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COOPERATIVE STRENGTHENING PROJECT; DESIGN DOCUMENTATION, VOL I.

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared by: *World Council of Credit Unions (Marion, J.P. et al.)*

Sponsored by: *Financial Markets Project*
Project Number: 940-2005
Prime Contractor: Arthur Young

June, 1986

Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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LIST OF TABLES AND EXHIBITS

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List of Abbreviations

ACDI	Agricultural Cooperative Development International
AID/USAID	United States Agency for International Development
ARTEXCO	Federation of Artiron Cooperatives
BANDESA	National Agricultural Development Bank
CCRF	Central Credit Reference Bureau
CDO	Cooperative Development Organizations
COLAC	Latin American Credit Union Confederation
CONFECOOP	Confederation of Cooperative Federations
CU	Credit Union
FECOAR	Federation of Regional Agricultural Cooperatives
FECOMERQ	Federation for Agricultural Services and Marketing
FEDECOAG	Federation of Regional Agricultural Cooperatives of Guatemala
FEDECOCAGUA	Coffee Cooperative Federation of Guatemala
FEDECOVERA	Federation of Cooperatives of the Verapaz Region
FENACOAC	National Credit Union Federation of Guatemala
FMU	Funds Management Unit
IDB	Inter-American Development Bank
INACOP	National Cooperative Institute
INCAE	Central American Business Adminsitration Institute
NCBA	National Cooperative Business Association
PID	Project Identification Document
POC	Project Operations Committee
SIP	Staff Incentive Program
SPP	Savings Protection Program
TDU	Technical Development Unit
WOCCU	World Council of Credit Unions

PREFACE

This paper was prepared to assist USAID/Guatemala in designing the Cooperative Strengthening Project, with particular emphasis on developing the cooperative sector of Guatemala's financial markets. Many of the analyses presented here are based on detailed institutional assessments of the federated cooperative systems prepared in 1984 and 1985 by the World Council of Credit Unions and the National Cooperative Business Association.

The design was a collaborative effort of staff members and consultants of USAID/Guatemala, USAID/Honduras, the World Council of Credit Unions (WOCCU), Agricultural Cooperative Development International (ACDI) and the Latin American Confederation of Credit Unions (COLAC). The design would not have been possible without the strong contributions of USAID/Guatemala staff members Harry Wing, Gary Vaughn, Cecil MacFarland and Richard Goughner, and USAID/Honduras staff member Barry Lennon.

The external design team included Peter Marion and David Richardson of WOCCU, David Fledderjohn of ACDI and Alfredo Echegaray of COLAC. Primary authorship of the chapters is as follows:

Peter Marion: I, III, V, VII, VIII and Appendix

David Fledderjohn: II, VI

David Richardson: IV

The World Council of Credit Unions wishes to express its appreciation to USAID/Guatemala Director Charles Costello and Rural Development Officer Harry Wing for their outstanding support and to Herb Wegner of the Private Enterprise Bureau of AID Washington for providing funding for this design activity.

I. SUMMARY PROJECT DESCRIPTION

A. Goal and Purpose

The goal of the Project is to increase rural family incomes and productivity by strengthening the institutional capability of the Guatemalan cooperative system to provide its members and their communities with improved services.

The purpose of the Project is to strengthen selected cooperative federations and affiliated cooperatives by improving their managerial and service capabilities and their performance as profitable enterprises.

B. End of Project Conditions

By the end of project, the Guatemalan cooperative movement will have achieved significantly improved effectiveness and efficiency in its operations and services to the rural membership. Specific project outcomes are examined in detail in chapter VII and are summarized below:

Institutional capabilities to deliver services will be strengthened by improving the professional skills and knowledge of federation, cooperative and credit union staff and leadership at both the national and local levels.

The movement's financial position will be stabilized and technical and institutional conditions will have been created for sustained future growth and profitable operations.

Improved credit management systems and skills will be installed in the participant organizations, leading to reduced loan delinquency and increased levels of financial intermediation.

