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INSTITUTIONAL PROFILE OF FACACH

The National Credit Union Federation
of Honduras

RECOMMENDATIONS FOR STABILIZATION AND INSTITUTIONAL STRENGTHENING OF THE NATIONAL CREDIT UNION FINANCIAL SYSTEM OF HONDURAS

World Council of Credit Unions
J. Peter Marion
John Schlueter
David Richardson

Latin-American Confederation of
Credit Unions
Angel Castro
Ricardo Romero

Report Prepared for the
Office of Rural Development
USAID/Honduras
Under IQC No. PDC-0100-I-00-2070-00
Work Order No. 80

March 1985

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INTRODUCTION

Objectives

The World Council of Credit Unions (WOCCU) in collaboration with its member organization, the Latin-American Confederation of Credit Unions (COLAC), was contracted by USAID/Honduras to prepare this Institutional Profile of FACACH, the National Credit Union Federation of Honduras. This Profile is intended for use by USA/Honduras in designing the Farmer Organization Strengthening Project in which FACACH and its affiliated credit unions may participate as rural financial intermediaries involved in financing agriculture and other income generating activities.

The Project's purpose is to establish a viable system for channeling productive resources to enhance small farmer production and productivity, increase incomes and enhance the economic potential of the agricultural sector. Its overall objective is to promote the creation and strengthening of intermediate agricultural service institutions, including cooperatives and farmer associations, to make them more effective conduits of agricultural services and inputs.

The objectives of this Profile are to:

1. Determine the interest and willingness of FACACH and its member credit unions to participate in the Project.
2. Identify the overall economic potential of the credit union system.

3. Identify and evaluate FACACH's and credit unions' services, including problem areas and recommendations for improvement.
4. Analyze FACACH's financial and organizational structure, identify problems and suggest improvements.
5. Identify new FACACH and credit union services.
6. Suggest policy and operational changes that will be required as a pre-condition to project participation.

Overview

The Honduran national credit union system currently serves more than 39,000 members, including over 11,000 (28%) in the 18 leading rural credit unions initially identified as potential participants in the Project. FACACH has evolved into an association of 89 credit unions and has total assets of L.19.2 million (US $9.6 million). The federation provides technical assistance and wholesale savings, credit and insurance services to its affiliated credit unions and it operates three integrated agricultural development (DAI) projects and a basic grains marketing program.

Table one shows the Honduran credit union movement's growth in key membership and financial indicators for the 1966-1984 period.

Table 1

NATIONAL CREDIT UNION DEVELOPMENT INDICATORS

Monetary Data in Thousands of Lempiras

	1966	1970	1975	1980	1984
Credit Union	10	110	110	91	89
Members	9,921	24,500	29,797	36,645	39,104
Share Savings	1,076	8,334	14,306	34,590	45,750
Deposit Savings	0	0	0	3,767	7,155
Loans Outstanding	767	10,499	15,985	38,052	50,388
Total Assets	2,208	11,666	19,846	48,426	NA
FACACH					
Shares	5	134	953	2,637	2,567
Deposits	0	0	85	583	1,304
Notes Payable	10	1,132	3,867	7,805	9,052
Loans Outstanding*		1,058	4,899	10,076	11,310
Total Assets	32	1,661	6,014	15,600	19,182

* Includes internal loans to DAI Projects.

Conclusions

1. FACACH is clearly the institution of choice for servicing the wholesale credit needs of credit unions and their members in rural Honduras. Despite the federation's weaknesses, it is the only institution capable of and financially interested in supplying financial and developmental services to credit unions. The latter, while concerned about the federation's difficulties and the need to make changes, continue to look to it for services and institutional leadership.

2. FACACH is the strongest national cooperative intermediary organization and together with its leading rural credit unions has the potential to transform itself into an integrated national financial system serving rural areas and their agricultural and production credit needs.

3. FACACH's greatest strength lies in its leading credit unions, urban and rural, and it sorely needs to reorient its services and development programs to meeting their needs. The federation is increasingly viewed by the stronger affiliates as too costly and inefficient in its services and several have begun to replace FACACH's lending and insurance services with their own savings mobilization and self-insurance programs.

4. FACACH's Integrated Agricultural Development (DAI) projects have

apparently been technical successes but have produced only recurring financial losses (offset by capital grants), they absorb increasing shares of the federation's managerial effort and total assets, and they benefit the overall credit union movement only very indirectly. The total number of direct beneficiaries of the projects, about 1,000, represents only about 2.5% of the total credit union membership (about 40,000) yet at least half of total FACACH assets are invested in the projects.

5. FACACH faces severe liquidity problems due to recurring operating losses, loan delinquency and a long-term, refinanced loan portfolio, and its inability to make cash sales of its large grain inventories. There is still no centralized financial management of the organization and most policy instruments, systems and procedures are rudimentary at best.

6. FACACH's administrative costs are too high. High costs are incurred in providing technical assistance and other non-income producing services, while credit and insurance which do generate surpluses are starved for the personnel required to increase income.

7. FACACH is structured with little concern for functional responsibilities or priority institutional needs; plans lack clearly defined objectives, implementation strategies and accountability for results; operations are disorganized and services to credit unions suffer as the result.

8. FACACH's middle management staff are largely unqualified technically for their current jobs, with resultant negative impacts throughout the institution.

9. FACACH has become a willing implementation agency for a relatively large number of non-credit union development projects which distract the federation from its priority tasks of serving its affiliates.

Recommendations

The recommendations summarized below are focused on resolving the fundamental problems affecting FACACH, and specific operating problems of the organization; the latter are dealt with in more detail in the body of this profile.

1. FACACH should reorganize in order to specialize its operations on a functional basis. The federation should create three basic operating departments: finance, insurance and agricultural services. Financial administration should be consolidated into one department; technical assistance should be reduced; financial operations staff should be increased.

2. In its reorganization, FACACH should establish clear, functional lines of responsibility for use of resources and results achieved in

each of its departments.

3. Qualified staff should be immediately sought to fill the federation's key middle-management positions; unqualified and redundant staff should be released.

4. External technical assistance should be sought from the worldwide and Latin-American credit union movements to assist in the reorganization process and in the design and implementation of revised operating policies, procedures and systems.

5. The Farmer Organization Strengthening Project should concentrate its resources on enabling FACACH to acquire the technical assistance required to develop its own and its affiliates' institutional capabilities to operate as successful financial intermediaries serving the rural and agricultural sector. Credit resources should be made available only as the technical capability to place and recover these funds is demonstrated.

6. FACACH and its member credit unions should increase their emphasis on developing an improved public image as professionally operated financial institutions.

7. FACACH should evaluate the economic potential of the DAI projects and implement a strategy to eliminate their operating losses.

8. The balancing of cost and income should be made a priority of the reorganization process.

The following summarized recommendations focus on the specific operating problems identified in the study.

1. <u>IMPROVE MEMBER SERVICE PRPGRAMS</u>

<u>Credit</u>

FACACH needs to provide more efficient, less costly service by reorganizing the financial operations department, creating 3 sections: credit, savings and deposits, and interventions and mergers. Insurance should be made a separate department.

Policy and procedural changes are needed such as preparing a comprehensive integrated credit policy, redesigning or creating required forms, using monthly control sheets for monitoring deliquency, foreclosure and liquidations, and ceasing accrual of interest on delinquent loans more than 90 days past due.

Personal visits should be made to delinquent credit unions and FACACH should implement a collections strategy regarding the repayment of outstanding loans.

External technical assistance is required to provide FACACH with urgently needed lending skills and experience. Hiring of an experienced banking professional is urgently needed.

Integrated Agricultural Development Projects

FACACH should consider recommendations made in the areas of improved marketing practices, financing of the projects and on how best to operate and structure the DAI projects. In the marketing area these include such issues as paying market prices to farmers, defining quality control standards, obtaining adequate market information and conducting feasibility studies regarding the processing of corn.

In the DAI financial area, FACACH must immediately consider refinancing the BCIE and BID/COLAC loans, develop and maintain actual versus budget cash flow statements, and improve accounting reports.

An independent operational and financial analysis of the entire project should be conducted to provide FACACH management with long-run profitability, marketing, financing and human resource constraints and recommendations and suggestions on the future operating structure.

Technical Assistance

The Federation service will be improved by reorganizing the technical assistance department, evaluating staff and supervisors and maintaining those meeting the necessary experience, technical expertise and work performance criteria. Outside technical assistance is required to assist FACACH to prepare training, educational and promotional materials.

Savings Mobilization

FACACH urgently needs to hire an experienced banking professional to head up its financial operations department, prepare policies and procedures governing its savings/deposit program, and form a credit union study group to prepare guidelines for establishing FACACH as the central liquidity facility for the movement.

Contact should be made with the Central Bank of Honduras in order to begin the process of qualifying FACACH as a participant financial intermediary.

Insurance

The insurance operations should be conducted on the same basis as a private insurance company. FACACH should immediately determine the causes for credit union withdrawal, consider commission systems for insurance officers and credit unions, set specific measurable goals to promote program growth and provide training for insurance staff. An evaluation of department head's performance should occur within one year and marked growth in insurance business should have been achieved.

Development Programs

FACACH should transfer all development programs to the proposed Cooperative Development Department and eliminate all direct costs not covered by these programs. Each program, prior to renewal should be evaluated to determine what specific, measurable results have been achieved in addressing credit unions' major problems and constraints. Those meeting identified priority needs should be continued. Further, FACACH should establish a policy identifying specific priorities which development programs should address.

2. IMPROVE FACACH FINANCIAL POSITION

FACACH should immediately centralize financial management and control in one functional unit (the controller's department), reduce indirect costs by releasing redundant executives, reduce direct costs by releasing unqualified personnel from the Technical Assistance Department, set up a temporary unit to effect delinquent loan recovery, prepare a strategy to get credit unions back into the saving and credit life insurance program, and de-dollarize the loan portfolio. The credit union interventions program should be revised to make FACACH the intervened credit union's manager, with intervention costs (e.g., manager's salary, etc.) paid by the credit union and the manager reporting to FACACH Financial Operations Department.

3. ORGANIZATIONAL STRUCTURE

Recommendations related to FACACH's organizational structure focus on two areas: structural design and the internal guidelines which permit the organization to function efficiently identified here as structural policies and procedures.

Structural Design

FACACH needs to recognize its operations on a functional basis. Redundant staff should be released. Reorganization should include such changes as creating the controller's department, eliminating the assistant manager position, establishing executive assistant position, expanding the internal auditor's function, integrating marketing into DAI, and establishing within the Financial Operations Department a Savings and Deposit and Interventions and Merger section.

FACACH should establish a Cooperative Development Department that would be responsible for the administration of special projects, rural financial system development, and training and promotion.

Structural Policies and Procedures

FACACH's operating policies should clearly define each department's function, eliminate overlapping functions, and cluster activities which logically fall within a particular function. The main objective is to enable each level of the organization to perform its responsibilities and be accountable to higher organizational levels. Policy and procedural changes are needed, including defining of planning procedures, assigning the Financial Operations Department exclusive responsibility for credit administration, Controller's Department assuming full responsibility for financial and general administration, the proposed Insurance Department realizing all insurance functions, each department head reporting directly to the manager and Marketing assuming full responsibility for all marketing functions from product purchase and price negotiation to final sale.

Methodology

Study Team

The Institutional Profile of FACACH was conducted by Peter Marion, the team leader, and John Schlueter, both Financial Systems Specialists from WOCCU, David Richardson, an Agricultural Credit Specialist (WOCCU consultant), Angel Castro and Ricardo Romero of COLAC, General Manager and Production Credit Technician respectively.

Approach

The FACACH portion of the study included 11, 2-3 hour interviews focusing on organizational inter-relationships. Interviews were conducted with:

Arnaldo Castillo Güiza	General Manager
Angel O. Banegas	Assistant Manager
Norbert Walter	Head of German Technical Mission
Ollman Zapata	Head of Agricultural Services
Julio C. Gonzâlez	Head of Financial Operations
Francisco H. Corrales	Head of Administration
Fausto Erazo Camacho	Head of Marketing
Jorge R. Vindel	Head of Central South Regional Office
René Chinchilla	Head of North West Regional Office
Marco Tulio Garay	Head of Insurance Section
Daniel Carvajal	Program Coordinator - Home Improvement

Ten major studies conducted prreviously were reviewed as well as FACACH's operating policies and procedures, plans and previous evaluations. The data for the financial analysis section was provided by FACACH staff, from FACACH's internal documents, financial statements, and loan records. The financial data for the agricultural service department was obtained from the DAI financial records.

At the credit union level, the study focused on the societies most capable of effectively utilizing loan funds. The 18 "leading" credit unions were selected by FACACH based on previously established criteria (see Appendix 1). The team interviewed the manager and/or elected officers of all 18 credit unions and revised such documentation as annual plans, budgets, policies financial statements and delinquency reports. The credit union financial data were provided by both FACACH and the credit unions. Two on-site surveys were conducted by the team in the San Pablo and Taulabé credit unions. The team held extensive interviews with the manager and elected officials, performed in-depth financial and delinquency analysis and thoroughly reviewed the credit unions' loan documentation, and operating policies and procedures.

I WILLINGNESS TO PARTICIPATE IN PROJECT

FACACH

FACACH's management, leadership and senior staff all support the credit union federation's participation in the Project. They realize that major organizational, policy and personnel changes need to be made to assure FACACH's return to profitability and growth. The Board of Directors and management have stated that this change process will begin during the second quarter of 1985 and will enable FACACH to utilize Project financial and technical resources effectively. From their perspective the Project would best involve FACACH in the following ways:

1. The credit component should be channeled through FACACH to qualifying credit unions.
2. The Project's credit resources should be diversified among these purposes: agriculture, cattle-raising, agro-industries, small business/commerce, cottage industries and housing.
3. The project should enable FACACH to increase its rural loan portfolio to leading credit unions.
4. The interest rates to FACACH should permit it to compete, and preferably not exceed the 6-8% range.
5. The loan term be ten years or more.

Affiliated Credit Unions

All surveyed credit unions expressed willingness to participate, although not all have immediate credit needs. Two presently have excess liquidity, due to successful savings mobilization programs, and would be unable to use credit immediately. They were, however, interested in gaining access to credit in the short to medium term.

Other credit unions undoubtedly are interested but these were not directly questioned given their inability to meet the relatively strict standards for possible participation in the proposed project.

From the rural credit union perspective, the ideal conditions for such Project credit are:

1. Given equal credit terms, it is preferable that funds be channeled through FACACH.
2. Flexibility is needed regarding intended credit purposes and potential borrowers. Most importantly, Project credit should assist the credit unions to diversify their portfolios and hence risk in such areas as:
   -- agriculture, cattle production, small business/ commerce, housing, consumption, equipment, transportation.
   -- Improving credit union facilities and image, such as office renovation, buildings, etc.
3. The term be determined by loan purpose but generally a medium term of 5-10 years is desirable.
4. The interest rate from FACACH should be in the range of 12-14% so that credit unions may relend at 18%. Credit unions would

require a 4-5% spread to cover their net operating costs.

POTENTIAL IMPACT

AID should be encouraged to channel funds through the FACACH system because it is fundamentally a locally owned and operated private financial network which invests primarily within its surrounding rural communities. This is unlike most commercial banks which attract capital to the urban areas.

Positive Impacts

A positive impact will be achieved if funds and technical assistance are channeled through FACACH. This will:

1. Strengthen the commercial service linkages between credit unions and FACACH and accelerate the consolidation of an integrated national credit union system serving rural and urban areas.
2. Be consistent with FACACH's and credit unions' expectations that Project resources be channeled through the federation.
3. Use the already existing system and infrastructure.
4. Capitalize on the fact that FACACH knows its credit unions and encourages discipline within the system, i.e., information, statistics, etc., are obtainable.
5. Diversify both FACACH's and credit unions' loan portfolios, and provide more efficient and timely services.

6. Assist, through the Project's institution building and credit component, to stabilize the movement, promote further integration, and set the stage for overall system development and growth. The Project will strengthen FACACH and its credit unions in the key areas of credit management, savings mobilization and operational efficiency. This will accelerate system growth and lead to increasing availability of locally generated funds to finance agriculture and other rural sector activities on a self-sufficient basis.

7. Provide through FACACH more efficient and timely service as compared to other financial institutions.

Particular note should be made that credit unions, while they much prefer receiving financial services from FACACH, are also extremely sensitive to the price, quality and efficiency of services, especially credit. To be competitive FACACH will need to improve in all three areas if it wants to maintain and expand its credit market.

On the other hand, credit unions stated that if government banks handle the credit program they would encounter inefficient bureaucratic systems. Commercial banks would charge a much higher interest rate and the guarantee requirements would be too stringent.

Negative Impacts

A negative impact is expected if the funds are channeled directly to credit unions. FACACH and credit unions stated that bypassing the federation would reduce FACACH's potential credit market, weaken the federation and project a less favorable image of the national credit union system. In the longer run, system discipline would break down leaving each credit union to operate as an isolated financial institution without recourse to technical and financial resources on a continuing, non-Project financed basis. There would exist no central institution capable of supervising, collecting and reinvesting Project loan funds.

FACACH management, leadership and affiliates noted that there are many other negative effects that could weaken the credit systems if the federation does not participate in the Project. FACACH would lose its image as a financial intermediary, its credibility and the trust of credit unions resulting in even more severe liquidity problems. The well-run, creditworthy affiliates would be attracted away and the federation would be left to provide financial services to the poorly functioning societies. This could only deteriorate FACACH's other services and result in losing its image as the movement representative, destabilizing other federation services, slower system development and FACACH's loss of control and influence with credit unions.

II ECONOMIC 'OTENTIAL

FACACH and its member credit unions have substantial economic potential as Project participants. Realization of this potential is dependent upon strengthening the operating capabilities of FACACH and its credit unions on a progressive, graduated basis beginning with FACACH and a group of 18 leading rural credit unions. As improvements in profitability, growth and solvency are achieved in these institutions it will be possible to expand their financial services to an even broader sector of the rural population.

If current asset growth rates are maintained and extended to weaker credit unions through the institutional strenghtening activities of the Project, the FACACH network of credit unions could mobilize between L.100 and L.200 million by 1995. The group of leading rural credit unions alone could reach over L.80 million in total savings and operate a loan portfolio of L.65 million. If the current loan mix continues, over L.30 million would be invested in income generating activities at the community level. Estimated additional credit demand for income-generating activities at current retail interest rates in the surveyed credit unions totaled L.6.24 million. With improvements in lending practices in FACACH and credit unions, this amount could be effectively absorbed over a five-year period.

This section of the profile examines the initial target group of 18 credit unions identified by FACACH, their management capability, operating performance, lending activities and delinquency status.

MANAGEMENT CAPABILITY

FACACH identified a group of 18 leading credit unions which are classified as "good" per the criteria listed in Appendix 1. While not all of the credit unions may be considered currently creditworthy, they do appear to be performing well as a group and most will probably become eligible for credits under the Project during the next few years. Following is a brief review of the management capability of these credit unions based on interviews with each and discussions with FACACH's technical advisors (field staff). Rankings are shown in Apendix 1. All 18 credit unions, although they are somewhat rudimentary in their make-up, possess tools for credit management such as loan policies, work plans, budgets, up-to-date accounting, forms, etc. A superficial inspection showed that these instruments need improvement. This will require qualified technical assistance from FACACH and the Project, especially in credit management. The abilities of elected leadership in the credit unions were classified as "adequate" by FACACH's Technical Assistance Department in only five credit unions. Nine need improvement and four are inadequate.

The ability of the credit union managers was assessed according to their formal schooling, professional experience and experience in the credit union. Of the 18 surveyed credit unions, 17 have full-time paid managers. These managers were evaluated as follows: 5 good, 7 satisfactory, and 5 unsatisfactory. The 18 credit unions have a total of 57 full-time employees--an average of three employees per credit union. The credit unions generally lacked specialized loan officers.

In general these leading credit unions are functioning in a satisfactory manner. Nevertheless substantial improvements in the areas of credit analysis and management will be needed to assure continued success in placing and recovering what are expected to be relatively large amounts of external financing.

OPERATING PERFORMANCE

The leading rural credit unions serve 29% of total FACACH affiliated members, have 23% of shares and 62% of deposit savings and hold 26% of total loans. In terms of profitability, growth and solvency, these credit unions are substantially outperforming FACACH, a situation of considerable concern to FACACH's management and leadership.

The current status of these credit unions is described below.

Membership/client base

The 18 credit unions have a total of 11,401 members after having grown 16% since December 1983. Thirteen had a membership growth in excess of 10%.

Financial Structure

In the aggregate, these 18 credit unions had total assets of L.17.1 million at year-end 1984 and experienced growth of 19% from December 1983. These assets are financed by shares (59%), savings deposits (26%), loans from FACACH (5%) and reserves and other sources (9%). The assets were invested as follows: 78% in loans, 10% in cash and bank accounts and 12% elsewhere. This structure is quite suitable for rural financial institutions.

Share Savings

Total shares were L.10.2 million at December 1984 and grew 23% during the year. This is the result of membership growth and the 5% obligatory capitalization on loans.

Deposit Savings

Savings deposits (including passbook savings, time deposits, Christmas Clubs, children's accounts and others) totaled L.4.5 million and grew 39% over the December 1983 total. This shows a highly positive response to the financial services offered by the credit unions in their rural communities, where there usually are no banking facilities.

FACACH Loans

Of the 18 credit unions, only nine have outstanding loans with FACACH totaling L.894,840; none of the credit unions is deliquent with the Federation.

Loans Outstanding

The 18 credit unions have a combined member loan portfolio of L.13.4 million, which reflects an annual increase of 30% compared to 1983.

FINANCIAL MANAGEMENT INDICATORS

Given below are some of the main indicators which exemplify the quality of the financial management of the 18 credit unions studied. Detailed data for each credit union are included in Appendix 2.

Earning Asset Ratio

The ratio of earning assets to costed sources of funds is 101%, which shows us that these credit unions are efficient investors of their deposits and other resources.

Average Member Savings

Average savings per member is L.1,292, a high figure for rural Latin America.

Solvency

The solvency indicator is at a reasonable level for Latin America, showing that members' shares are 91% backed by assets should the credit union be liquidated.

Profitability

The credit unions earned an average 12.94% on total assets, had a cost of capital of 6.58% and a gross spread (financial margin) of 6.36%. Their net operating costs were only 4.48% thus leaving an operating spread of 1.89% for additions to reserves and undivided earnings. This is an excellent level of profitability and is the result of low levels of net operating cost; gross earnings can probably be increased through more effective delinquency control.

Capitalization

As a group these credit unions have invested 6% of their total members' shares in FACACH share capital. This is closely correlated with credit union borrowings from FACACH due to its loan capitalization system. Eleven low-borrowing unions have less than 5% of their shares invested in FACACH and three high-borrowers have from 13% to 19% in the federation. Five percent of member shares invested in FACACH can be considered a reasonable level, so there is some room for improvement.

CREDIT UNION LENDING

Nearly half (48%) of loans granted by the leading rural credit unions during the last two years were for income-generating purposes. In 1984 this included 16% for agriculture and cattle raising and 35% for small business and production lending. Loan totals by purpose for each credit union in 1983 and 1984 are shown in Appendix 3. The percent share of each loan purpose is summarized below. The balanced nature of the portfolio reflects the credit union's important role in meeting a variety of the rural sectors' business and consumer needs. It also helps diversify risk, part of the reason these cooperatives have relatively low levels of delinquency and suitable profitability.

TABLE 2

PERCENT DISTRIBUTION BY PURPOSE OF CREDIT UNION LOANS TO MEMBERS

Purpose	1983	1984	Change
Income Generation	%	%	%
Agriculture	7	7	--
Cattle Raising	9	9	--
Artisans and Small Producers	2	1	(1)
Small Business	27	34	7
Consumption			
Housing	16	17	1
Consumer Needs	15	13	(2)
Other	24	19	(5)
Total	100	100	--

The surveyed credit unions are currently making loans with an average term of 14 months, which is appropriate given their dependence on passbook savings and term deposits of up to one year. Long term financing to these credit unions from the Project would allow them to make medium term investment loans for farm improvement or small business purposes and not just annual or shorter production and working capital loans. This can be expected to increase both production capacity and employment in the participating rural communities over the longer term.

POTENTIAL CREDIT DEMAND

The surveyed credit unions indicated that they could potentially absorb up to L. 8.81 million at wholesale interest rates of 12% to 14% and for a medium term of up to five years. Their estimates by purpose are summarized below; detailed amounts for each credit union are shown in Appendix 5.

