID
U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-93-07

REQUEST FOR A CATEGORICAL EXCLUSION

Project Location	:	Bolivia
Project Title	:	Micro and Small Enterprise Development Project (amendment)
Project Number	:	511-0596
Funding	:	$12 million
Life of Project	:	
IEE Prepared by	:	M. Elizabeth Valenzuela USAID/Bolivia
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	None

James S. Hester Date 12/24/92
James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Copy to	:	Carl Leonard, Director USAID/Bolivia
Copy to	:	M. Elizabeth Valenzuela USAID/Bolivia
Copy to	:	Michael Yates, MEO USAID/Bolivia
Copy to	:	Howard Clark, REA/SA
Copy to	:	Sharon Epstein, LAC/SAM
Copy to	:	Gordon Bertolin, LAC/DR/SAM
Copy to	:	IEE File

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

Annex B

INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

Project Country:	Bolivia
Project Title and No.:	Micro and Small Enterprise Development Project (511-0596)
Funding:	U.S.$12.0 million
IEE Prepared by:	M. Elizabeth Valenzuela, USAID/Bolivia
IEE Approved by:	Carl H. Leonard, Director, USAID/Bolivia

Environmental Action Recommended:

Positive Determination______________
Negative Determination______________
Categorical Exclusion_______X_______
Deferral__________________________

Summary of Findings

The Micro and Small Enterprise Development Project was authorized on August 19, 1988 by the USAID/Bolivia Mission Director. It was to finance an integrated package of technical, training, and financial assistance to help in addressing the key constraints which impede the full development and growth of Bolivia's small-scale enterprise sector.

The Amended Project modifies the credit union component, one of three components of the project. The original design granted approximately $5.0 million of credit funds to FENACRE and the credit unions in order to undertake a micro and small enterprise lending program. The Amended Project seeks to strengthen the credit unions as viable financial intermediaries, **in order for them** to become long-term providers of micro and small enterprise credit primarily from member savings. USAID will have no control over the kinds of loans provided.

It is the opinion of USAID/Bolivia that this Amendment to the Project qualifies for a categorical exclusion because its activities are within the class of actions described in Section 216.2 paragraph (c) (l) (i) and 216.2 (c) (2) (i) of 22 CFR part 216, "Environmental Procedures," which read as follows:

Section 216.2 (c) (l) (i)

"The action does not have an effect on the natural or physical environment," and

Section 216.2 (c) (2) (i)

"Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.)."

Concurrence:

LAC Bureau Environmental Officer:

Approved:________________
Disapproved:______________
Date:____________________

ANNEX C

SUMMARY INSTITUTIONAL ANALYSIS

OF

FENACRE AND CREDIT UNIONS

ANNEX C

I. SUMMARY INSTITUTIONAL ANALYSIS OF FENACRE

A. Strengths

1. A leadership aware of the serious financial crisis the institution is going through (total loss of equity) and the urgent and severe reform measures necessary to restore its solvency and image before its owners, the formal financial sector and the authorities.

2. Thirty years of institutional life.

3. Access to technical services from international organizations of the credit union movement.

4. Access to development funding from the Bolivian government, USAID/Bolivia, Germany and Canada.

5. A positive image with the public.

6. Broad potential for serving the demand for second-tier financial services from owner credit unions, subject to its reorganization and the installation of managerial staff of the quality required by a first-class financial institution.

B. Weaknesses

1. Technical insolvency (negative equity).

2. Lack of financial discipline in accordance with the modern standards of finance.

3. Operating structure of an excessive size and cost in relation to the economic base of the system.

4. Services perceived by credit unions as expensive and/or deficient in relation to the competition.

5. Limited technical experience of federation personnel.

6. Lack of confidence by the credit unions in the technical, managerial and financial ability of the federation.

7. Credit granted without technical standards.

8. Slow, inadequate administrative actions to correct the institution's operating and financial deficiencies.

9. High portfolio delinquency and inadequate provisions.

10. Limited statistics from member credit unions.

II. SUMMARY CREDIT UNION INSTITUTIONAL ANALYSIS

A. Strengths

1. Openness of leaders and staff to a business approach.

2. Relatively strong credit union leaders.

3. Awareness of the need to reform FENACRE.

4. Understanding of the need to compete in the market and to set its interest rates in accordance with market rates.

5. Openness toward examination and regulation by the Superintendency of Banks.

6. National credit union network serving different population and geographic sectors.

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7. Significant amounts of institutional capital due to the revaluation of fixed assets.

8. Leading credit unions willing to support emerging credit unions.

9. Awareness of the potential risks to the system produced by problem credit unions.

10. High participation of women in services.

B. Weaknesses

1. High delinquency.

2. Weak financial policies.

3. Accounting behind schedule.

4. Lack of modern financial techniques.

5. High operating costs due to non-financial services.

6. Need to offer relatively high interest rates on savings to compensate for the perception of risk.

7. Dependence on external donors for lending capital.

8. Unattractive facilities and offices.

9. Low participation of women in leadership and management.

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ANNEX D

FENACRE FINANCIAL SITUATION AND STATEMENTS

as of August 31, 1992

FENACRE's FINANCIAL SITUATION

The attached Consolidated Balance Sheet attempts to show the *real* current position of FENACRE: that is, it includes *all* of its liabilities with PL-480, the depositing public and the member credit unions, and includes what are believed to be reasonable provisions for likely bad loan losses. The consolidated statement includes both the representational office, the *Unidad Central* and the financial unit, the *Unidad Financiera*. The *Unidad de Desarrollo Cooperativo* is not included because it is financed in its entirety by the Germans and has no real assets of its own.

As can be seen, FENACRE has an estimated negative net worth of $8.8 million. The most significant factor behind this negative number is the liability that FENACRE holds with PL-480. FENACRE currently owes PL-480 almost $10,000,000, of which a substantial portion is considered to be irrecoverable. PL-480 and FENACRE have been negotiating possible solutions for this liability, given that neither PL-480 nor the Superintendency of Banks and Financial Institutions wishes to see FENACRE close. Their fear is that a bankruptcy at the FENACRE level would produce a run on deposits in the rest of the credit union system.

Under the *Ley SAFCO*, which governs public administration in Bolivia, PL-480, as a financial arm of the GOB, must take all possible steps to recover, at minimum, all the principal from the loans it has provided. Only after a judgement has been reached on a judicial process and the loan is still unrecoverable, can PL-480 consider the principal lost and take it off its books. Thus, PL-480 has no choice but to take a tough stance with the FENACRE debt, insuring maximum efforts to recover the almost $10,000,000 in loans that were channelled to the agricultural sector through FENACRE.

The second factor affecting FENACRE's poor financial situation is the liabilities it holds with the public under its *Programa de Mobilización de Ahorros*. FENACRE has almost $5,000,000 of such deposits from third parties (that is, private individuals and not member credit unions). With these deposits is has financed substantial lending to third parties, over 50% of which is in arrears. Some of this amount is very likely uncollectable.

Likely future loan losses on these two portfolios, PL-480 and the *Programa de Mobilización de Ahorros*, constitute the principal reasons for FENACRE's current financial problems. A solution to its state of technical bankruptcy must be analyzed on these two fronts. The WOCCU is currently preparing a detailed business plan which will hopefully show that it is possible for FENACRE to recover and operate a financial unit profitably. Should it be determined that FENACRE cannot recover from the deep financial crisis in which it stands today, USAID/Bolivia may decide not to work with FENACRE under the Stabilization program and work only with the credit unions. The solutions for FENACRE's financial ills seem to be shaping up along the lines described below.

1. PL-480 is on the point of signing a *fideicomiso* arrangement under which almost all of the assets and liabilities associated with PL-480's loans to FENACRE will be transferred from FENACRE's books to PL-480's. FENACRE will continue collection activities on the loans, acting as PL-480's agent for this purpose. The

practical impact of this arrangement is that the credit risk on this portfolio is transferred from FENACRE to PL-480. If and when some of the loans prove uncollectable, it is PL-480 who will take the hit on its balance sheet. Of FENACRE's troubled PL-480-financed portfolio of approximately $10 million, something in the neighborhood of $9 million will be removed from its books by this mechanism.

2. A remainder of perhaps $1 million in PL-480-financed portfolio will be left on FENACRE's books, consisting of loans for which adequate legal loan documentation does not exist. The risk of any eventual loss on these loans will remain with FENACRE.

3. FENACRE is already well along the path to disposing of several certain non-financial business investments it had acquired over the years. Since none of these businesses has proved profitable, their sale will not only eliminate losses in future years, but will also produce sales proceeds which can be applied immediately to the reduction of the PMA deposits from the public.

4. FENACRE's promotional operations for the credit union movement will be separated from the *Unidad Financiera*, and the latter will no longer subsidize the former. Drastic cuts in operational costs will be undertaken. By early 1994, FENACRE's *Unidad Financiera* should be composed of perhaps four people, down from a bloated operation of something like thirty persons when USAID first began working with them.

5. The above-described measures *might* be sufficient to place FENACRE's financial nose just above water. However, they would not be sufficient to allow timely elimination of the PMA program, by paying off current public depositors without taking in new deposits. Thus, an essential part of the package must be an infusion of new equity capital into FENACRE. USAID has already advised the FENACRE board that some or all of the new capital must come from the member cooperatives themselves. As discussed above in the main text, two formulae have been considered.

    a. USAID might make a direct donation to FENACRE, to be matched in some reasonable proportion by credit union equity investments.

    b: USAID might make no contribution to FENACRE, but instead would allow project funds to be lent to credit unions, on reasonably soft terms, to finance their equity investments in FENACRE.

In the current state of analysis and negotiation, it appears fairly certain that a total of about $2 million in new equity would put FENACRE into a healthy balance sheet position. Before the project reaches a position to support FENACRE, however, two bridges must be crossed:

(1) We must review a business plan which demonstrates that a scaled-down FENACRE financial unit can operate profitably while providing a realistic level of short-term financial services to its member credit unions (this plan is in preparation in January). (2) We must receive a commitment from FENACRE's member credit unions for a substantial contribution to FENACRE equity -- among obvious reasons in favor of such a requirement, imposing it is the only way we can get a trustworthy indication of how important FENACRE's survival and continued operations are to the credit union movement.

If either of the above conditions fail to be met, the project will abandon FENACRE to its fate, and concentrate its efforts on the credit unions themselves. A final decision on this matter will be consulted with the Project Committee.

Note: FENACRE Balance Sheet Line By Line

ASSETS *(Activo)*

Cash on Hand *(Disponibilidades)*: Includes all cash available in the bank.

Temporary Investments *(Inversiones Temporales)*: Includes FENACRE's and the credit unions Liquidity Fund in the Central Bank. This is a legally based reserve that must remain at 8% of the deposits. This item also includes various small short-term investments.

Loan Portfolio *(Cartera)*: Includes the PL-80 loan portfolio, the PMA portfolio with third parties, and the portfolio with credit unions. *Current (vigente)* refers to loans outstanding that are in good standing. *In Arrears (vencida)* refers to those loans which are more than 30 days late, and *In Execution* refers to those loans which have entered into a judicial process.

Interest Receivable *(Productos Por Cobrar)*: Includes interest payments that are due to FENACRE.

Loan Loss Reserve *(Prevision...)* : Includes reserves for losses on loans.

Accounts Receivable *(Otras Cuentas Por Cobrar)*: Refers principally to lawyer's fees paid FENACRE and to be recovered upon the successful outcome of judicial processes. Since repayment is not assured, even after a successful outcome, this line item also includes a loss reserve.

Goods to Be Sold *(Bienes Realizables)*: Refers to assets that FENACRE has picked up in the execution of bad loans that FENACRE will subsequently sell. It also includes the machinery associated with the bakery.

Permanent Investments *(Inversiones Permanentes)*: Refers to FENACRE's investments in the deficitary businesses, an investment of about $400,000 in COLAC, and shares in the *Cooperativa de Seguros* (COSEF).

Fixed Assets (*Bienes de Uso*): Refers to the land, buildings, equipment, furniture and vehicles that FENACRE possesses.

Other Assets (*Otros Activos*): Is an "inter-office" account, which tracks the balance of assets and liabilities among the different FENACRE offices.

LIABILITIES (*Pasivo*)

Deposits from the Public (*Captaciones del Publico*): Includes the deposits from the public held by FENACRE's PMA.

Obligations with Financial Institutions: Includes the Liquidity Fund of the credit unions, the near-$10 million liability with PL-480, and about $400,000 with COLAC.

Accounts Payable (*Otras Cuentas Por Pagar*): Refers to small amounts FENACRE owes for social benefits and miscellaneous fees.

Reserves (*Previsiones*): Refers to past earnings that FENACRE's directors have voted to dedicate to charities.