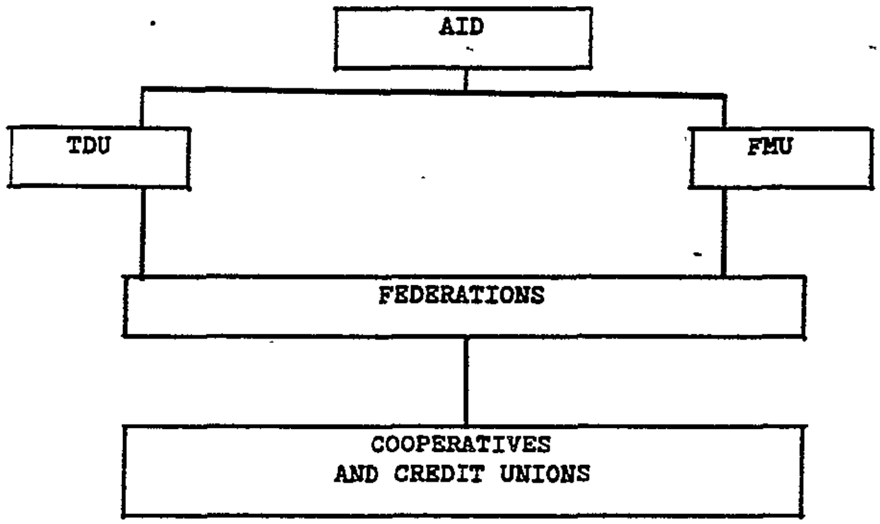
The Technical Development Unit (TDU) created to implement institutional development activities in concert with the participating federations will have transferred its skills to them and will be phased out. The Funds Management Unit (FMU) established as a Trust account in FENACOAC to disburse grant, operating and credit funds will absorb the technical elements of the TDU and evolve into one or more successor institutions; these are summarized in Exhibit A and will be the subject of design activities during the latter years of the Project.

C. PROJECT COMPONENTS AND PROCESSES

The Project will be implemented incrementally, beginning with the leading federations and their stronger affiliates, and will provide technical and financial resources to them through three key components: institutional development, capitalization and credit. These components are discussed in detail in chapters III, IV and V, respectively. A summary description of each is provided below:

Exhibit A

PROJECT PARTICIPANTS



EVOLUTIONARY STRATEGY

Post Project (institutional alternatives)

Technical Development Unit
- Improved federation staff and services
- TDU disappears, some functions transferred to FMU

Funds Management Unit
- Stabilization Fund (corporation, central, cooperative, federation departments)
- Savings Protection Fund (corporation, central, cooperative, federation department)
- Coop. Financial Institution (bank, *financiera*, central, cooperative, federation departments)
- Central credit reference bureau (corporation, central, cooperative, federation department)

Institutional Development Component

The institutional development component will provide technical assistance and human resource development services to the federations and their affiliates. Participation will be offered to all federated systems with the primary condition that each federation and its affiliates design and implement with TDU assistance a sound institutional development plan. Institutional support grants will be provided to qualified federations, CONFECOOP and INACOP to enhance their development service and regulatory functions. Staff incentive program grants intended to increase personnel remuneration and thus attract and retain better managers and staff, will be supplied to cooperatives, credit unions and federations implementing recommended pricing, policy and operational changes.

Capitalization Component

The capitalization component will provide financial stabilization grants and funding for a savings deposit insurance program to a more restricted group of federations and cooperatives which meet specified institutional and economic viability criteria. The design and implementation of improved savings mobilization and capitalization systems is a key element of this component.

Credit Component

The credit component will supply wholesale loans to a select group of creditworthy federations and their affiliates to finance income-generating activities primarily at the member level but not excluding productive investments by federations and cooperatives themselves. The development of improved loan making and collections systems in federations and their affiliates is a central element of this component.

The Project will be implemented interactively with the federations and their affiliates through a process of diagnostic study and analysis leading to the identification of problems and opportunities followed by the design and implementation of development plans including key action steps intended to resolve the problems and capitalize on the opportunities. Modification of policies and procedures inhibiting growth and earnings will be a key focus of the Project. This development process is summarized graphically in Exhibit B.

D. ORGANIZATIONAL STRUCTURE

The Project will be implemented through the two distinct yet closely related organizational elements noted previously, the Technical Development Unit (TDU) and the Funds Management Unit (FMU). They will be established by written agreement (convenio) between USAID/Guatemala, FENACOAC, and a contracted Cooperative Development Organization (CDO).

Exibit B

PROCESS DIAGRAM

Diagnostic study of managment, financial condition and market

-of Federations by TDU and federation counterparts
-of Coops/credit unions by TDU/Analysts and federation field officers
-Produces critical recommendations for operational and policy adjustments

Written agreement between TDU, federations and cooperatives

-Specifies participation conditions
-Includes specific program objectives to be achieved through development plan
-Indicates types of assistance to be provided by TDU and FMU

Development plan of participant federations, cooperatives and credit unions

-Operational plan (management, services and structure)
-Institutional development activities (training and systems development)
-Policy adjustments (pricing, capitalization and credit)
-Financial plan (capitalization, credit, debt restructuring, projections)

Implementation

-Institutional support grants (federations, CONFECOOP, INACOP)
-Training and technical assitance
-Staff incentive program (federations, coops and credit unions)
-Capitalization (phased disbursement of cash and certificate investments)
-Credit disbursement

Monitoring and control

-Audits and inspections
-Development plan follow-up
-Periodic progress review (operating performance, plan implementation, agreement compliance)
-Renewal/modification/supervision of assistance

Continued/modified Implementation

Chapter V summarizes in outline form the recommended administrative and operational structure of the Project and the key functions of each institution. The following discussion summarizes key operating aspects of the TDU and FMU.