TABLE 3

POTENTIAL CREDIT UNION LOAN DEMAND

Loan Purpose	Number of Credit unions	Amount (Lps.)	%
Agriculture	15	1.7000.000	19
Cattle Raising	14	1,120,000	13
Artisans and Small producers	15	500,000	6
Small business	17	2,920,000	33
Housing	15	2,130,000	24
Consumer	11	440,000	5
Total	17	8,810,000	100

LOAN DELINQUENCY

The surveyed credit unions have markedly improved their delinquency situation during 1984, reducing the overall late payments rate from 20% to 12% of total outstanding loan as is shown below.

TABLE 4

LOAN DELINQUENCY OF SURVEYED CREDIT UNIONS

(Thousands of Lempiras)

	1983	1984	% Change
Total loans	10,265	13,387	30%
Total Delinquency	2,029	1,570	(23%)
Delinquency rate	20%	12%	(40%)

Eight of the credit unions have 10% delinquency or less and another four have 15% or less, as is shown in Appendix 4. Reserves cover 39% of total delinquency.

Nearly half (41%) of total delinquency in these credit unions is over 18 months old, as is shown in Appendix 4. The credit unions reduced these "stale" loan balances by L.192,303 in 1984, an excellent performance. These organizations are certainly in the forefront of rural cooperatives in Honduras.

III. MEMBER SERVICE PROGRAMS

This section of the profile evaluates FACACH's services to member credit unions and the latter's services to the rural population. The FACACH services evaluated here include: credit, agricultural production and marketing, technical assistance, savings promotion and central liquidity facility, insurance and specialized development projects. Each of these services is evaluated and detailed recommendations for improvement are presented.

FACACH SERVICES

CREDIT

Current Services

1. FACACH currently has a portfolio outstanding of L.11,309,525 with 143 loans. See Table 5.
2. FACACH authorized and funded 34 loans for L.1,685,867 in 1983 and 41 loans for L.1,733,311 in 1984.
3. FACACH has the following programs available:
    a. Production Loans
    b. Administrative Loans
    c. Rural Technology Loans
    d. Working Capital Loans
    e. Grain Marketing Loans
    f. Small Industry Loans
    g. Housing Loans
    h. Educational Loans
    i. Family Development Loans
    j. Personal Employee Loans

TABLE 5

FACACH PORTFOLIO ANALYSIS

CATEGORY	NUMBER OF LOANS	AMOUNT
Non Affiliated Cooperatives	10	L. 466.178.13
Member Cooperatives (North-West Zone)	27	3.816.891.68
Member Cooperatives (South-Central Zone)	24	1.512.645.40
IFADER COOP.	3	38.581.74
Rural Technology Loans	2	150.000.00
COSUDE Loans	15	59.165.23
Vehicle Loans	21	143.600.49
Administrative Loans	10	188.284.73
Personal Loans	16	115.647.10
D.A.I. Project Loans	9	4.149.311.61
Loans in Liquidation	6	669.219.29
TOTAL	143	L.11.309.525.40

k. Vehicle Loans

l. DAI Project Loans

4. The Credit Section of the Financial Operations Department is responsible for the following activities/services regarding the loans under item No. 1 above.

    a. Credit Analysis
    b. Loan Approval/Rejection
    c. Delinquency Supervision and Control
    d. Deferment Approvals/Rejections
    e. Refinance Approvals/Rejections
    f. Foreclosure Actions
    g. Liquidations and Recovery of Collateral
    h. Intervention of Mismanaged Cooperatives

    FACACH has an excellent group of loan programs suited to meet the needs of the rural cooperatives in promoting economic and social development. FACACH currently lacks the infrastructure within its organization to provide the type of leadership, guidance and control necessary to effectively administer its loan programs and satisfy the requirements of external financial institutions.

Problem Areas

Organizational and Staffing Deficiency

The Finance Department currently is responsible for credit services as well as insurance sales and administration. These responsibilities dilute the amount of time allocated to credit-related matters which results in an inadequate amount of time and attention given to credit analysis and supervision. There are currently only two people, the Department Head and one loan officer, who are responsible for the entire analysis and supervision of credit. The Department is sorely understaffed and needs immediate additional support and resources. Staff need additional technical skills urgently. Loan programs each have their own set of requirements and are not integrated together so that there is a consistent set of basic requirements for all loan requests. The lack of policy and procedures coordination is a great source of confusion and wasted time in processing loan applications and extension requests.

Credit Analysis and Decision-Making

There is a complete breakdown in the analysis of re-payment capacity. Credit personnel are not analyzing repayment in accordance with the type of loan granted. Total cash flow including rollover of non-debt financed loan assets is used instead of net income available from the investment. This has resulted in faulty conclusions regarding the amount of money the credit union has available for debt service. Due to inadequate repayment capacity, loan amortization terms and conditions are in many cases completely out of line with what the credit union can reasonably expect to pay back over a given period.

The forms which FACACH uses to analyze credit are also, in many cases, inadequate. Some forms such as cash flow diagrams do not exist and it is left up to the credit union or cooperative to provide the appropriate form.

There is no uniform, written policy regarding the type of guarantees that will be required based upon the type of loans solicited, and the appropriate margin of safety between loan amount and collateral pledged. This has resulted in many sizeable loans being granted without adequate collateral protection.

No one from the Credit Department goes out to visit with the prospective credit union borrowers to analyze first hand the situation and determine whether or not there is a basis for granting a loan. This has resulted in a complete reliance on technical assistance personnel in the field for making valid recommendations; in many cases, the technical advisors are not trained in credit analysis and can only give a valid opinion regarding the feasibility of a project without understanding the financial implications.

In many cases, it appears that social/political factors outweigh financial factors in granting loan applications or refinances. This appears to be an unwritten policy, left up to the individual approving the loan.

Delinquency Supervision and Control

The Department Head is out of touch with the current status of many delinquent loans. This is due in part to time constraints, as well as reliance on technical advisors for the continuous supervision and follow-up required. The department has no field staff to supervise the portfolio. No credit union visits are made by the credit Department to followup on delinquency problems. Complete reliance is on technical advisors to make valid recommendations and follow-up.

There is no written policy nor procedure guidelines for the effective control of delinquencies. No written "workout" plans are established, based on projected cash flows, so that timely payments can be made to cancel delinquent payments. This results in a build up of accrued interest and principal beyond the capability of the credit union. No monthly control forms are circulated by credit personnel showing the current status of delinquency and collection activities on each delinquent loan.

FACACH has taken a "soft-line" approach, in many instances, in collecting delinquent payments. This has apparently resulted in an abnormally high amount of abuse from credit unions who can pay the delinquent installments, but prefer to allow their account with FACACH to be delinquent in favor of meeting local credit needs.

Deferment Approvals/Rejections

Written policy and procedure guidelines established for the approval of deferrals are inadequate. Deferments have been granted for the sake of expediency (supporting field staff recommendations) rather than receiving necessary information to make correct decisions. The information provided by field staff in many cases is inconsistent and lacks the analysis necessary to show valid reasons for granting the deferment. This is a result of insufficient policy and procedure guidelines.

Refinance Approvals/Rejections

Written policy or procedure guidelines established for the approval of refinances are inadequate. The information submitted is inconsistent and lacks the analysis necessary to approve the refinancing. The analysis of repayment capacity is completely inadequate for the same reasons as outlined earlier. The terms and conditions of refinances are in many cases, unrealistic for the credit union to meet, due to lack of correct cash flow projections. Some refinancing appears to have been approved for social/political factors and not based upon sound credit judgment.

Foreclosure Actions

No written policy or procedures exist regarding the handling of loans in foreclosure. The credit department is not involved in the legal coordination and follow-up of foreclosed loans. Senior management has taken this responsibility away from the Credit Department and consequently, little coordination exists. No monthly control sheets are circulated showing the current status of loans in foreclosure. This has resulted in abnormally long delays in foreclosing loans because of lack of timely, consistent follow-up.

Liquidation and Recovery of Collateral

Inadequate written policy or procedures exist regarding the disposition of acquired assets, after foreclosure has taken place. No monthly control sheet is prepared showing the current disposition of assets acquired and actions to be taken.

Credit Recommendations

1. Reorganize the financial Operations Department and make two separate departments, one for insurance and one for credit. The latter would be responsible for all financial services to member credit unions. It would have three sections, one each for credit, for savings deposits and for supervision of "intervened" or defaulted credit unions administered in part by FACACH.

   The credit section should have four experienced loan officers, each responsible for credit unions in a specific geographical region, the quality and quantity of loan portfolio including loan analysis, recoveries, delinquency control and supervision. Pre-established yearly objectives and incentives will encourage loan officers to expand the potential credit union and cooperative loan market by providing them with required technical assistance that allows these organizations to qualify for the federations' loans.

   The Credit Section should also have one person whose specific responsibilities include: performing periodic supervisory reviews of loan documentation and analysis; maintaining FACACH's loan and statistical data base monitoring and control of delinquency and recoveries. He would also be responsible for follow-up and supervision of foreclosed loans.

The Intervention section will administer staff of intervened credit unions, perform mergers, recommend liquidations and manage the stabilization fund.

2. Rewrite the entire Credit policies and procedures manual to include an integrated policy for each loan program in the following areas:

   a. Information and Documents Required
   b. Repayment Capacity Determination
   c. Interest Rates
   d. Loan Terms
   e. Guarantees Required
   f. Loan/Collateral Margins
   g. Technical Assistance
   h. Delinquency Control and Supervision
   i. Deferment Approval/Rejection
   j. Refinance Approval/Rejection
   k. Foreclosure Actions
   l. Liquidation and recovery of collateral
   m. Credit Union Intervention
   n. Loans to Directors and Employees (FACACH and Credit Union)

3. Redesign or create the following forms to include the necessary information required for proper control and decision making.

a. Loan Application

b. Financial Statement and Analysis

c. Income and Expense Statement and Analysis

d. Cash Flow Statement

e. Repayment Capacity Worksheet

f. Delinquency Status and Control Worksheet

g. Foreclosure Status and Control Worksheet

h. Assets in liquidation Status and Control Worksheet forms to be standardized at FACACH level and credit union level.

4. Staff Credit Department with people who either have lending experience or a financial background where credit skills can be learned and developed.

5. Implement use of monthly control sheets of all loans in various stages of delinquency, foreclosure and liquidations.

6. Personally visit each cooperative listed in Table 6 of this report and develop a strategy regarding the repayment of outstanding loans to FACACH. If loans are in partial liquidation, then identify the sources of repayment and the timetable contemplated for a complete recovery.

7. Immediately stop the accrual of interest on the loans listed in Table 7 and develop an acceptable repayment plan for each on both

Table 6

RECOMMENDED CREDIT UNIONS/BORROWERS REQUIRING CLOSE SUPERVISION

NAME	LOAN BALANCE
1. I.B.M.	L. 412,330
2. Flor del Café	327,332
3. El Esfuerzo	4,471
4. Ulu otorena	2,037
5. Fecorah	135,601
6. Macuelizo	66,239
7. La Hermandad	84,304
8. La Equidad	42,926
9. Lepaera	26,823
10. Cashapa	6,289
11. San Nicolás	2,252
12. Utila	42,381
13. San Antonio Ma. Claret	7,500
14. Colopeca	103,408
15. Tres de Mayo	17,894
16. San Pablo	9,709
17. Visión y Trabajo	104,443
18. San Marcos Valle	4,000
19. Pinalejo	327,232
20. Campamento	64,482
21. Apagüiz	135,671
22. Caciel	37,704
23. Renovación Pacena	132,841
24. Catacamas	54,854
25. San Francisco de La Paz	166,861
26. Santos Guardiola	2,185,182
TOTAL	4,504,766

Table 7

RECOMMENDED NON-ACCRUAL LOANS

12/31/84

	NAME	LOAN BALANCE	ACCRUED INTEREST
1.	Pinalejo	L.327,232	L. 87,096
2.	Flor del Café	137,278	48,131
	Flor del Café	3,950	1,219
	Flor del Café	156,443	32,261
3.	Utila	42,382	27,802
4.	Macuelizo	17,903	2,771
	Macuelizo	48,336	15,534
5.	Equidad	18,099	6,854
	Equidad	25,826	6,717
6.	La Hermandad	62,703	28,430
7.	Cashapa	1,975	613
8.	Lepaera	4,313	2,950
	Lepaera	12,778	9,382
	Lepaera	7,341	3,931
	Lepaera	6,703	4,401
9.	Santos Guardiola	2,185,182	699,880
	TOTALS	L.3,058,444	L.977,972

principal and accrued interest and transfer the loans into a non-accrual status and balance sheet account. It is recommended that FACACH implement as part of its financial policy the non-accrual of interest of all loans more than 90 days past due on interest payments and to charge off accrued interest on loans not brought up current on interest after 180 days. These loans should be segregated in a special general ledger account.

8. Provide FACACH with long-term technical assistance to help implement the recommendations heretofore mentioned. In addition, technical assistance should include instruction in credit analysis and loan supervision to strengthen a very weak credit department.

Mechanisms to Strengthen FACACH and Credit Unions

FACACH is in desperate need of strong leadership, professional credit expertise, and practical experience in dealing with the day to day problems of a lending institution. Most of the rural credit unions which belong to the federation are also in dire need of adequate direction and supervision from FACACH. Since FACACH is in such desperate circumstances, it is not difficult to understand why there has been little progress in strengthening rural credit unions to be effective financial institutions. It is obvious that the resources to attack these problems do not exist within the federation.

External technical assistence is undoubtedly the only source of reliable agricultural and credit union lending skills and experience necessary to accomplish the Project's institution building objectives for Honduras. It therefore recommended that AID-financed assistance to FACACH include a credit advisor who would be responsible for developing and implementing a five-year program of credit systems development at the FACACH and credit union levels. The program should consist of the following key elements:

1. Assisting FACACH in reorganizing the credit department and locating people who have the talent to perform the job.
2. Developing a comprehensive set of credit policies procedures to be implemented by the Federation and member credit unions.
3. Redesigning the appropriate forms to improve loan underwriting and supervision at FACACH and credit union levels.
4. Implementing a FACACH-wide training program of credit analysis and loan supervision which would be conducted at both the FACACH and credit union levels.
5. Participating with the Credit committee to insure that proper decisions are being made.
6. Assisting in the supervision and collection of delinquent loans that have a high degree of risk.

INTEGRATED AGRICULTURAL DEVELOPMENT PROJECTS

Current Services

The DAI projects provide a variety of specialized agricultural services to basic grains producers with the objective of increasing farmers' output and income. These services include:

1. Grain Processing and Handling
   a. Grain Marketing
   b. Grain Drying and Cleaning
   c. Grain Storage of 171,000 cwt.

2. Crop Production and Financing

   a. Crop Input Supplies (fertilizer, improved seed, chemicals)

   b. Custom Hire Machine Services (plowing, discing, harrowing)

   c. Production Loans to Participants

   d. Technical Assistance

Evaluation of Services

The DAI project during 1983-1984 provided 191 farmers with the complete package of services noted above. An additional 806 farmers received only some of the services for a total of 997 direct beneficiaries. The average production yield during this same period of time was 65 cwt. per manzana, approximately twice the normal yield from 2,207 manzanas farmed. Please refer to Table 8 for more details.

FACACH pays farmers in cash approximately 0.5 to 2 Lempiras more than "Coyotes" would offer. FACACH has provided a "stable" market of grain purchases even though the national market might be very unpredictable. FACACH pays non-program participants approximately 50 cents less than program participants, but still above what "coyotes" are offering. This is done to guarantee sufficient grain quantities since program participants do not produce sufficient volume to fill storage facilities. FACACH finances its grain sales to national feed processing companies over a 10 month period at 12%-16%. The storage facilities may become a future good investment due to the possibility of lempira devaluation. Generally speaking, the 191 program participants seem to have truly benefited from the integrated DAI program.

Problem Areas

Marketing

1. There is a definite lack of knowledge and experience regarding the price fluctuation of the national markets.
2. Unreliable export markets due to government intervention

Table 8

DAI PROJECT BENEFICIARIES

Agricultural Year 1983-1984

	Yoro	Becerra	Catacamas	Total
Number of Farmers	73	35	83	191
Manzanas Farmed	793	449	966	2.208
Production Yield (cwt. per manzana)	65	58	55	

Average production 65 cwt./manzana

Agricultural Year 1984-1985

	Yoro	Becerra	Catacamas	Total
Number of Farmers	71	47	80	198
Manzanas Farmed	883	455	917	2.255
Production Yield (cwt. per manzana)	56	65	74	

Yields in Yoro were affected by excessive rain this year.

Table 8 continued

NUMBER OF BENEFITED FARMERS

(1983/85)

	Yoro	Becerra	Catacamas	Total
Total Integrated Services Package	73	35	83	191
Credit Only	---	---	---	--
Marketing Only	232	183	391	806
TOTAL	305	218	474	997

(1984-85)

	Yoro	Becerra	Catacamas	Total
Total Integrated Services Package	44	37	51	132
Credit Only	27	10	29	66
Marketing Only	152	195	267	614
TOTAL	223	242	347	812

and delay.

3. Excessive competition from wheat imports has lowered the price or corn.

4. Limited number of customers (5-6) who purchase grain from FACACH. Due to excess supply of corn, buyer's market prevails.

5. Financing grain over ten months keeps storage facilities occupied and makes it difficult for FACACH to achieve a higher inventory turnover through new grain purchases. Turnover is achieved through buying and selling high-moisture, non-stored corn.

6. Because of lack of storage space, FACACH must sometimes pay for private storage.

7. If market price of grain is below production costs, FACACH has historically speculated in order to at least achieve break-even. This "open-position" was disastrous in 1983-1984 when market prices continued to drop.

8. Financing of grain sales has tied up FACACH's operating line of credit for grain marketing which has resulted in a severe liquidity problem and inability to purchase new grain, as well as input supplies.

9. The project was designed principally for corn, rice and beans. Corn has historically been the main crop. Due to the continued oversupply and poor price of corn, the project is trying to diversify into other areas where there are higher profit margins. This will require additional capital which is

not readily available. Lack of crop diversity is a major problem.

Finance

1. Continued operating losses of (L.242,832) in 1984 and (L.64,53) in 1983.
2. Accumulated loss since inception of (L.919,816).
3. Operating expense and investment loans have continued to escalate over and above net operating losses since inception. The current total of "operating expense" loans at 8/31/84 was L.1.834,068 while the total accumulated losses were only L.919,816. It appears there have been other uses for the funds received from operations, since the money received from the sale of grains was not applied to outstanding operating expense loans.
4. FACACH will have severe liquidity problems in 1986 and beyond when amortization of B.C.I.E. loans and B.I.D./COLAC loans begins. 1986 amortization according to DAI records will be L.978,750. The 1985 amortization was only L.125,000. This outflow of money will make it impossible for FACACH to operate the projects in a viable manner unless refinancing is obtained.
5. There is no actual cash flow budget showing the results of operations. Only a projected cash flow that is done at the beginning of the crop year (September). This makes it impossible to analyze the actual sources and applications of funds throughout the year and the resulting credit line balances with financial institutions.

6. The per unit cost projections are based upon estimated volume projected through the end of the crop year (August). The unit cost of grain actually purchased and stored is now calculated monthly. At the time of this report, stored grain cost per pound was substantially greater than the market price.

7. The projected break-even analysis is inadequate because it has not included any debt service requirements nor any allocation for payment of FACACH overhead.

8. The project must sell approximately 350.000 cwt. of grain at a gross margin of 18% in order to break-even. Since there is only 172.000 cwt. of grain storage, the inventory must turn nearly two times. This appears to be impossible due to the timing of the harvests and the need to hold and finance grain sales.

9. Only 40% of the grain storage is used by participants of the program (69,000 cwt.). This means that of the 350.000 cwt. needed to sell to reach break-even, only 20% is provided by the program participants and 80% must come from the open market.

10. The FACACH credit department does not have supervisory control over the delinquent production loans in the projects. It is currently left up to DAI staff in the field to supervise collections.

11. There is no provision for losses (reserves) established for the Projects' production loan financing program. There are undoubtedly already losses without a reserve established to cancel them.

12. The projects are currently providing 100% financing for production purposes. This has resulted in a need to offer higher market prices to recapture extended credit.

Human Resources

1. Personnel involved in grain marketing are in need of more education regarding local markets and price fluctuations.
2. The DAI Projects do not have a "General Manager" with experience in the areas of finance, marketing and administration.
3. The number of project participants/beneficiaries is limited by the amount of available technical assistance personnel and mechanical equipment (tractors, tillage equipment, etc.).

DAI Recommendations

Marketing

1. The project should pay the farmer the market price of his grain and not pay more to recover the 100% financing provided. Business operations should not be sacrificed at the expense of credit operations and recovery. The two functions are different and each should stand by itself.
2. Quality control standards should be defined and implemented with appropriate discounts for grain that does not meet moisture and quality standards.
3. Adequate market information should be obtained prior to harvest so that FACACH can offer a realistic price to the farmer and also lock-in a price to the buyer. This would avoid speculation which FACACH cannot afford to do.

4. Alternative national markets for corn should be explored to avoid the present concentration of grain sales to 5-6 customers.

5. Conduct feasibility studies regarding the processing of corn into flour and feed concentrate to open new sources of revenue for the abundant supply of corn that FACACH needs to market.

Finance

1. FACACH must immediately seek a refinancing of the loans to B.C.I.E. and B.I.D./COLAC if it wants to maintain liquidity. A revolving line of credit should be established, rather than an amortized loan, for grain marketing purposes. If a refinancing does not occur, FACACH will face a severe liquidity crisis.

2. Develop and maintain an actual versus budget cash flow statement in order to facilitate proper planning and application of funds.

3. Improve accounting reports to provide accurate monthly per unit cost figures, and break-even points of grain volume, including the long term debt service requirements and the allocation of FACACH overhead expenses.

4. Establish an adequate provision for losses reserve for project production loans and recognize any losses that are realized but not yet accounted for on the financial statement.

Evaluation Study

During 1985, an independent operational and financial analysis of the entire project should be conducted to provide FACACH's management with the information necessary to decide how best to operate and structure the DAI Projects. The study should focus on at least the following central issues:

1. The long-run profitability of the project
2. The marketing constraints of the project
    a. Limited grain markets
    b. Diversification of crops and sources of new revenue
    c. Multi-purpose use of facilities
    d. Storage capacities
3. The financing constraints of the project
    a. Current debt structure
    b. Sources of new debt to finance expansion/roll-over
    c. Debt repayment capacity of projects
    d. Interest rate structure
    e. Ability of FACACH to withstand future adversity in project
4. The Human Resource constraints of the project
    a. Evaluation of current operating personnel
    b. Evaluation of FACACH's staff involvement
    c. Technical assistance cost/benefit
    d. Number of beneficiaries versus invested capital
5. The creation of an independent business entity versus subsidiary of FACACH organization, as compared to current integrated operating structure.

TECHNICAL ASSISTANCE

FACACH's technical assistance program has assisted credit unions to survive the present economic crisis. The 17 credit unions interviewed all responded that the service was at least adequate and most said that it has been very beneficial. With AID support the technical assistance department implemented the successful savings mobilization pilot program. It was also instrumental in changing attitudes concerning the 12% interest rate on loans; most now charge between 18% and 21%. Credit union managers are now able to talk about the cost of funds, the margin they need to operate and how they price their loans. Two of the credit union managers interviewed clearly stated that FACACH's technical assistance and financing were the only things that kept them in business after suffering severe financial crises.

Nevertheless, FACACH's technical assistance program has demonstrated little effectiveness in improving credit performance as measured by aggregate statistics. Comparison of credit union profitability and delinquency indicators for 1983 and 1984 showed mixed results:

-- worsening of expense to income ratio which rose from 73% to 77%

-- A reduction in net earnings on average loans from 3.39% to 3.13% as

-- Net income per share fell slightly from 3.71% to 3.44%

-- Overall delinquency improved slightly, falling from 16% of loans outstanding to 13% (FACACH statistics, however, are inconsistent)

- Non-share savings grew at a 22% annual rate, while membership grew at 5%, shares at 12% and loans outstanding at 13%.

There is a continuing lack of qualified managers and elected leadership resulting in administrative deficiencies. Most credit unions still lack basic policies and procedures, especially in the area of credit administration.

The major reasons for this ineffective technical assistance service are:

- Advisory staff generally do not have practical, technical and credit union business experience.
- The departmental supervisors have not set measurable performance objectives for the advisors which address the credit unions' major problems and monitor results.
- Overemphasis in technical assistance planning on undertaking activities (meetings, visits, courses, etc.) and not on achieving improved credit union performance and loan repayment to FACACH.
- Little specialized external technical assistance to FACACH in these areas.
- Lack of incentives to advisors and department heads for achieving measurable financial and growth performance of credit unions.

<u>Technical Assistance Recommendations</u>

1. Release most field staff from the Technical Assistance

Department and reorganize it into a Credit Union Development Department. Its major function would be to develop training packages to be utilized by FACACH's field staff in the Financial Operations Department and to provide training and technical assistance to credit unions. This new department would house the recommended Rural Financial Systems advisors and a trainer, as well as the pre-existing development projects now scattered throughout FACACH.