NET WORTH

Social Capital (*Fondo Social*): Constitutes FENACRE's legal institutional capital, derived from contributions from the credit unions.

Donations/Contributions (*Aportes No Capitalizados*): Includes donor-agency donations which are not included in the Social Capital.

Net Worth Adjustments: Refers to the adjustments to reflect the impact of inflation and exchange rate movements on the real worth of various assets. Under local accounting practice, these adjustments are shown as a separate item in the Equity account.

Reserves: Includes capital reserves.

Earnings from Previous Periods: Includes the cumulative net profit (loss) earned by FENACRE up to the date of the balance sheet.

ESTADO DE SITUACION PATRIMONIAL CONSOLIDADO
Al 31 de agosto de 1992
(Expresado en Dolares)

ACTIVO		
Disponibilidades		310,749.50
Inversiones Temporales		2,788,432.75
Cartera		
Cartera Vigente	6,395,559.00	
Cartera Vencida	348,843.00	
Cartera en Ejecucion	10,545,788.00	
	17,290,190.00	
Productos Por Cobrar	170,517.00	
Prevision Para Incobrables	(10,720,209.50)	6,740,497.50
Otras Cuentas Por Cobrar	285,848.75	
Previsión	(155,581.25)	130,267.50
Bienes Realizables	87,125.25	
Previsión	(16,609.00)	70,516 25
Inversiones Permanentes	1,507,843.25	
Previsión	(231,141.50)	1,276,701.75
Bienes de Uso	1,203,017.75	
Previsión	(37,533.25)	1,165,484.50
Otros Activos		3,860.50
TOTAL ACTIVO		12,486,510.25

PASIVO	
Captaciones del Publico	9,681,258 75
Obligaciones Con Bancos e Instituciones de Financiamiento	11,447,458.25
Obligaciones con el Banco Central de Bolivia	0 00
Otras Cuentas Por Pagar	174,678 75
Previsiones	6,417.25
TOTAL PASIVO	21,309,813.00
PATRIMONIO NETO	
Fondo Social	830,123 50
Aportes No Capitalizados	233,528 00
Ajustes al Patrimonio	354,504 00
Reservas	287,019 25
Resultados Acumulados	(10,528,477 50)
TOTAL PATRIMONIO NETO	(8,823,302 75)
TOTAL PASIVO Y PATRIMONIO NETO	12,486,510 25

D-5

ANNEX E

SAMPLE STABILIZATION FUND CONTRACT WITH FENACRE

CONDICIONES 0 REQUISITOS QUE DEBERA CUMPLIR FENACRE EN EL PROCESO DE ESTABILIZACION FINANCIERA

A. CONDICIONES FINANCIERAS

1. La Federación deberá continuar con la política de no conceder créditos al público e iniciar una campaña agresiva de la cartera en circulación del PMA.

2. FENACRE no podrá otorgar préstamos a sus cooperativas durante el periodo de 12 meses. Esto permitirá que FENACRE recupere los créditos vigentes y utilize este capital para devolver parte de los Depósitos a Plazo Fijo. Excepciones a esta cláusula, si hubieren fondos provenientes de otras fuentes (por ejemplo, los Europeos), deberán ser aprobadas por la Superintendencia de Bancos. Estos fondos se podrán utilizar solamente para atender necesidades de emergencia de liquidez de las cooperativas.

3. A partir de la presente fecha, las recuperaciones que provengan de cartera del público deberán ser utilizadas para la devolución de captaciones de terceros (PMA), o sea, los Depósitos a Plazo Fijo y la Caja de Ahorros.

4. Al 30 de junio de 1993 haber logrado una meta de 10% de morosidad sobre la cartera de cooperativas y al 31 de diciembre haber logrado una meta de 7%, mediante un plan integral de combate a la morosidad. La morosidad deberá calcularse en base a la cartera afectada y no a las cuotas vencidas.

5. Recuperar el 25% de la cartera de PL-480 que se otorgaron a las cooperativas de ahorro y crédito para su intermediación cuyos saldos fueron reprogramados en el afio 1991 y trasladar el total recuperado menos los gastos de administración a la cuenta que designe la Secretaria Ejecutiva del Fondo.

6. Recuperar el 35% del saldo de préstamos de cartera al público castigada y destinar dichos recursos a la devolución de pasivos de particulares (PMA), DPFs y Caja de Ahorros.

7. Al 31 de diciembre de 1993 la Federación deberá vender los siguientes activos improductivos:

Activo	Fecha	Valor en Miles Bs.
Molle Molle	30-11-92	2,299.0
COBOLDE	28-02-93	386.0
Panadería	31-03-93	148.0
Imprenta	31-03-93	225.0
Bienes Adjudicados en Remates	31-03-93	206.0
Activos Fijos en Uso	30-06-93	1,500.0
TOTAL		4,764.0

8. Los recursos en efectivo generados por la venta de estos activos deberán trasladarse a la Unidad Financiera y utilizarse para la devolución de Depósitos a Plazo Fijo y Caja de Ahorros de particulares (PMA).

9. La Federación deberá presentar al Fondo de Estabilización Financiera, a más tardar el 31 de diciembre de 1992, una propuesta sobre los activos fijos que venderá para alcanzar la meta planteada en el numeral 7.

10. La Federación deberá liquidar el préstamo vigente con COLAC con el monto depositado en COLAC, buscando mantener, en lo posible, suficiente aportación que le permita ser asociada activa de la Confederación.

11. Durante 1993 la Federación no podrá efectuar inversiones en bienes inmuebles, muebles o Inversiones Permanentes sin la autorización del Fondo de Estabilización Financiera. Esto excluye compra de insumos necesarios, tales como materiales de oficina u otros insumos de uso diario.

12. La Federación se compromete a desmantelar el Programa de Mobilización de Ahorro (P.M.A), tanto los DPFs como la caja de ahorros hasta Diciembre 31, 1993. Se podrá utilizar una estrategia múltiple, incluyendo la transferencia de depósitos y cartera a las cooperativas, la venta de activos improductivos y la recuperación de cartera vigente para devolver ahorros.

13. FENACRE (en ningún centro de costo), no podrá contratar créditos adicionales mientras dure este contrato y no podrá efectuar desembolsos de créditos contratados con anterioridad a la vigencia del presente contrato, a menos que cuente con la autorización expresa de las otras partes en el contrato.

14. Al 31 de diciembre de 1992 la Federación deberá presentar a AID o al Fondo de Estabilización Financiera una propuesta para capitalizar con aportes de las cooperativas afiliadas a la Unidad Central que se ha creado dentro de FENACRE. Dicha propuesta deberá estar implementada antes del 31 de marzo de 1993.

15. Al 31 de diciembre de 1992 la Federación deberá presentar a consideración y anuencia de las otras partes un Plan Empresarial Cuantificado para 1993, que indique las estrategias para lograr la rentabilidad en la Federación a un plazo máximo de 6 meses, así como la eliminación de la brecha existente entre Pasivos y Activos Productivos.

16. A partir de la fecha en que AID proporcione los recursos de liquidez, la Federación deberá efectuar ajustes periódicos de por lo menos 1/2 punto porcentual hacia abajo, a sus tasas de interés sobre los DPF's a particulares con el propósito de reducir su costo financiero y desestimular dicha inversión paulatinamente.

17. Al 31 de diciembre de 1992, las Unidades de UNDESCOOP Y UNIDAD CENTRAL (Gremial) deberán presentar a USAID/Bolivia a través del Directorio de cada Unidad un presupuesto financiable con recursos provenientes de sus programas o de aportes de

cooperativas u otras instituciones de apoyo. Lo anterior indica que queda prohibido el uso de fondos manejados y/o generados por la Unidad Financiera para el financiamiento de actividades ajenas.

18. Los gastos administrativos de la Unidad Financiera deberán fijarse en el 5% de sus activos productivos promedios; para lo cual, se deberá reprogramar el presupuesto en forma trimestral en función del comportamiento de dichos activos.

19. La relación de gastos de personal (salarios y prestaciones sociales) deberán ser la mayor composición del total de gastos operativos o de administración. Esto se refiere a la Unidad Financiera y a la Unidad Central.

20. Los otros gastos (servicios no personales, materiales y suministros, depreciaciones, gastos de directivos, viáticos, etc.) no deberán exceder una relación de 1:1 con los gastos de personal. Esto se refiere a la Unidad Financiera y a la Unidad Central.

21. La Unidad Financiera deberá evaluar la cartera en forma trimestral con el objeto de crear las previsiones necesarias para cubrir el riesgo, de acuerdo a las especificaciones de la Superintendencia de Bancos. Este gasto queda fuera de los gastos operativos.

B. CONDICIONES SOBRE LA ORGANIZACION

22. A más tardar el 31 de diciembre de 1992, los órganos de dirección de la Federación deberán presentar a USAID/Bolivia una estructura permanente y definitiva con las personas que se harán responsables por cada Unidad creada y sus funciones principales.

23. Hasta el 31 de marzo de 1993 la Federación deberá efectuar los ajustes a su estructura organizativa actual para llegar a cumplir la meta de gastos operativos que se plantea en los numerales 21 y 22.

24. Al 31 de enero de 1993, el directorio de cada Unidad, deberá definir claramente la separación de funciones entre directivos y gerente y hacer un poder por escritura pública de la autoridad en el Gerente de cada Unidad y enviar una copia de dicho poder a USAI/Bolivia. Además, se deberá seleccionar un gerente permanente para cada departamento antes del 31 de marzo de 1993, a los cuales el Consejo de Administración delegará autoridad sobre todos los asuntos diarios.

C. CONDICIONES SOBRE CONTROL

25. El Auditor Interno de FENACRE deberá presentar al Consejo de Vigilancia de FENACRE y a USAID/Bolivia un informe semestral (Junio y Diciembre) sobre el cumplimiento de los compromisos contraídos por la Federación, mediante el presente contrato y aquellas desviaciones que pongan en peligro la continuidad del presente contrato y/o la viabilidad financiera de la Federación.

26. Previo a la contratación de la Auditoría Externa Anual la Federación deberá presentar a aprobación de USAID/Bolivia, las propuestas técnicas de 3 firmas de Auditoría Externa, conjuntamente con el alcance del trabajo a realizar.

27. Se podrán contratar auditorías específicas sobre la administración de los recursos otorgados y el cumplimiento de los compromisos contraídos en el presente contrato.

D. CONDICIONES SOBRE INFORMACION:

28. Para poder monitorear los avances en el proceso de Estabilización Financiera de FENACRE, ésta deberá enviar la siguiente información al Fondo de Estabilización Financiera:

INFORMES	PERIODICIDAD
Estados Financieros	Mensual
Ejecución Presupuestaria	Mensual
Información Estadística sobre P.M.A.	Mensual
Evaluación de la Cartera	Trimestral
Situación Cartera PL-480	Trimestral
Informes del Auditor Interno	Semestral
Autoevaluación del Contrato por el Consejo de Administración	Anual

E. OTRAS CONDICIONES:

29. Al 31 de marzo de 1993 la Federación deberá presentar al Fondo de Estabilización Financiera un Plan de Mercadeo que busque incrementar las captaciones provenientes de las cooperativas.

30. La Federación deberá presentar por escrito y aprobado por el Consejo de Administración, la misión de la Unidad Financiera dentro del marco legal vigente en el país.

31. La Federación deberá impulsar en forma inmediata un recorte en el nivel de gastos operativos para no incrementar la pérdida de operación que ya es alta. Para 1993, la meta de gastos operativos sobre el activo productivo promedio debería situarse en un 5% ó un 88% del margen financiero, lo que resulte menor.

Para lograr esta meta la Federación debería considerar las siguientes acciones:

a) Reducción de estructura administrativa en forma considerable, lo que implicaría la fusión de puestos y la redefinición de funciones de otros puestos. Los salarios del personal y sus prestaciones (43.67% sobre salarios) no deberían ser menores al 50% del total de gastos.

b) Lo anterior implica que el presupuesto de los otros gastos no personales no debería exceder del 50% del total de gastos, es decir mantener una relación de 1:1 con los gastos de personal.

c) La Unidad Central deberá ser autofinanciable durante 1993 por lo que deberá buscar el apoyo de las cooperativas afiliadas para que pongan aportes mayores a los actuales para el sostenimiento de la Actividad Gremial. Asimismo, a todas las unidades colaterales creadas bajo la personalidad jurídica de FENACRE, no se les deberá reconocer los déficits que presenten en sus operaciones y responsabilizar a los Gerentes o Administradores para hacerlos autosuficientes.

e) La venta de activos fijos mencionados en el numeral 5 de las recomendaciones permitirá reducir el costo por depreciaciones y el costo de oportunidad que implica tener los recursos inmovilizados.

f) Se deberá evaluar la conveniencia de contar con los 9 vehículos que están dispersos en las 3 oficinas regionales de FENACRE. Los vehículos incurren en gastos como: depreciaciones, combustibles y reparaciones y mantenimiento, debería compararse con el pago de kilometraje cuando sea necesario.

g) Los gastos de directivos y Asamblea General deberían reducirse dramáticamente, ya que actualmente se gasta aproximadamente un 10% de los gastos administrativos totales (cifra preliminar en base al nivel de detalle de la contabilidad de la Federación) y debería establecerse como un viático que cubra globalmente los gastos de cada participante.