Technical Development Unit

The TDU will be established as a division of FENACOAC, with all Guatemalan staff formally employed by the federation, but hired under the direction of USAID/Guatemala and the CDO.

Management of the TDU will be specifically delegated by FENACOAC to the USAID-CDO, in effect granting it autonomy. The written project agreements between USAID, FENACOAC and the CDO will need to clearly define this delegation, create procedures for problem resolution and establish limits of institutional liability.

International technical assistance will be provided through the TDU by the contracted CDO selected by USAID/Guatemala. The CDO will provide four expatriate technical advisors (one designated as the Team Leader) plus short-term consultants who will work in close collaboration with AID/PASA the Project Manager. Guatemalan staff will be employed by the TDU to act as counterparts and/or understudies to the expatriate advisors and progressively assume operating and management responsibilities.

The TDU will approve all capitalization and other grants to the federations (including FENACOAC), cooperatives and credit unions. Awards will be appropriately documented and will support payment orders issued to the FMU for disbursement.

Establishment of a Project Operations Committee comprised of senior TDU staff is also recommended to advise the CDO Team Leader on the award of grants and assure adequate intersectoral coordination.

FENACOAC will provide office facilities and logistical support to the expatriate and Guatemalan personnel of the TDU. All direct and a portion of the indirect costs of the TDU's operations incurred by FENACOAC and the technical team will be fully reimbursed to FENACOAC by the Project through the FMU on an AID direct pay basis. The Project Manager or his delegate(s) will approve all TDU expenses.

Funds Management Unit

The FMU will operate as a Trust Account within FENACOAC, created by the cooperative agreement between USAID/Guatemala and the federation and operated in strict accordance with that agreement.

Overall direction and policy-making authority for the FMU/Trust account, within the parameters of the cooperative or Trust agreement between USAID/Guatemala and FENACOAC, would be vested in a Board of Directors (Junta Directiva) composed of federation representatives and others. The specific composition, methods of election, authority, responsibility and amendment procedures would be included in the agreement.

Day-to-day management of the FMU/Trust account and its disbursements, accounting transactions, recordkeeping, loan analysis and other functions, would be the responsibility of FENACOAC as Trustee. FENACOAC would name a senior Trust Management Officer who would direct operations of personnel assigned to FMU/Trust activities and would report to the Board of Directors on implementation of the Trust agreement.

The FMU/Trust account will act as administrator of Project Funds prior to disbursement; FENACOAC *per se* will have no authority to utilize the funds but would have investment and custodial powers assigned to it to assure optimum utilization of funds. Disbursements by the FMU/Trust account would be primarily of three types:

Operating Cost Reimbursements

All local operating costs incurred by FENACOAC in administering the FMU/Trust account, in providing logistical support to the TDU and in reimbursing TDU expatriate and local staff for Project-related expenditures would be reimbursed to FENACOAC by the FMU/Trust account upon approval of the Project Manager or his delegate(s).

Grants to Participants

Stabilization, institutional support, staff incentive program and other grants to participating institutions would be disbursed by the FMU/Trust account upon approval of the TDU.

Credit Operations

Loans would be disbursed by the FMU/Trust account upon approval by the FMU Board of Directors (or its Credit Committee) to federations previously qualified in writing by the TDU as creditworthy and in compliance with their project agreements.

Given the limited level of operations other than disbursements and financial reporting, most personnel assigned by FENACOAC to the FMU/Trust account would work on a part-time basis only, and FENACOAC would be reimbursed only for those costs actually incurred on a time-billing basis. As operations of the unit increase, so would the time allocations of personnel assigned to it.

FENACOAC personnel would perform credit analysis and underwriting for the FMU/Trust account, in accordance with the terms of the Trust agreement and with the technical support of the TDU staff.

E. IMPLEMENTATION PLAN

The Project will be implemented over a 5.25 year period beginning on or about Oct. 1, 1986, or sooner if possible. The projection of principal events and activities of the Project is presented in chapter VI.

The first year of the Project will involve start-up, installation of personnel, establishment of operating systems, development of training methods and materials, preparation of model systems, implementation of the diagnostic studies of the federations and initiation of their development plans.

Years two through four will involve intensive implementation of the development programs of the federations and their affiliates, with the support and participation of the TDU and FMU staffs. Most development programs will begin in year two. These will include all three components of the Project, but high-volume operations in the capitalization and credit components are not really expected to begin until years three and four, respectively.

Year five will see a gradual phase-down of TDU activities with primary emphasis on the development of successor institutions to the FMU/Trust account. Evaluations in years three and four will assist both ongoing adjustments to implementation as well as provide guidance in developing appropriate follow-on arrangements.

F. PROJECT FINANCE

Implementation of the Project will require $11 million in USAID/Guatemala funds, $5.7 million for institutional development, $2.5 million for capitalization and $2.8 million for credit. The analysis behind these budget estimates and a variety of summaries are included in chapter VIII; the budget working papers and notes are contained in the Appendix to this document.