2. Review technical staff and their supervisors, and evaluate each based on experience working in financial business, technical expertise and demonstrated improvement in the status of credit unions under their responsibility. Those meeting these criteria should be maintained within the Credit Union Development Department or relocated to other departments. The balance should be released.

3. Provide external technical assistance to FACACH as outlined in section IV B to assist in preparing training, educational and promotional materials.

SAVINGS MOBILIZATION

As the national credit union federation, FACACH needs to make savings mobilization a priority activity and to acquire greater expertise in this area.

At year-end 1984 FACACH held L.1.3 million in deposits from credit unions on which it paid on average of 13.53% (rates ranged from 6% to 15%). This represents nearly 18% of total credit union savings deposits and reflects FACACH's aggressively competitive rate structure.

Unfortunately, two surveyed credit unions reported difficulties in making withdrawals of their deposits and indicated that they might take their business elsewhere. FACACH does not have appropriate savings and investment program policies, operating systems or procedures to manage its deposits adequately as a central liquidity facility. FACACH lacks even the most rudimentary liquidity management expertise, has no asset/liability management procedures in place and has no staff members with practical banking experience. This situation needs to be corrected in the very near future if FACACH is to maintain credibility as a central depository for the Honduran credit union movement.

The five credit unions which participated in the savings mobilization pilot project supported by AID have demonstrated excellent results. Between December 1983 and November 1984 their membership grew 18.7%, shares 21.4%, savings and deposits 70.7%, and loans 33.5%. At the same time their delinquency ratio declined from 16.9% to 11.5%.

Savings Mobilization Recommendations

1. FACACH urgently needs to hire an experienced banking professional to head its Financial Operations division and manage its deposit and credit services.

   The Savings Mobilization section should be part of the financial operations department and be responsible for managing liquidity reserve, capitalization and deposit or third-party deposit instruments. The section's savings officers would assist FACACH and credit unions with saving and deposit system design, implementation, promotion and maintenance.

2. FACACH needs to prepare, approve and implement financial management policies and procedures governing its savings deposits program. These should include as a minimum: term matching of sources and uses of funds, definition of allowable investments in accordance with safety, liquidity and yield, and specification of custodial and reporting responsibilities and authority to make investments or incur liabilities for FACACH.

3. FACACH should establish a study group including representatives of those credit unions most active in savings mobilization and its own chief fnancial officer and the head of the financial operations department to develop guidelines for establishing FACACH as the central liquidity facility for the movement.

4. FACACH should initiate contact with the Central Bank of Honduras with the objective of qualifying itself as a participant financial intermediary.

INSURANCE

Insurance is FACACH's most profitable service. However, there is minimal growth in their main insurance line of life savings and loan protection (credit life) coverage and their market penetration has declined in recent years.

MARKET PENETRATION

Coverage as Percent of Total Market

	Members	Savings	Loans	Credit Unions
1980	68	NA	NA	91
1981	68	NA	NA	88
1982	74	71	80	88
1983	74	67	65	80
1984	78	58	59	82

Until 1983, FACACH serviced a high percentage of its "captive" credit union savings and loan market, 71% and 80% respectively. This coverage declined drastically to 58% of savings and 59% of loans in 1984 as five of FACACH's largest client credit unions terminated their coverage. This decline is the result of:

-- Lack of dividends, sales commissions or other incentives to credit unions
-- Plans and targets that lacked defined implementation strategies
-- Failure of insurance section head to attain annual growth objectives
-- Failure to provide efficient and competitive service

-- Salary program that fails to provide incentives based on results, particularly annual net income growth

-- Department personnel lack insurance skills especially in marketing and promotion techniques as well as overall program administration.

Insurance Recommendations

1. FACACH's insurance manager should review applicable insurance laws and begin operating on the same basis as a private insurance company. Particular attention should be given to investment policy regarding required reserves and allowable investment vehicles and instruments.
2. Immediately determine the causes for withdrawal of credit unions from the insurance program and implement a plan to effect their return as rapidly as possible.
3. Develop a salary program, in consultation with insurance carriers, based on salary plus commissions to stimulate sales growth.
4. Develop a commission system for credit unions selling FACACH insurance services and initiate payment of dividends based on loss experience.
5. The insurance manager should set specific measurable goals with an appropriate implementation strategy for 1985. Performance appraisals should be based on achievement of these goals, and marked growth in program should be demonstrated.
6. Provide training for insurance staff, especially the section

head, in insurance administration and promotion. Re-evaluate the section head's performance within one year. If marked growth in insurance business is achieved, he should be retained.

DEVELOPMENT PROGRAMS

FACACH administers eight development programs including the Home Improvement Program (GTZ), Family Integration Program (SDID), Resin Project (UNACOOP), Post-Harvest Project (COSUDE) as well as the DAI Projects (GTZ) and credit union development project OPG (AID). Except for the AID Project, most of those programs have little impact on resolving FACACH's and many credit unions' major problems: low profitability, little growth, deficient administration, high delinquency, etc. While these programs are for the most part externally funded, they increase indirect costs and distract the federation's attention and human resources from its major immediate objective: survival.

Development Program Recommendations

1. Transfer all development programs to the proposed Cooperative Development Department, eliminate all direct costs not covered by these programs and negotiate reimbursement of indirect costs wherever possible.
2. Evaluate each of the development programs prior to renewal to determine what specific, measurable results have been achieved in addressing the credit union system's major problems in at least the following areas:

- Increasing FACACH's profitability, growth and solvency;
- Increasing credit unions' profitability, growth and solvency;
- Improving credit union management;
- Reducing FACACH's and/or credit unions' delinquency.

Only those programs addressing these major problems or meeting other identified priority needs should be continued.

3. FACACH needs to establish a clear policy for management on what specific priorities should be addressed by development programs. All proposed programs should be measured against and accepted (or rejected) based on this policy.

CREDIT UNION SERVICES

The leading rural credit unions surveyed for initial consideration as Project participants, provide the basic financial services to their members and the public which were described in Chapter II. These are briefly summarized below. See Appendix 5 for interest rates of each savings and loan instrument offered by these credit unions.

1. Savings

Share savings are long-term investments in the credit union and function as a loan guaranty or compensating balance. Deposits have a variety of terms and generally pay interest rates well above competing bank rates.

The leading credit unions, with FACACH's assistance, have been highly successful in attracting savings and increasing their base of loanable funds. So far credit unions have not had serious difficulty managing this additional liquidity but there is need to establish clear policies, guidelines and procedures at the local level to assure sound investment and management of these funds as well as accurate forecasting of cash needs. This is the natural role of FACACH and is included as part of the proposed Project as well as the federation's five-year plan.

2. Loans

Loans are for a variety of purposes, especially agriculture, as specified in the credit unions' lending policies. Credit unions suffer from most of the same credit analysis and supervision problems noted in the FACACH section of this chapter. In general, they rely on the manager's and Credit Committee members' personal knowledge of potential borrowers rather than a careful analysis of the loan itself or its guaranties. None of the credit unions surveyed had a loan officer. While these credit unions have largely been able to control their delinquency in the recent past and seem to have generally capable management, there is an urgent need to install improved underwriting and control systems prior to disbursing additional external funds.

3. Insurance

Credit unions offer insurance only in a most passive manner. There seems to be considerable additional potential to be tapped if integrated national and local marketing programs are designed and implemented and appropriate financial incentives offered to credit unions. While this depends primarily on FACACH, credit unions also need to expand their promotional efforts.

4. Agricultural Services

One large surveyed credit union is actively involved in supplying agricultural inputs through its store. Another finances its coffee producer members who market their product through a local coffee cooperative which in turn settles accounts with the credit union. The other surveyed credit unions leave actual production and marketing functions up to the member providing him only with the financing necessary for his production.

IV ORGANIZATIONAL AND FINANCIAL ANALYSIS

FINANCIAL SITUATION OF FACACH

FACACH is currently in a most difficult financial position, in terms of both net worth and profitability. The Federation has suffered recurring operating deficits due to declines in earnings combined with increased operating and capital costs. These losses together with high levels of loan delinquency, a build up of grain inventories and credit sales of grain, have dramatically reduced FACACH's liquidity. FACACH as a consolidated enterprise is solvent, but member cooperatives' share investments are unimpaired due only to capital donations received from the German technical assistance organization, GTZ, FACACH's partner in its integrated Agriculture Development (DAI) projects.

The financial administration of FACACH is severely hampered by its division into four separate departments and the lack of integrated financial management policies or a uniform budgeting, accounting and reporting system, and the lack of required technical skills in the executives nominally responsible for financial management. There is no integrated cash flow budget and even those departments with cash budgets are not monitoring their actual versus planned position.

At the time of this report, final audited accounts for 1984 were not available. The analyses included here are based on FACACH's unaudited 1984 accounts, separate delinquency reports prepared by the Financial Operations Department, and the 1983 WOCCU financial analysis of FACACH.

Delinquency

The most severe financial problem facing FACACH is loan delinquency. This is a recurring theme in all the financial evaluations of FACACH and largely results from the lack of technical skills and instruments in the credit department, insufficient personnel to manage the portfolio, lack of responsible management on the part of many borrowing credit unions and an apparent inability of FACACH's leadership and staff to develop, implement and followup on effective "workout" plans for delinquent borrowers. FACACH is attempting to address these issues through its "administrative interventions" of delinquent credit union but it still lacks clear plans, defined authority and systematic follow-up.

FACACH has reduced its delinquency (as measured by total late loan payments divided by the total loans outstanding, the traditional Latin-American delinquency ratio) from an average of over 25% in 1983 to only 11% at year-end 1984. Nevertheless, 35% of the portfolio (as measured by total outstanding delinquent loan balances, not just late payments) has been extended or refinanced and only 13% of loans to credit unions are current under their original repayment terms. Even internal loans to the DAI projects are late in their interest payments to FACACH, although repayments at the farmer level approach a 100% rate. FACACH's portfolio structure by payment status is shown in table 9.

The loan portfolio as analyzed here includes as "loans" funds invested by FACACH in its DAI projects. These are in fact internal transfers of funds and as such would not normally be included in the loan portfolio in a traditional banking analysis of delinquency. FACACH's actual portfolio of loans outstanding to third parties totaled Lps.8.560,144 at December 1984. The delinquency rate was 11% using the delinquent payments measure, 16% using the delinquent balances measure.

Unfortunately, the FACACH credit department does not manage nor routinely receive information about the DAI project's portfolio of loans to individual farmers and grain buyers. These are managed on an independent basis by the DAI projects in the field and in Tegucigalpa.

There is no central credit administration in FACACH, due primarily to lack of qualified staff in the credit department and the DAI project's desire not to become dependent on the FACACH credit department. As with general financial management of the institution, a centralization of the credit management function in FACACH is urgently needed.

Most of FACACH's delinquent borrowers have requested and have been granted loan renewals several times. These accounts are now many years old and constitute a major drag on current earnings, both in lost interest income and in the cost of setting aside loss reserves. Expanded collection efforts can be expected to improve recoveries, but only to the extent that borrowing credit unions successfully collect their delinquent

TABLE 9

COMPARATIVE FACACH PORTFOLIO STRUCTURE
Outstanding Loan Balances in Lempiras

	June 1983		December 1984	
CURRENT LOANS	Amount	%	Amount	%
Non-refinanced/extended loans	1.632,688	17	1.364,141	13
Credit lines to projects	2,737,788	29	814,132	8
Refinanced/extended loans	505,948	5	3.725,918	35
Sub-Total	4,876,424	52	5,904,191	55
DELINQUENT LOANS				
1-3 months	318,192	3	103,408	1
4-6 months	90,779	1	135,601	1
7-12 months	639,231	7	143,543	1
13-24 months	173,787	2	3,425,992	* 32
More than 24 months	3,274,157	35	927,571	9
Sub-Total	4,496,146	48	4,736,115	45
TOTAL PORTFOLIO **	9,372,570	100	10,640,306	100
Delinquent loan payments	2,180,060	23	1,194,829	11

* includes credit lines to projects

** Does not include Loans in Liquidation.

Note: Details may not add up to totals due to rounding.

accounts. Many of these date from the late seventies and are in part the result of natural disasters, coffee marketing problems and poor investments by first time-borrowers and inexperienced credit union personnel. While some of these loans may still be recovered through judicial collection, most of them will probably need to be written off.

It is in this context that a credit union Stabilization Fund may be of critical importance to the movement. A Stabilization Fund operated by FACACH could make equity investments in viable, well managed but delinquent credit unions enabling them to settle existing debt obligations to FACACH or other lenders. These equity investments would enable credit unions to maintain positive net worth (technical solvency) while writing off uncollectible loans. The entire process of course would need strict supervision by FACACH to assure that appropriate credit policies, management systems and internal controls are implemented by qualified staff. This would minimize the possibility of future losses of a similar nature while assuring the stability of credit union development finance services so urgently needed in rural Honduras.

Profitability

FACACH's operating profit has plunged from a surplus of L. 55,300 in 1980 to deficits of L. (116,215) in 1982 and L. (704,862) in 1984. In percentage terms, FACACH's operating profit has declined from 0.39% of average total assets to (3.82)%, as the return on total assets declined from 8.95% to

7.14% while the cost of capital rose from 4.73% to 5.54% and net operating costs increased from 3.82% to 5.42%.

Declines in gross margins have become critical problems for FACACH. Financial income fell as FACACH stopped accruing interest on delinquent loans and staff could not make up the difference with cash collections. Insurance margins fell as credit unions terminated coverage. Agricultural margins declined as poor grain prices in combination with relatively high costs caused FACACH to halt sales. FACACH must reorganize and reduce staff in the very near term in order to reduce excessive operating costs caused by duplication of functions and non-income generating activities. Downward pressure on margins can be expected to continue and thus the urgency of drastically reducing operating costs.

FACACH's inability to reduce operating costs in the face of declining gross margins in its two major business areas, finance and agriculture, is at the heart of its problems. While financial and insurance margins declined by 62% from 1983 to 1984, their operating costs fell by 42%. In the agricultural service area, margins fell by 69% while operating costs declined by only 28%. At the other extreme, overhead costs actually increased by 9%. As a result overhead costs increased from 29% of FACACH's combined gross margin in 1983 to 93% in 1984. FACACH's gross margin and operating costs for its financial and agricultural services are shown in Table 10.

FACACH urgently needs to reduce its overhead or indirect

TABLE 10

COMPARATIVE COSTS AND MARGINS OF FACACH

FINANCIAL AND AGRICULTURAL SERVICES
Lempiras

	1983	1984	Percent Change
GROSS MARGINS			
Financial Services			
Credit Operations	301,563	49,890	
Insurance	352,211	197,106	
Sub-Total	653,774	246,996	(62)
Agricultural Services			
Marketing	460,238	162,513	
Production (DAI)	138,055	25,681	
Sub-Total	598,293	188,194	(69)
Total Gross Margin	1,252,067	435,190	(65)
DIRECT OPERATING COSTS			
Financial Services			
Credit operations	361,607	237,319	
Insurance	109,443	34,911	
Sub-Total	471,050	272,230	(42)
Agricultural Services			
Marketing	356,011	338,725	
Production DAI	165,050	34,318	
Sub-Total	521,061	373,043	(28)
Total Direct Costs	992,111	645,273	(35)

TABLE 10

(continued)

	1983	1984	Percent Change
ALLOCATED INDIRECT COSTS			
Financial Services	128,856	92,683	
Insurance	92,040	120,891	
Sub-Total	220,896	213,574	(3)
Agricultural Services			
Marketing	128,856	149,099	
Production (DAI)	18,408	40,297	
Sub-total	147,264	189,396	28
Total Indirect cost	368,160	402,970	9
RATIOS			
Indirect to Direct Costs	37%	62%	
Indirect to Gross Margins	29%	93%	

costs in the very short term if the federation is to maintain a competitive position as a service organization. FACACH is incurring about L. 116 in expenditure for every L. 100 in earned income while facing decreased demand for its products and services due to their high prices. A dramatic turnaround in cost management is needed to balance FACACH's income and expenditure while reducing service prices. Direct and indirect operating (non-financial) costs need to be cut by at least 60% at current margins just to reach break-even, much less generate a profit.

Interest Income Accruals

Until late 1983 FACACH routinely accrued income on all outstanding loans, even those which were seriously delinquent. This distorted reported earnings and built up accounts receivable of doubtful recovery, thus distorting total assets. This practice was restricted sharply in 1984, leading to FACACH's reduced financial margins and there was actually a slight decline in loan interest receivable from borrowers. Substantial interest receivable on the "loans" to DAI projects, however, was accrued in 1984 but not received, thus overstating FACACH's actual earnings in that year. In the last two years, FACACH has booked as income L. 411.666 in accrued interest which has not been received. FACACH urgently needs to adopt a standard policy regarding loans in non-accrual status to prevent the booking of income and assets of doubtful recovery. Total interest receivable at December 1984 stood at L. 1,258,907, 7% of total assets.

Interest Rates

FACACH's interest rates to borrowers range from 7% to 18%. These include loans to cooperatives as well as DAI clients. The weighted average yield on the Credit Operation Department's portfolio (including internal loans to the DAI projects but excluding DAI loans to end users) was 10.95% at year-end 1984. The Department's yield on external loans was 16.58%.

This rate clearly prices FACACH loans out of the market of the "good" credit unions analyzed in this study. Their weighted cost of capital in 1984 was only 6.75% and the maximum marginal rate paid for funds was 15%. On the asset side, their yield on financial assets was 14.46% and the most frequent lending rate was 18%. Given these credit unions' average net operating cost rate on total assets of 4.33%, borrowing from FACACH at rates in excess of 14% is unprofitable. This explains their marginal use of FACACH's credit window (only L. 839,496 in loans at December 1984).

FACACH plans to reduce its interest rate to 16% for credit unions which are current in their loan payments. This should be reduced still further for top quality credit unions, ideally to a 14% annual rate. This can be achieved by reducing FACACH's net operating costs, increasing the total volume of loanable funds through participation in the Project, by converting inventories and other non-earning assets to loans and by increasing interest collections on non-accrual status loans. The credit union survey showed that there is substantial potential credit demand at wholesale FACACH rates in the range of 12% to 14%. (See Table 3 and Appendix 5).

FACACH's agricultural services have continued to absorb an ever greater share of FACACH's total assets while steadily increasing its operating deficits. These have been offset by external capital donations, but on a cash basis the projects have not been able to generate a positive flow from operations for the federation. At year-end 1984, accumulated DAI project operating cost loans from FACACH had reached L. 1.8 million, an increase of 80% since 1982. In addition, the project suspended interest payments on these loans in 1984. Ideally these "loans" should be paid off annually or at least not allowed to increase.

Operating deficits, including prorated overhead costs, for DAI and marketing operations grew from L. (70,032) in 1983 to L.(374,245) in 1984 (calendar year basis). Their total two-year deficit was 60% greater than that of the combined losses of FACACH's financial services and insurance department, including technical assistance and regional office costs.

Loans to the projects to finance agricultural services and inventories have reached L. 4.15 million. Their share in total loans has risen from 29% in 1983 to 39% in 1984, and they now absorb 22% of total assets, up from 15% at year-end 1982. Given the historical inability of the projects to maintain or reduce these balances, FACACH will be faced with a continuing drain on its liquidity and the constant need to increase its external debt.

FACACH urgently needs to examine these projects in depth to determine how costs can be reduced and volume increased. Total debt service projected in 1986 by FACACH on loans for the projects exceeds Lps. 1.96 million, a figure which clearly cannot be met under current conditions. Before requesting refinancing of these obligations, FACACH should determine its true repayment capacity based on net earnings from its agricultural service operations.

Foreign Exchange Risk

FACACH currently owes L. 2,750,500 in U.S. dollar-denominated loans at official exchange rates and holds L. 833,204 in dollar-denominated/COLAC shares. Should the lempira devalue to the currently quoted off-shore rate of about L. 2.50 to U.S. $1.00 or 25%, FACACH would face an earnings loss of L. 483,824 or nearly 9% of its total net worth. Informed opinion indicates that devaluation will probably occur within 12 months; FACACH needs to de-dollarize these loans as rapidly as possible to reduce its level of contingent liability.

The estimated loss is calculated as follows:

	Current rate 2:1	Devalued rate 2.5:1	Change
Loans payable: BCIE	L. 2,767,500	L. 3,459.375	L. 691,875
Assets receivable: COLAC	824,204	1,040,255	208.051
Net loss			L. 483,824

Potential Loan Losses

At year-end 1984 FACACH reported a total of L.669,219 in loans in liquidation (uncollectible accounts), an additional L.759,558 in non-accrual loans and L.2,185,182 outstanding to the Santos Guardiola Credit Union. The latter balance was alternately placed in and removed from non-accrual status during 1983 and 1984. Some collections were achieved by selling one of the fishing boats securing the loan. Together these accounts represent Lps.3,613,959 in doubtful assets which do not produce significant cash income for the federation.

In-depth analysis of FACACH's portfolio indicates that probable loan and accrued interest losses after offsetting shares against delinquent loan balances and guarantee recoveries will reach as high as L.1.814,526. These would be reduced to L.695,826 if the Santos Guardiola loan and accrued interest is fully recovered. Potential loss loans are shown in Table 11.

Capitalization

FACACH is well capitalized on a consolidated basis, with net worth at 29% of total assets. Members' shares total L.2.57 million or 13% of total assets; donations make up most of the remaining 16%. Total reserves available to meet operating or loan losses, however represent only 2% of total assets and only about 27% of late loan payments. Available loss reserves totaled L.345,490 at year-end 1984.

If current estimates regarding devaluation, current annual deficit rates and possible loan losses hold true, FACACH is likely to face impairment of its members' share capital in the near future. Recognition of potential losses would lead to a reduction in net worth of 46%, leaving a loss cushion between member shares and total net worth of only L.489,827 as shown in Table 12. This

TABLE No. 11

POTENTIAL LOSS LOANS

	Name	Amount	Acc. Interest	Shares	Guarantees	Net Loss
1.	Pinalejo	327,278	87,096	42,713	31,000	340.661
2.	Flor del Café	297,671	81,611	106,897	155,000	117.385
3.	Vida	42,382	27,802	24,180	10,000	36,004
4.	Macuelizo	66,239	18,305	33,901	0	50,643
5.	Equidad	43,925	13,571	18,029	0	39,467
6.	Hermandad	62,703	28,430	22,252	0	68,608
7.	Campamento	39,709	0	47,272	0	(7,563)
8.	Apagüiz	30,130	0	45,001	0	(14,871)
9.	Cashapa	6,288	3,563	3,762	0	6,089
0.	Fecorah	135,600	12,713	15,000	170.000	(36,687)
1.	Colopeca	103,408	10,572	0	253,000	(139,020)
2.	Lepaera	26,822	17,714	7,567	0	36,969
3.	Santos Guardiola	2.185,182	699,880	492,530	1,273,832	1.118.700
	Totals	3,367.337	1,001,257	859,377	1,892,832	1,814,526

is less than one year's deficit at the current rate. This only emphasizes the urgency of immediately reducing operating and overhead costs.

Insurance Reserves

FACACH has accumulated a total of L.878,080 in insurance reserves to meet possible underwriting losses. These balance sheet reserves are not, however, matched with liquid and fixed assets in accordance with normal insurance industry practice and regulations. In fact, no investment income has been attributed to the insurance department, which confirms the lack of assets matched to reserves. The lack of such income is a contributing factor to FACACH's relatively high premium charges, since the latter must cover not only claims but also administrative costs which are usually met by investment income.

The lack of designated liquid reserves is also of concern given the substantial increase in claims between 1983 and 1984 and the relative stagnation of premium income. Not only may FACACH face reduced earnings from this normally profitable service, an actual liquidity shortage may be produced for which no adequate cash reserves currently exist.

Cash Management

Cash management, currently the responsibility of the Deputy Manager and Administration Department Head, is not being performed. Neither has prepared a 1985 cash budget nor are cash flow totals monitored, despite FACACH's recurring cash problems. The DAI project accounting staff has produced a 1985 cash budget

TABLE 12

POTENTIAL LOSS ADJUSTMENTS TO FACACH'S NET WORTH

AT 12/31/84 IN LEMPIRAS

POTENTIAL LOSSES		
Devaluation	483,824	
Loan losses	1.814,526	
Loans in liquidation	606,632	
TOTAL		(2,904,982)
LESS RESERVES		
Provisions for doubtful accounts receivable	44,432	
Provisions for doubtful loans	172.811	
Provisions for loans in liquidation	62,587	
Devaluation reserve	42,636	
Legal reserve	23,024	
TOTAL		345,490
Net loss		(2,559,492)
Undivided net worth (less reserve)		3,049.319
Adjusted undivided net worth		489,827
Member shares		2,567,123
Total adjusted net worth		3,056,950

but is not monitoring it on a regular basis. FACACH urgently needs to assign this critical cash management function on an overall institutional basis to a technically qualified individual.