32. Modificar el actual sistema de contabilidad descentralizada en cada oficina regional por uno concentrado en la Oficina Financiera Nacional. Lo anterior no indica que el sistema actual no sea funcional, pero ocupa demasiado personal para operarlo (5 personas).

PRESUPUESTO ILUSTRATIVO PARA 1993
ESTRUCTURA ADMINISTRATIVA FINANCIABLE POR FENACRE

	Salario Anual US$	Prestación US$	Total US$	
UNIDAD CENTRAL	42,600	18,603	61,203	
GERENTE GENERAL	18,000	7,861	25,861	
AUDITOR INTERNO	14,400	6,288	20,688	
SECRETARIA DE GERENCIA	4,800	2,096	6,896	
AUXILIAR DE SERVICIOS GENERALES	3,000	1,310	4,310	
MENSAJERO CONSERJE	2,400	1,048	3,448	
UNIDAD FINANCIERA	52,800	23,058	75.858	
GERENTE	18,000	7,861	25,861	
CONTADOR GENERAL	12,000	5,240	17,240	
ASISTENTE CONTABLE (2)	18,000	7,861	25,861	
SECRETARIA	4,800	2,096	6,896	
OFICINAS REGIONALES (3)	102,600	44,805	147,405	
GERENTE REGIONAL	14,400	6,288	20,688	
OFICIAL FINANCIERO	12,000	5,240	17,240	
SECRETARIA CAJERA	4,800	2,096	6,896	
AUXILIAR DE SERVICIOS GENERALES	3,000	1,310	4,310	
TOTALES	198,000	86,467	284,467	52.06%
VIATICOS			20,000	3.66%
REFRIGERIOS			5,000	0.91%
AUDITORIA			15,000	2.74%
SEGUROS			10,000	1.83%
COMUNICACIONES			22,000	4.03%
PASAJES			12,000	2.20%
IMPUESTOS			45,000	8.23%
DEPRECIACIONES			50,000	9.15%
MANTENIMIENTO VEHICULOS			10,000	1.83%
PAPELERIA			25,000	4.57%
GASTOS DE REPRESENTACION			12,000	2.20%
REUNIONES DIRECTIVOS			24,000	4.39%
OTROS GASTOS			12,000	2.20%
TOTAL DE GASTOS			546,467	100.00%
TOTAL DE GASTOS EN BOLIVIANOS			2.185.866	

ANNEX F

LEGAL OPINION: STABILIZATION FUND

MEMORANDUM TO THE FILES

Date: November 30, 1992

SA

From: Stephen C. Allen, RLA, USAID/Bolivia

Subject: Disposition of Principal and Interest Earned on Bolivia Credit Union Stabilization Fund

A proposed amendment to USAID/Bolivia's "Micro- and Small Enterprise Development" Project No. 511-0596 (MSED) would establish a Credit Union Stabilization Fund. The USAID disbursements for this Fund would be lent to participating credit unions at a zero interest rate. The credit unions' earnings on this loaned capital would strengthen their capital base, and provide an incentive for needed financial and management reforms. At the expiration of the loan term, the credit union would repay the principal to the Stabilization Fund, giving the Fund an institutional capacity to continue its operations into the indefinite future. The Stabilization Fund concept and disbursement mechanisms have been copied from a successful program in Guatemala.

ISSUES. The first issue is whether loans from the Fund to the credit unions would qualify as a legal disbursement, as in the normal case the principal will be placed in a restricted account not available to the borrower. The second issue is whether interest earned on the credit unions' loan proceeds would have to be refunded to the USG. For the USAID/Guatemala credit union stabilization program under Project No. 520-0286, RLA Mike Williams issued an opinion dated May 15, 1989, approved by GC/LAC by 89 State 150487, which essentially concluded that both the disbursements of loan principal to the credit unions, retention of interest by the credit unions were permitted because the disbursement of the loan and retention of interest were made directly in support of the project purpose, to develop financially viable credit unions, following the Basic Village Services line of GAO opinions (B-213909, November 28, 1984).

This memorandum describes the proposed Bolivian stabilization mechanism, which is virtually a copy of the Guatemalan, and seeks confirmation that the same legal reasoning supports disbursements of loans to and retention of interest by the credit unions. The RLA has examined the proposal, and concluded that the loans and retention of interest are permissible, following the Williams' opinion. The Williams' opinion and approval cable are attached.

PROJECT OVERVIEW. The MSED project, authorized on August 19, 1988 at a $10 million LOP under FAA Sections 103 and 106, contained three components, one of which involved the grant of about $5 million to Bolivian credit unions to finance loans to micro- and small business clients. Funds have been obligated in a Project Grant Agreement every year FY 88-92. The Mission delayed disbursement of funds for this component because a combination of macro-economic crises and poor management had impaired the solidity of the credit unions and their umbrella organization, FENACRE.

Reviewing the current Bolivian situation, as well as experiences of credit union movements in other countries, the Mission reached the conclusion that, no matter what sort of "quick fix" were implemented, the credit union system was likely to revert over time to its present disheveled state *unless* a regime of independent financial supervision could be established. Practically every country in the world has concluded that banks require government financial and management supervision to assure their solvency. However, many developing countries (including Bolivia) have failed to apply the same standards to credit unions, with the predictable result that their effectiveness in providing financial services to their clients has been crippled by periodic collapses.

Despite their problems, credit unions in Bolivia represent the most promising mechanism presently available to reach poorer clients who do not have effective access to commercial bank services. This clientele includes large numbers of microenterprises and small businesses. Against this background, the Mission reached a judgment that the MSED project could better serve micro- and small business clients if its funds were redirected toward leveraging a structural reform of the credit union system, instead of being disbursed to finance a limited number of loans.

Implementation of this strategy began with a significant policy dialogue "victory." For understandable reasons, the strongest opponents of independent credit union supervision are usually the credit unions themselves. However, through a combination of conferences with foreign experts and invitational travel to visit strong credit union systems in other countries, the project team succeeded in convincing the Bolivian credit unions to voluntarily support the imposition of supervision of their operations by the Bolivian Superintendency of Financial Institutions. The necessary legal provisions have been included in a draft Banking System law which is now before the Bolivian Congress. Approval of the law is expected in January of 1993. (Among the incentives which persuaded the credit unions to adopt this statesmanlike attitude was the prospect that the project amendment discussed here would provide technical and financial resources to help them make the difficult adjustment to compliance with tough Superintendency standards.)

The new project strategy is to promote the solidification of the Bolivian credit union system with a "carrot and stick" approach. The stick is in the hands of the Superintendency of Financial Institutions, which has the authority to close down credit unions which fail to bring themselves into compliance with sound financial standards. The carrot is provided principally by the USAID project, which offers capital support and technical assistance to credit unions who seriously commit themselves to reform.

The technical assistance component of the program, which will support the Superintendency's implementation of a supervision system, and credit unions' compliance with that system, is essential to success, but is not germane to the issue presented here. The other major component of the proposed program is a Stabilization Fund, which will provide capital assistance to cooperating credit unions. The design of this Fund is modeled on the very successful program implemented by the World Council of Credit Unions (WOCCU) for USAID/Guatemala under the "Cooperative Strengthening" Project, No. 520-0286.

The first step in the process is an audit of the credit union's real financial position. Bolivia's recent inflationary crisis, coupled with unsound management in many cases, has left most Bolivian credit unions with substantial unrecoverable loans and other losses, the result of which is a real negative net worth. The steps necessary to clean up these situations are painful -- staff and cost reductions, aggressive loan recovery against defaulting members, and imposition of more conservative policies in new lending to members. As an incentive to encourage adoption of these measures, the Stabilization Fund would offer resources which over a few years would cover a substantial portion -- typically perhaps a third -- of these credit union losses, leaving the remainder to be covered by the credit union themselves through the means mentioned above. The Stabilization Fund would be established as part of a new USAID/Bolivia Cooperative Agreement with WOCCU. The Project Management Unit ("PMU") will be established by and function as part of the WOCCU office in Bolivia.

In order to have access to this capital assistance (as well as to technical assistance), the credit union would sign a "reform contract" with the PMU, committing itself to a specific timetable of reforms and financial improvement targets, typically covering a period of several years. The credit union's continued receipt of benefits under the project would be strictly conditioned on its year-by-year fulfillment of the terms of this contract.

Once the reform contract is signed, the PMU would disburse a zero-interest-rate loan from the Stabilization Fund in favor of the credit union. The term (number of years) of the loan would be the same as the term of the agreed reform program. The credit union would deposit the loan in an interest-bearing account. As long as the credit union is in compliance with its reform contract, it would continue to be able to use the periodic interest earnings from this account to shore up its net worth.

The principal balance of this interest-bearing account would be subject to certain restrictions. While the credit union would be the owner of the account, it will have signed an agreement with the bank in which the principal is deposited and with the Stabilization Fund (held and administered by the Project Management Unit) requiring Project Management Unit approval before any withdrawal of principal. In practice, approval for the credit union to withdraw the principal will almost never be granted, because in the ordinary case the principal balance will be maintained in the credit union's account to pay off the loan when it expires at the end of the reform contract's life. Likewise, the Project Management Unit will retain the right to call the loan, and collect the principal balance of the credit union's account, in case the credit union breaches its reform contract.

With the loan repayments it recovers from participating credit unions, the Stabilization Fund will be able to repeat the same assistance mechanism for other credit unions.

For practical purposes, the mechanism proposed for the Bolivia Stabilization Fund, and the motives for employing it, are largely identical with the mechanism and motives of the successful Guatemala program. Even the principal implementing agency is the same -- the World Council of Credit Unions. Two differences are worth mentioning.

1. In Guatemala, FENACOAC (the credit union federation) was the legal owner of the Stabilization Fund. In the Bolivian project, WOCCU's Project Management Unit would hold the Stabilization Fund. However, this difference has no bearing on the legal analysis. (USAID/Bolivia considers the WOCCU/PMU to be a safer and more efficient owner of the Stabilization Fund than FENACRE, the Bolivian Credit Union Federation. FENACRE is in need of substantial reform, and is planned to be the recipient of a $1 million Stabilization Fund loan.)

2. Like the Guatemalan project, the Bolivian project will provide that USAID concurrence is required in determining the final resting place of the Stabilization Fund. Bolivian MSED Project funds have been obligated by a Project Grant Agreement with the GOB; thus, in contrast to the Guatemala project, the host government is the grantee, and will be USAID/Bolivia's interlocutor in determining the destination of the Fund after the LOP runs out.

<u>DISBURSEMENT OF LOAN PRINCIPAL</u>

This second difference between the Guatemalan and Bolivian stabilization fund programs is related to the first issue: whether USAID retention of disposition rights ove. reflows of loan principal invalidates the initial disbursement of the loans.

The Williams' opinion (pp.8-10) considered that the fact that the ultimate ownership of the Guatemala Stabilization Fund (in the form of loan repayments, a form of "program income" or "reflows") was left for USAID determination at the conclusion of the project was not dispositive, since disbursements of the loans in furtherance of the project purposes had already been made. In this case, USAID will share disposition rights over loan reflows jointly with the GOB, since Project Funds have been and will be obligated in a bilateral Project Grant Agreement.

In this case, although FENACRE would be one candidate to receive reflows of the Fund, USAID/Bolivia plans not to discuss this option unless and until FENACRE successfully implements a stringent reform program for several years. A more likely candidate may be the GOB's Superintendency of Banks and Financial Institutions, which will also receive technical assistance from WOCCU under the amended MSED Project.

Following the discussion on page 9 of the Williams opinion, once USAID has disbursed funds to WOCCU under the Cooperative Agreement (most likely by periodic advance), and the WOCCU/PMU has disbursed funds for a participating credit union in the form of a Stabilization Fund Loan, (a) AID has made a disbursement directly in support of the project purpose of strengthening the credit union system, and (b) AID has no further right to the funds (other than the normal audit and record rights applicable to all grants), and AID has received something of value in exchange for the disbursements, the promise of the credit union to undertake necessary financial and management reforms. Thus the elements of a proper obligation (purpose, time, and amount) are present in the initial obligation to the GOB in the Project Grant Agreement and amendments, and in the Cooperative Agreement with WOCCU. So long as the disbursements to the credit unions are consistent with those documents, that is, made for the same purpose within the same time frame and within the obligated and subobligated amounts, the disbursements of the loans will be proper. See, generally, "Principles of Federal Appropriations Law, "U.S. General Accounting Office, First Edition, 1982, Chapters 3-6.