Three basic methods of finance are recommended: direct pay intragovernmental transfer for the PASA Project Manager; Federal Reserve Letter of Credit (FRLC) for international technical assistance provided by the CDO; and, direct pay for local currency costs incurred by the Guatemalan program operations disbursed through the FMU/Trust account in FENACOAC.

Audit and control of these expenditures would be effected through the regular audit programs of AID for the PASA and CDO financing, as well as their own internal and external audit programs. External audit of local expenditures is included in both the TDU/FMU budgets as well as the institutional support sub-grants to federations for auditing their affiliates.

Financial analysis of FENACOAC, the implementing agency, suggests that the federation has sufficient institutional capabilities, financial strength and qualified personnel to administer the FMU/Trust account and provide logistical support to the expatriate and Guatemalan Project advisory staff.

The volume of credit resources ($2.8 million) to be managed by the FMU/Trust account is projected to generate sufficient earnings on a 3% spread to cover recurring costs after AID disbursements are scheduled to end (see chapter VIII). The proposed interest rate structure (see chapter IV) will provide credit on a non-subsidized basis to both end-users (cooperative members) and intermediaries (federations, cooperatives and credit unions). The recommended 18% retail rate approximates urban market rates and will permit sufficient spreads to intermediaries to cover operating costs and reserve formation. It is recommended that the FMU/Trust account capitalize as an implicit cost of capital the first 5% of its projected 8% wholesale lending rate.

The Project will establish three capitalized funds: a credit fund placed in the FMU/Trust account which will form the initial capital base of its successor organization; stabilization funds placed in qualified federations which will restore the value of members' shares at the affiliate level and produce new earning assets to improve profitability; and, a savings protection fund in FENACOAC to guarantee members' savings deposits in the credit union system.

A financial impact analysis of the Project shows substantial improvements in earnings and business volume due to AID and counterpart investments in the movement. Balance sheets are strengthened and yields to investing members are improved. Conditions for continued and sustained growth are created.

Since the focus of the Project is on strengthening existing services and operations rather than creating new ones, the host country contribution has been defined as the local funding currently provided by the federations for their ongoing administrative costs as well as additional capitalization and personnel costs at the affiliate level attributable to Project implementation; the estimated total is $8.7 million. In effect, the counterpart of the participant organizations is their maintenance and operation of the national cooperative system. In the case of FENACOAC, its projected counterpart contribution is continuation of its current level of indirect administrative costs and mobilization of additional external credit resources, primarily from COLAC.

All operating costs of the TDU/FMU are projected as fully AID-financed; neither FENACOAC nor the other federations are expected to finance these new units. Rather FENACOAC and the other federations will be offered the opportunity to utilize the TDU/FMU technical and financial resources, provided they effect appropriate policy and operational modifications and implement agreed-upon development programs.

II. INSTITUTIONAL DEVELOPMENT COMPONENT

The Institutional Development Component of the project will, in most instances, precede interventions of capitalization, financial restructuring and credit with the cooperatives. Rather than a discreet activity, institutional development will take place during the entire life of the project in a series of events and activities designed to strengthen the client institutions. The developmental process will entail reference to the past history of the firms, diagnoses of their current situation, plans and projections for the future, as well as varied specific interventions designed and agreed upon between participating cooperative systems --federations and their affiliates-- during project implementation.

Based on the descriptions and analyses of the cooperative institutions undertaken in the PID stage, it is clear that their degree of development varies, their problems and opportunities are different as well as the nature of their businesses, membership groups, geographic location, goods, services and interpretations of the cooperative technique. Although uniform interventions in training will be applied to different institutions and programs, the development efforts will be largely tailored to fit the needs and opportunities of each cooperative system.

The following presents the guidelines and norms which will employed in the complex process of institutional development.

1. Specific Objectives

a. Determine the actual or potential viability of potential participating cooperatives

Prior to assigning the project's resources, each prospective participant cooperative will be examined to assess the economic realities in which it operates. Assumptions used to justify that cooperative's organization will be examined while the markets in which it operates will be evaluated for potential growth and expansion. Parameters of profitability will be established and estimates made as to the sustainability of the enterprise from its own operations and as part of a federated system.

b. Resolve existing problems

The majority of the institutional development effort will be directed to solving problems, alleviating constraints or resolving issues which inhibit the cooperatives from realizing their potential and satisfying the service needs of their member-owners. Rarely will the "quick fix" be found; this objective will usually be met only through a methodical, tenacious, process, hopefully instilling permanent aptitudes for problem-solving in cooperative staff and leadership.

c. Improve operations

Efficiency is the principal objective here, but the establishment of patterns, policies and attitudes directed at such survival characteristics as profitability, capitalization, administrative discipline, staff improvement and member relations, are also an important component of this aspect of development.

d. Instill a growth mentality

Given the economic adversity and political stress in rural Guatemala in recent years, attitudes of fatalism, disillusionment, withdrawal and defeatism are common.