Finance Recommendations

The following recommendations are intended to aid FACACH in improving its profitability in the short run by reducing costs (direct, indirect and potential costs from devaluation) and increasing income from loan and interest recoveries, net insurance premiums, and management fees from intervened credit unions. FACACH urgently needs to adopt a strict business attitude of maximizing income, controlling costs and attaining optimum employee productivity.

1. Centralize financial management and control in one functional unit under the direction of one qualified individual who reports directly to the Manager.

2. Immediately reduce indirect costs by releasing redundant executives from the present departments of Management and Administration. Consolidate operating functions wherever possible. The Manager and new Controller should agree on specific cost reduction objectives and implementation timetable for the balance of 1985.

3. Immediately reduce direct costs by releasing excess personnel from the Technical Assistance Department. The AID OPG funds should be

used to support those technical advisors retained in the department or transferred to Financial Operations.

4. Set up a transitory collections unit with four temporary staff in the Financial Operations Department to effect delinquent loan recovery. This should include: assigning specific responsibility and incentives for members of the unit based on actual cash recoveries; preparation of work-out plans for each credit union; bringing each delinquent credit union current in its interest payments. Qualified staff from Technical Assistance or other departments could be transferred to this special section. Those not qualified would be released.

5. Prepare and implement a strategy to get credit unions back into the credit life insurance program.

6. Revise the interventions program to include a management contract between the credit union and FACACH in which FACACH becomes the manager of the credit union and then employs the specific individual assigned to work in it as manager. The credit union would bear all costs of the FACACH employee assigned to it; he would report to the Manager of the Financial Operations Department until an Interventions section is established and a supervisor named.

7. De-dollarize the loan portfolio by making accelerated payment of the dollar loans with the proceeds of lempira debt from member credit unions, COLAC or third parties and/or the sale of assets.

ORGANIZATIONAL STRUCTURE

Structural Design

The organizational structure should, with some exceptions, meet most of the internal and external service functions of FACACH. FACACH's current organizational structure has units performing all the necessary internal and external service functions of the federation. Unfortunately there is little specialization by function and serious gaps and duplication of responsibilities. For example, FACACH is paying three executives to do one job, financial management, and yet it does not have anyone actually managing its cash flow.

In financial terms, FACACH's structure concentrates the bulk of its personnel in areas which do not provide revenues or directly support the federation's major services to credit union, credit and insurance. For example, technical advisors are encouraged to assist in loan collection and insurance but are not directly responsible to the Financial Operations Department for achievement of specific collection targets or insurance sales. As a result loans continue to go uncollected and insurance coverage declines even as FACACH employs a technical assistance field staff of 18 persons or about five per credit union.

As can be seen in the 1984 FACACH organization chart, Table 13, the structure is so dispersed that departmental, sectional and individual responsibilities for achieving institutional objectives simply cannot be clearly assigned and performance tracked. There is a lack of organizational focus in the structure which inhibits allocating staff resources to solving the federation's financial and service delivery problems. As a consequence, FACACH's Manager cannot delegate critical responsibilities on a functional basis and thus is all too frequently caught in a web of details surrounding the implementation of a particular task or project. This problem is worsened by the lack of technical skills of FACACH's mid-level managers.

Because of duplication and overlap, FACACH has a very costly structure yet because of the diffusion of responsibility there is very little accountability for results with a consequent negative impact on profitability.

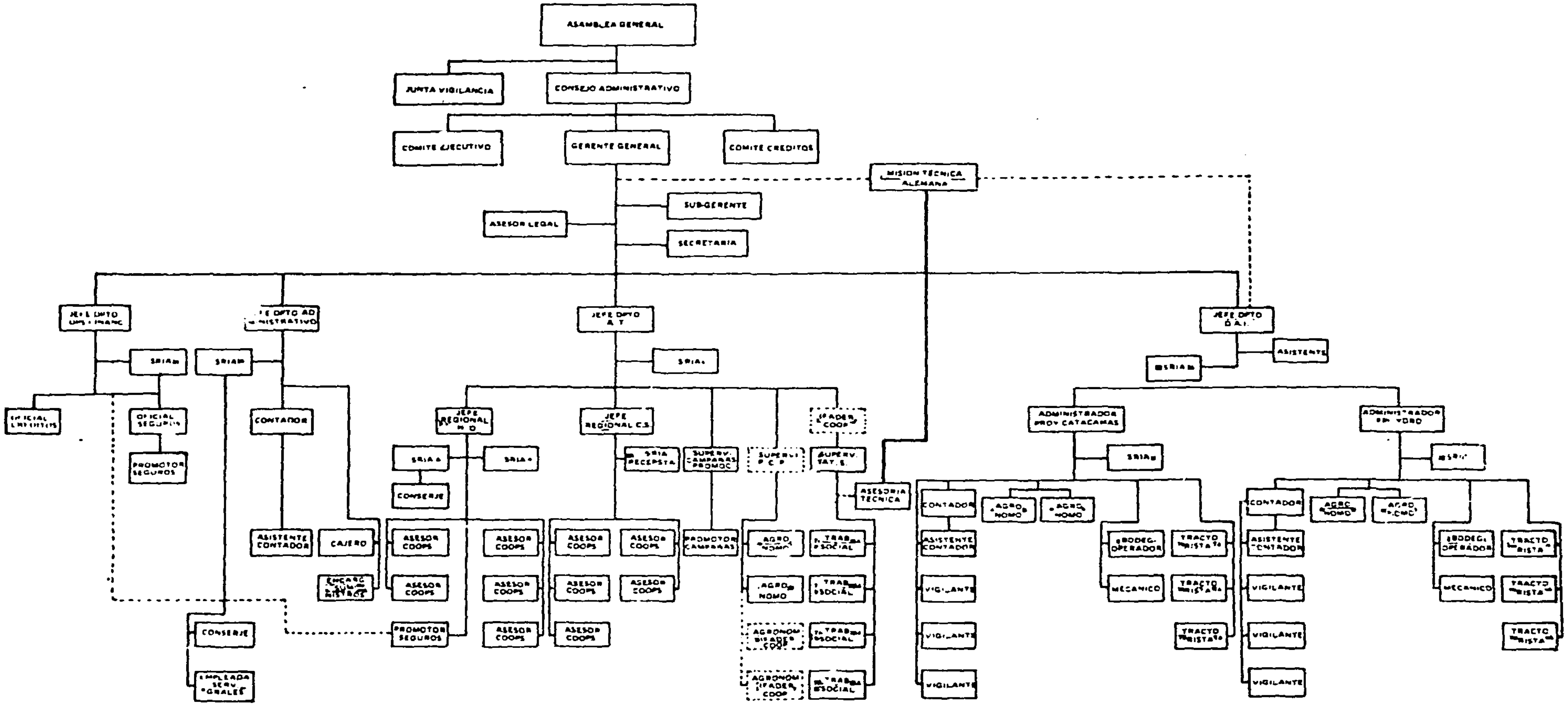
The assistant manager position isolates the manager from the practical and day-to-day operations and problems and obstructs timely decision making and communications between department heads and the manager.

Structural Design Recommendations

FACACH needs to reorganize its operations on a functional basis. Redundant staff should be released, particularly in the areas of general administration (indirect costs) and technical assistance. Specific recommendations for each department are

TABLE 13

ORGANIGRAMA FACACH



*EL PRESENTE ORGANIGRAMA SE ENCUENTRA EN LA ETAPA DE ANALISIS A FIN DE READECUARLO Y LOGRAR CON ELLO MAYO EFECTIVIDAD DE FACACH.

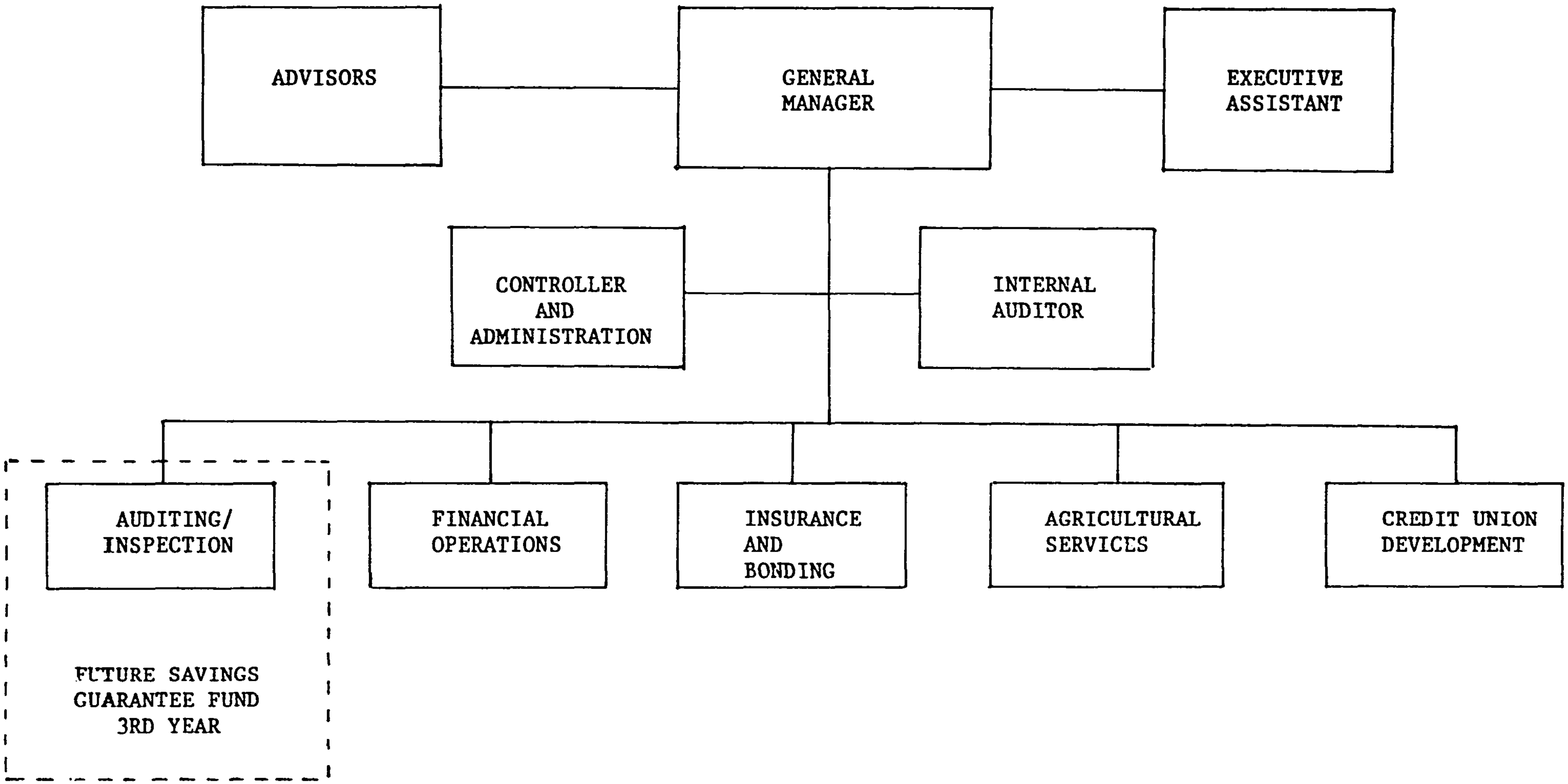
outlined below and contained within the section III service recommendations. The recommended organizational structure is shown in Table 14 and Appendix 7.

1. FACACH's financial management and administration functions should be concentrated into one department, called here the "Controller". The Assistant Manager position should be eliminated and its functions delegated to the head or manager of each operating or service division and the Controller.
2. Expand the Internal Auditor's functions to cover the entire organization.
3. Integrate the DAI projects with the marketing department to form a single Agricultural services division. This is subject to the findings of the recommended DAI evaluation.
4. Establish within the Financial Operations Department:
   A Savings and Deposit Section that would promote, mobilize and mangage funds received from affiliates, including savings deposits, equity capital and central liquidity reserves, and similar funds from other institutions.
   An Interventions and Mergers Section to manage intervened credit unions and mergers as well as stabilization fund operations.
5. Establish a Cooperative Development Department that would be responsible for the following areas:
   Special Projects

   All special projects, funded externally, would be administered here. FACACH's acceptance or renewal of projects

Table 14

PROPOSED STRUCTURE



would be based on certain standard criteria approved by the Board of Directors. These would include: profitability or cost reduction potential, quality of proposed service, relationship to the organizational objectives to serve and develop credit unions, number of potential credit union beneficiaries, costs compared to benefits in relation to FACACH's and credit unions' stability and development.

These projects should be self financing (including indirect costs) and be either maintained or eliminated based on their contribution to FACACH's earnings.

Rural Financial Systems Development

This section would be exclusively assigned the function of maintaining and standardizing credit union financial systems. This would include activities from program research, design, and implementation to measuring and evaluation of actual results. Specific system maintenance and development would include:

-- Accounting/Bookkeeping
-- Internal controls
-- Financial Management
-- Financial Policy
-- Risk Management/Control
-- Computerization

Training and Promotion

This section would be responsible for collecting, preparing, delivering and storing the movement's educational, training, promotional and informational materials and documents. It would also conduct FACACH's training programs.

6. Establish a computing section within the new Controller's Department after the Controller is installed. Funds from the AID OPG should be used to acquire the hardware and software, and cover the costs to hire an expert to set up programs and train federation staff.

Structural Policies and Procedures

FACACH'S policies guiding its structure require major adjustments to concentrate functional responsibilities and allocate staff to where they are most needed. A similar crucial problem is the lack of adequate operating policies relating and coordinating inter- and intra-departmental activities. Also lacking are adequate control and evaluation systems, comparing actual results to planned objectives.

The most obvious effects of these deficiencies are general disorganization leading to FACACH's inability to provide timely and efficient services, internally or externally, lack of tangible and timely results, failure to implement changes and discharge responsibilities and lack of accountability for operational and financial results.

The orderly flow of information and discharge of responsibilities is hindered by overlapping or unclear departmental and staff functions, and failure to hold department head or other staff accountable where specific responsibilities are assigned.

Plans generally outline measurable goals but fail to adequately state how these will be accomplished or assign clear responsibility for results. Plans seem to be more what FACACH would like to do rather than specific objectives that they can realistically accomplish. Planning systems lack adequate control mechanisms at Board, manager and department head or supervisor level. The salary system fails to motivate excellence through rewards based on results and accomplishment of objectives. FACACH also lacks formal policy and operating manuals and guidelines.

Structural Policy & Procedure Recommendations

FACACH'S operating policies should clearly define each department's function. Management should review each department's function with a view to eliminating overlapping functions and clustering those activities which logically fall within a particular function, but are presently performed partially by several departments.

The main objective is to enable each level of the organization (Board of Directors, Manager, department head, etc.) to perform its responsibilities, and be accountable to higher organizational levels. This will need to be done on a departmental basis including the Manager's office. Specific areas that need to be addressed are:

1. Define planning procedures which should include the frequency that manager and department heads are evaluated and where they report planned versus actual accomplishments to the Manager and the Manager in turn to the Board of Directors.
2. The Financial Operations Department should be exclusively assigned the credit function beginning with promotion and

analysis through delinquency control and foreclosure/liquidation of loans.

3. The proposed Controller's Department should assume full responsibility for FACACH's financial and general administration to include:

   -- Centralized finance, loan accounting, contract administration, financial planning and budget control (capital, operations and cash) functions.

   -- Preparation and provision within specific time periods of those routine reports add special analyses rerquired by the Manager and other department heads.

   -- All general administration functions including those presently performed by the Assistant Manager, DAI and Financial Operations.

4. The Insurance Section or proposed department should be fully responsible for insurance administration from promotion, sales and contracting to claims approval and monitoring reserving requirements and investments.

5. Each department head should report directly to the Manager, not through the Assistant Manager.

6. The Marketing Department should assume full responsibility for marketing functions from product purchase and price negotiation to final sale.

7. FACACH should develop a set of integrated operating policies which set operating guidelines for each department and section of the organization. Areas requiring immediate

attention include: budgeting, accounting and financial reporting; management of assets and liabilities; insurance operations; savings deposit and liquidity management; credit operation, and results based compensation system. These policies should be maintained in a single central manual and copies provided to each department.

HUMAN RESOURCES

FACACH has a severe lack of technically qualified staff. Personnel in most cases have neither the practical experience, technical knowledge or educational background to effectively discharge their responsibilities. This has resulted in:

a. Deficient financial management causing liquidity, profitability and other economic difficulties.

b. Frequently ineffective technical service to credit unions.

c. Cumbersome administrative procedures.

d. Loans which have doubtful value and severe delinquency.

The major reasons for this problem include:

-- Lack of an adequate recruitment and selection process.

-- Using criteria other than experience, technical knowledge and education in the selection process.

-- Employment conditions, including a labor union, which inhibits restructuring of responsibilities or reduction of staff levels.

-- Salary levels which are too low to attract people with needed skills and experience.

Human Resources Recommendations

1. FACACH should evaluate all staff based on practical experience, technical knowledge, education and job performance, taking into consideration the staff evaluation report (Feb. 1985). The staff review should result in a classification of qualified and unqualified staff. Evaluation of each of FACACH's managerial staff and recommended positions after reorganization are noted below. These are based on the February 1985 evaluation report and analysis conducted during preparation of this profile.

   Those not presently qualified, but having high potential should, if possible, be provided training in the short term and their performance closely evaluated before September 1986. Staff not presently qualified and with low potential should be released. (See Recommended Staff Adjustments below.)

2. Recruit and select a Financial Operations manager. The person should have professional qualifications and experience in management of financial institutions and banking operations. The Financial Operations manager's first task should be to revise completely the credit policies and procedures.

3. Contract specialized consultants, through the credit union movement via WOCCU and COLAC. The consultants would assist FACACH in implementing the recommended reorganization during the next six months. This would be funded from the OPG provided by AID.

RECOMMENDED STAFF ADJUSTMENTS

	Presently Qualified	Not presently qualified: Low Potential	Not presently qualified: High Potential	Recommended position in new structure
General Manager Manager	X			General
Administrative Head		X		
Financial Operations Head			X	Senior Credit Officer
Assistant Manager		X		
North West Regional Office Head			X	N.W. Office Head
Central-South Regional Office Head		X		
Insurance Section Head			X	Insurance Manager
DAI Head			X	DAI Manager
Marketing Head		X		
Internal Auditor	X			Controller

4. Define, within 60 days, the position requirements and conditions for the following manager positions: Controller, Financial Operations, Cooperative Development, and Insurance. Once defined, proceed to recruit in order to have these persons contracted or transferred by September 1, 1985.

5. Prepare and document personnel recruitment and selection policies and procedures. This should include such items as position descriptions and qualifications for all FACACH staff positions, required funds and all required steps from advertising for the position through evaluation and termination.

V. NEW SERVICES

FACACH

FACACH plans to develop and introduce a variety of new services which will strengthen the Honduran credit union movement's ability to finance development activities in the rural sector. These services are grouped together under the major program headings which should be included in the Project and are described more fully in Chapter VII.

Stabilization Fund

-- Stabilize technically insolvent but viable credit unions

-- Merger and Liquidations support

Savings Mobilization

--Establish a national savings mobilization program

--Establish a central liquidity facility

Rural Financial Systems

-- Develop the technical and managerial capabilities of rural credit unions

-- Transform affiliated credit unions into members of an integrated national system of cooperative financial services

Credit Systems

-- Strengthen FACACH's and affiliates' ability to place and recover loans to rural producers and consumers

-- Develop FACACH into the financial arm of the cooperative movement

Savings Deposit Guarantee Fund

-- Insure depositors against loss of savings through bankruptcy and thereby stimulate increased savings

-- Auditing and inspection service to regulate solvency

Human Resource Development

-- Create a credit union training and information center

FACACH has also included in its five-year plan the development of agricultural services. These would not be directly included in the Project unless subsequent feasibility analysis demonstrated their viability. Agricultural services development has been the priority of GTZ while the focus of AID's support has been on the institutional development of FACACH and its affiliates as financial institutions serving the rural sector.

Agricultural Services

-- Develop marketing services for agricultural products and import production inputs

-- Produce hybrid corn seed

-- Develop processing facilities for agricultural products (if feasible).

CREDIT UNIONS

The leading credit unions surveyed for this profile expressed no plans to introduce major new services. Rather they emphasized making qualitative and quantitative changes in their current member service programs. These are:

1. Introduction of additional savings instruments.
2. Expansion of credit programs, especially in the areas of small business, commerce and housing.
3. New insurance services, particularly in the area of casualty coverage.

VI POLICY AND OPERATIONAL CHANGES

The policy and operational changes recommended here are intended to aid FACACH in overcoming its current economic difficulties and set the stage for successful implementation of the institution building component of the Project. This in turn will enable the system both to mobilize additional savings and to place increased domestic and external resources into sound, income-generating loans to members. These recommendations are severe but other similar federations have faced similar situations and overcome their crises through rationalization of costs and operations and concentration on successful delivery of services to members. FACACH's management and leadership have expressed their willingness to implement the recommended changes.

It is expected that these recommendations will be implemented prior to start of project. The most critical changes should be undertaken during the next six months.

FACACH

Role in Project

Project-financed technical and credit resources should be provided to the credit union system through FACACH. The federation would act both as conduit for resources to member credit unions in rural areas and as a recipient of specialized technical and budgetary assistance from the credit union component of the Project Implementation Unit assigned to work in FACACH. Credit, Stabilization and Savings Guaranty Fund disbursements would be effected only after FACACH had implemented the specific service development recommendations made in this profile or by the technical advisors assigned to FACACH under the Project.

The Project should make resources available directly to credit unions only if it is determined that FACACH is completely unable to meet the following participation criteria.

Participation Criteria

Successful implementation on a phased basis of the following critical recommendations should constitute the essential condition under which FACACH's participation in the Project may be approved.

1. Reorganize FACACH so as to re-establish its financial service functions as the major institutional activities.

Financial Administration

1.1 Establish within six months (by September 30, 1985) a central Controller and Administration Department to unify all financial management functions, including: corporate finance, investments, loans, contract administration, financial planning, budgeting (capital, operations and cash flow) and general administration. Eliminate the duplicate or partial functions in financial management of the Assistant Manager, the Chief of Administration, the DAI projects and the Financial Operations Department.

1.2 Expand the Internal Auditor's functions to include the entire organization.

1.3 Eliminate the position of Assistant Manager.

Financial Services

1.4 Reorganize the Financial Operations Department and establish within it three specialized sections: Credit; Savings and Deposits; and Interventions. Select a Financial Operations Manager to run the Department who has professional experience in financial institutions and banking operations.

1.5 Establish within the Financial Operations Department a temporary loan collections section under the department managers supervision. This unit would be responsible for loan recoveries and would have specific collection targets and incentive program. The section would evolve into the permanent credit section.

1.6 Review and revise credit policies and procedures and implement required changes.

Human Resource Development

1.7 Define within the next 60 days the required qualifications and terms of employment for the following middle-management positions: Controller; Financial Operations; Credit Union Development; Insurance and Bonding. Once defined, proceed to recruit for and fill the positions by September 1, 1985.

1.8 Complete evaluation of Technical Assistance Department and other staff. Transfer qualified personnel to the collections unit in the Financial Operations Department and release those who are not qualified.

Technical Support and Monitoring

1.9 Using AID OPG funds contract credit union consultants through WOCCU and COLAC to assist in the implementation of the recommended reorganization during a six month period or until the Project begins.

1.10 Management of FACACH should prepare and submit quarterly progress reports to the Board of Directors showing planned versus actual accomplishments of the reorganization process. Copies should be forwarded to AID/Honduras, WOCCU and COLAC.

Other Recommendations

1.11 Establish a computing unit in the Controller's Department after it is reorganizaed and the new Controller installed. Use AID

OPG funds to purchase the required hardware, software and technical assistance.

1.12 Name as Manager of the Credit Union Development Department someone with professional experience in financial institutions and banking operations.

2. <u>Evaluate FACACH's Agricultural Development Services</u>

Contract within the next 90 days a financial and operational evaluation of the DAI projects and Agricultural Marketing Department in order to determine their economic perspectives and recommend the most appropriate institutional structure.

3. <u>Stabilize FACACH's Financial Condition and Earnings</u>

3.1 Balance operating costs and real income, completely eliminating operating deficits.

3.2 Cease accruing interest on loans whose interest payments are more than 90 days past-due.

3.3 Implement a strategy to de-dollarize FACACH's external debt.

3.4 Establish profit or cost centers for each service after the reorganization. This would include income, direct and indirect costs and the corresponding financial policy for each service.

3.5 Renegotiate FACACH's external debt once its true repayment capacity is established.

3.6 Establish a proportional capitalization system in which the level of required investment by member credit unions in FACACH is based on total shares at the credit union level.