Although Section 571 of the FY 91 Appropriations Act, and predecessor and successor provisions on local currency endowments, could have some applicability, we do not rely on these provisions for endowments, since the principal of the Fund is deliberately not granted to any particular credit unions. Thus, the disbursements of loan principal to participating credit unions are not "endowments", but loans made specifically in furtherance of the project purpose of strengthening the credit union system, a purpose permitted under Sections 103 and 106 of the Foreign Assistance Act, and are therefore valid obligations and disbursements of USAID Funds.

RETENTION OF INTEREST

USAID/Bolivia, and the RLA, agree that the planned Stabilization Fund for strengthening Bolivian credit unions is in all material respects a clone of the successful Guatemalan program, and that therefore the same legal analysis, ably expressed in the Williams' opinion of May 15, 1989, applies, which permits participating credit unions that comply with stipulated financial and management reform programs to retain interest earned on the principal of Stabilization Fund loans to them, as the disbursement of the loan principal, and retention of the interest, both directly contribute to the specific project purpose of strengthening the credit unions, so that they may attain the more general purpose of supplying credit for the growth and expansion of micro and small businesses. Small adjustments of the Guatemala model to the Bolivian setting do not alter the legal analysis. Aside from the fact that the U.S. NGO recipient of the Cooperative Agreement would own and manage the Stabilization Fund in Bolivia, instead of the credit union federation as in Guatemala, the MSED Project in Bolivia is jointly funded from two functional accounts, FAA 103 and 106. The Williams' opinion (p.5) amply demonstrates that use of AID funds to strengthen credit unions, in order to provide credit to the poor and to small businesses, is entirely consistent with the purposes of Sec. 103. The same arguments apply equally for funds appropriated pursuant to Section 106, in particular Sec. 106(d)(5), which reads:

> **"(5) programs of urban development, with particular emphasis on small, labor intensive enterprises, marketing systems for small producers, <u>and financial and other institutions which enable the urban poor to participate in the economic and social development of their country</u>."**

The Bolivian Credit Union Stabilization Fund will strengthen the Bolivian credit unions as financial institutions, thereby increasing access of the poor, including micro and small businesses, to credit so that they may participate more widely in the economic development of the country. The Fund can therefore be funded from Section 106 appropriations as well as Section 103. Funds appropriated for the Economic Support Fund, appropriated for the Economic Support Fund, FAA Section 531 <u>et.seg</u>., would also be an eligible source if authorized for this project, since ESF Funds may be used "for economic programs" consistent with the "objectives of sections 103 through 106 of this Act" (FAA 531 (d) and (e).)

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IITED STATES GOVERNMENT

memorandum

DATE: May 15, 1989

REPLY TO ATTN OF: RLA/Honduras, Michael J. Williams MJW

SUBJECT: Interest Earned on Capitalization/Stabilization Component of Cooperative Strengthening Project, Project No. 520-0286

TO: USAID/Guatemala, Anthony J. Cauterucci

Issue: You have asked whether the capitalization/stabilization component of the Cooperative Strengthening Project, Project No. 520-0286, is an acceptable use of appropriated funds.

Project Overview: The Cooperative Strengthening Project assists the federated cooperative movement in Guatemala. The project is implemented through a cooperative agreement, dated August 26, 1986, between AID and the National Federation of Savings and Loan Cooperatives, a private Guatemalan organization (FENACOAC).

The cooperative agreement with FENACOAC provides that the goal of the project is to increase rural family incomes and productivity through strengthened cooperatives providing improved services. The project purpose is to develop a viable, efficient and effective cooperative movement in Guatemala among selected federations and their affiliated cooperatives by enhancing their managerial and service delivery capabilities and by improving their performance as profitable enterprises. The project consists of three components, institutional development, credit and capitalization/stabilization. The purpose of the capitalization/stabilization component is to develop innovative approaches to member generation of paid-in and retained capital while strengthening the cooperatives balance sheets.

Cooperatives have historically been the most effective institutions for providing credit to the rural poor in Guatemala. Although the purpose of the project is the institutional strengthening of the cooperative movement, the ultimate goal of the project is to increase rural family incomes and productivity through providing improved services. In other words, AID intends to improve the economic condition of the rural poor of Guatemala by strengthening the cooperatives whose mandate is to provide credit and related services to the rural areas of Guatemala and whose borrowers have historically been farmers with low incomes.

During the ten years preceding the project, the cooperatives had been substantially de-capitalized due to political violence, economic disruption and natural calamities. If the cooperatives were to become financially viable, it was necessary for them to adopt recapitalization policies appropriate to their particular economic and financial difficulties. The capitalization/stabilization component was designed to promote rational economic decision-making by the cooperatives and restore financial stability.

In addition to FENACOAC, there are five other cooperative federations participating in the project. A cooperative federation is comprised of several member cooperatives. The cooperatives themselves are organized and controlled by their individual members. Since FENACOAC is the strongest federation, the project is designed to be implemented through FENACOAC. The Project Management Organization (PMO) has been established by FENACOAC to manage the project. In managing the project, the PMO treats the FENACOAC as one of the six participating federations and is committed to treating all federations equally.

Throughout the design, authorization, obligation and implementation of the project, the project has had three primary components: institutional development, capitalization/stabilization assistance and credit. The three components are complementary. To date, $10,420,000 have been obligated by the cooperative agreement with FENACOAC. The AID funds are budgeted among the three components as follows:

Component	Amount
Institutional Development	$ 5,110,000
Capitalization/Stabilization	2,510,000
Credit	2,800,000
TOTAL	$10,420,000

The project documentation consistently has divided the funding among the three components in the same approximate amounts as shown above. In addition, $580,000 have been obligated by a PASA with the U.S. Department of Agriculture for a project manager.

While the credit and institutional development components were designed with disbursement mechanisms fairly common among AID institutional strengthening projects, the capitalization/stabilization component was designed to respond to the special needs of the cooperative movement in Guatemala. It is useful to review the project documentation to better understand the capitalization/stabilization component.

Project Documentation: The Mission followed an abbreviated Handbook 3 procedure for the authorization of the project with the substitution of a project paper-like document for a complete project paper. The Project Identification Document (PID) for the project was approved by USAID/Guatemala on November 15, 1985. The PID established the basic outline for the three project components. For the capitalization/debt restructuring component, the PID provided for a $3,000,000 component that would "be made available as tied capital contributions to those cooperatives that are successful in classifying their debt portfolio, establishing criteria and procedures for debt collection and recovering and/or restructuring delinquent debt." The PID emphasized that AID funds would not be used to forgive debt or to pay delinquent debt. Instead, this component would grant matching contributions to those cooperatives that were successful in bringing their debt problems under control.

Following further discussions among USAID, the cooperatives, and the Government of Guatemala, the World Council of Credit Unions (WOCCU) prepared a lengthy design document for the Mission that served as the central piece of a project paper-like document for the Mission. The WOCCU document called for a $2,505,000 capitalization and stabilization component which would include two elements: first, a stabilization fund to invest cash and securities in qualified institutions earning asset levels and share values; and second, a savings protection fund to guarantee individual depositors' savings accounts in credit unions and other cooperative financial institutions.

The two funds were to be managed by the Fund Management Unit (FMU), the predecessor of the PMO, acting with the technical advice of AID-financed technicians. The WOCCU report identified several weaknesses in the capital structures of the federations and proposed that the project would provide technical assistance to the federations to prepare individual recapitalization plans. The FMU would disburse capitalization grants to participating federations whose development plans were approved by AID. The operation of the savings protection fund was not defined in the cooperative agreement and was expected to evolve over the life of the project.

Following the approval of the project by the Mission Director on July 18, 1986, USAID/Guatemala requested the approval of AID/W to sign a cooperative agreement with FENACOAC. On August 21, 1986, AA/LAC approved the award of the cooperative agreement to FENACOAC and on August 26, 1986, the cooperative agreement was signed, fully funding the project at $10,420,000.

On November 21, 1988, the cooperative agreement was amended as a part of a general redesign of the project. The changes were largely mechanical and the original project purpose and the basic operation of the stabilization/capitalization component were not changed. The cooperative agreement provides that federations seeking access to capitalization funds must present plans to the PMO that meet certain specific eligibility criteria, including the application of sound credit, investment, and asset/liability management policies and procedures and stabilization plans to assure the growth of the federation's capital.

After the PMO and a participating federation have developed plans meeting these criteria, and the plans have been approved by AID, the PMO makes a loan to the qualifying federation using project funds. The loans are evidenced by loan agreements between the PMO and the participating federations that bind the federations to carry out their capitalization/stabilization plans. If the PMO determines that the plans are not being honored, it may accelerate the repayment of the loan. The loans are interest-free with short-term maturities -- the two capitalization loans thus far have had maturities of six months and one year. At the time of the loan, a disbursement is recorded by AID. Any interest earned by the PMO on the funds prior to disbursement is refundable to AID; interest earned by the participating federation following the disbursement belongs to the participating federation.

At present, the recipients of capitalization loans are required to invest the loan proceeds in high-yielding financial instruments being offered by local finance companies. The interest earned on these investments is then channeled to the permanent reserve accounts of the federation, thus generating new capital to restore depleted reserves and permit increased lending by the cooperatives to their members. Simultaneously with the injection and use of the capitalization funds, the cooperatives are required to retain earnings in amounts equal to the interest income generated by the capitalization funds, thereby further stimulating the creation of reserves without which the cooperatives would perish. When the capitalization loans are repaid, the PMO will recycle the funds to participating federations which have agreed on additional institutional reforms.

After the disbursement of the capitalization loan, the funds belong to the participating federation, AID has no further ownership right to the funds, other than normal refund rights and certain approval rights at the conclusion of the project. At the completion of the project, the financial assets and liabilities of FENACOAC which are attributable to the capitalization/stabilization component will become the property of the successor cooperative financial institution (if feasible) or shall be distributed to participating federations. Prior approval of AID will be required for any proposal to distribute the assets among the federations.

Discussion: The issue is whether any rules or regulations are violated by FENACOAC's use of grant funds to make loans to participating federations which will invest the funds in interest bearing assets and retain the interest earned on the funds.

The threshold question is whether it is permissible for AID to grant funds to FENACOAC for the capitalization of participating cooperative federations. I believe it is clear that the Foreign Assistance Act of 1961, as amended (the FAA), authorizes the use of grant funds for the strengthening the capital structure of the cooperative movement in Guatemala. Funds for the grant were authorized under FAA Section 103, which provides that, Section 103. Agriculture, Rural Development and Nutrition

(b) (1) Assistance provided under this section shall be used primarily for activities which are specifically designed to increase the productivity and income of the rural poor, through such means as creation and strengthening of local institutions linked to the regional and national levels; organization of a system of financial institutions which provide both savings and credit services to the poor; stimulation of small labor-intensive enterprises in rural towns; improvement of marketing facilities and systems; expansion of rural infrastructure and utilities such as farm-to-market roads, water management systems, land improvement, energy, and storage facilities; establishment of more equitable and more secure land tenure arrangements; and creation and strengthening of systems to provide other services and supplies needed by farmers, such as extension, research, training, fertilizer, water, forestry, soil conservation, and improved seed, in ways which assure access to them by small farmers. (Emphasis added.)

The cooperative agreement and the background documentation are clear that, in accordance with Section 103, the project is designed to strengthen local financial institutions that are designed to provide savings and credit services to the rural poor. Congress has, therefore, authorized the use of these funds for (i) the overall purpose of the project, development of a viable, efficient, and effective cooperative movement in Guatemala, and (ii) the specific project purpose of the capitalization/stabilization component, strengthening the balance sheets of the cooperatives.

A second statutory consideration to bear in mind in determining the appropriateness of the capitalization/stabilization disbursement mechanism is FAA Section 635 (a) which bestows broad authority upon AID to provide assistance on such terms as may be best suited to achieve the purposes of the Act. FAA Section 635 (a) provides,

"Sec. 635. General Authorities. (a) Except as otherwise specifically provided in this Act, assistance under this Act may be furnished on a grant basis or on such terms, including cash, credit, or other terms of repayment (including repayment in foreign currencies or by transfer to the United States Government of commodities) as may be determined to be best suited to the achievement of the purposes of this Act, and shall emphasize loans rather than grants wherever possible."

A series of decisions by the Comptroller General has established the principle that interest earned on funds granted by the U. S. Government prior to the use of the funds for the purpose granted must be returned to the U. S. Government. See 20 Comp. Gen. 610 (1941), 40 Comp. Gen. 81 (1960). The rationale for these decisions is twofold. First, to permit a grantee to retain earned interest on an advance of interest would impermissibly augment amounts appropriated by Congress. Second, disbursements in advance of those needed for project purposes impose an unnecessary cost on the Treasury, which must finance the amounts disbursed.