An objective of this developmental process is to change or modify these attitudes, especially as they relate to the cooperatives' mentality toward growth, expansion, diversification and promotion of membership.

e. Preserve and perfect the federated systems

Recognizing that federation-cooperative relationships and operations have been strained by various forces, the development effort will work toward resolving differences and maintaining the advantages of effectively integrated cooperative systems.

f. Institute a continual evaluation precedure

Not only should the development activity be constantly reviewed for results, but it should also seek to implant the evaluative mentality as a permanent feature of the institutions it assists. Information systems must be improved and more attention paid to such activities as management audits by federations of their affiliates. Training of managers and directors in the area of measurement and evaluation will also contribute to achieving this objective.

2. Participation Criteria

The participation by different cooperative systems in the project will be guided by several procedures, determinations and principles. These are:

a. Diagnostic studies, prepared jointly by the TDU technicians and by staff of interested federations and their affiliates, will comprise the first step of participation. In these studies, the overall, potential viability of the enterprise will be examined closely as well as the identification of key problems and areas of opportunity, including suggestions for priority actions.

b. Concurrence between the federations and the TDU on the major problems, issues, probable remedial measures to be taken and agreements on cost, cost-sharing and authority for actions, will be items of discussion and negotiation. Boards of Directors must ratify or approve an outline of a program of development at this stage.

c. Participation by federations will be formalized in a written agreement between them and the TDU. This document, written as a development plan, should include objectives or goals, primary actions to be taken, commitment of resources, standards of measurement of results and conditions of renewal or extension of participation.

d. Continued participation by the federations will be contingent upon results, compliance and general completion of development plans, normally drawn up on yearly terms.

e. In negotiating with and selecting participating federations, preference will be given to the following considerations:

(1) All actions with base-level cooperatives will be undertaken by agreement with their parent federations; rarely will the project work only with base-level firms excluding the federations. Likewise, the project will emphasize programs which include activities with both federations and their affiliates concurrently.

(2) Cooperatives operating outside of the urban complex of Guatemala City or providing services to members whose pursuits are basically rural in character.

(3) Cooperative services directed at members' enterprises which produce regular income. Although not an all-inclusive list, services supporting agriculture, artisanry, cottage and small enterprise, commerce, trades and professions, are preferred.

(4) Cooperative services or programs which neither compete directly with the government nor depend heavily on public or other subsidies.

3. <u>Participant Summary</u>

The salient characteristics of the seven cooperative federated systems studied during project preparation, are presented in the following two tables. Also included are sketches on each organization extracted from diagnostic assessments commissioned by USAID/Guatemala as background research for the project and contained in Mission files.

TABLE II-1

TABLES

CHARACTERISTICS OF FEDERATED COOPERATIVE SYSTEMS

INDICATORS	FEDERATIONS						
	FENACOAC	FEDECOAG	FEDECOCAGUA	FECOAR	FECOMERQ	ARTEXCO	FEDECOVERA
Year of Organization	1963	1968	1969	1973	1975	1976	1976
No. of affiliated co-operatives	73	56	63	[illegible]	12	2.	[illegible]
Total membership	32,350	8,500	8,000	12,000	7,000	N/A	5,000
Professional Staff number in Fed.	20	N/A	19	5	14	N/A	[illegible]
Total Staff	40	N/A	70	7	31	N/A	[illegible]
Operating subsidy 80-86	No	Yes	Yes	No	Yes	Yes	Yes

TABLE II-2

SERVICES OF FEDERATED COOPERATIVE SYSTEMS - TO MEMBERS

SERVICES	FEDERATIONS						
	FENACOAC	FEDECOAG	FEDECOCAGUA	FECOAR	FECOMERQ	ARTEXCO	FEDECOVERA
Credit (cash)	X	X	X		X		
Credit (in kind)			X	XX	X	X	
Agricultural inputs			X	XX	XX		X
Deposit Savings	X						
Proc. Mktg. Agricultural Commodities			XX				XX
Other Marketing		X	X	X		XX	X
T.A. in Production		X	X	X		X	X
Social Development Support	X	XX	X				
Ancillary enterprises	X				X		
Insurance	XX			X			

XX = Major emphasis

X = Secondary importance

FENACOAC-NATIONAL CREDIT UNION FEDERATION

Principal Strengths

FENACOAC's principal strength lies in its skilled, well-educated and experienced management and staff, and the managers, staff and leadership of the federation's leading affiliated credit unions. The Federation's management team is complemented by actively involved elected leadership and a strong regional chapter system to provide feedback on member needs and quality of services.

FENACOAC has developed effective management systems, including delegation, information flow, planning, control and budgeting as well as internal and external audit programs. Over two decades of operating and development experience provide the organization with perspective and maturity in serving the needs of its affiliates.