4. Policy Revision

Review and revise all policies throughout FACACH in order to adjust them to the new structure and the needs of the organization. At a minimum, the following areas should be addressed: credit; savings and other liabilities; liquidity management; objectives-based planning; personnel compensation.

CREDIT UNIONS

Role in Project

Credit unions will participate in the Project as retail distributors of credit for agricultural and other income-generating purposes in the rural sector. They will have access to Project-financed technical assistance provided through FACACH to strengthen their ability to provide efficient and competitive savings and credit services. They will also participate in the savings mobilization, stabilization and deposit guaranty programs.

Individual credit unions should not have access to Project services and financing on a direct basis unless FACACH does not participate.

Participation Criteria

Credit unions should be selected by FACACH for participation in the Project on the basis of their fulfilment of the following criteria.

Policies and Procedures

Agree to adopt policies and procedures compatible with FACACH's in at least these areas: credit, financial management; sanctions against directors, committee members and officers with delinquent loans; savings; liquidity management and reserves; capitalization; internal control.

Adopt Strategies and Systems

Agree to implement a 3- to 5-year plan to improve manager skills in financial management and services.

Adopt a public image building strategy.

Adopt operating and control systems recommended through the program.

Agree to participate in the savings mobilization program

Credit Eligibility

Credit should only be offered to credit unions which meet the following conditions and only then if their financial and management condition warrants it.

--Qualify as "good" according to FACACH's classification system.

--Leadership and employees have no delinquent loans.

--The credit union is not delinquent with other creditors.

--Delinquency does not exceed 10%.

--The credit union has bonding and credit life insurance.

--The credit union meets all standard eligibility criteria under FACACH's credit policy.

VII Program Profile

This section describes the six program areas identified in the institutional analysis of FACACH and the leading rural credit unions as being critically important to successful development of rural financial services. These programs are the Stabilization Fund, Savings Mobilization, Rural Financial Systems Development, Credit Systems Development, Savings Guarantee Fund (beginning with an Audit and Inspection Program) and Human Resource Development. The Project should incorporate each of these programs into the component working with FACACH and its affiliates.

STABILIZATION PROGRAM

Background

Credit Unions in Honduras are undercapitalized and lack adequate equity (reserves and undivided earnings) that can cushion members' paid-in capital (share savings) when losses are incurred. In order to maintain the full par value of members' share capital, credit unions do not write off uncollectible loan but simply maintain them as earning assets and thus avoid capital impairment and technical insolvency. This practice not only distorts their financial position, but also is a disincentive for credit unions to deal with the problem and thereby inhibits many potentially viable credit unions from providing needed and profitable services.

On the other hand, stabilization leads to recognition of the insolvency problem and in the long run helps to bring about improved financial management. The Stabilization Fund will reward sound management and true disclosure.

The primary causes of inadequate levels of reserves and undivided earnings are:

1. Cooperative Laws and credit union bylaws provide inappropriate guidelines for reserve formation compared to the potential loss risk of those financial institutions. The cooperative law requires a minimum legal reserve of 10% of net income and education reserve of 5%. This should more appropriately be a percentage of gross income until credit unions accumulate adequate reserves.
2. Low earnings or losses prevent credit unions from reserving since these are paid from net income. Many of these losses resulted from agricultural marketing problems and natural disasters.
3. Unskilled Human Resources - managers and leadership fail to fully understand and appreciate the need for reserves and are unaware of financial implications which result when these are inadequate.
4. Start-up mistakes - movement leaders initially lacked experience in credit administration resulting in the approval of many unsound loans which still outstanding and now uncollectible.

Purpose

The purpose of a Stabilization Fund is to rehabilitate insolvent but viable credit unions, by injecting equity capital into their operations in the form of preferred stock (shares) or reserves. Credit unions needing finance for a merger, those intervened and managed by FACACH or those that are insolvent but viable are potential recipients of stabilization funds.

The advantage of the stabilization program is that it creates conditions that will lead to and maintain solvency, by recognizing losses, assisting the credit union to work out its problems and supporting the recovery process. At the same time it avoids debt forgiveness and its related consequences and precedents. Stabilization investments can save a credit union from impending insolvency/bankruptcy caused by temporary conditions, so it can continue to meet the rural population's savings and credit needs.

Goal of Stabilization Fund

The goal is to strengthen local credit unions in order to ensure the continued provision of savings and credit services so desperately needed in the rural communities. Improved financial administration will no doubt ensure more viable credit unions, and thus expand the availability of credit union services at the both the local and national levels.

Fund Operation (See Figure 10)

The Stabilization Fund would be operated by FACACH. A special section would be formed in the Financial Operations Department of FACACH Department of FACACH to operate the Fund, probably under the guidance of an oversight committee consisting of representatives of solvent offiliated credit unions. The special section would provide stabilization services to credit unions in the manner described below. FACACH would administer the Fund under guidelines provided by WOCCU, USAID/Honduras, the Project Implementation Unit and/or the Central Bank.

A. Credit Unions

The stabilization process involves four distinct stages; screening, qualification analysis, stabilization and recovery.

1. Initial screening

Determine whether the credit union has the potential to participate in the stabilization program on the basis of:

--acceptable management

--willingness to agree to program conditions

--assurance that problem is manageable

2. Qualification Analysis

This stage will specify the conditions under which credit union may participate. These include:

--Audit and inspection

--Revised policy and procedures

--Granting of fiscal authority over disbursements to the Fund

--Bonded employees

--Demonstrated viability

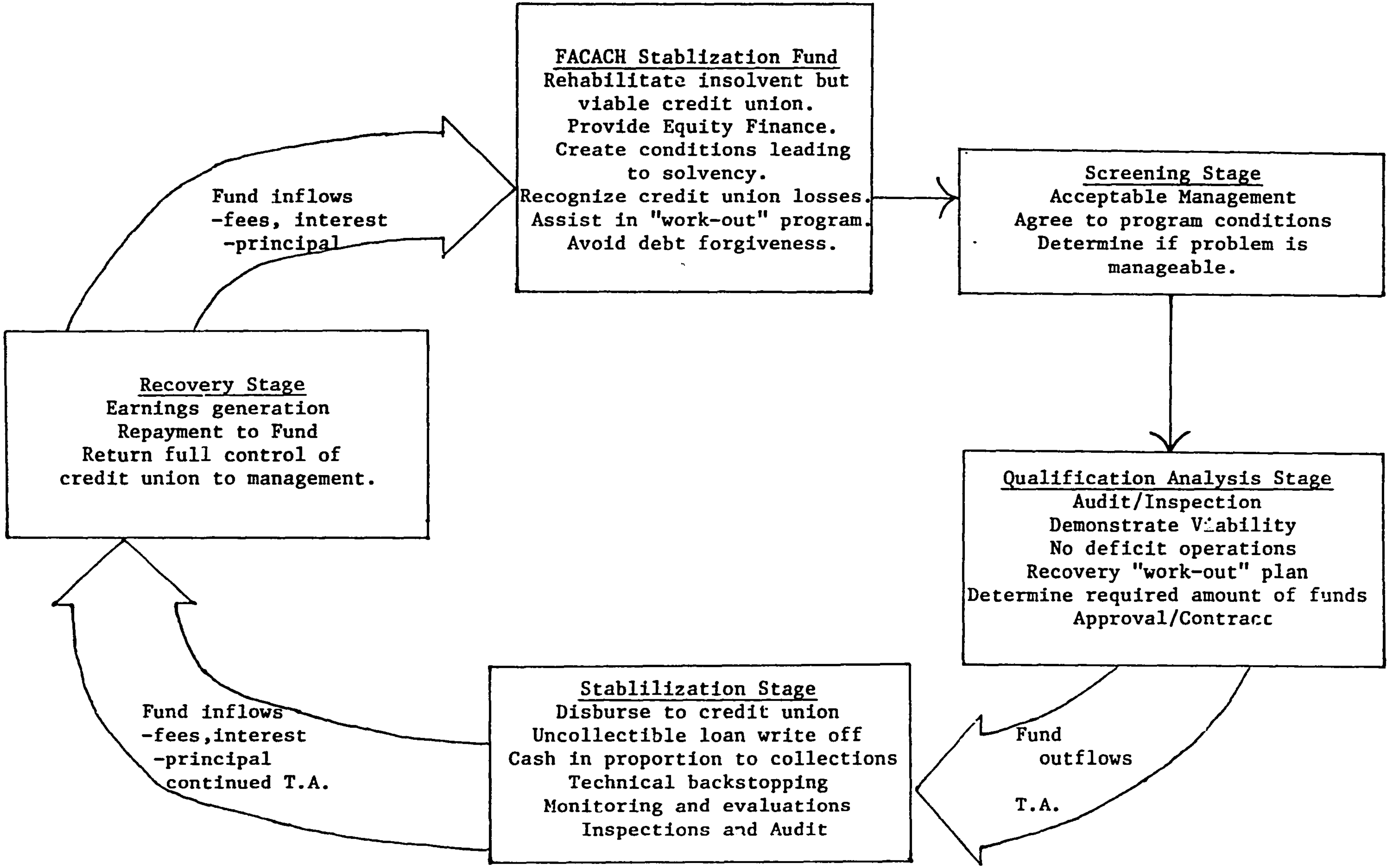
--No deficit operations

--Amountof stabilization investment required

a. Audit

Perform and prepare true financial statements, determine amounts of recoverable loans and guarantees, non-recoverable loans and extent of liabilities to FACACH, and others.

STABLIZATION PROCESS



Viability study

b. Prepare a viability report which includes a review of management, financial performance and profitability, current and potential growth, solvency/capitalization, delinquency, systems and policies and environment factors.

Recovery Plan

c. Prepare detailes "work out" with the credit union specifying procedures and targets for loan collection, operational changes and evaluation process. Determine level of required investments.

Approval

d. Approve recovery plan based on analysis and reviews by FACACH's Financial Operations manager and credit/investment committee, and credit union Board of directors.

e. Contract between credit union and FACACH specifying conditions under which disbursements will be made.

3. Stabilization Activities

a. Disbursements to credit unions and settlement of obligations

(1) Settlement with creditors, FACACH and others

(2) Credit union receives net cash in proportion to recovery of collectible delinquent loans

b. Veto by FACACH over credit union disbursements and operations

c. Technical back-stopping, monitoring and evaluation

d. Periodic inspections and annual audits.

4. Recovery Stage

a. Earnings generation

b. Repay equity finance, interest and fees.

c. Complete repayment and return full control to credit union management

B. FACACH

FACACH would proceed through a similar stabilization process for much the same reasons as outlined in the credit union section.

The institutions supervising the credit union stabilization process would also oversee the placement of stabilization investments in FACACH itself and would take FACACH through the same four stages: screening, qualification analysis, stabilization and recovery.

Relationship to FACACH

The stabilization program dovetails with FACACH's interventions and merger program. Both are intended to rehabilitate ailing credit unions, thereby improving their financial position and services and thus creating a stronger credit union business in Honduras.

Required Resources

A. Human/Technical

FACACH lacks the technical capability to install and administer the proposed stabilization fund. A specialist will be required to assist the federation design, document, implement and administer the fund and its related activities.

Budget support for the section head and one staff person is also requested. The fund will be fully operational by the fourth year of the project and generate sufficient income to cover these 2 positions.

The budget support would be 100%, 75%, 50% and 25%, for years one to four respectively. Partial budget support is desirable to hire qualified credit union managers for specified periods in those credit unions participating in the stabilization program.

B. Financial Resources

Analysis of FACACH's and the leading credit unions' potential losses indicates that Stabilization Fund equity investments can help the federation reach break-even. The amount of funds required for FACACH alone is approximately L.1.3 million and the leading credit unions require approximatetly L.324,000. If these investments are combined with net loans from FACACH to these credit unions thus increasing the volume of earning assets at both levels, substantial improvements in earnings can be achieved. The amount of new loans which these credit unions can absorb is estimated here at L.2.375 million.

The alternative balance sheets and income statements for these scenarios are shown for FACACH in Appendix 8 and the leading credit unions in Appendix 9. The total amount of funds required for stabilization purposes (mergers and liquidations) at the credit union level for average and problem credit unions has not been estimated here. A more detailed analysis of their overall financial condition will be required and should be performed in a subsequent study prior to Project implementation and be updated thereafter. Movement delinquency data suggest that some L.2.8 million might be required to stabilize these credit unions.

The various cases of stabilization of FACACH and its leading affiliates and the financial implications are summarized below:

1. FACACH breaks even with a stabilization investment of L.1.3 million at zero percent cost of capital (case 2F2).
2. FACACH can absorb a 1.5% cost of capital on the stabilization investment if it is combined with stabilization funds of L.324,000 invested at a net spread of 6% in credit unions (case 2F3).
3. FACACH can absorb a cost of capital on the stabilization fund of 8% or more and still generate net profits if loans of L.2.375 million are made to credit unions (cases 2F4 and 2F5).
4. All cases show that the credit unions are profitable, and not adversely affected by stabilization (cases 2C1 without new loans and 2C2 with new loans).

SAVINGS MOBILIZATION

Background

Credit unions traditionally have relied on various mechanisms to maintain a low cost of funds and thereby provide low cost credit. The Latin American economic crisis, high inflation and overburdening debt situation have encouraged the Honduran credit union movement to take a more balanced view between internal and external resource mobilization.

With the support of USAID/Honduras, FACACH began in June 1982 a savings mobilization pilot project involving 5 credit unions. These were carefully selected based primarily on a detailed study of their financial and administrative conditions. The pilot program ended in December 1983 and the 5 credit unions continue to experience excellent growth in all their key growth indicators. A recent report prepard by FACACH confirms that their growth continues. The following table compares key growth indicators of the leading credit unions surveyed for the FACACH profile, the pilot savings group, and the entire movement. The savings programs, combined with the appropriate technical assistance can be duplicated in other credit unions.

Purpose

The saving mobilization program's main purpose is to expand services and accelerate growth. This potential clearly exists as is demonstrated in the preceeding chart. Of equal importance is the establishment of a sound domestic savings base that will complement the proposed external credit program. This will avoid the pitfalls of excessive leveraging, and provide alternative and more balanced sources of funds. It will mobilize resources within the rural communitites thereby ensuring ample and continued access to financial services at reasonable cost during the present economic crisis and long after external assistance ends.

Table 16

COMPARISON OF KEY GROWTH INDICATORS

Percentage between 1983 to 1984

	Leading Rural Credit Unions (1)	Pilot Group (2)	Total Movement (3)
Members	16	18.7	2
Share Savings	23	21.4	15
Savings Deposit	39	70.7	34
Loans to Members	30	33.5	18
Delinquency Ratio	(23)	(32)	(19)

Sources:

1. FACACH profile; 1985.
2. "Experiencia del Programa de Mobilizacion de Recursos"; 1985.
3. FACACH Statistical Information

Goal

The goal is to increase domestic savings leading to a greater availability of lendable capital in rural Honduras. This will also address the issues of decapitalization due to inflation, limited penetration of credit unions in financial markets, savings disincentives due to inadequate pricing strategies, and possible dependence on external borrowing.

Program Operation

A special section, Saving and Deposit Services, will be established within FACACH's Financial Operations Department. Three savings officers will be responsible for designing, promoting and installing market driven savings and deposit programs in credit unions. The methods employed in the pilot program will be reviewed, improved and used as the basis for this program component. These include:

1. Improving service by offering competitive interest rates on saving and deposits, and reducing transaction costs.
2. Improving saving administration and efficiency in such areas as encouraging voluntary liquidity reserving, diversification of saving and deposit instruments, effective delinquency control and liability management.

   The three strategies employed in the pilot program such as paying interest on withdrawable deposits and high interest rates on fixed deposits, lower minimum balance requirements than other financial insitutions and aggressive promotional campaigns, will be used as well as lessons learned. The pilot program credit unions will be used as training grounds for new program participants.

Relationship to FACACH

The saving and deposit service section recommended in the FACACH profile will implement the program. Staff within this saving and deposit section will have similar responsibilities to their colleagues in the credit section, except the focus would be mobilizing resources. Each would be responsible for credit unions in a geographical region, the quality and quantity of their credit unions' and FACACH's savings portfolio. Pre-established yearly objectives and incentives will encourage savings officers to expand the potential market by providing credit unions with technical assistance and assisting them to manage their savings and deposit services. This section would also be responsible for managing liquidity reserves and capitalization programs.

Required Resources

FACACH will require a savings specialist to assist them to review the pilot program and develop the program packages and strategy. This assistance should be short-term, shortly after project start-up with periodic reviews and backstopping thereafter.

Budget support is requested for three savings field officers for five years to work in the savings and deposit section.

RURAL FINANCIAL SYSTEMS DEVELOPMENT

Background

The Honduran credit union movement has the potential to become the primary financial intermediary in rural communities. In some towns, such as Taulabe, credit unions already compete successfully with local banks. In this particular community, as in many others, it was not always so. High delinquency, lack of liquidity, operating losses and poor installations allowed members to become distrustful and lose confidence in their credit union. Word of mouth publicity, normally a very effective method in assisting the credit union expand its membership and services, was equally effective in creating an unfavorable image of the credit union. As expressed by a credit union member "delinquent members told nonmembers that, you can borrow from the credit union and you don't have to pay it back". In these instances, the credit union grapevine attracts unwanted members and a vicious cycle towards insolvency continues.

In Taulabe, an in other credit unions throughout the world, the credit union image and services improved when new leadership and a qualified manager decided to "houseclean" their loan portfolio and their membership, to install adequate liquidity reserving mechanisms, to begin operating profitably and to improve their facilities.

Purpose

Assist "good" initially and later "average" credit unions to:

-- Improve confidence in credit unions
-- Provide support to FACACH's credit section to reduce credit union delinquency
-- Support FACACH's saving section to install liquidity reserving mechanisms
-- Strengthen credit union administrative and office systems
-- Produce an attitudinal change that credit unions are not "social club" operations, but full service financial cooperatives.
-- Promote adoption of new techniques

Goal

The goal is to improve the credit union image so that the movement can attract more net savers, more fully penetrate the financial services market and compete with other institutions.

It is expected that a "new generation" of credit unions will emerge capable of attracting sound, reliable members, leadership and staff. More efficient operations will result, i.e. profits, better service, etc., thus solidifying the credit union in the community.

Program Operations

The Rural Financial Systems (RFS) component will be charged with the responsibility of maintaining and standardizing the credit union financial system. Specifically FACACH will:

1. Maintain and improve such areas as credit union accounting/bookkeeping, internal control, financial management, administrative policies and procedures, office administration, risk management and control.
2. Design and reconditioning of office facilities, i.e., credit union physical appearances.
3. New systems or program research, design and implementation including such areas as computerization. Incentives will be provided to credit unions that meet certain minimum standards, and advisors encouraged through contests (eg., most improved credit union, credit union with best appearance, credit union with least delinquency, etc.).
4. Develop a shortwave radio communications network, if initial studies demonstrate its technical and financial feasibility.

Relationship to FACACH

The RFS section dovetail perfectly with the proposed Credit Union Development Department. As with other FACACH staff, RFS personnel will set specific measurable yearly objectives as to which credit unions will receive their specialized assistance and the expected results. Incentives will be provided in accordance with results achieved.

Required Resources

-- External Technical Assistance for 3 years

-- Budget Support 2 advisors for 5 years

-- 20 microcomputers

-- Equipment, signs, short wave radios, etc. for credit unions.

CREDIT SYSTEM DEVELOPMENT

Background

Common constraints and problems within credit unions' and FACACH's current credit system include:

-- Unsatisfactory loan analysis

-- Inadequate policies and procedures

-- Failure to use cash flow to determine repayment capacity

-- Inadequate analysis of repayment capacity; amortization terms and conditions are not matched with ability to repay

-- Lack of written policy and procedure guidelines for effective control of delinquency

-- Lack of a firm approach, in many instances, in collecting delinquent repayment

-- Lack of written policy and procedures regarding refinancing

-- Lack of foreclosure and liquidation guidelines

Purpose

This program component would focus on improving on on tegrated basis both FACACH's and its affiliated credit union's credit administration systems and procedures.

Specifically program resources would be used to:

1. Improve delinquency and collection systems
2. Design loan underwriting system and procedures
3. Develop standard forms
4. Improve staff deficiencies
5. Develop adequate and standardized credit policies and procedures
6. Implement training programs at FACACH and credit unions primarily focusing on credit analysis and loan supervision
7. Make credit system more efficient and less costly
8. Expand credit program
9. Diversify portfolio

Goal

This program's goals are to:

-- Strengthen credit system in order to establish FACACH as the primary financial intermediary for credit unions.

-- Enable credit unions to provide competitive credit services to members, and establish themselves as well managed local level financial intermediaries.

Program Operation

Initial emphasis will be placed on stabilizing and strengthening FACACH's credit system, from actual collection of delinquent loans to establishing the preventative mechanisms that will assist avoid such problems, i.e. adequate loan analysis and delinquency and collection systems. A comprehensive set of policies and procedures will be implemented, as well as appropriate forms reviewed and revised.

As improvement occurs at FACACH, emphasis will then be directed to credit systems development at credit unions. Similar steps will be taken at FACACH and credit union levels, i.e. stabilization and institutional strengthening followed by the gradual expansion and diversification of loan portfolios.

Relationship to FACACH

The credit section of FACACH is already contained within the Financial Operations Department. This project component will strengthen and improve this service.

Required Resources

External technical assistance is required to improve lending skills and provide valuable experience. These are essential to accomplish the project's institutional building objectives.

Two credit system advisors are requested; both will work for

FACACH. One advisor will assist FACACH to strengthen and improve its credit administration and be counterpart to Financial Operations Manager. The other advisor will work along with the FACACH Ccredit Officers, to strengthen and improve the credit administration function at credit union level.

SAVINGS GUARANTEE FUND (AUDIT AND INSPECTION)

Background

As previously mentioned in the stabilization profile, credit unions are decapitalized because of inappropriate legal guidelines, low earnings, unskilled human resources and start-up mistakes. Where the stabilization program seeks to rehabilitate insolvent but viable credit unions, the Audit/Inspection and future Savings Guarantee Fund will help to prevent this from happening while ensuring that the member receives full par value for their savings in the event of credit union liquidation.

When liquidation of a credit union occurs, usually because of mismanagement or lack of business expertise, lack of internal controls or financial discipline, inadequate systems and procedures, board failure to perform or misuse of its function, etc., the members frequently receives less than par value for their savings. An unfortunate consequence is the poor image and distrust created when a credit union is liquidated. This may make it impossible to organize a credit union in the community again. It discourages many persons from saving in a credit union. Undoubtedly this fear is one of the causes for credit unions' limited penetration of the Honduran savings market.

Purpose

The purpose of the Savings Guarantee Fund (Audit and Inspection), is to protect and maintain the full value of members savings and prevent potential losses. This is accomplished by requiring those solvent credit unions which want to be insured to meet certain minimum standards. These include:

-- Solvency, liquidity and profitability
-- Adequate internal controls
-- Acceptable management
-- Yearly audit and inspection
-- Acceptable policies and procedures
-- Proper risk management, including bonding and credit life insurance

The benefit of the Saving Guarantee Fund is that it creates the conditions that help maintain the credit union at or above minimum "safe operating" standards. This allows the credit union to have its savings insured which in turn ensures institutional confidence, the key to a financial organization's success and savings growth. These improvements not only would guarantee the continued presence of credit unions to meet rural population's savings and credit needs, it provides them with the tools to significantly expand services.

Goal

The major goal is to improve trust and confidence in the FACACH system resulting in significant opportunity for the accelerated growth in member savings and deposits.

Operations

In the Audit and Inspection phase (the first 2 years) solvent credit unions would begin improving operations and become more financially disciplined. Since the government fails to provide the necessary regulatory functions that require credit unions to meet certain standards, the credit union movement through it's national body, FACACH, would act as the regulatory agency, i.e., the movement would become self-regulating.

The second phase would transform the Audit and Inspection service function into the Savings Guarantee Fund. To qualify for insurance, yearly audits and inspections would be required as well as correcting any exceptions noted on the audit or inspection report. Credit unions would pay premiums to the Fund. These are ususally a percentage of insured deposits. An in-depth study would be implemented during year two to design the Guarantee Fund.

Relationship to FACACH

The Savings Guarantee Fund complements the Audit and Inspection program which the federation already has in its 5 year plan. It takes the credit union fiscalization effort one step further and accelerates the institutional building process by providing guaranteed deposits.

This new department, recommended in the FACACH institutional profile, would become financially self-supporting through fees and premiums.

Required Resources

Technical Assistance is required to design, develop and implement this service. The same person responsible for designing the Stabilization Fund would work as counterpart to the Auditor, the person in charge of the Audit and Inspection department.