The principle that no interest may be earned on grant funds prior to their use for an authorized purpose is embodied in Section 3 (a) of the mandatory standard provisions which are attached to the cooperative agreement. Section 3 (a) states, "If use of the AID funds results in accrual of interest to the grantee or to any other person to whom the grantee makes AID funds available, the grantee shall refund to AID the amount of interest accrued." (A literal reading of Section 3 (a) would require that all interest earned at any time, whether before or after the time at which a valid disbursement takes place, would have to be refunded to AID. This is not the intent of Section 3 (a), however, and only interest earned prior to the authorized use of the funds is required to be returned to AID.)

The Comptroller General has ruled that once grant funds have been applied for authorized grant purposes, interest earned on such funds is "program income", which may remain in the project and is not required to be refunded to the U. S. Government. See 44 Comp. Gen. 87 (1964); B-191420, August 24, 1978. OMB and AID regulations similarly provide that program income earned during the project period shall be retained by the recipient and, in accordance with the cooperative agreement, added to the funds committed to the project by AID and the recipient and used to further eligible program objectives. See OMB Circular A-110, Attachment D and Handbook 13, Chapter 1, Section 1J5(a).

The rule, therefore, is that interest earned on grant funds subsequent to the application of those funds for an authorized project purpose may be retained by the grantee. That is, if the loans from the PMO to the participating federations are for an authorized project purpose, then any interest earned on the funds is not refundable to AID. The next point of analysis is what constitutes an "authorized" purpose under the applicable regulations.

A Comptroller General decision involving the Community Services Administration is similar in many respects to the case before us. See B-192459, July 1, 1980. The grant in the CSA decision was made by CSA to a hospital for the purpose of assisting in the construction of a new hospital facility. The hospital entered into a complex financing arrangement in which the grant funds were transferred to a trustee and the trustee held the funds in a special interest-earning trust fund. The trust fund, including both principal and interest, was used to finance the construction of the new hospital facility. The Comptroller General ruled that the interest earned by the trustee was not refundable to the U. S. Government since the transfer of grant funds from the grantee to the trustee was "an expenditure or disbursement for grant purposes." The Comptroller General reached this conclusion because the hospital had given up possession and control of the grant funds to an independent third party, from whom the grantee had no right to demand return of the funds, and because the grantee had received something in exchange for the funds-the promise of a new hospital.

The FENACOAC grant is similar to the CSA grant. AID grants funds to FENACOAC for loans to participating federations that have adopted significant reforms in their capital structures, reforms that are approved by AID and embodied in the loan agreements between the PMO and the participating federations. Once a loan has been made, the PMO may order the accelerated repayment of the loan if the participating federation fails to honor the reforms provided for in the loan agreement, but, otherwise, the capitalization/stabilization funds remain with the participating federation in accordance with the terms of the loan agreement. Equally important, AID has no right to demand return of the funds from FENACOAC or the participating federation, beyond the normal refund rights in the cooperative agreement.

In a more recent case involving AID, the Comptroller General relied upon the CSA precedent in upholding the project design in the Basic Village Services (BVS) decision, B-213909, November 28, 1984. The stated purpose of the BVS grant was to support Egypt's policy of decentralizing authority for development activities. The Comptroller General ruled that the disbursement of grant funds by the Government of Egypt to the local governmental units was a legitimate and proper purpose of the grant, entitling the local governments to retain the interest earned on the grant funds. In the BVS decision, the GAO determined that the authorizing legislation enabled AID to make grants "for the purpose of providing grantees or subgrantees with experience in managing, handling, and, by implication, investing project funds, including the right to earn and retain interest thereon." (Emphasis added.)

As with the Cooperative Strengthening grant, the BVS project documentation was clear that the immediate disbursement of the grant funds "up-front" was necessary in order to meet the project goal of strengthening local government planning and management of financial resources. In the Cooperative Strengthening Project, the purpose of the project is to strengthen the cooperative federations in Guatemala both by providing them with funds for their recapitalization and by promoting essential policy reforms. Rather than providing short term assistance by loans to individual borrowers, the capitalization/stabilization component seeks sustainable institutional development of the cooperative federations. This is only possible if their capital structure is reformed and decisions are made on a rational economic basis so that their members can have access to credit today and in the future.

In the project documentation for the Cooperative Strengthening project, the "up-front" disbursement of grant funds to be used by the participating federations is described as being necessary for several reasons. First, the capitalization/stabilization funds provide the leverage that AID and the PMO need to pressure the federations into adopting needed reforms. The reforms are inevitably going to involve higher interest rates, increased levels of retained earnings and improved delinquency controls. These reforms are not popular with the members of the cooperatives that must approve the reforms. The capitalization funds provide the incentive that the cooperatives need to adopt the needed reforms.

Another primary objective of the project is to encourage cooperatives to make rational economic decisions when investing their capitalization reserves. Much of the blame for the decapitalization of the cooperatives was imprudent investment decisions with the capital reserves of the cooperatives. As in the case of the local government units in Egypt, the cooperatives need to gain experience in managing funds rationally. The loan agreements between the PMO and the federations require that the federations follow sound investment principles and adopt plans to assure the formation of reserves.

Of course, the ultimate objective of every institutional development project is not simply the strengthening of the institution. The institution is a means to an end. The rural poor of Guatemala are the ones whom we are trying to help and AID has identified the private sector cooperatives as the best means of reaching them. Given a sound financial structure and rational credit policies, there is every reason to believe that the cooperative movement can achieve sustained economic performance, while serving the credit and related needs of the rural poor.

At the time the project was designed, the cooperative system was on the verge of bankruptcy for a variety of reasons, many of which were beyond the control of the cooperatives themselves. With the return of relative political calm and the prevailing national economic policies, the cooperatives can be revived. A critical component of this revival is a recapitalization of the cooperative federation that will strengthen them by injecting capital and reforming policies.

Finally, the project purpose of strengthening cooperative balance sheets can best be met by permitting the federations to earn interest on the capitalization funds. Appropriate interest rates and credit policies, by themselves, are not going to recapitalize the cooperatives. The capitalization/stabilization component is designed to provide the capital needed to stabilize the cooperatives and return them to financial stability. Capitalization of the cooperatives is a primary purpose of the project and the accrual of interest is a direct means of capitalization. To say that strengthening the capitalization of the federations is a legitimate project purpose, but that the federations may not use the funds to earn interest would be a non-sequitur.

Two collateral aspects of the capitalization disbursement mechanism also should be considered. First, the project funds are disbursed as loans to the participating federations; and, second, at the end of the project, the final distribution of the proceeds of repayment of the capitalization loans may be subject to AID's approval. Neither of these factors alters the validity of the foregoing analysis of the permissibility of the capitalization/stabilization component, but it is worthwhile to examine both in greater detail.

On the first point, the project documentation and the cooperative agreement provide that the PMO will make capitalization grants to the participating federations. However, the question of whether the capitalization transfers should take the form of loans or grants was not thoroughly analyzed prior to the authorization of the project. During the start-up of the project AID and FENACOAC agreed that it was appropriate for the capitalization assistance to take the form of loans and, in Sequential Implementation Letter No. 6, AID approved project implementation plans that provide for the recipient organizations to repay the resources to FENACOAC. AID stated that, while at some future time it may be necessary to provide grant recapitalization assistance to selected organizations, for the present the capitalization funds should be loans to the participating federations.

I do not believe the legal analysis should hinge on whether the transfer of capitalization resources is done on a loan or grant basis. In either case, from the AID perspective, the purpose of the project is met when the disbursement is made. Applying the test of the CSA decision, supra, once a loan is made by the PMO, AID has no further right to the funds and it has received something of value from the federation-a commitment by the federation to adopt AID-approved policy and structural reforms.

On the second point, the fact that the final distribution of the capitalization repayments may be subject to AID's approval, it should be understood that, as discussed earlier, at the time the project was designed, FENACOAC was by far the strongest cooperative federation in Guatemala and AID chose to implement the project through the PMO, established within FENACOAC. The PMO is to treat all federations, including FENACOAC, equally, and the expatriate technical advisors working with the PMO take great pains to ensure that FENACOAC is treated no differently than the other federations.

At present, FENACOAC holds the capitalization loan repayments in trust for the PMO. The cooperative agreement provides that, at the completion of the project, all commodities of the PMO, as well as its financial assets and liabilities will become the property of the successor cooperative financial institution (if feasible) or will be distributed to the participating federations.

The PMO currently is part of FENACOAC but it is possible that, before the completion of the project, a viable institution will be created outside of FENACOAC to assume the functions of the PMO. If so, then the assets of the PMO will be transferred to the successor organization. If a successor organization is not established, then the assets and liabilities of the PMO will be distributed to the participating federations. AID has an interest in assuring that any such distribution is done equitably and consistently with the goals of the project. Therefore, if a successor to the PMO is not established and a distribution of assets occurs, the cooperative agreement gives AID approval rights over the distribution.

In loan and grant agreements, AID commonly retains approval authority over the final disposition of project assets. In loan agreements, especially, AID often retains approval rights that remain enforceable long after the PACD. Retaining approval rights in the event of a certain contingency does not constitute the degree of control that prevents an otherwise valid disbursement from taking place.

The right to approve any distribution plan is in keeping with the nature of a cooperative agreement. Handbook 13 provides that a cooperative agreement is the appropriate financial assistance instrument when AID anticipates that it will have substantial involvement in the implementation of the project. The cooperative agreement for the Cooperative Strengthening Project closely defines the parameters of the final disposition of project assets. Either they pass to a successor organization or they are distributed to the participating federations. If the latter eventuality occurs, then AID has the right to approve the final distribution to assure that it is consistent with the project objectives.

Conclusion: The purpose of the project's capitalization/stabilization component is authorized by the FAA and project documentation demonstrates that these capitalization loans are necessary to meet the ultimate goals of the project. The disbursement of capitalization funds by FENACOAC to the participating federations is a fundamental purpose of the project. Therefore, interest earned on the capitalization funds is not refundable to AID.

Clearance: GC/LAC, T. Geiger (State 150487)

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AIDAC FOR MIKE WILLIAMS, RLA

E.O. 12356: N/A
TAGS:
SUBJECT: GUATEMALA COOPERATIVE STRENGTHENING PROJECT

PER FAX MESSAGE NO. 05-26 TO WASHINGTON DATED MAY 9, 1989, GC/LAC HAS REVIEWED THE DRAFT LEGAL OPINION FOR THE REFERENCED PROJECT AND CONCURS IN SAME. EAGLEBURGER
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ANNEX G

THE CASE OF GUAYACAN CREDIT UNION IN GUATEMALA

The Guayacan Credit Union joined the Stabilization Program in 1990. It was a very weak credit union with a variety of problems, among them, an emphasis on credit over savings, automatic credit based on a contribution, high delinquency, high overhead vis-a-vis its loan volume, poor administration and even corruption. It also ran and subsidized a number of non-financial businesses which the credit union was unable to support. The credit union had about 6,000 active members.

In March of 1990, the Stabilization Program performed a diagnostic study of the credit union. The diagnostic identified the key problems of the institution, noted its potential for improvement, and defined a number of conditions which the credit union would have to comply with, should it wish to participate in the recovery program. At about the same time, directors and the manager of the credit union participated in numerous seminars which sought to convey a new mentality among credit union leaders.

After an extensive analysis of the credit union's financial situation, conditions were developed for a stabilization fund contract and the adjustments were made on the credit union's balance sheet to more realistically reflect its situation. Attachment 1 to this Annex, *Resumen de Ajustes al Balance General Cooperativa Guayacan R.L.*, shows the adjustments made at the onset of the stabilization program. Attachment 2 shows the first contract between the project and the credit union. Attachment 3, *Anexo al Convenio de Estabilización Financiera--Metas Financieras para 1991*, gives a summary of the financial targets which the credit union agreed to meet in order to comply with the stabilization fund contract. The financial statements of the credit union, from 1987 to 1992, as projected, are shown in Attachment 4.

A close analysis of the credit union's financial position, even after only 1.5 years under the stabilization program, shows that it has improved. Perhaps most impressive is the substantial increase in savings mobilized, from Q. 2.7 million to Q.4.6 million in one year. Delinquency rates have been reduced from 15.6% in 1989 to 6% in 1992. Interest is now beginning to be paid to the members for the capital contributions (*Certificados de Aportación*), something the credit union was never able to do before. And as of September 1992, the deferred losses account set up in 1990 (*Cuentas por liquidar*) have been eliminated. Net worth has improved even while the credit union has been paying off its losses.