A major strength of FENACOAC is its financial condition (including substantial "hidden" reserves) and prudent financial policies. As a result, it has a positive image in the financial community of Guatemala. The relative financial strength of its core of type A credit unions provides a sound economic base for the movement.

The movement has access to external technical and financial resources through COLAC in the Latin American region and WOCCU on the world level. FENACOAC's General Manager has been a past president (elected leadership) of both COLAC and WOCCU.

Principal Weaknesses

The FENACOAC system's main weakness lies in the group of type C credit unions and lack-luster type Bs. Continued growth of the movement is hindered by the affiliates' resistance to raising of interest rates and inappropriate lending and savings policies, particularly at the credit union level.

Development is also hindered by insufficient technical expertise in the technical assistance staff and elected leadership. Over-involvement of elected leadership in management affairs and a non-business mentality in some components of the leadership also have a negative impact on operations.

Probable Areas of Participation in Project

The key institutional development activities in which FENACOAC and its affiliates will participate include: staff and leadership training at both federation and credit union levels; computerization and systems development; development of standardized savings and loan products and management systems for credit unions with accompanying training materials; management incentives program.

In the capitalization component, FENACOAC and its affiliated credit unions will participate in the following areas: recapitalization of selected credit unions; adoption of market-oriented interest rates;

implementation of revised financial management, pricing and capitalization policies and procedures; savings protection program design and implementation; savings mobilization program implementation; improvement of regulatory functions.

Credit component participation by FENACOAC and its affiliates will include development of new lending policies, analysis procedures, and loan programs (including rediscount facilities, preapproved credit lines, examination of group lending, microenterprise lending); expansion of lending operations with qualified credit unions; establishment of a central credit reference bureau; enhancement of central liquidity deposit and loan services for credit unions participating in the savings mobilization, stabilization and deposit insurance programs.

ARTEXCO-FEDERATION OF ARTISAN COOPERATIVES

Principal Strengths

The major strength of the ARTEXCO system lies in its earlier experience in operating a national retail store network and international export operations. Its network of weak but surviving affiliated cooperatives provides an institutional base which may be reactivated by growth in tourism and demand for Guatemala's artisan products, principally textiles. The federation's access to generally high quality products and reasonably secure sources of supply may give it a slight competitive advantage in the export market. Ownership of its building provides access to credit and a locus for administrative and marketing operations. New management offers a chance to rebuild relations with affiliates and revitalize their operations.

Principal Weaknesses

The major difficulty facing ARTEXCO and its affiliates is continued weakness of the tourism and export trade in textiles. Price competition from member cooperatives struggling to serve a very limited market inhibits increasing the federation's margins. The limited administrative, product development and marketing skills of affiliated cooperatives constrains their ability to meet the stringent requirements of high volume/high margin foreign clients. As a result, the cooperatives must deal primarily with importers able to buy directly in Guatemala, usually at lower prices and in smaller volumes. The past history of ARTEXCO's operating losses inhibits new investment by members in its capital shares.

Probable Areas of Participation in Project

ARTEXCO and its affiliates will probably participate in the Project's institutional development activities focussed on improving management of affiliated cooperatives. Management development would include both general and financial administration as well as improved sales, marketing and production. The project could provide the system with expanded access to specialized marketing and production technical assistance directly through the project and indirectly by encouraging linkages with other development programs and USAID-financed projects.

Recapitalization grants may be made to selected affiliated cooperatives based on the nature of their losses, projected viability and participation in the institutional development component.

Credit may be provided for those cooperatives judged creditworthy, should tourism and textile exports rebound.

FECOAR - FEDERATION OF REGIONAL AGRICULTURAL COOPERATIVES

Principal Strengths:

Five of the Federations six affiliates are located in key market centers of the Western Highlands. Through a network of informal village organizations, the system has unique market coverage for agricultural services to small-scale farmers producing corn, wheat, beans, potatoes and vegetable crops. The scale of operations of each regional affiliate, permits professional administration, efficient utilization of centralized facilities, diversified services and an effective federated system. FECOAR achieved a dominant market position in fertilizers after 5 years of exceptional growth in the seventies and continues direct importation and sales including wholesale operations with other cooperatives and farmer organizations. The federation is an effective, non-partison representative of small farmers interests and has maintained a good reputation with government throughout its life.

Principal Weaknesses:

The Highland affiliates are located in areas particularly affected by the political violence of 1979-82. Three regions were also bit heavily by the 1976 earthquake. These adversities, plus a generally declining agricultural economy, have produced losses, eroded capital, reduced volume of operations and shaken the organizational base of the system. Key staff, leadership and members have been lost, contributing to withdrawal, pessimism and conformity to negative circunstances by management. Due mainly to severe problems in operating production credit programs, affiliate managers have been replaced by FECOAR "controllers" with limited authority and capability to fulfill the management role. At the same time FECOAR's capacity to support its affiliates in such areas as staff development, auditing, planning and promotion, is severely limited.