Budget support is requested for a qualified auditor and 4 assistants. The support would continue on a decreasing basis during years one to four, at 100%, 75%, 50%, 25% respectively. A grant of L.5 million is also requested for the Guarantee Fund to establish an initial reserve basis to cover liquidation losses and assure adequate protection against failure of even the largest credit unions.

HUMAN RESOURCES DEVELOPMENT

Background

A major problem at FACACH and credit unions is a severe lack of qualified human resources with business expertise. Particularly critical is a lack of skilled managers in credit unions. This is frequently and consistently identified as the primary constraint to enabling credit unions to reach their full potential.

At the same time substantial resources from development agencies have been used to support credit union training and education efforts.

The lack of adequate human resources is partly due to inadequate salaries and benefits offered to credit union managers and staff. However, the other major problem is the lack of practical, results-orientated training programs. This component attempts to address this major issue. Improvements in credit union growth and operating performance achieved by the Project's other programs should lead to increased earnings and ultimately better salaries for staff.

Purpose

-- Collect, prepare, deliver and store credit union movement educational, training and promotional materials.
-- Develop and document packages and conduct FACACH's training program in support of those priorities or major problems identified by FACACH management. The packages and programs will be targeted at supporting those departments generating income within the federation.
-- Produce concrete results in priority problem areas

Goal

-- The major goal is to adequately prepare credit union management in business, technical and administrative aspects of managing a financial institution.

Operation

The program will initially evaluate and classify managers of "good" and later "average" credit unions according to their technical knowledge, experience, education and proven results in their credit union. Resources will be used to improve manager qualifications according to the classification. The main objective is that all credit union managers ultimately fall within the highest category. Certificates, or other incentives will be provided as managers improve from one level to another. Local training, combined with participant training activities will be required to accomplish this.

The program will develop packaged programs providing support to FACACH loan, savings and insurance officers, credit unions, etc. to improve operations systems and procedures.

Initial products would address such critical problems as:

-- Credit administration with packages or models for each step from policies and procedures, through analysis, to recovery.

-- Collection and Delinquency Control

-- Credit Union manager development program with special focus on financial management and successful methods to deliver financial services

-- Savings mobilization programs with packages or models for all stages from system design and implementation procedures, through system maintenance.

Relationship to FACACH

The proposed training and education specialist would work with FACACH's training and education specialist to design and produce needed packages and materials.

As suggested in the FACACH profile a training section within the credit union Development Department, would carry out the above mentioned activities.

Required Resources

-- Technical Assistance, Education and Training Specialist for 2 years

-- Budget Support for Training and Education Officer/Specialist for 5 years

-- Participant Training; scholarships, technical exchange program (credit union managers).

-- Training Equipment and Materials.

ILLUSTRATIVE PROJECT BUDGET IN US DOLLARS

Line Items	Description	Units	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
TECHNICAL ASSISTANCE								
1. Long Term								
	Person Yrs							
Credit Systems Dev. FACACH	4	125000	125000	131250	137813	144703		538766
Credit Systems Dev. Cred. Uns.	3	110000	110000	115500	121275			346775
Rural Financial Systems Dev.	3	110000		115500	121275	127339		364114
Stabilization/Guaranty Funds	5	110000	110000	115500	121275	127339	133706	607819
Training & Education Spclst.	2	110000		115500	121275			236775
Total	17		345000	593250	622913	399381	133706	2094249
2. Short Term & Consultancies								
	Person Mo.s							
Savings Mobilization	5	16000	16000	16800	17640	18522	19448	88410
Insurance and Bonding	2	16000		16800		18522		35322
Systems and Methods	1	16000	16000					16000
Internal Control	1	16000		16800				16800
Inspection and Auditing	3	16000			17640	18522	19448	55610
Information Systems	3	16000	16000	16800	17640			50440
Evaluation	6	16000			52920		58344	111264
Other (as identified)	10	16000	32000					32000
Total			80000	67200	105840	55566	97241	405847
3. Project Support & Other								
Technical Backstopping		100000	50000	52500	55125	57881	60775	276282
Travel & Transportation		10000	30000	52500	55125	34729	12155	184509
Relocation		15000	45000	33075	34729	36465	19144	168413
Commodities								
Micro-computers	10000	20		22050	46305	66150	88200	222705
Equipment & Furn.			15000					15000
Vehicles	15000	2	30000					30000
Training, A/V			2000	2100	2205	2315		8620
Participant Training			15000	15750	16538	17364	18233	82884
Other Direct Cost			25000	26250	27563	28941	30388	138141
Total			212000	204225	237589	243845	228895	1126554
TOTAL			637000	864675	966341	698792	459841	3626649

ILLUSTRATIVE PROJECT BUDGET IN US DOLLARS

Line Items	Description	Units	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
INSTITUTIONAL SUPPORT								
1. Budget Support/Personnel								
Savings Officers	10800	3	32400	34020	35721	37507	39382	179030
Rural Finance Systems Dev.	10800	2	21600	22680	23814	25005	26255	119354
Interventions Supervisor	18000	1	18000	14175	7442	1953	0	41570
Stabilization Fund	10800	1	10800	8505	4465	1172	0	24942
Audit & Inspection	64800	1	64800	51030	26791	7033	0	149653
Education & Training	10800	1	10800	11340	11907	12502	13127	59677
Total			158400	141750	110140	85172	78765	574227
2. Stabilization & Savings Guaranty Program								
Capital Stock Investments								
FACACH Stabilization			1040000					1040000
Credit Union Stabilization			100000	200000	300000	400000	400000	1400000
Savings Guaranty Fund					2000000			2000000
Credit Union Manager Support	7200	40		288000	288000	288000		864000
3. Credit			250000	500000	750000	1000000	1500000	4000000
TOTAL			1548400	1129750	3448140	1773172	1978765	9878227
GRAND TOTAL			2185400	1994425	4414481	2471964	2438606	13504876

Appendix 1

CRITERIA USED TO QUALIFY MEMBER CREDIT UNIONS AS WELL RUN, AVERAGE AND POORLY RUN

GOOD CREDIT UNIONS	AVERAGE CREDIT UNIONS	POORLY RUN CREDIT UNIONS
- Full-time employees	- Full-time employees to attend to credit union matters	- Lack of paid staff
- Leadership bodies integrated and operating	- Leadership bodies integrated and operating on a regular basis	- Irregular functioning of leadership bodies
- Up-to-date accounting	- Up-to-date accounting	- Accounting not up to date
- Minimum monitoring	- Some administrative monitoring	- Lack of managerial monitoring
- Regulated services	- Service regulations	- Unregulated services
- 20% maximum delinquency	- Delinquency no greater than 40%	- Delinquency greater than 40%
- Growth projections	- Good human and financial potential	- Lack of projections, budgets and work plans
- Work plans	- Location exclusive to credit union	- Lack of credit and delinquency analysis
- Good potential of human and financial resources	- Functional furniture and equipment	- Office management, furniture and equipment
- Adequate and exclusive location	- Average acceptance in the community	- Low potential of human and financial resources
- Functional furniture and equipment	- Possibility of developing projects	
- Community acceptance	- Limitation on receiving advice	
- Good handling of funds		
- Delinquency analysis		
- Credit analysis		
- Possibility of developing community projects		

Appendix 1 (Continued)

CREDIT UNION MANAGING ABILITY INDICATORS

Key: A - Good
B - Satisfactory
C - Unsatisfactory

Source: Interviews and Review of Documents

Credit Unions	Have Loan policies and regulations	Accounting Tools	Annual work plan A, B, C	Have Budget	Board of Directors A, B, C	Manager A, B, C	Number of Employees	Location and facilities A, B, C
San Marquena	*	B	*	B	B	A	6	A
Chorotega	*	A	*	*	B	A	4	A
F. Pespirense	*	A	*	*	A	A	4	A
Guadalupe	*	B	*	*	B	B	2	B
Esf. Langueno	*	B	*	*	B	B	2	B
Becerra	*	C	*	*	C	C	1	C
San Pablo	B	B	*	*	B	B	4	B
Taulabé	*	B	*	*	A	B	4	B
San Andrés	*	B	*	*	B	C	3	B
S.P. Zacapa	*	C	*	*	C	C	1	C
Nueva Vida	*	B	*	*	B	B	3	A
Morazán	*	B	*	*	B	B	1	B
El Negrito	*	C	*	*	C	C	1	C
Sonaguera	*	C	*	*	C	C	3	C
Corquín	*	A	*	*	A	A	7	A
Río Grande	*	A	*	*	A	A	4	A
Tres de Mayo	*	B	*	*	B	B	2	B
Yoro	*	A	*	*	A	A	5	A
	18	5A+9B+4C	18	18	5A+9B+4C	6A+7B+5C	57	7A+7B+4C

Appendix 2

CONSOLIDATED BALANCE STATEMENT

Assets	1983	1984	Distribution	Growth
Cash & Bank	1469141	1788022	10	22
Shares in Federacion....	521129	562403	3	8
Loans to Members........	10264917	13386696	78	30
Other Assets............	2151855	1401341	8	-35
Total Assets............	14407042	17138462	100	19
Liabilities & Capital				
Deposit Savings.........	3276014	4540112	26	39
Notes Pay. to Federation	700031	894840	5	28
Share Saving............	8313174	10192363	59	23
Reserves................	538222	619200	4	15
Other Accounts..........	1579601	891947	5	-44
Total Liabil & Capital..	14407042	17138462	100	19

CONSOLIDATED INCOME & EXPENSE		%
Interest Income.........	2041169	12.94
Interest Expense........	1037352	6.58
Gross Spread............	1003817	6.36
Operating Expenses......	809498	5.13
Other Income............	103081	0.65
Net Operating Expenses..	706417	4.48
Operating Spread........	297400	1.89

Appendix 2 (Continued)

DATOSH14 FIRST AND SECOND YEAR
D:C,61 1983 1984

SOURCE OF FUNDS

NAME OF CREDIT UNION	MEMBERS 1983	MEMBERS 1984	TOTAL ASSETS 1983	TOTAL ASSETS 1984	SHARE SAVINGS 1983	SHARE SAVINGS 1984	DEPOSIT SAVINGS 1983	DEPOSIT SAVINGS 1984
San Marqueña	1591	1722	2584473	3003262	1616592	1881994	685674	750311
Chorotega	756	1028	1656766	2517601	1170884	1636402	334740	647911
F.Pespirense	481	521	823050	963314	546938	604896	249529	318039
Guadalupe	210	352	230951	383171	185081	305469	21926	65612
Esf.Langueño	335	434	236184	439171	164754	267003	51263	138070
Becarra	163	216	23231	36743	13549	32461	0	919
San Pablo	496	528	425546	545987	337935	390974	34014	65202
Taulabe	248	390	541714	772035	407623	551414	54525	131268
San Andres	1144	1220	1041175	1257084	740031	872926	160140	195457
S.P. Zacapa	80	106	75242	78310	59793	58563	3903	5931
Nueva Vida	547	588	629757	746395	519390	597218	44365	69791
Morazan	376	415	559000	676264	387621	476924	132447	119470
El Negrito	186	226	130551	187340	106679	132361	11719	43027
Sonaguera	321	325	223052	274673	205919	242062	1962	12197
Corquin	722	842	2670481	2075791	589110	670001	592338	887019
Rio Grande	633	708	1387265	1802045	532107	604493	611065	698791
Tres de Mayo	167	204	92116	151882	60548	78362	17251	48181
Yoro	1398	1576	1076488	1227394	668620	788840	269153	342916
TOTAL	9854	11401	14407042	17138462	8313174	10192363	3276014	4540112

NOTAS:

Appendix 2 (Continued)

DATOSH14
D:C,61

USE OF FUNDS

NAME OF CREDIT UNION	NOTES PAYABLE TO THE FEDERATION 1983	NOTES PAYABLE TO THE FEDERATION 1984	CREDIT UNION DELINQUENCY TO THE FEDERATION 1983	CREDIT UNION DELINQUENCY TO THE FEDERATION 1984	CASH AND BANK ACCOUNTS 1983	CASH AND BANK ACCOUNTS 1984	SHARES IN THE FEDERATION 1983	SHARES IN THE FEDERATION 1984
San Marqueña	0	0	0	0	364755	350105	38372	47165
Chorotega	0	0	0	0	182473	406268	121292	121292
F.Pespirense	0	0	0	0	256968	285637	13000	16000
Guadalupe	0	0	0	0	26637	39692	4921	5926
Esf.Langueño	0	19302	0	0	41899	91369	3577	4533
Becerra	11695	5753	0	0	8427	4227	738	738
San Pablo	30196	35243	0	0	31804	40359	19562	21681
Taulabe	0	0	0	0	59341	76585	17411	18803
San Andres	0	0	0	0	47189	103937	5500	5751
S.P. Zacapa	0	0	0	0	13199	28238	4658	4947
Nueva Vida	15375	15439	0	0	27371	30232	32621	34873
Morazan	110711	68900	0	0	46334	40507	11994	14358
El Negrito	0	0	0	0	13107	26348	1642	1642
Sonaguera	0	0	0	0	3659	3623	584	800
Corquin	294100	247426	0	0	33659	75048	125062	125062
Rio Grande	179273	419625	0	0	157399	160735	81183	96808
Tres de Mayo	21941	63051	0	0	619	6130	10387	10387
Yoro	36740	20101	0	0	154301	18982	28625	31637
TOTAL	700031	894840	0	0	1469141	1788022	521129	562403

NOTAS:

Appendix 2 (Continued)

DATOSH14
D:C,61

NAME OF CREDIT UNION	LOANS TO MEMBERS		MEMBER DELINQUENCY TO CREDIT UNION		RESERVES		TOTAL INCOME	INTEREST INCOME
	1983	1984	1983	1984	1983	1984	1984	1984
San Marqueña	2122284	2544136	438072	305586	127652	173940	330669	328953
Chorotega	1272261	1898908	138806	118039	97263	113747	325375	322549
F.Pespirense	485540	590191	40522	43327	19658	22283	118411	113243
Guadalupe	172535	304373	10364	8803	5139	3789	37509	36294
Esf.Langueño	171872	311863	13777	14308	9380	8789	41465	39924
Becerra	13096	28047	0	0	122	107	6270	6012
San Pablo	310745	460083	70472	68410	4506	3731	83961	80163
Taulabe	418973	560598	118807	114236	57468	67875	105167	95605
San Andres	962091	1114989	329068	225647	4581	20057	133353	132767
S.P. Zacapa	52977	42280	11980	6515	6682	6861	13479	13009
Nueva Vida	514604	610461	51587	59769	21307	26727	94894	85507
Morazan	449000	588054	106237	72547	4848	6959	79525	72403
El Negrito	115492	158740	28116	25082	4953	7336	20507	20378
Sonaguera	198456	241315	67475	72070	6211	7047	26884	26651
Corquin	1093490	1357722	316821	130500	97840	52082	282000	262675
Rio Grande	1053731	1465139	92457	113046	46573	54968	254828	225364
Tres de Mayo	63502	88365	36685	18973	2481	2909	21372	14085
Yoro	794268	1021432	167283	173556	21558	39993	168581	165587
TOTAL	10264917	13386696	2038529	1570414	538222	619200	2144250	2041169

Appendix 2 (Continued)

DATOSH14
D:C,61

NAME OF CREDIT UNION	TOTAL EXPENSES 1984	INTEREST EXPENSE 1984
San Marqueña	256514	122037
Chorotega	250849	159661
F.Pespirense	104347	64591
Guadalupe	28439	14979
Esf.Langueño	37988	20844
Becerra	6579	2317
San Pablo	71514	29752
Taulabe	96504	41680
San Andres	100353	60685
S.P. Zacapa	8294	0
Nueva Vida	76333	30454
Morazan	78628	54789
El Negrito	16411	7109
Sonaguera	15371	2632
Corquin	281000	133426
Rio Grande	246800	192030
Tres de Mayo	23571	6282
Yoro	147355	94084
TOTAL	1846850	1037352

NOTAS:

Appendix 2 (Continued)

DATOSH14 D:C,61 Earning Assets: Cash and Bank Accounts + Shares in Federation + Loans to Members
Funds: Share Savings + Deposit Savings + Notes Payable to Federation

FINANCIAL RATIOS	Profitability Indices (Percentage)			SPREAD ANALYSIS EXPRESSED AS A PERCENTAGE OF TOTAL ASSETS					
NAME OF CREDIT UNION	Expense/ Income	Interest Income/ Earning Assets	Interest Expense/ Funds	Total Income	Total Expense	Interest Income	Interest Expense	Gross Spread	Net Operating Expenses
San Marqueña	78	12.03	4.95	11.84	9.18	11.77	4.37	7.41	4.75
Chorotega	77	16.12	8.43	15.59	12.02	15.45	7.65	7.80	4.23
F.Pespirense	88	13.75	7.51	13.26	11.68	12.68	7.23	5.45	3.87
Guadalupe	76	13.10	5.18	12.22	9.26	11.82	4.88	6.94	3.99
Esf.Langueño	92	12.77	6.51	12.28	11.25	11.82	6.17	5.65	4.62
Becerra	105	21.75	7.20	20.91	21.94	20.05	7.73	12.32	13.35
San Pablo	85	18.13	6.66	17.28	14.72	16.50	6.12	10.38	7.82
Taulabe	92	16.60	7.28	16.01	14.69	14.55	6.35	8.21	6.89
San Andres	75	11.86	6.17	11.60	8.73	11.55	5.28	6.27	3.40
S.P. Zacapa	62	17.78	0.00	17.56	10.80	16.94	0.00	16.94	10.19
Nueva Vida	80	13.68	4.83	13.79	11.09	12.43	4.43	8.00	5.30
Morazan	99	12.59	8.45	12.88	12.73	11.72	8.87	2.85	2.71
El Negrito	80	12.86	4.84	12.90	10.32	12.82	4.47	8.35	5.77
Sonaguera	57	11.89	1.14	10.80	6.18	10.71	1.06	9.65	5.03
Corquin	100	18.70	8.14	11.88	11.84	11.07	5.62	5.45	5.40
Rio Grande	97	14.95	12.61	15.98	15.48	14.13	12.04	2.09	1.59
Tres de Mayo	110	15.70	4.34	17.52	19.32	11.55	5.15	6.40	8.20
Yoro	87	16.16	8.85	14.63	12.79	14.37	8.17	6.21	4.36
	NA	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL	86	14.59	7.43	13.59	11.71	12.94	6.58	6.36	4.48

Appendix 2 (Continued)

DATOSH14

FINANCIAL RATIOS NAME OF CREDIT UNION	Operating Spread	Deliquency Rate:Loans to Members	Reserves/ Deliquency	Earning Assets/ Funds	Earn. Assets (Net of Del. Loans)/ Funds	Average Member Savings	Solvency: (Share Sav. -Del+Res)/ Share Sav.	Leverage: (Dep Sav.+ Note Pay.to Fed)/Share Savings
San Marqueña	2.65	12	57	112	100	1529	93	40
Chorotega	3.57	6	96	106	101	2222	100	40
F.Pespirense	1.57	7	51	97	92	1771	97	53
Guadalupe	2.95	3	43	94	92	1054	98	21
Esf.Langueño	1.03	5	61	96	93	933	98	59
Becerra	-1.03	0	NA	84	84	155	100	21
San Pablo	2.56	15	5	106	92	864	83	26
Taulabe	1.32	20	59	96	79	1750	92	24
San Andres	2.87	20	9	115	94	876	76	22
S.P. Zacapa	6.75	15	105	117	107	608	101	10
Nueva Vida	2.70	10	45	99	90	1134	94	14
Morazan	0.15	12	10	97	86	1437	86	39
El Negrito	2.58	16	29	106	92	776	87	33
Sonaguera	4.63	30	10	97	68	782	73	5
Corquin	0.04	10	40	86	79	1849	88	169
Rio Grande	0.50	8	49	100	93	1841	90	185
Tres de Mayo	-1.80	21	15	55	45	620	80	142
Yoro	1.84	17	23	93	78	718	83	46
	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL	1.89	12	39	101	91	1292	91	53

Appendix 2 (Continued)

DATOSH14

FINANCIAL RATIOS ------------ NAME OF CREDIT UNION	Liquidity: Cash&Bank/ Share Sav.+ Dep Sav.+ Note Pay.to Federation	Cash Reserve: Shares in Federation/ Shares in Credit Union	PERCENTAGE DISTRIBUTION OF TOTAL ASSETS SOURCE OF FUNDS Share Savings	Deposit Savings	Notes Payable to Federation	Reserves	Other Sources	USE OF FUNDS Cash & Bank
San Marqueña	13	3	63	25	0	6	7	12
Chorotega	18	7	65	26	0	5	5	16
F.Pespirense	31	3	63	33	0	2	2	30
Guadalupe	11	2	80	17	0	1	2	10
Esf.Langueño	22	2	61	31	4	2	1	21
Becerra	11	2	88	3	16	0	-7	12
San Pablo	8	6	72	12	6	1	9	7
Taulabe	11	3	71	17	0	9	3	10
San Andres	10	1	69	16	0	2	13	8
S.P. Zacapa	44	8	75	8	0	9	9	36
Nueva Vida	4	6	80	9	2	4	5	4
Morazan	6	3	71	18	10	1	1	6
El Negrito	15	1	71	23	0	4	2	14
Sonaguera	1	0	88	4	0	3	5	1
Corquin	4	19	32	43	12	3	11	4
Rio Grande	9	16	34	39	23	3	1	9
Tres de Mayo	3	13	52	32	42	2	-27	4
Yoro	2	4	64	28	2	3	3	2
	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL	11	6	59	26	5	4	5	10

V

Appendix 2 (Continued)

DATOSH14

FINANCIAL RATIOS	USE OF FUNDS			PERCENTAGE GROWTH					
NAME OF CREDIT UNION	Shares in Federation	Loans to Members	Other Assets	Members	Total Assets	Share Savings	Deposit Savings	Loans to Members	Delinquency
San Marqueña	2	85	2	8	16	16	9	20	-30
Chorotega	5	75	4	36	52	40	94	49	-15
F.Pespirense	2	61	7	8	17	11	27	22	7
Guadalupe	2	79	9	68	66	65	199	76	-15
Esf.Langueño	1	71	7	30	86	62	169	81	4
Becerra	2	76	10	33	58	140	NA	114	NA
San Pablo	4	84	4	6	28	16	92	48	-3
Taulabe	2	73	15	57	43	35	141	34	-4
San Andres	0	89	3	7	21	18	22	16	-31
S.P. Zacapa	6	54	4	33	4	-2	52	-20	-46
Nueva Vida	5	82	9	7	19	15	57	19	16
Morazan	2	87	5	10	21	23	-10	31	-32
El Negrito	1	85	0	22	43	24	267	37	-11
Sonaguera	0	88	11	1	23	18	522	22	7
Corquin	6	65	25	17	-22	14	50	24	-59
Rio Grande	5	81	4	12	30	14	14	39	22
Tres de Mayo	7	58	31	22	65	29	179	39	-48
Yoro	3	83	13	13	14	18	27	29	4
	NA	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL	3	78	8	16	19	23	39	30	-23

Appendix 3

DESTNH02
D:61,C-FACACH

CREDIT UNION LOANS GRANTED BY PURPOSE-1984

Amounts in Lempiras

NAME OF CREDIT UNION	Total Granted	Agriculture	Cattle-Raising	Artisans & Sm Industry	Commerce	Housing	Consumer	Other	Percentage of Total
Becerra	37642	5254	7810	440	7710	0	12296	4132	0
Guadalupe	236337	0	1200	4000	76858	79425	73174	1680	2
Esf.Langueño	267775	3541	6823	11915	77963	44416	71184	51933	2
Chorotega	2509400	26900	131975	22620	578365	697890	411124	640526	19
F.Perspirens	754387	12607	41510	4550	223654	134505	20672	316889	6
Rio Grande	1244806	250102	39338	31674	714188	115925	31644	61935	10
Corquin	645011	148456	28844	5438	44375	52559	24345	340994	5
Nueva Vida	629858	4104	6494	9980	310630	87963	156108	54579	5
San Marqueña	3306098	62245	796430	18000	961464	651057	366617	180285	24
Morazan	483285	157094	33710	12767	118754	44557	48730	67673	4
San Pablo	378400	29276	7880	16806	135400	18332	29133	141573	3
S.P.Zacapa	53075	985	3210	0	5410	11896	11182	20392	0
El Negrito	NA	NA	NA	NA	NA	NA	NA	NA	0
Yoro (1983)	1057293	130309	58810	31508	238273	144831	62146	391416	8
San Andres	1063430	53362	12600	5200	637820	58639	216600	79209	8
Taulabe	304328	58094	6307	0	50490	47264	71987	70186	2
Tres de Mayo	NA	NA	NA	NA	NA	NA	NA	NA	0
Sonaguera	180486	11095	0	0	112000	14064	31141	12186	1
Total (L)	13151611	953424	1182941	174898	4293354	2203323	1638083	2435588	100
% of Total	100	7	9	1	33	17	12	19	