It is clear that the stabilization fund served as an incentive for the credit union leadership to participate in the program. The technical assistance in finance and marketing, were particularly useful to the general manager, who has been able to institute a successful savings mobilization campaign and improve loan collections substantially. Most important, the credit union now understands clearly what its intermediation role should be and it operates with a new entrepreneurial mentality. Although the credit union is still in the final stages of recovery, staff of the WOCCU project in Guatemala expect this credit union show important levels of net profit beginning in 1993. Membership is calculated to remain fairly constant from 1990 to 1993, as old non-paying members are eliminated from the rolls and new members join the credit union. Beginning in 1994 or 1995, membership as well as profitability is expected to increase.

Resumen de Ajustes al Balance General
Cooperativa "Guayacán" R.L.

AJUSTES	*MONTO*
PERDIDAS EN LOS ACTIVOS	
Pérdidas en Préstamos	646,296.82
Pérdidas en Deudores (Intereses por Cobrar)	491,595.14
Pérdidas en Cuentas por Liquidar	143,078.09
Total: Pérdidas en los Activos	1,280,970.05
AJUSTES EN EL PASIVO Y EL CAPITAL	
Productos Devengados no Recibidos	491,595.14
Reserva Préstamos	126,290.73
Reserva Irrepartible	55,056.42
Reserva para Educación	18,163.90
Reserva para Obras sociales	34,215.78
Otras Reservas de Capital	72,178.09
Subtotal: Ajustes en el pasivo y las reservas	797,500.06
Subtotal: Aportaciones	483,469.99
Total Ajustes al Pasivo y Capital	1,280,970.05

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CONTRATO DE MUTUO PARA ESTABILIZACION FINANCIERA

COOPERATIVA DE AHORRO Y CREDITO INTEGRAL GUAYACAN R. L.

Nosotros, Erwin Rubén Pirir Barrios de 40 años, casado, Perito Contador, guatemalteco, con domicilio en Guastatoya, El Progreso, en mi calidad de Gerente General y representante legal de la COOPERATIVA DE AHORRO Y CREDITO INTEGRAL GUAYACAN, RESPONSABILIDAD LIMITADA, entidad debidamente reconocida en el Registro e Inscripción de Asociaciones Cooperativas, del Instituto Nacional de Cooperativas INACOP, bajo el número 077, folio 077 del libro número uno, que en el curso de este contrato se denominará LA COOPERATIVA, acreditando la personería que ejerzo de conformidad con el artículo 44 de los estatutos de la Cooperativa y del acuerdo del Consejo de Administración inserto en el punto primero del Acta número dieciseis de fecha dos de marzo de mil novecientos ochenta y siete, del libro de actas del Consejo de Administración, donde se me faculta expresamente para actuar como Gerente de LA COOPERATIVA, quedando inscrita dicha representación en el Instituto Nacional de Cooperativas INACOP, bajo el número setecientos veintiocho, folio número doscientos noventa y cinco, del libro número dos de representantes legales de las cooperativas legalmente autorizadas; por otra parte FELIPE DE JESUS GODOY DIAZ de cuarenta años, casado, Administrador de Empresas, guatemalteco y de este domicilio, en mi calidad de Presidente del Consejo de Administración de la FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO Y SERVICIOS VARIOS DE GUATEMALA, RESPONSABILIDAD LIMITADA, entidad conocida también con las siglas de FENACOAC y con personalidad jurídica debidamente reconocida e inscrita en el Registro e Inscripción de Asociaciones Cooperativas, del Instituto Nacional de Cooperativas INACOP, bajo el número 5, folios 17 y 18 del libro número 1 de Federaciones Cooperativas, que en el curso de este contrato se denominará simplemente FENACOAC, acreditando la personería que ejerzo de conformidad con el artículo 31 de los estatutos de la Federación y de la Resolución No. COFIC-787-89 del Comité de Finanzas y Crédito inserta en el punto noveno inciso a) del Acta No.165 del Comité de Finanzas y Crédito de la sesión del 27 de junio de 1989, donde se me faculta expresamente para la suscripción del presente contrato, y finalmente; FRANCISCO SAMUEL PEREZ TOÑO, de cuarenta y siete años, casado, Economista, guatemalteco y de este domicilio, en mi calidad de Gerente de la Federación Nacional de Cooperativas de Ahorro y Crédito y Servicios Varios de Guatemala R.L., FENACOAC, como lo acredita el acta notarial de mi nombramiento autorizada en esta ciudad el 11 de mayo de 1990 por el Notario Hugo Raciel Méndez Rodríguez e inscrito en el número 1433, folio 203, del libro 4 de representantes legales de las cooperativas legalmente autorizadas del Instituto Nacional de Cooperativas INACOP, actuando como Administrador del Proyecto de Fortalecimiento Cooperativo AID-FENACOAC 520-0286, que en el curso de este contrato se denominará simplemente PFC, personalidad que ejerzo de conformidad con el Acuerdo del Consejo de Administración de FENACOAC, contenido en la resolución No. CA-2045-87, ACORDAMOS suscribir el presente contrato de Mutuo para Estabilización Financiera, el cual se suscribirá en un original,

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SERGIO LEONARDO MEJICANOS PERAGOS
ABOGADO Y NOTARIO

extendiendose fotocopia simple para cada una de las partes de conformidad con las siguientes cláusulas:

PRIMERA: ANTECEDENTES

El presente contrato de Mutuo para Estabilización Financiera, se suscribe dentro del marco del Convenio de Cooperación No. 520-0286-A-00-6329-00 firmado entre FENACOAC y la Agencia para el Desarrollo Internacional (AID), de las cartas de ejecución emitidas y de las que posteriormente se emitan por parte de AID, encaminadas a ejecutar el PFC en Guatemala. Dicho convenio se firmó el veintiseis de agosto de mil novecientos ochenta y seis, con vigencia en su primera etapa, hasta el veintiocho de julio de mil novecientos noventa y uno.

SEGUNDA: JUSTIFICACION

LA COOPERATIVA ha sido calificada como institución participante del componente de Estabilización Financiera por parte del PFC, tomando en consideración que presenta condiciones aceptables para el buen uso de los recursos que se le otorguen y además ha iniciado un razonable avance en la ejecución de las actividades que paralelamente se han planificado para el componente de Desarrollo Institucional.

A criterio del PFC, LA COOPERATIVA llena los requisitos de potencial económico y viabilidad financiera, para ser seleccionada como beneficiaria del componente de Estabilización Financiera; así mismo, presenta pérdidas por irrecuperabilidad de préstamos otorgados a sus asociados y otras pérdidas acumuladas de LA COOPERATIVA. Las pérdidas identificadas ascienden a la suma de Q.818,711.44 (OCHOCIENTOS DIECIOCHO MIL SETECIENTOS ONCE QUETZALES CON 44/100), las cuales han reducido las reservas de dicha institucion, a tal grado que es necesario restituir las reservas.

TERCERA: CONCEPTO DE LOS FONDOS DE ESTABILIZACION FINANCIERA

Los recursos financieros que a través de este contrato otorga el PFC a FENACOAC y ésta, a LA COOPERATIVA, serán para beneficio de LA COOPERATIVA y se otorgan en calidad de MUTUO, de acuerdo a las condiciones y caracteristicas que se establecen en las claúsulas siguientes:

CUARTA: MONTO Y DESTINO

El PFC por el presente acto otorga a FENACOAC un MUTUO en concepto de asistencia financiera del componente de Estabilización Financiera, por la cantidad de OCHOCIENTOS DIECIOCHO MIL SETECIENTOS ONCE QUETZALES CON 44/100 (Q.818,711.44) y FENACOAC a su vez los asigna por el mismo concepto a LA COOPERATIVA.

Estos fondos serán destinados a mejorar la solvencia económico-financiera de LA COOPERATIVA, los cuales al estar colocados en una institución financiera, como se relaciona en la cláusula OCTAVA de este contrato, devengarán intereses que se utilizarán de la siguiente manera: primero: para amortizar la totalidad de las cuentas por liquidar originales que fueron creadas, las cuales ascienden a la suma de Q.704,376.18, como consecuencia de la insuficiencia de reservas o de la inexistencia de las mismas; segundo, para restituir la reserva para préstamos incobrables que se afectó con motivo de la depuración original de los Estados

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SERGIO LEONARDO MILANGOS PEÑA

Financieros, las cuales ascienden a la suma de Q.114,335.26.

QUINTA: TASA DE INTERES

La cooperativa por el presente Mutuo, no pagará intereses.

SEXTA: PLAZO

El presente mutuo para Estabilización Financiera se concede a un plazo de 4 meses comprendidos dentro del siguiente periodo: del 01 de Octubre de 1990 al 31 de Enero de 1991, debiendo LA COOPERATIVA utilizar los últimos 30 dias para efectuar su propia evaluación, con los datos al 31 de diciembre de 1990.

El plazo podrá prorrogarse por periodos equivalentes a un año calendario mediante la suscripción de nuevo contrato, en función a lo que establece la cláusula décima cuarta.

SEPTIMA: AMORTIZACION DE CAPITAL

El pago del presente mutuo lo hará LA COOPERATIVA a FENACOAC y FENACOAC al PFC en un sólo pago, el que deberá hacerse efectivo a más tardar el 31 de Enero de 1991, salvo que se suscribiera un nuevo contrato prorrogando el plazo.

OCTAVA: GARANTIA DEL PRESENTE CONTRATO

El desembolso de fondos provenientes de este contrato, los efectuará el PFC mediante un solo desembolso y no mas tarde del 28 de Septiembre de 1990, los cuales se colocarán en la institución financiera que conjuntamente determinen FENACOAC y el PFC, la forma de colocación será bajo el mecanismo de Pagarés Financieros, para lo cual, los fondos originales de capital otorgados por este contrato quedarán congelados a favor del PFC, aceptando la Cooperativa que dentro de los contratos de Custodia que se emitan, se incluya una cláusula que indique que los fondos originales de capital únicamente pueden ser retirados por el Administrador del PFC y que este documento que otorgue la entidad financiera, quede en poder del PFC en concepto de garantia.

NOVENA: CANALIZACION E INVERSION DE LOS FONDOS DESEMBOLSADOS

A nivel de la Cooperativa: Con el propósito de mantener la integración del sistema FENACOAC, los fondos que LA COOPERATIVA recibe en concepto de MUTUO, se canalizarán a través de FENACOAC, quién los administrará en nombre de LA COOPERATIVA, velando por obtener el mayor rendimiento de los mismos y asegurar el uso especifico para el cual este fondo ha sido creado. Los intereses generados por esta inversión deberán destinarse en la forma que se especifica en la cláusula CUARTA de este contrato, a titulo de propiedad sin obligación por parte de LA COOPERATIVA a la devolución de dichos intereses a FENACOAC y al PFC.
A nivel de FENACOAC: El rendimiento que perciba LA COOPERATIVA en concepto de intereses, deberá ser reinvertido por FENACOAC para la generación de más intereses, con el propósito de acelerar el ciclo de Estabilización Financiera.