Probable areas of participation in project:

FECOAR is a prime candidate institution for full participation in the Project. Beginning with a major review of policies and staff requirements, major attention will be given to 4 affiliates which are currently insolvent. Recapitalization and revision of credit operations are important as well as revitalization of supply and marketing services. External credit needs are not envisioned as critical until operations volume is restored and growing. No major fixed investments are needed.

FEDECOAG - FEDERATION OF AGRICULTURAL COOPERATIVES OF GUATEMALA

Principal strengths:

This federation mainly conceived as an organization dedicated to the defense and representation of the small-scale, organized farmer, has been successful in attracting assistance from several sources, particularly following the 1976 earthquake. It is standardbearer of the cooperative philosophy, particularly in support of the marginal producer.

Principal Weaknesses:

With virtually no ongoing service capability nor inclination to become a wholesaler or supporter of its affiliates, FEDECOAG does not possess the elements of economic viability. Its affiliates are generally small, weak organizations of questionable potential and are widely dispersed and varied in the types of agriculture undertaken by members. The current financial position of the Federation plus unfortunate losses and administrative practices of the past do not inspire the membership to self-help initiatives nor make the organization attractive for external assistance.

Probable areas of participation in project:

Althrough the Federation may benefit from a detailed diagnostic assessment and opportunities for training of leadership and a few staff people, the Project will almost certainly be unable to instill financial discipline, recapitalize the system and develop profitable operations in FEDECOAG. At both the level of the Federation and that of the affiliate base, the organizations are so ill-conceived and in such a hopeless condition as to practically disqualify them from assistance in a project oriented toward sustainability and viability of cooperative enterprises.

FEDECOCAGUA - COFFEE COOPERATIVE FEDERATION OF GUATEMALA

Principal Strengths:

The FEDECOCAGUA system is well adapted to serve the interests of small-scale coffee producers starting with village level organizations operating in supplies and marketing. They have a wet milling capacity for cherry and processing and grading facilities for meeting export demand. The Federation has experience in honey marketing and technical assistance in coffee production plus effective programs directed at youth and women's enterprises. It is recognized for its leadership in representing small-scale grower's interests in public policy issues.

FEDECOCAGUA has an excelllent credit record with national and international lending institutions.

Principal weaknesses:

The Federation is overextended to support its extensive network of affiliates, many of which cannot maintain adequate administrative and management staff. Revenue from coffee marketing operations was cut drastically during the past two years due to a commodity retention scheme imposed by government and lack of working capital for holding inventories. Although retention requirements have been removed, the system is still undercapitalized for commodity marketing, a significant portion of which is done with non-members. Credit and supply operations produce losses due to policies which make the organization heavily dependent upon coffee marketing income to cover expenses of the organization.

Probable areas of participation in project:

FEDECOCAGUA is the most likely Federation or first candidate for short-term credit for working capital in its marketing operations. In the area of policy reform, there appear to be good opportunities for modifications in pricing and credit norms plus refinements in relationships between Federation and affiliates. New areas of business in the marketing of spices may be developed as well as improvements in the accounting service provided for affiliated cooperatives.

FECOMERQ- FEDERATION FOR AGRICULTURAL SERVICES AND MARKETING

Principal strengths:

Oddly, the strength of FECOMERQ lies not in its affiliates nor the Federation's cooperative character, but in its direct retail sales of farm inputs in the region of Chimaltenango. The Federation is philosophically committed to the cooperative technique and has a cadre of trained and inspired leadership in its organization. It has attracted considerable international support in past years and maintained a degree of loyalty in its membership through difficult times.

Principal weaknesses:

Subsidies and concessional credit have contributed to sloppy credit practices in the FECOMERQ system. Its disparate and dispersed affiliate base is generally composed of small, weak enterprises. The Federation has lost heavily in marketing ventures and is currently in a precarious financial position. Recent operations in fertilizers have caused the organization to lose prestige with government.

Probable areas of participation in the Project:

The outlook for a viable FECOMERQ is not good; yet, the organization will probably welcome a thorough diagnostic examination initially. Follow-on interventions in the areas of policy adjustments, structural modifications and staff development will be difficult and depend on arrangements with creditors and other donors. Recapitalization and credit activities are unlikely to occur during the life of the Project.

FEDECOVERA - FEDERATION OF COOPERATIVES OF THE VERAPAZ REGION

Principal strengths:

The Federation's affiliated cooperatives own and operate farms of excellent potential in the production of coffee, tea and spices. Infrastructure is in place for integrated operations including processing, handling and export marketing. Recently gained independence from government allows for flexibility in operations, particularly in marketing.

Principal weaknesses:

Farms and supporting infrastructure are extremely decapitalized and continue to be operated in a strongly paternalistic fashion. Organization in the affiliates is only rudimentary and managerial capability is limited to nearly a caretaker status. Other than in coffee marketing, where the Federation competes with FEDECOCAGUA, there are few income producing services established.