PERCENTAGE DISTRIBUTION

NAME OF CREDIT UNION	Total Granted	Agriculture	Cattle-Raising	Artisans & Sm Industry	Commerce	Housing	Consumer	Other
Becerra	100	14	21	1	20	0	33	11
Guadalupe	100	0	1	2	33	34	31	1
Esf.Langueño	100	1	3	4	29	17	27	19
Chorotega	100	1	5	1	23	28	16	26
F.Perspirens	100	2	6	1	30	18	3	42
Rio Grande	100	20	3	3	57	9	3	5
Corquin	100	23	4	1	7	8	4	53
Nueva Vida	100	1	1	2	49	14	25	9
San Marqueña	100	2	26	1	32	21	12	6
Morazan	100	33	7	3	25	9	10	14
San Pablo	100	8	2	4	36	5	8	37
S.P.Zacapa	100	2	6	0	10	22	21	38
El Negrito	NA	NA	NA	NA	NA	NA	NA	NA
Yoro	100	12	6	3	23	14	6	37
San Andres	100	5	1	0	60	6	20	7
Taulabe	100	19	2	0	17	16	24	23
Tres de Mayo	NA	NA	NA	NA	NA	NA	NA	NA
Sonaguera	100	6	0	0	62	8	17	7
Average (%)	100	9	6	2	32	14	16	21

Appendix 3 (Continued)

DESTNH02
D:61,C-FACAC

CREDIT UNION LOANS GRANTED BY PURPOSE-1983

Amounts in Lempiras

NAME OF CREDIT UNION	Total Granted	Agriculture	Cattle-Raising	Artisans & Sm Industry	Commerce	Housing	Consumer	Other	Percentage of Total
Becerra	15681	4936	2970	0	1550	2200	4025	0	0
Guadalupe	147854	5250	12000	0	10428	38790	68878	12508	2
Esf.Langueño	115567	3024	0	18400	32822	25511	24549	11261	1
Chorotega	1503618	12410	45140	11500	390339	291250	309733	443246	17
F.Perspirens	527600	8010	17384	3700	177538	82049	17276	221643	6
Rio Grande	892523	216643	16128	24416	129625	47807	27340	430564	10
Corquin	NA	NA	NA	NA	NA	NA	NA	NA	0
Nueva Vida	578825	5991	7879	6779	207851	119228	157972	73125	7
San Marqueña	2288964	66440	627855	29600	634449	442590	310310	177720	26
Morazan	437968	84072	9405	2585	149827	59915	56928	75236	5
San Pablo	214258	21212	3143	22565	87827	15089	56145	8277	2
S.P.Zacapa	34889	5755	3450	0	10220	9455	1200	4809	0
El Negrito	NA	NA	NA	NA	NA	NA	NA	NA	0
Yoro	1057293	130309	58810	31508	238273	144831	62146	391416	12
San Andres	609052	23580	15600	4800	163678	64905	172656	163833	7
Taulabe	269360	34099	0	13260	87408	39859	41297	53437	3
Tres de Mayo	NA	NA	NA	NA	NA	NA	NA	NA	0
Sonaguera	149357	14016	0	3300	57936	33994	38037	2074	2
Total (L)	8842809	635747	819764	172413	2379771	1417473	1348492	2069149	100
% of Total	100	7	9	2	27	16	15	23	

PERCENTAGE DISTRIBUTION

NAME OF CREDIT UNION	Total Granted	Agriculture	Cattle-Raising	Artisans & Sm Industry	Commerce	Housing	Consumer	Other
Becerra	100	31	19	0	10	14	26	0
Guadalupe	100	4	8	0	7	26	47	8
Esf.Langueño	100	3	0	16	28	22	21	10
Chorotega	100	1	3	1	26	19	21	29
F.Perspirens	100	2	3	1	34	16	3	42
Rio Grande	100	24	2	3	15	5	3	48
Corquin	NA	NA	NA	NA	NA	NA	NA	NA
Nueva Vida	100	1	1	1	36	21	27	13
San Marqueña	100	3	27	1	28	19	14	8
Morazan	100	19	2	1	34	14	13	17
San Pablo	100	10	1	11	41	7	26	4
S.P.Zacapa	100	16	10	0	29	27	3	14
El Negrito	NA	NA	NA	NA	NA	NA	NA	NA
Yoro	100	12	6	3	23	14	6	37
San Andres	100	4	3	1	27	11	28	27
Taulabe	100	13	0	5	32	15	15	20
Tres de Mayo	NA	NA	NA	NA	NA	NA	NA	NA
Sonaguera	100	9	0	2	39	23	25	1
Average (%)	100	10	6	3	27	17	19	19

Appendix 4

MORAH03 D:61,C-FACACH
DELINQUENCY ANALYSIS AT CREDIT UNION LEVEL (Amounts in Lempiras)

DELINQUENT LOANS 1983

NAME OF CREDIT UNION	TOTAL LOAN PORTFOLIO	2 to 6	Months 7 to 12	Delinquent 13 to 18	> 18	TOTAL AMOUNT	DELINQUENCY INDEX
San Marqueña	2125284	231932	94832	33815	77493	438072	21
Chorotega	1272271	86507	22309	25873	4117	138806	11
F.Perspirens	485540	30792	4994	3359	1377	40522	8
Guadalupe	172535	6411	2160	1776	17	10364	6
Esf.Langueño	171872	9989	2057	379	1352	13777	8
Becerra	13096	0	0	0	0	0	0
San Pablo	310745	21684	16812	11344	20632	70472	23
Taulabe	418973	10682	3381	14566	90178	118807	28
San Andres	962091	73353	45470	45551	164694	329068	34
S.P.Zacapa	52977	1230	800	1200	8750	11980	23
Nueva Vida	514604	11018	8566	11802	20201	51587	10
Morazan	449000	29426	28692	27072	21047	106237	24
El Negrito	115462	3061	3707	5197	16151	28116	24
Sonaguera	197456	2051	4068	9446	51910	67475	34
Corquin	1093490	21031	54681	11802	229307	316821	29
Rio Grande	1253731	40409	28010	8101	15937	92457	7
Tres de Mayo	63502	0	0	0	36685	36685	58
Yoro	794268	48061	26423	12418	80381	167283	21
Total (L)	10466897	627637	346962	223701	840229	2038529	19
% of Loans	100	6	3	2	8	19	
% of Delinquency		31	17	11	41	100	

DELINQUENT LOANS 1984

NAME OF CREDIT UNION	TOTAL LOAN PORTFOLIO	2 to 6	Months 7 to 12	Delinquent 13 to 18	> 18	TOTAL AMOUNT	DELINQUENCY INDEX
San Marqueña	2544136	156494	67634	40969	40489	305586	12
Chorotega	1898908	72068	19293	21225	5453	118039	6
F.Perspirens	590191	14208	3032	7883	18204	43327	7
Guadalupe	304373	6356	2159	288	0	8803	3
Esf.Langueño	311863	12151	1630	470	57	14308	5
Becerra	28047	0	0	0	0	0	0
San Pablo	460083	13260	11158	8301	35691	68410	15
Taulabe	560598	14808	10754	6243	82431	114236	20
San Andres	1114999	26975	27072	19833	151767	225647	20
S.P.Zacapa	42280	920	795	1800	3000	6515	15
Nueva Vida	610461	15732	14219	4347	25471	59769	10
Morazan	588054	15235	21401	21168	14743	72547	12
El Negrito	157740	2729	3687	4615	14051	25082	16
Sonaguera	241315	2226	4412	10397	55035	72070	30
Corquin	1357722	11325	6375	16300	96500	130500	10
Rio Grande	1465139	51124	32325	10002	19595	113046	8
Tres de Mayo	88365	0	0	0	18973	18973	21
Yoro	1021432	54057	33105	19928	66466	173556	17
Total (L)	13385706	469668	259051	193769	647926	1570414	12
% of Loans	100	4	2	1	5	12	
% of Delinquency		30	16	12	41	100	

Appendix 5

POTENTIAL CREDIT UNION LOAN DEMAND

Source: Interviews and FACACH Dept.
(Figures in thousands of Lempiras)

Credit Union	Agriculture Agriculture	Cattle-Raising	Artisans & Small Industries	Commerce	Housing	Consumer	Totals
San Marquena	50	250	30	300	200	60	890
Chorotega		HAS SUFFICIENT LIQUIDITY					
F. Pespirense		50	20	330	100		500
Guadalupe			20	50	30	20	120
E. Langueno		120	30	50	50		250
Becerra	180			20		10	210
San Pablo	100	150	250	450	1,000		1,950
Taulabé	60	30	10	170	30		300
San Andrés	200	100	50	250	60	50	710
S. P. Zacapa	20	100	10	150	100	50	430
Nueva Vida	50	30	10	250	150	60	550
Morazán	225	180	10	360	90		865
El Negrito	140			20		10	170
Sonaguera	100	20	10	70	70		270
Corquín	250	20	20	200	90	20	600
Río Grande	70	30	10	150	60	30	350
Tres de Mayo	15	20	10	30	60	110	245
Yoro	240	20	10	70	40	20	400
TOTAL	1,700	1,120	500	2,920	2,130	440	8,810

Appendix 6

CREDIT UNION ANNUAL PERCENTAGE INTEREST RATES ON LOANS ACCORDING TO PURPOSE

Credit Unions	Automatic (share secured)	Agricultural up to 5 months	Cattle-Raising 36 months	Commerce 36 months	Housing 48 months	Consumer 24 months
San Marqueña	12	12	12	12	12	12
Chorotega	18	18	18	18	18	18
F. Pespirense	12	15	15	18	18	18
Guadalupe	15	15	15	15	15	15
E. Langueño	15	15	15	15	15	15
Becerra	12	18	20	20	20	20
San Pablo	15	18	18	18	18	18
Taulabé	14	16	18	18	18	18
San Andrés	12	16	18	18	18	18
S. P. Zacapa	ND	ND	ND	ND	ND	ND
Nueva Vida	16	17	17	17	17	17
Morazán	12	18	18	18	18	18
El Negrito	18	18	18	18	18	18
Sonaguera	12	16	16	18	18	18
Corquín	18	18	18	18	18	18
Río Grande	12	18	18	18	18	18
Tres de Mayo	12	20	20	20	20	20
Yoro	12	14	17.5	21	21	21

Cost of Credit Unions' Servicing in %

Credit Unions	Shares	Passbook Savings	Christmas Club	Children's Savings Accounts	Term Deposits (Maximum rate)
San Marqueña	6	7	6	6	10
Chorotega	8.5	10	10	10	14
Frat. Pespirense	7	90	6	6	14
Guadalupe	7	7	7	7	—
Esf. Langueño	7	8	8	8	10.5
Becerra	5	8	7	7	12
San Pablo	6	10	10	8	15
Taulabé	6	10	8	8	14
San Andrés	6	6	6	6	9
San Pedro Zacapa	ND	ND	ND	ND	ND
Nueva Vida	6	7	7	7	14
Morazan	5	9	9	9	14
El Negrito	6	8	8	7	14
Sonaguera	4	6	6	6	11
Corquin	9	8	6	6	15
Rio Grande	8	10	10	10	135
Tres de Mayo	6	6	6	4	16
Yoro	7	9	9	9	14

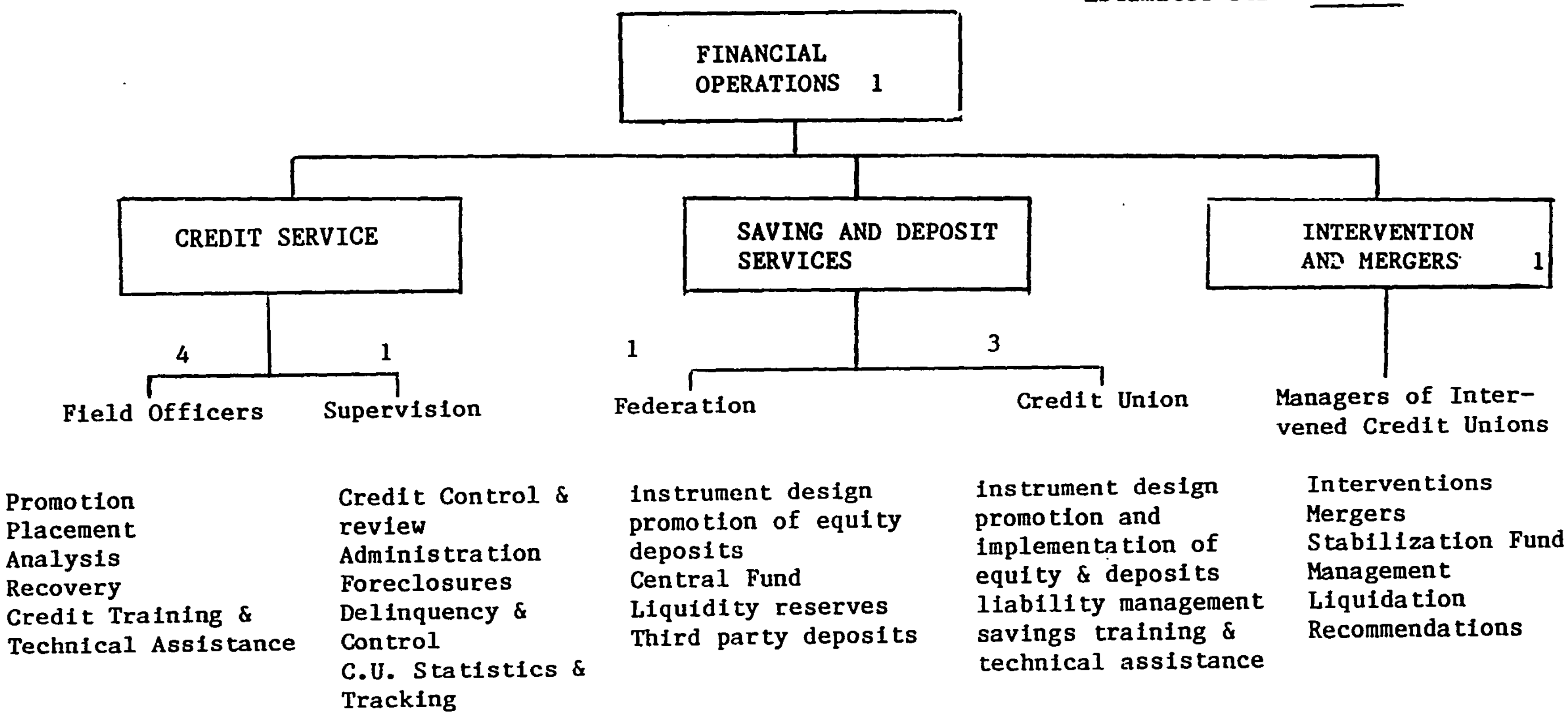
Appendix 7

Recommended Staff Structure

Dept./Section	Current	(A) Restructured	(B) New Staff	(C) Project	(A+B+C) Total
Management	3	2			2
Legal Advisor	1				
Internal Auditor	1	1			1
Controler/Adm.	8	6			6
Audit/Inspection				5	5
Finan. Operations	2.5	6	1	4	11
Insurance/Bonding	4.5	6			6
Agricultural Services	39	39			39
Technical Assistant	25				
Credit Union Development		5	1	3	9
TOTALS	84	65	2	12	79

The above chart attempts to combine recommendations that would enable FACACH to reduce costs, especially indirect costs, in the immediate future while reallocating human resources to priority areas. From left to right, it may also be looked upon as the steps FACACH will need to follow in its restructuring process. Finally, while the human resource mix will be substantially different, the overall staff reduction, assuming the AID project is accepted, would be about 6%.

Estimated Staff 11



Estimated Staff 6

CONTROLLER AND ADMINISTRATION 1

FINANCIAL ADMINISTRATION 3

-- Investments

-- Loans

-- Budgetng & Control

-- Accounting

-- Cashier

-- Costing/Pricing

GENERAL ADMINISTRATION 2

-- Contracts

-- Personnel

-- Purchasing

-- Forms & Supplies

-- Fixed Asset Management

Estimated Staff 9

CREDIT UNION DEVELOPMENT 1

SPECIAL PROJECTS 5	FINANCIAL SYSTEMS DEVELOPMENT 2	TRAINING 1
Self financing	credit administration improvement program	training packages and materials
Special Credit union programs targeted to address specific problems	Internal Controls	promotional materials
	Financial Administration	in-house services
	risk management	
	computerization	

Estimated Staff 5

AUDITING/
INSPECTION 1

Future Savings Guarantee Fund
(3rd. year)

Auditing 2

Inspection 2

Estimated Staff 6

INSURANCE AND BONDING 1

Administration 1	Sales/Field Officers 4
National promotion	Promotion
Claim processing	Sales
	Technical Assistance

AGRICULTURAL SERVICES

(subject to evaluation results)

PROJECTS

- Administration
- Tractor rentals
- Technical Assistance
- Credit

MARKETING

- buying/selling of basic grains
- Sale agricultural input
- Storage
- drying

APPENDIX 8

Explanation of Stabilization Projections

The following format is used for both the FACACH and the leading credit unions' projections.

A. Column Titles (from left to right)

1. Dec. 1984 - The amount of balance sheet items as of December 31, 1984.

2. Vertical % - Individual assets expressed as a percentage of total assets; individual liability or capital accounts expressed as a percentage of total assets.

3. Adjustments - Monetary inputs or changes made in going from the current status or the "base case". Different adjustments are made in each of the different cases.

4. Projection - December 1984 amount plus adjustments (column 1 + column 3). This column shows the adjusted balance sheet.

5. Vertical % - Same as 2 above, but using figures in column 4. This shows change in structure resulting from each case's adjustments.

6. Rate % - Annual interest rate received on assets and/or paid on liabilities or capital. This determines the amount of income or cost shown in column 7.

7. Income/Cost - Income produced by each asset or cost incurred by each of the liabilities and capital items. The amount is calculated by multiplying column 4 by column 6.

8. Notes - Explanation of the adjustment shown in column 3 as referenced for each case (except the base case) on the following page.

B. Row Titles (top to bottom)

1. Gross Spread/Margin - Gross return on assets less cost of liabilities and capital. Expressed as a percentage of total assets (spread) and amount in Lempiras (margin).

2. Net Operating Spread/Cost - The average net operating (non-interest) costs of FACACH and the leading credit unions. Expressed as a percentage of total assets and amount in Lempiras. In the case of FACACH, it is assumed that the DAI

and marketing operations break even; thus the amount shown covers all other departments plus pro-rated indirect costs.

3. Operating Spread/Margin -- Operating profit (or deficit) prior to reserve allocations (row 1 - row 2). Expressed as a percentage of total assets and amount in Lempiras.

4. Reserve Transfer - Assumes 5% of gross income is transferred to general reserves. Expressed as a percentage of total assets and amount in Lempiras.

5. Available Earnings - Operating margin or deficit (row 3) less reserve allocation (row 4). Expressed as a percentage of total assets and amounts in Lempiras.

6. Capital Deficit - Amount of available earnings (row 5) applied to reduce the capital deficit.

7. Stabilization Payout - Amount of available earnings applied to amortize the stabilization shares principal amount.

8. Undivided Earnings - Amount of available earnings remaining after being applied to the capital deficit (row 6) and stabilization payout (row 7).

C. Row Titles - Analysis Section (top to bottom)

9. Target Reserve Level - Desired reserve level of 6% of total assets, the amount in Lempiras at that level, the current reserve position and the amount required to reach the desired level.

10. Years to Reach Level - Estimated number of years to bring reserves up to desired level, assuming all else remains constant.

11. Amount of Deficit - Amount of deficit and the amount of available earnings applied to reduce the capital deficit.

12. Years to Cover Deficit - Estimated number of years to reduce deficit to 0, assuming available earnings remains constant.

13. Amount of Stabilization Shares - Amount of stabilization shares received and the amount of available earnings applied to amortize the stabilization shares principal amount.

14. Years to Amortize Stabilization Shares - Estimated number of years to fully amortize stabilization shares, assuming available earnings remains constant.

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Appendix 8
FACACH Stabilization

PROJECTED BALANCE SHEET FACACH BASE CASE

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustmnts	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost
Cash and Banks........	711	4		711	4	10.05	71
COLAC Shares..........	832	4		832	4		0
Loans Outstanding.....	8560	44		8560	44	14.00	1198
CU Stabilizn. Shares..	0	0		0	0	14.00	0
Other Assets..........	9360	48		9360	48		0
Total......	19463	100	0	19463	100.	6.52	1270
LIABILITIES AND CAPITAL							
Savings Deposits......	1304	7		1304	7	12.00	156
Notes Payable.........	9052	47		9052	47	7.41	671
Member Share Savings..	2567	13		2567	13	8.00	205
Reserves..............	488	3		488	3		0
Other Accounts........	6052	31		6052	31		0
Capital Deficit.......	0	0		0	0		0
Stabilization Shares..	0	0		0	0	8.00	0
CU Stabilizn. Fund....	0	0		0	0	8.00	0
Undivided Earnings....	0	0		0	0		0
Total......	19463	100	0	19463	100	5.31	1033

Row #

Gross Spread/Margin.. 1.22 237 (1)

Net Operating Spread/Cost.............................. Cost = 258 1.33 258 (2)

Operating Spread/Margin.. -0.11 -21 (3)

Reserve Transfer......Percent Gross Income = 5.00 Reserve Spread/Amt. 0.33 63 (4)

Available Earnings... -0.43 -84 (5)

Capital Deficit.. -84 (6)

Stabilization Payout... 0 (7)

Undivided Earnings... 0 (8)

ANALYSIS			Target	Current	Deficit	Row #
Target Reserve Level..	Percent Total Assets..	6.00	1168	488	680	(9)

Years to reach level.. 10.71 (10)

Amount of Deficit.................................. 0 Available Earnings.. -84 (11)

Years to cover Deficit.. NA (12)

Amount of Stabilization Shares...................... 0 Earnings after Defict 0 (13)

Years to Amortize Stabilization Shares.. NA (14)

Appendix 8 (Continued)

BALSHT2F
D:61,C-FACACH

STABILIZED CASE 2F1
No net loans
FACACH Only

PROJECTED BALANCE SHEET FACACH

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustmnts	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	711	4	878	1589	8	10.05	160	1
COLAC Shares..........	832	4		832	4		0	
Loans Outstanding.....	8560	44	-233	8327	43	14.00	1166	2
CU Stabilizn. Shares..	0	0		0	0	14.00	0	
Other Assets..........	9360	48	-607	8753	45		0	3
Total......	19463	100	38	19501	100.	6.51	1325	

LIABILITIES AND CAPITAL								
Savings Deposits......	1304	7		1304	7	12.00	156	
Notes Payable.........	9052	47	484	9536	49	7.41	707	4
Member Share Savings..	2567	13	42	2609	13	8.00	209	5
Reserves..............	488	3	-488	0	0		0	6
Other Accounts........	6052	31		6052	31		0	
Capital Deficit.......	0	0	-1299	-1299	-7		0	7
Stabilization Shares..	0	0	1299	1299	7	8.00	104	8
CU Stabilizn. Fund....	0	0		0	0	8.00	0	
Undivided Earnings....	0	0		0	0		0	
Total......	19463	100	38	19501	100	5.30	1176	Row #

Gross Spread/Margin..			1.22	150	(1)
Net Operating Spread/Cost............................	Cost =	258	1.32	258	(2)
Operating Spread/Margin..			-0.11	-108	(3)
Reserve Transfer......Percent Gross Income =	5.00	Reserve Spread/Amt.	0.33	66	(4)
Available Earnings...			-0.43	-175	(5)
Capital Deficit..				-175	(6)
Stabilization Payout...				0	(7)
Undivided Earnings...				0	(8)

ANALYSIS			Target	Current	Deficit	
Target Reserve Level..	Percent Total Assets..	6.00	1170	0	1170	(9)
Years to reach level..					17.65	(10)
Amount of Deficit....................................		-1299	Available Earnings..		-175	(11)
Years to cover Deficit..					NA	(12)
Amount of Stabilization Shares.......................		1299	Earnings after Defict		0	(13)
Years to Amortize Stabilization Shares..					NA	(14)

CASE: 2F1
NOTES: C=80

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1. Cash and Banks includes Stab total 1299 less 421 availabl_ for loans leaves 878 to match insurance reserves total.

2. Loans outstanding is reduced by 696 in losses per Richardson(includes some accts rec'ble) and increased by 421 in loans + 10% capitztn = 42.

3. "Prestamos en Liquidacion" write-off.

4. Net increase in foreign obligations due to devaluation, at 25%.

5. Increase due to loans of 421 (but would also decrease by share write-offs in Richardson's estimate; needs to be fixed) at cap 10% =42.