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ABOGADO Y NOTARIO

DECIMA: COMPROMISOS DE LA COOPERATIVA

LA COOPERATIVA por el presente acto, se compromete expresamente a lo siguiente: a) a participar en el Convenio y componente de Desarrollo Institucional del PFC; b) elaborar y entregar a FENACOAC un plan de trabajo empresarial de LA COOPERATIVA, a mas tardar el 30 de Noviembre de 1990, incluyendo metas, actividades y presupuestos concretos para el año 1991; c) efectuar al 31 de Diciembre de 1990, su propia evaluación sobre los resultados obtenidos, en relación a los compromisos adquiridos en el presente contrato, dicha evaluación deberá hacerse dentro de los primeros 20 dias de enero de 1991 , enviando el informe completo a FENACOAC; d) analizar al 31 de Diciembre de 1990 su cartera de cuentas por cobrar para determinar el monto de los préstamos morosos, con más de 12 meses de antiguedad, los cuales deben ser depurados dentro del ejercicio contable que termina al 31 de Diciembre/90, la depuración deberá de efectuarse de acuerdo al documento de "NORMAS Y PROCEDIMIENTO PARA EFECTUAR LA DEPURACION ANUAL DE PRESTAMOS MOROSOS Y REGISTRAR LOS NIVELES ADECUADOS DE RESERVAS, PARA PRESTAMOS INCOBRABLES," el cual se adjunta al presente contrato, formando parte integral del mismo y especificamente de los compromisos de LA COOPERATIVA, el cual será discutido y aprobado por las partes antes del 28 de Septiembre de 1990; e) mantener permanentemente al dia, los créditos de directivos, empleados y/o familiares de los mismos, evitando que los préstamos caigan en alguna categoría de morosidad; f) cumplir con las siguientes metas financieras al 31 de Diciembre de 1990, tomando como base los saldos, porcentajes ó números aplicables según el caso, al 31 de Agosto de 1990: incrementar su captación de ahorro corriente en un 10%; incrementar la colocación de su cartera de préstamos en un 3.8%; incrementar el número de asociados en 240 netos; reducir su morosidad al 13% bajo el criterio de cartera afectada, después de efectuar la depuración de préstamos morosos mayores de 12 meses; mantener su relación de gastos operativos al activo total, en un 6%; mantener como minimo su tasa activa sobre préstamos al 18%; mantener su tasa pasiva sobre ahorro corriente al 12% la que debe de ser competitiva para estimular la captación de ahorros; g) presentar a FENACOAC dentro de los 5 dias hábiles siguientes de cada mes, los estados financieros y estadisticas correspondientes al mes inmediato anterior; h) enfocar el análisis crediticio hacia la capacidad de pago del prestatario; i) permitir a FENACOAC y al equipo técnico del PFC, realizar la supervisión que sea necesaria sobre el uso de los recursos, incluyendo la práctica de auditorias externas por parte de las firmas que sean contratadas por parte del PFC; j) contratar fianza de fidelidad para los empleados de LA COOPERATIVA, con cobertura suficiente a satisfacción de FENACOAC y el PFC, para que tanto los fondos provenientes de este mutuo, como el capital de los asociados, estén debidamente protegidos; k) establecer y mantener dentro del sistema contable de LA COOPERATIVA, las cuentas correspondientes que identifiquen todas las operaciones derivadas de los compromisos contraidos, contenidos en el contrato de Estabilización Financiera; l) atender las recomendaciones que sean emitidas en beneficio del cumplimiento de los compromisos del presente mutuo, tanto de FENACOAC como del PFC canalizados a través de la Federación.

DECIMA PRIMERA: COMPROMISOS DE FENACOAC

FENACOAC por el presente acto se compromete expresamente a lo siguiente: a) administrar a nombre de LA COOPERATIVA, los fondos provenientes del presente mutuo y los rendimientos generados, como producto de los intereses que devenguen

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SERGIO LEONARDO MIJANGOS PENA

al estar colocados dichos fondos en la institución financiera que FENACOAC y el PFC consideren más conveniente informando a la cooperativa sobre los cambios que sucedan en la administración de los fondos; b) que los fondos de capital originales otorgados a LA COOPERATIVA por el presente contrato de mutuo, queden congelados a favor del PFC, de acuerdo a lo estipulado en la claúsula OCTAVA; c) participar activamente al vencimiento del contrato, en la evaluación propia que debe hacer LA COOPERATIVA, sobre todos los compromisos adquiridos en el presente contrato; d) apoyar y asesorar a LA COOPERATIVA en el proceso oportuno de planificación para 1991, con el propósito de terminar su plan de trabajo empresarial, el cual deberá ser presentado al PFC; e) a que los intereses recibidos de la institución financiera donde se inviertan los fondos, sean registrados adecuadamente en la contabilidad de LA COOPERATIVA; f) apoyar para que LA COOPERATIVA cumpla con cada uno de los compromisos adquiridos en la claúsula DECIMA; g) aceptar la práctica de las auditorías externas que sean contratadas por el PFC; h) contratar fianza de fidelidad para los empleados de FENACOAC, con cobertura suficiente a satisfacción del PFC, que tanto los fondos provenientes de este mutuo, como el capital de las cooperativas afiliadas, esten debidamente protegidos; i) remitir semestralmente al PFC, un informe sobre la situación real del uso de los recursos estipulados en este contrato; j) permitir al equipo técnico del PFC a realizar la supervisión necesaria sobre el uso de los recursos; k) establecer dentro del sistema contable de FENACOAC, las cuentas correspondientes que identifiquen las operaciones derivadas de los fondos, que este contrato implica; l) enviar a LA COOPERATIVA dentro de los siete dias hábiles después de finalizado cada mes la nota de contabilidad correspondiente a los intereses producidos por el fondo de estabilización financiera; m) al finalizar el presente mutuo, FENACOAC efectuará las gestiones necesarias para que por los intereses ganados por LA COOPERATIVA, se emitan títulos a nombre de la cooperativa.

DECIMA SEGUNDA: COMPROMISOS DEL PFC

Por su parte el PFC se compromete a lo siguiente: a) a mantener invertidos los fondos previstos en este contrato, en la institución financiera referida en la claúsula OCTAVA; b) apoyar y asesorar a LA COOPERATIVA a través de FENACOAC mediante el componente de Desarrollo Institucional, en aquellas actividades que contribuyan al cumplimiento de los compromisos contraidos en el presente mutuo; c) cubrir el valor de las auditorías externas que pudieran ser contratadas para la fiscalización de los fondos; d) dar su Vo. Bo. al proceso de evaluación propia realizado por LA COOPERATIVA con el apoyo de FENACOAC, al vencimiento del contrato.

DECIMA TERCERA: FINALIZACION DEL CICLO DE ESTABILIZACION FINANCIERA

El tiempo o ciclo máximo de estabilización financiera, financiado con fondos del PFC mediante el mecanismo de inversión definido en la claúsula OCTAVA, será el tiempo necesario para depurar las cuentas por liquidar que fueron creadas originalmente, las cuales ascienden a la suma de Q.704,376.18 y restituir el valor de las reservas para préstamos incobrables que fueron utilizadas al momento de la depuración original, las cuales ascienden a la suma de Q.114,335.26, momento en el cual el PFC retirará los fondos invertidos a favor de LA COOPERATIVA.

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SERGIO LLOHMOS MIJANGOS PENAGOS
ABOGADO Y NOTARIO

DECIMA CUARTA: CONDICIONES ESPECIALES EN EL CASO DE INCUMPLIMIENTO

Los otorgantes aceptan expresamente que el incumplimiento por parte de LA COOPERATIVA y/o FENACOAC o PFC, en lo referente a los compromisos adquiridos en las claúsulas DECIMA, DECIMA PRIMERA Y DECIMA SEGUNDA respectivamente, de este contrato, dará lugar a que cualquiera de las partes, rescinda el presente contrato sin necesidad de declaración judicial, de conformidad con los artículos 1581 y 1583 del Código Civil. Para lo cual el PFC se reserva el derecho de exigir por los medios más convenientes la devolución de los fondos originales otorgados por el presente mutuo para Estabilización Financiera, independientemente de que haya o no vencido el plazo del contrato, dándose por vencido anticipadamente el mismo y pudiéndose requerir la entrega de la totalidad de la cantidad mutuada. Desde el momento en que LA COOPERATIVA sea notificada por escrito, por parte del PFC, de que se ha verificado la condición resolutoria del contrato, por incumplimiento del mismo, el capital mutuado dejará de generar intereses a favor de la cooperativa beneficiaria.

DECIMA QUINTA: MECANISMOS DE ENMIENDAS

El presente contrato podrá ser modificado, enmendado o ampliado mediante el simple cruce de cartas entre las partes suscriptoras del mismo, siempre y cuando exista mutuo acuerdo en la variación al contrato. Las cartas se denominarán "Anexos" y se enumerarán cronológicamente pasando a formar parte de este contrato.

DECIMA SEXTA: FIRMAS

Las partes suscriptoras declaramos que estamos plenamente enteradas del contenido de este documento, que estamos conscientes de las responsabilidades y de las obligaciones que implica el presente contrato y en las calidades con que comparecemos, expresamente lo aceptamos y ratificamos, cada quien en la parte que le corresponde, a los veintiocho días del mes de Septiembre de mil novecientos noventa.

Por LA COOPERATIVA

Erwin Rubén Pirir Barrios
Gerente

Por FENACOAC

Felipe Godoy Díaz
Presidente Consejo de Administración

Por el Proyecto Fortalecimiento Cooperativo

Francisco S. Pérez Toño
Administrador

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SERGIO LEONARDO MILANGOS PEN.
ABOGADO Y NOTARIO

AUTENTICA:

En la Ciudad de Guatemala, el veintiocho de Septiembre de mil novecientos noventa, como Notario, DOY FE: que las firmas que anteceden, son AUTENTICAS por haber sido puestas el dia de hoy a mi presencia al pié de un contrato de Mutuo para Estabilización Financiera que consta de siete hojas incluyendo la presente, por el señor Erwin Rubén Pirir Barrios, quien actúa en calidad de GERENTE GENERAL de LA COOPERATIVA DE AHORRO Y CREDITO INTEGRAL GUAYACAN, RESPONSABILIDAD LIMITADA, acreditando su representación legal con acuerdo del Consejo de Administración inserto en el Punto primero, del Acta Número dieciseis, de fecha dos de marzo de mil novecientos ochenta y siete, del Libro de Actas del Consejo de Administración, donde se le faculta expresamente para actuar como Gerente de la cooperativa, quedando inscrita dicha representación en el Instituto Nacional de Cooperativas INACOP, bajo el número setecientos veintiocho, folio número doscientos noventa y cinco, del libro número dos, de Representantes Legales de las cooperativas legalmente autorizadas; el señor FELIPE DE JESUS GODOY DIAZ quien actúa en calidad de PRESIDENTE DEL CONSEJO DE ADMINISTRACION de la FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO Y SERVICIOS VARIOS DE GUATEMALA RESPONSABILIDAD LIMITADA, acreditando su representación legal de conformidad con el artículo treinta y uno de los estatutos de la Federación y de la resolución COFIC setecientos ochenta y siete guión ochenta y nueve, de la sesión del veintisiete de junio de mil novecientos ochenta y nueve inserta en el punto noveno, inciso a) del acta número ciento sesenta y cinco del Comité de Finanzas y Crédito, y el señor FRANCISCO SAMUEL PEREZ TOÑO quien actúa en calidad de GERENTE GENERAL de la FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO Y SERVICIOS VARIOS DE GUATEMALA RESPONSABILIDAD LIMITADA, acreditando su representación legal con el acta notarial de su nombramiento autorizada en esta ciudad el once de mayo de mil novecientos noventa por el Notario Hugo Raciel Méndez Rodriguez e inscrito al número mil cuatrocientos treinta y tres, folio doscientos tres, del libro cuatro de Representantes Legales de las cooperativas legalmente autorizadas, del Instituto Nacional de Cooperativas INACOP, actuando como Administrador del Proyecto Fortalecimiento Cooperativo AID-FENACOAC quinientos veinte guión cero doscientos ochenta y seis, como lo acredita con el acuerdo del Consejo de Administración de FENACOAC, contenido en la resolución número CA dos mil cuarenta y cinco guión ochenta y siete teniendo a la vista el Notario la documentación relacionada, la cual de conformidad con la ley y a mi juicio, es suficiente para este acto, personas que vuelven a firmar juntamente con el Notario que da fé.

X

X

X

ANTE MI:

SERGIO LEONARDO MALANGOS PENAGOS
ABOGADO Y NOTARIO

COLEGIO DE ABOGADOS
GUATEMALA

REPUBLICA DE GUATEMALA

10

TIMBRE NOTARIAL

PENAGOS
NOTARIO

PROYECTO FORTALECIMIENTO COOPERATIVO
AID-FENACOAC 520-0286

NORMAS Y PROCEDIMIENTO PARA EFECTUAR LA DEPURACION ANUAL DE PRESTAMOS MOROSOS Y REGISTRAR LOS NIVELES ADECUADOS DE RESERVAS PARA PRESTAMOS INCOBRABLES

1. *Al 31 de diciembre de 1990, la Cooperativa deberá analizar su cartera de préstamos y cuentas por cobrar, cuantificando el monto de los préstamos morosos con más de doce meses de antigüedad, los cuales deben de ser depurados dentro del mismo ejercicio contable, previo a efectuar el cierre de operaciones.*

2. *Mientras existan cuentas por liquidar y/o préstamos morosos mayores de doce meses, la Cooperativa deberá fortalecer la reserva para cuentas incobrables,* **no debiendo declarar excedentes, hasta que la reserva alcance los siguientes niveles al momento de efectuar la depuración:**

   Como mínimo, *un saldo equivalente al total de los préstamos morosos con más de doce meses de antigüedad, más las nuevas cuentas por liquidar que hayan sido creadas por insuficiencia de reservas.*

   Como máximo: *un saldo equivalente a la suma total de todos los préstamos morosos, calculados bajo el criterio de cartera afectada, más las nuevas cuentas por liquidar que hayan sido creadas por insuficiencia de reservas.*

3. *Contablemente, las partidas que sirven para ajustar los niveles mínimos y máximos de reservas, deben ser registradas por la Cooperativa antes de contabilizar la partida de la depuración, con el propósito de que el saldo de la reserva se pueda utilizar.*

   Estas partidas se pueden registrar, en última instancia, hasta donde lo permitan los excedentes generados por la Cooperativa, si se diera el caso de tener pérdidas, entonces no se pueden registrar los niveles adecuados de reserva, por cuanto la cooperativa estaría acumulando más pérdidas.