6. Assumes full write-off of FACACH reserves prior to stabilization.

7. Capital deficit: net of 1787-488 in reserves. 1787 = 696 Richardson loss + 607 Prest en Liq + 484 devaluation loss.

8. Stab Shares are total deficit in FACACH only. Shown at 5%.

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Appendix 8 (Continued)

BALSHT2F
D:61,C-FACACH

STABILIZED CASE 2F3
No net loans
FACACH Only

PROJECTED BALANCE SHEET FACACH

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustments	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	711	4	878	1589	8	10.05	160	1
COLAC Shares..........	832	4		832	4		0	
Loans Outstanding.....	8560	44	-233	8327	43	14.00	1166	2
CU Stabilizn. Shares..	0	0		0	0	14.00	0	
Other Assets..........	9360	48	-607	8753	45		0	3
Total......	19463	100	38	19501	100.	6.80	1325	

LIABILITIES AND CAPITAL								
Savings Deposits......	1304	7		1304	7	12.00	156	
Notes Payable.........	9052	47	484	9536	49	7.41	707	4
Member Share Savings..	2567	13	42	2609	13	8.00	209	5
Reserves..............	488	3	-488	0	0		0	6
Other Accounts........	6052	31		6052	31		0	
Capital Deficit.......	0	0	-1299	-1299	-7		0	7
Stabilization Shares..	0	0	1299	1299	7	0.00	0	8
CU Stabilizn. Fund....	0	0		0	0	8.00	0	
Undivided Earnings....	0	0		0	0		0	
Total......	19463	100	38	19501	100	5.50	1072	Row #

Gross Spread/Margin..		1.30	254	(1)
Net Operating Spread/Cost..........................	Cost = 258	1.32	258	(2)
Operating Spread/Margin..		-0.02	-4	(3)
Reserve Transfer......Percent Gross Income = 5.00	Reserve Spread/Amt.	0.34	66	(4)
Available Earnings...		-0.36	-71	(5)
Capital Deficit..			-71	(6)
Stabilization Payout...			0	(7)
Undivided Earnings...			0	(8)

ANALYSIS			Target	Current	Deficit	
Target Reserve Level..	Percent Total Assets..	6.00	1170	0	1170	(9)
Years to reach level..					17.65	(10)
Amount of Deficit...................................		-1299	Available Earnings..		-71	(11)
Years to cover Deficit..					NA	(12)
Amount of Stabilization Shares.......................		1299	Earnings after Defict		0	(13)
Years to Amortize Stabilization Shares..					NA	(14)

CASE: 2F2
NOTES: C=80

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1. Cash and Banks includes Stab total 1299 less 421 available for loans leaves 878 to match insurance reserves total.

2. Loans outstanding is reduced by 696 in losses per Richardson(includes some accts rec'ble) and increased by 421 in loans + 10% capitztn = 42.

3. "Prestamos en Liquidacion" write-off.

4. Net increase in foreign obligations due to devaluation, at 25%.

5. Increase due to loans of 421 (but would also decrease by share write-offs in Richardson's estimate; needs to be fixed) at cap 10% =42.

6. Assumes full write-off of FACACH reserves prior to stabilization.

7. Capital deficit: net of 1787-488 in reserves. 1787 = 696 Richardson loss + 607 Prest en Liq + 484 devaluation loss.

8. Stab Shares are total deficit in FACACH only. Shown at 0 %.

Appendix 8 (Continued)

BALSHT2F
D:61,C-FACACH

STABILIZED CASE 2F3
No net loans
FACACH and CUs

PROJECTED BALANCE SHEET FACACH

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustmnts	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	711	4	878	1589	8	10.05	160	1
COLAC Shares..........	832	4		832	4		0	
Loans Outstanding.....	8560	44	-233	8327	42	14.00	1166	2
CU Stabilizn. Shares..	0	0	324	324	2	14.00	45	9
Other Assets..........	9360	48	-607	8753	44		0	3
Total......	19463	100	362	19825	100.	6.91	1371	
LIABILITIES AND CAPITAL								
Savings Deposits......	1304	7		1304	7	12.00	156	
Notes Payable.........	9052	47	484	9536	48	7.41	707	4
Member Share Savings..	2567	13	42	2609	13	8.00	209	5
Reserves..............	488	3	-488	0	0		0	6
Other Accounts........	6052	31		6052	31		0	
Capital Deficit.......	0	0	-1299	-1299	-7		0	7
Stabilization Shares..	0	0	1299	1299	7	1.50	19	8
CU Stabilizn. Fund....	0	0	324	324	2	8.00	26	9
Undivided Earnings....	0	0		0	0		0	
Total......	19463	100	362	19825	100	5.64	1117	

		Rate %	Income/Cost	Notes	Row #
Gross Spread/Margin..		1.28	254		(1)
Net Operating Spread/Cost............................. Cost =	258	1.30	258	10	(2)
Operating Spread/Margin..		-0.02	-4		(3)
Reserve Transfer......Percent Gross Income = 5.00 Reserve Spread/Amt.		0.35	69		(4)
Available Earnings...		-0.37	-73		(5)
Capital Deficit..................			-73		(6)
Stabilization Payout...			0		(7)
Undivided Earnings...			0		(8)

ANALYSIS		Target	Current	Deficit	Row #
Target Reserve Level.. Percent Total Assets..	6.00	1190	0	1190	(9)
Years to reach level..				17.35	(10)
Amount of Deficit..................................	-1299	Available Earnings..		-73	(11)
Years to cover Deficit..				NA	(12)
Amount of Stabilization Shares........................	1299	Earnings after Defict		0	(13)
Years to Amortize Stabilization Shares................................				NA	(14)

CASE: 2F3
NOTES: C=80

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1. Cash and Banks includes Stab total 1299 less 421 available for loans leaves 878 to match insurance reserves total.

2. Loans outstanding is reduced by 696 in losses per Richardson(includes some accts rec'ble) and increased by 421 in loans + 10% capitztn = 42.

3. "Prestamos en Liquidacion" write-off.

4. Net increase in foreign obligations due to devaluation, at 25%.

5. Increase due to loans of 421 (but would also decrease by share write-offs in Richardson's estimate; needs to be fixed) at cap 10% =42.

6. Assumes full write-off of FACACH reserves prior to stabilization.

7. Capital deficit: net of 1787-488 in reserves. 1787 = 696 Richardson loss + 607 Prest en Liq + 484 devaluation loss.

8. Stab Shares are total deficit in FACACH only. Shown at 1.5 %.

9. Shares invested in leading CUs to stabilize per case 2C1.

10. Only direct and indirect costs of financial services (credit and insurance) are included. DAI costs are assumed to be met by direct income, annual subsidies or reduction in capital donations.

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Appendix 8 (Continued)

BALSHT2F
D:61,C-FACACH

STABILIZED CASE 2F4
Net loans to CUs
FACACH and CUs

PROJECTED BALANCE SHEET FACACH

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustmnts	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	711	[illegible]	878	1589	7	10.05	160	1
COLAC Shares..........	832	4		832	4		0	
Loans Outstanding.....	8560	44	2380	10940	49	14.00	1532	2
CU Stabilizn. Shares..	0	0	324	324	1	14.00	45	9
Other Assets..........	9360	48	-607	8753	39		0	3
Total......	19463	100	2975	22438	100	7.74	1737	
LIABILITIES AND CAPITAL								
Savings Deposits......	1304	7		1304	6	12.00	156	
Notes Payable.........	9052	47	2859	11911	53	7.41	883	4
Member Share Savings..	2567	13	280	2847	13	8.00	228	5
Reserves..............	488	3	-488	0	0		0	6
Other Accounts........	6052	31		6052	27		0	
Capital Deficit.......	0	0	-1299	-1299	-6		0	7
Stabilization Shares..	0	0	1299	1299	6	8.00	104	8
CU Stabilizn. Fund....	0	0	324	324	1	8.00	26	9
Undivided Earnings....	0	0		0	0		0	
Total......	19463	100	2975	22438	100	6.22	1397	

						Row #
Gross Spread/Margin..			1.52	340		(1)
Net Operating Spread/Cost...........................	Cost =	258	1.15	258	10	(2)
Operating Spread/Margin..			0.37	82		(3)
Reserve Transfer......Percent Gross Income =	5.00	Reserve Spread/Amt.	0.39	87		(4)
Available Earnings...			-0.02	-5		(5)
Capital Deficit..				-5		(6)
Stabilization Payout...				0		(7)
Undivided Earnings...				0		(8)

ANALYSIS			Target	Current	Deficit	
Target Reserve Level..	Percent Total Assets..	6.00	1346	0	1346	(9)
Years to reach level..					15.50	(10)
Amount of Deficit................................	-1299	Available Earnings..			-5	(11)
Years to cover Deficit..					NA	(12)
Amount of Stabilization Shares.........................	1299	Earnings after Defict			0	(13)
Years to Amortize Stabilization Shares........................					NA	(14)

CASE: 2F4
NOTES: C=80

---

1. Cash and Banks includes Stab total 1299 less 421 available for loans leaves 878 to match insurance reserves total.

2. Loans outstanding is reduced by 696 in losses per Richardson(includes some accts rec'ble) and increased by 421 in loans + 10% capitztn = 42. Includes 2375 + 238 capitztn. from loans to leading 18 CUs.

3. "Prestamos en Liquidacion" write-off.

4. Net increase in foreign obligations due to devaluation, at 25%. Increase due to 2375 in project loans.

5. Increase due to loans of 421 (but would also decrease by share write-offs in Richardson's estimate; needs to be fixed) at cap 10% =42. Increases by 238 from 2375 in loans to CUs.

6. Assumes full write-off of FACACH reserves prior to stabilization.

7. Capital deficit: net of 1787-488 in reserves. 1787 = 696 Richardson loss + 607 Prest en Liq + 484 devaluation loss.

8. Stab Shares are total deficit in FACACH only. Shown at 8.0 %.

9. Shares invested in leading CUs to stabilize per case 2C1.

10. Only direct and indirect costs of financial services (credit and insurance) are included. DAI costs are assumed to be met by direct income, annual subsidies or reduction in capital donations.

Appendix 8 (Continued)

BALSHT2F
D:61,C-FACACH

STABILIZED CASE 2F5
Net loans to CUs
FACACH and CUs

PROJECTED BALANCE SHEET FACACH

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustmnts	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	711	4	878	1589	7	10.05	160	1
COLAC Shares..........	832	4		832	4		0	
Loans Outstanding.....	8560	44	2380	10940	49	14.00	1532	2
CU Stabilizn. Shares..	0	0	324	324	1	14.00	45	9
Other Assets..........	9360	48	-607	8753	39		0	3
Total......	19463	100	2975	22438	100	7.74	1737	

LIABILITIES AND CAPITAL								
Savings Deposits......	1304	7		1304	6	12.00	156	
Notes Payable.........	9052	47	2859	11911	53	7.41	883	4
Member Share Savings..	2567	13	280	2847	13	8.00	228	5
Reserves..............	488	3	-488	0	0		0	6
Other Accounts........	6052	31		6052	27		0	
Capital Deficit.......	0	0	-1299	-1299	-6		0	7
Stabilization Shares..	0	0	1299	1299	6	1.50	19	8
CU Stabilizn. Fund....	0	0	324	324	1	8.00	26	9
Undivided Earnings....	0	0		0	0		0	
Total......	19463	100	2975	22438	100	5.85	1312	

			Rate %	Income/Cost	Notes	Row #
Gross Spread/Margin..			1.89	424		(1)
Net Operating Spread/Cost..............................	Cost =	258	1.15	258	10	(2)
Operating Spread/Margin..			0.74	166		(3)
Reserve Transfer......Percent Gross Income =	5.00	Reserve Spread/Amt.	0.39	87		(4)
Available Earnings...			0.35	80		(5)
Capital Deficit..				80		(6)
Stabilization Payout...				0		(7)
Undivided Earnings...				0		(8)

ANALYSIS			Target	Current	Deficit	Row #
Target Reserve Level..	Percent Total Assets..	6.00	1346	0	1346	(9)
Years to reach level..					15.50	(10)
Amount of Deficit....................................	-1299	Available Earnings..			80	(11)
Years to cover Deficit..					16.32	(12)
Amount of Stabilization Shares.......................	1299	Earnings after Defict			0	(13)
Years to Amortize Stabilization Shares..					NA	(14)

Earning Assets to Costed Funds (%)..................... 77

CASE: 2F5
NOTES: C=80

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1. Cash and Banks includes Stab total 1299 less 421 available for loans leaves 878 to match insurance reserves total.

2. Loans outstanding is reduced by 696 in losses per Richardson(includes some accts rec'ble) and increased by 421 in loans + 10% capitztn = 42. Includes 2375 + 238 capitztn from loans to leading 18 CUs.

3. "Prestamos en Liquidacion" write-off.

4. Net increase in foreign obligations due to devaluation, at 25%. Increase due to 2375 in project loans.

5. Increase due to loans of 421 (but would also decrease by share write-offs in Richardson's estimate; needs to be fixed) at cap 10% =42. Increases by 238 from 2375 in loans to CUs.

6. Assumes full write-off of FACACH reserves prior to stabilization.

7. Capital deficit: net of 1787-488 in reserves. 1787 = 696 Richardson loss + 607 Prest en Liq + 484 devaluation loss.

8. Stab Shares are total deficit in FACACH only. Shown at 1.5 %.

9. Shares invested in leading CUs to stabilize per case 2C1.

10. Only direct and indirect costs of financial services (credit and insurance) are included. DAI costs are assumed to be met by direct income, annual subsidies or reduction in capital donations.

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Appendix 8 (Continued)

BALSHT2F
D:61,C-FACACH

STABILIZED CASE 2F6
Net loans to CUs
FACACH and CUs

PROJECTED BALANCE SHEET FACACH

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustmnts	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes	Row #
Cash and Banks........	711	4	878	1589	7	10.05	160	1	
COLAC Shares..........	832	4		832	4		0		
Loans Outstanding.....	8560	44	2380	10940	49	14.00	1532	2	
CU Stabilizn. Shares..	0	0	324	324	1	14.00	45	9	
Other Assets..........	9360	48	-607	8753	39		0	3	
Total......	19463	100	2975	22438	100	7.74	1737		
LIABILITIES AND CAPITAL									
Savings Deposits......	1304	7		1304	6	12.00	156		
Notes Payable.........	9052	47	2859	11911	53	7.41	883	4	
Member Share Savings..	2567	13	280	2847	13	8.00	228	5	
Reserves..............	488	3	-488	0	0		0	6	
Other Accounts........	6052	31		6052	27		0		
Capital Deficit.......	0	0	-1299	-1299	-6		0	7	
Stabilization Shares..	0	0	1299	1299	6	0.00	0	8	
CU Stabilizn. Fund....	0	0	324	324	1	8.00	26	9	
Undivided Earnings....	0	0		0	0		0		
Total......	19463	100	2975	22438	100	5.76	1293		Row #
Gross Spread/Margin..						1.98	444		(1)
Net Operating Spread/Cost............................				Cost =	258	1.15	258	10	(2)
Operating Spread/Margin..						0.83	186		(3)
Reserve Transfer......Percent Gross Income =			5.00	Reserve Spread/Amt.		0.39	87		(4)
Available Earnings...						0.44	99		(5)
Capital Deficit..							99		(6)
Stabilization Payout...							0		(7)
Undivided Earnings...							0		(8)

ANALYSIS			Target	Current	Deficit	Row #
Target Reserve Level..	Percent Total Assets..	6.00	1346	0	1346	(9)
Years to reach level..					15.50	(10)
Amount of Deficit....................................		-1299	Available Earnings..		99	(11)
Years to cover Deficit..					13.11	(12)
Amount of Stabilization Shares.......................		1299	Earnings after Defict		0	(13)
Years to Amortize Stabilization Shares..					NA	(14)
Earning Assets to Costed Funds (%).....................		77				

CASE: 2F6
NOTES: C=80

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1. Cash and Banks includes Stab total 1299 less 421 available for loans leaves 878 to match insurance reserves total.

2. Loans outstanding is reduced by 696 in losses per Richardson(includes some accts rec'ble) and increased by 421 in loans + 10% capitztn = 42. Includes 2375 + 238 capitztn from loans to leading 18 CUs.

3. "Prestamos en Liquidacion" write-off.

4. Net increase in foreign obligations due to devaluation, at 25%. Increase due to 2375 in project loans.

5. Increase due to loans of 421 (but would also decrease by share write-offs in Richardson's estimate; needs to be fixed) at cap 10% =42. Increases by 238 from 2375 in loans to CUs.

6. Assumes full write-off of FACACH reserves prior to stabilization.

7. Capital deficit: net of 1787-488 in reserves. 1787 = 696 Richardson loss + 607 Prest en Liq + 484 devaluation loss.

8. Stab Shares are total deficit in FACACH only. Shown at 0 %.

9. Shares invested in leading CUs to stabilize per case 2C1.

10. Only direct and indirect costs of financial services (credit and insurance) are included. DAI costs are assumed to be met by direct income, annual subsidies or reduction in capital donations.

Appendix 9
Credit Union Stabilization

BALSHT2C BASE CASE 2C0
D:61,C-FACACH

PROJECTED BALANCE SHEET LEADING CREDIT UNIONS

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustments	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	1788	10		1788	10	10.05	180	
FACACH Shares.........	562	3		562	3	8.00	45	
Loans Outstanding.....	13387	78		13387	78	16.00	2142	
....	0	0		0	0		0	
Other Assets..........	1401	8		1401	8		0	
Total......	17138	100	0	17138	100	13.81	2367	
LIABILITIES AND CAPITAL								
Savings Deposits......	4540	26		4540	26	7.43	337	
Notes Payable - FACACH	895	5		895	5	14.00	125	
Member Share Savings..	10192	59		10192	59	7.43	757	
Reserves.............	619	4		619	4		0	
Other Accounts........	892	5		892	5		0	
Capital Deficit.......	0	0		0	0		0	
Stabilization Shares..	0	0		0	0	14.00	0	
....	0	0		0	0		0	
Undivided Earnings....	0	0		0	0		0	
Total......	17138	100	0	17138	100	7.12	1220	Row #

Gross Spread/Margin..	6.69	1147	(1)
Net Operating Spread/Cost..	4.48	768	(2)
Operating Spread/Margin..	2.21	379	(3)
Reserve Transfer......Percent Gross Income = 5.00 Reserve Spread/Amt.	0.69	118	(4)
Available Earnings..	1.52	261	(5)
Capital Deficit..		0	(6)
Stabilization Payout..		0	(7)
Undivided Earnings..		261	(8)

ANALYSIS			Target	Current	Deficit	
Target Reserve Level..	Percent Total Assets..	6.00	1028	619	409	(9)
Years to reach level..					3.46	(10)
Amount of Deficit..............................		0	Available Earnings..		261	(11)
Years to cover Deficit..					0.00	(12)
Amount of Stabilization Shares......................		0	Earnings after Defict		261	(13)
Years to Amortize Stabilization Shares..					0.00	(14)

Earning Assets to Costed Funds (%).................... 101

BALSHT2C
D:61,C-FACACH

STABILIZED CASE 2C1
No net loans

PROJECTED BALANCE SHEET LEADING CREDIT UNIONS

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustmnts	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	1788	10	32	1820	11	10.05	183	1
FACACH Shares.........	562	3		562	3	8.00	45	
Loans Outstanding.....	13387	78	-341	13046	78	16.00	2087	2
....	0	0		0	0		0	
Other Assets..........	1401	8		1401	8		0	
Total......	17138	100	-309	16829	100	13.76	2315	
LIABILITIES AND CAPITAL								
Savings Deposits......	4540	26		4540	27	7.43	337	
Notes Payable - FACACH	895	5		895	5	14.00	125	
Member Share Savings..	10192	59	15	10207	61	7.43	758	3
Reserves.............	619	4	-324	295	2		0	4
Other Accounts........	892	5		892	5		0	
Capital Deficit.......	0	0	-324	-324	-2		0	5
Stabilization Shares..	0	0	324	324	2	14.00	45	6
....	0	0		0	0		0	
Undivided Earnings. ..	0	0		0	0		0	
Total......	17138	100	-309	16829	100	7.52	1266	Row #

Gross Spread/Margin..........	6.23	1049	(1)
Net Operating Spread/Cost..........	4.48	754	(2)
Operating Spread/Margin..........	1.75	295	(3)
Reserve Transfer......Percent Gross Income = 5.00 Reserve Spread/Amt.	0.69	116	(4)
Available Earnings..........	1.06	179	(5)
Capital Deficit..........		179	(6)
Stabilization Payout..........		0	(7)
Undivided Earnings..........		0	(8)

ANALYSIS			Target	Current	Deficit	
Target Reserve Level..	Percent Total Assets..	6.00	1010	295	715	(9)
Years to reach level..........					6.17	(10)
Amount of Deficit..........		-324	Available Earnings..		179	(11)
Years to cover Deficit..........					1.81	(12)
Amount of Stabilization Shares..........		324	Earnings after Defict		0	(13)
Years to Amortize Stabilization Shares..........					NA	(14)
Earning Assets to Costed Funds (%)..........		97				

CASE: 2C1 CU STABILIZED CASE
NOTES: C=80

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1. Cash and Banks includes 32 or 10% of stabilization funds received held as liquid assets; balance are assumed re-lent to members.

2. Loans includes 324 stab funds less 32 to cash for net 292 plus 5% capitalization or 15; less 648 gross write off.

3. Includes loan capitalization of 5 % of 292 loans to members.

4. Half of reserves are written off against gross loan losses of 648.

5. Balance of 324 (648 loss - 324 reserves) total loan write-off is charged to capital deficit.

6. Stabilization shares of 324 (648 loss - 324 reserves).

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Appendix 9 (Continued)

BALSHT2C
D:61,C-FACACH

STABILIZED CASE 2C2
Net loans to members

PROJECTED BALANCE SHEET LEADING CREDIT UNIONS

ASSETS	(1) Dec. 1984	(2) Vertical %	(3) Adjustments	(4) Projection	(5) Vertical %	(6) Rate %	(7) Income/Cost	(8) Notes
Cash and Banks........	1788	10	32	1820	9	10.05	183	1
FACACH Shares.........	562	3	238	800	4	8.00	64	7
Loans Outstanding.....	13397	78	2153	15540	79	16.00	2486	2
....	0	0		0	0		0	
Other Assets..........	1401	8		1401	7		0	
Total......	17138	100	2423	19561	100	13.97	2733	

LIABILITIES AND CAPITAL	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Savings Deposits......	4540	26		4540	23	7.43	337	
Notes Payable - FACACH	895	5	2613	3508	18	14.00	491	8
Member Share Savings..	10192	59	134	10326	53	7.43	767	3
Reserves..............	619	4	-324	295	2		0	4
Other Accounts........	892	5		892	5		0	
Capital Deficit.......	0	0	-324	-324	-2		0	5
Stabilization Shares..	0	0	324	324	2	14.00	45	6
....	0	0		0	0		0	
Undivided Earnings....	0	0		0	0		0	
Total......	17138	100	2423	19561	100	8.39	1641	Row #

		Rate %	Income/Cost	Row #
Gross Spread/Margin..		5.58	1092	(1)
Net Operating Spread/Cost..		4.48	876	(2)
Operating Spread/Margin..		1.10	216	(3)
Reserve Transfer......Percent Gross Income = 5.00	Reserve Spread/Amt.	0.70	137	(4)
Available Earnings...		0.41	79	(5)
Capital Deficit..			79	(6)
Stabilization Payout...			0	(7)
Undivided Earnings...			0	(8)

ANALYSIS			Target	Current	Deficit	
Target Reserve Level..	Percent Total Assets..	6.00	1174	295	879	(9)
Years to reach level..					6.43	(10)
Amount of Deficit..................................		-324	Available Earnings..		79	(11)
Years to cover Deficit..					4.09	(12)
Amount of Stabilization Shares.......................		324	Earnings after Defict		0	(13)
Years to Amortize Stabilization Shares........................					NA	(14)

Earning Assets to Costed Funds (%)...................... 97

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CASE: 2C2 CU STABILIZED CASE PLUS NET LOANS TO MEMBERS FROM PROJECT
NOTES: C=80

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1. Cash and Banks includes 32 or 10% of stabilization funds received held as liquid assets; balance are assumed re-lent to members.

2. Loans includes 324 stab funds less 32 to cash for net 292 plus 5% capitalization or 15; less 648 gross write off.
   Includes 2375 from FACACH plus 5 % capitztn of 119, or 2494.

3. Includes loan capitalization of 5 % of 292 loans to members using stab funds plus 5 % of 2375 of project funds, or 119.

4. Half of reserves are written off against gross loan losses of 648.

5. Balance of 324 (648 loss - 324 reserves) total loan write-off is charged to capital deficit.

6. Stabilization shares of 324 (648 loss - 324 reserves).

7. Includes FACACH loan capitalization of 10% on 2375.

8. Includes 2375 in cash loan plus 10 % capitztn of 238 for total 2613.

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