4. *Una vez creadas las reservas, la Cooperativa procederá a efectuar la depuración, dando a cada préstamo moroso el siguiente tratamiento contable:*

   Primero: se aplicarán las aportaciones del asociado deudor correspondiente.

   Segundo: se aplicarán las reservas para préstamos incobrables, que sean necesarias para cubrir la diferencia.

   Tercero: en caso que las reservas no alcancen a cubrir la totalidad de la diferencia, la Cooperativa deberá crear "CUENTAS POR LIQUIDAR #2 AÑO 1990". **Las nuevas cuentas por liquidar no serán cubiertas con los rendimientos del presente MUTUO, debiendo diferenciarse contablemente de las** *CUENTAS POR LIQUIDAR QUE SE CREARON ORIGINALMENTE A LA FIRMA DEL CONTRATO DE ESTABILIZACION FINANCIERA, REALIZADO EL 28 DE SEPTIEMBRE DE 1990.*

5. *Las cuentas por cobrar que sean depuradas de los estados financieros, deberán manejarse al pié del Balance General, utilizando "cuentas de orden" para su registro, control y cobranza.*

6. *Cualquier recuperación extraordinaria que se haga de una cuenta depurada, después de deducirle algunos gastos (costas judiciales, comisión sobre cobro, etc.), deberá destinarse en un 100% para fortalecer exclusivamente la reserva para cuentas incobrables.*

   Cuando existan recuperaciones extraordinarias, en concepto de intereses por cobrar" que hayan sido depurados, adicionalmente al procedimiento anterior; la Cooperativa deberá de regularizar la cuenta: **"Productos devengados no percibidos, o Productos por realizar"** *por un monto equivalente a la recuperación. La regularización de esta cuenta deberá de hacerse, incrementando la Reserva Irrepartible.*

   Si se diera el caso de una recuperación extraordinaria, por medio de la adjudicación de un bien en garantía, entonces la Cooperativa deberá registrar esta operación como un activo extraordinario, hasta el momento en que se llegue a su venta o liquidación final.

7. *Si después de registrar contablemente los niveles de reservas para préstamos incobrables y efectuar la depuración, existe un saldo final de excedentes del ejercicio, el Consejo de Administración deberá proponer y defender ante la Asamblea General que dicho saldo se destine íntegramente a las RESERVAS LEGALES de la Cooperativa, con el propósito de fortalecer su capital institucional, hasta que la relación de capital institucional al activo total, alcance un nivel adecuado al tamaño de la Cooperativa.*

8. *Las novaciones de préstamos no se tomarán en cuenta para reflejar un porcentaje menor de morosidad, por lo que la Cooperativa deberá reducirlas al mínimo posible.*

9. *La Cooperativa deberá enviar a FENACOAC, un detalle de las depuraciones realizadas de préstamos morosos mayores de doce meses al 31 de diciembre de 1990, con el propósito de que la Federación las revise, para su evaluación y la cooperativa hará los ajustes respectivos.*

28 de Septiembre de 1990

ANEXO AL CONVENIO DE ESTABILIZACION FINANCIERA
METAS FINANCIERAS PARA 1,991
BASE FINANCIERA EL 31-12-1990

COOPERATIVA GUAYACAN, R.L.

NO.		META FINANCIERA	
I		METAS DE CRECIMIENTO	
	1	DE PRESTAMOS	30.55%
	2	DE AHORROS	64.81%
	3	DE ASOCIADOS	5.09%
	4	DE CAPITAL INSTITUCIONAL	100.24%
	5	DE APORTACIONES	9.87%
	6	DE INVERSIONES	23.88%
	7	DE ACTIVO TOTAL	31.02%
II		METAS DE ESTRUCTURA FINANCIERA	
	1	GASTOS OPERATIVOS/ACTIVO TOTAL	6.40%
	2	ACTIVO IMPRODUCTIVO/ACTIVO TOTAL	13.00%
	3	DEPOSITOS/ACTIVO TOTAL	48.27%
	4	CAPITAL INST./ACTIVO TOTAL	3.64%
	5	ENCAJE COOPERATIVO	20.00%
III		SOLIDEZ FINANCIERA	
	1	TASA DE MOROSIDAD	5.00%
IV		RENDIMIENTO	
	1	TASA ACTIVO S/PRESTAMOS	20.00%
	2	TASA PASIVA S/DEPOSITOS	14.00%
	3	TASA S/APORTACIONES	3.00%

COOPERATIVA GUAYACAN

BALANCE GENERAL	1,987	1,988	1,989	1,990	1,991	PROYECTAD 1,992
III. PASIVOS CON COSTO	1,987	1,988	1,989	1,990	1,991	1,992
A. DEPOSITOS	879,046	1,001,600	1,528,223	2,776,898	4,654,543	6,884,290
B. PRESTAMOS – FENACOAC	297,956	239,720	157,771	233,407	145,492	401,600
C. OTROS						
TOTAL PASIVOS CON COSTO	1,177,001	1,241,320	1,685,994	3,010,305	4,800,035	7,285,890
IV. PASIVOS SIN COSTO						
A. PRESTAMO – PFC				818,711	818,711	818,700
B. CUENTAS POR PAGAR	34,601	50,122	74,275	88,208	197,058	1,004,454
C. PROVISIONES	24,042	26,053	35,120	40,170	74,318	176,408
D. DIFERIDO	427,346	543,383	492,140	272,835	86,657	10,005
E. OTROS		6				
TOTAL PASIVOS SIN COSTO	485,989	619,563	601,535	1,219,924	1,176,744	2,009,567
TOTAL PASIVOS	1,662,990	1,860,883	2,287,529	4,230,229	5,976,779	9,295,457
V. CAPITAL						
A. APORTACIONES	1,848,123	2,031,847	2,389,938	2,481,962	3,086,390	3,605,817
B. CAPITAL INSTITUCIONAL						
RESERVA IRREPARTIBLE	57,854	65,343	106,529	74,710	174,423	193,998
OTRAS RESERVAS DE CAPITAL				0	27,518	22,700
DONACIONES	24,123	24,123	24,123	24,123	64,884	76,500
REEVALUACIONES / OTROS		49,401	47,145	31,088	[illegible]2	0
EXCEDENTES / PERDIDAS	75,376	35,395	86,392	91,727	10,567	0
TOTAL CAPITAL INSTITUCIONAL	157,353	174,263	264,189	221,649	277,424	293,198
TOTAL CAPITAL	2,005,476	2,206,110	2,654,127	2,703,611	3,363,814	3,899,015
TOTAL DE PASIVOS Y CAPITAL	3,668,466	4,066,994	4,941,655	6,933,840	9,340,593	13,194,472

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COOPERATIVA GUAYACAN

BALANCE GENERAL	1,987	1,988	1,989	1,990	1,991	PROYECTAD 1,992
ACTIVO PRODUCTIVO						
A. DISPONIBILIDADES						
DEPOSITOS - BANCOS	575,903	610,956	265,198	1,424,798	254,841	123,559
DEPOSITOS - FENACOAC					575,189	830,569
ENCAJE					475,375	57,158
TOTAL DISPONIBILIDADES	575,903	610,956	265,198	1,424,798	1,305,405	1,011,286
B. INVERSIONES FINANCIERAS						
PAGARES FINANCIEROS - FEF				847,617	1,073,875	1,307,798
PAGARES FINANCIEROS - OTROS						658,119
APORTACIONES FENACOAC	33,464	48,344	43,500	49,500	69,900	110,054
OTRAS DIVERSAS				325,169	112,368	0
TOTAL INVERSIONES	33,464	48,344	43,500	1,222,286	1,256,143	2,075,971
C. PRESTAMOS						
PRESTAMOS CORRIENTES	2,102,216	2,456,039	3,192,917	3,221,032	5,433,890	8,900,230
PRESTAMOS R. VIVIENDA	293,479	237,825	175,600	21,283	13,900	0
PROVISIONES	85,606	114,902	126,291	31,198	11,893	51,500
PRESTAMOS NETOS	2,310,088	2,578,963	3,242,226	3,211,117	5,435,897	8,848,730
D. INVERSIONES NO FINANCIERAS						
DIVERSAS	23,784	109,067	460,034	11,670	0	0
TOTAL ACTIVO PRODUCTIVO	2,943,240	3,347,330	4,010,958	5,869,870	7,997,445	11,935,987

COOPERATIVA GUAYACAN

BALANCE GENERAL	1,987	1,988	1,989	1,990	1,991	PROYECTAD 1,992
ACTIVO IMPRODUCTIVO						
A. DISPONIBILIDADES						
CAJA	18,707	58,673	68,624	92,116	137,180	23,157
DEPOSITOS A LA VISTA	39,152	3,242	25,406	32,928	92,329	0
TOTAL DISPONIBILIDADES	57,859	61,915	94,030	125,044	229,509	23,157
B. CUENTAS POR COBRAR						
DEUDORES	13,005	11,285	38,849	39,430	51,023	207,179
INTERESES	457,446	577,699	510,290	69,649	111,019	0
DOCUMENTOS						
OTROS						
RESERVAS						
TOTAL CUENTAS POR COBRAR	470,450	588,984	549,139	109,079	162,042	207,179
C. MUEBLES E INMUEBLES						
MUEBLES E INMUEBLES BRUTO	103,799	120,059	176,644	229,070	860,688	963,843
DEPRECIACIONES	80,104	71,185	65,180	71,276	70,172	63,781
MUEBLES E INMUEBLES NETOS	23,695	48,875	111,464	157,794	790,516	900,062
D. OTROS ACTIVOS						
CUENTAS POR LIQUIDAR			143,078	639,068	119,033	0
EXTRAORDINARIOS		10,989	17,993	17,993	0	0
OTROS BIENES	173,221		257	257	80	102,500
DIFERIDO		8,901	14,737	14,734	41,968	25,588
TOTAL OTRO ACTIVO	173,221	19,890	176,065	672,053	161,081	128,088
TOTAL ACTIVO IMPRODUCTIVO	725,226	719,664	930,698	1,063,969	1,343,148	1,258,486
TOTAL ACTIVO	3,668,466	4,066,994	4,941,655	6,933,840	9,340,593	13,194,473

ESTADO DE RESULTADOS COOPERATIVA GUAYACAN

	1,987	1,988	1,989	1,990	1,991	PROYECTAD 1,992
I. INGRESOS						
INTERESES SOBRE PRESTAMOS	243,229	237,800	324,777	518,071	844,984	1,576,810
INTERESES SOBRE DEPOSITOS	60,161	84,268	96,967	157,643	292,724	255,095
INTERESES SOBRE INV. FINANC.				16,129	9,911	
COMISIONES SOBRE PRESTAMOS				30,054	81,137	
INGRESOS SOBRE INV. NO FINANC.				821		
OTROS PRODUCTOS	57,152	60,531	100,337	85,519	35,458	212,798
TOTAL INGRESO BRUTO	360,543	382,599	522,081	808,237	1,264,215	2,044,703
II. GASTOS FINANCIEROS						
INTERESES SOBRE DEPOSITOS	50,910	54,000	83,000	148,505	413,511	722,549
INTERESES SOBRE APORTACIONES				65,844	105,659	162,068
INTERESES SOBRE CREDITOS	6,000	6,890	2,736	20,600	19,838	92,338
OTROS COSTOS FINANCIEROS				35,000	55,245	
TOTAL GASTOS FINANCIEROS	56,910	60,890	85,736	269,950	594,253	976,955
II. MARGEN BRUTO	303,632	321,709	436,345	538,287	669,962	1,067,748
EGRESOS						
IV. GASTOS ADMINISTRATIVOS	266,031	280,313	331,985	428,560	625,431	1,021,350
V. PROVISIONES - PSTMOS INCOB.	16,500	6,000	18,000	18,000	29,435	30,000
VI. RESULTADOS DEL EJERCICIO	21,102	35,395	86,359	91,727	15,096	16,398
MOROSIDAD						
2 a 12 meses	75,337	84,930	76,975	220,847	262,858	445,000
Mas de 12 meses	526,285	507,062	448,736	528	0	0
TOTAL MOROSIDAD	601,622	591,991	525,711	221,375	262,858	445,000
CARTERA AFECTADA (SI O NO)	NO	NO	NO	SI	SI	SI
CARTERA PRESTAMOS	2,395,694	2,693,865	3,368,517	3,242,315	5,447,790	8,900,230
DEPURACIONES ACUMULADAS						
NUMERO DE ASOCIADOS	11,519	11,966	10,644	12,174	12,747	12,747
RECUPERACIONES ANUALES CARTERA DEP.						