Probable areas of participation in project:

Although the Federation has existed for some 10 years, it has never developed a growing, evolutionary stance. The needs are nearly complete: capitalization; credit for production, farm improvement and marketing; staff development; organization and structuring of the system; and setting up an administrative system for federation and cooperatives alike. Diagnostic and feasibility studies should determine just how large and long the process of making the system functional would be. The Project will have to determine whether or not it can take part or all of this formidable task.

4. Implementation

a. Procedures and Administration

The institutional development process will begin with a series of diagnostic studies to be performed jointly between interested cooperative systems and technical staff of the TDU. These studies will be extensive in character and include such diverse considerations as structures of the institutions, internal decision making, staffing, efficiency of operations, financial position, member-cooperative-federation relationships, internal controls, situation with creditors, competitive position, situation with other donor agencies and perspectives of the future. The results of these studies, particularly as they define problems, will form the basis of subject matter for discussion and negotiations between the cooperatives and the TDU, which in turn should lead to agreements as to priority areas of action, levels of effort by both parties, types of interventions required, cost estimates and results expected. Once agreement is reached on the above, the TDU and the participating cooperative system will draw up joint development action plans which will form the basis of specific work assignments for periods of approximately one year. These work programs may be renewed, increased or decreased in level, or discontinued, as the results obtained or the nature of the interventions require. The maximum period of time that the TDU will likely maintain development programs with any cooperative system will be about four years.

Although the diagnostic studies will reflect a complete profile of the situation of each institution, the development and action plans may concentrate on only a portion of the problems or opportunities indicated in the studies. For example, a federation and the TDU may agree to work together only in staff training or to do a feasibility study. In these cases of partial or limited participation, the project staff would not likely approve the application of funds for capitalizing the enterprise and eligibility for loans under the Credit component would be questionable.

In some cases, circumstances may merit a procedure in which staff of the TDU may be seconded to participating federated systems for periods of months or even years. Although technicians working under this arrangement will continue to be responsible to the TDU, they will be expected to become an integral part of a development team of the host institution.

Whether working on a semi-permanent assignment or in a more conventional role of technical assistance, staff of the TDU will be expected to work with host institutions in a participative style, sharing the responsibility for the completion of the work agreed upon and the results obtained. The term "advisor" is not used intentionally in this context. However, a caveat is in order: TDU staff must not displace nor substitute for indigenous talent in the host institutions.

The TDU will assume a major role in administering the resources to be applied in the development of the cooperatives. It will be responsible for such operations as procurement, sub-contracting, scheduling and supporting short-term technicians. The TDU will be depository and redistribution point for reports as well as monitor of funds from project sources for such items as per diems, travel, and reimbursed expenses of cooperatives, for which an accounting to USAID will be required. For this reason, a small administrative staff component has been programmed as part of the TDU's operations.

b. <u>Content of Institutional Development</u>

From preliminary assessments of seven of the eleven federated systems operating in Guatemala, it is clear that the "one size fits all" approach to institutional development is not practical nor workable. To be effective, development programs must key on the major problem areas and opportunities present in the systems. Specific interventions are presented here as an illustrative list:

(1) Policy - Pricing, credit and personnel policies or "traditions" in the cooperatives appear to be critical areas. TDU staff will examine these policies, check compliance or consistency of observation, measure their effects, and discuss modifications with staff and directors. Cases will be found in which policies do not exist; improvised decisions or practices developed by a "seat of the pants" process are not uncommon. Some policies, particularly in the areas of pricing and capitalization, have been mistakenly included in by-laws. On the other hand, some firms, particularly in the area of credit, resist the imposition of policies and the restriction of decision that these imply. To bring discipline and order in cases such as these, the TDU may find it necessary to practice a kind of intervention which may be called "technical insistence."

(2) Staff Development - Typically, in periods of adversity, one of the principal areas of cost reduction is staff, and particularly staff training. Valuable staff people in the cooperatives have been lost and many who remain have low morale and bleak expectations of careers in the cooperative movement. Training and upgrading of skills, together with incentives policies and compensation commensurate with staff performance and results of operations of the firms are areas for improvement in the development process.

Incentives

The concept of incentives is somewhat innovative in Guatemalan cooperatives, even considered by a few to be unbecoming and that employees should not work under any motivation other than serving members at low cost. Recognizing the effectiveness of good incentive systems, the TDU will attempt to introduce the practice where considered appropriate and use project funds initially on a cost-sharing basis with participating organizations. These will be modest in amounts and conservative in application, based mainly on the criteria of: growth, profitability and adherence to credit operations discipline. During trial and perfection of systems, careful observations will be made relative to contributions to staff morale and productivity as well as the sustainability of incentives, wholly from the organizations' own operations.

Training

The Project will support both training by TDU staff and training programs operating by the federations for their affiliates. Upgrading of cooperative and credit union management and operation skills will be a key project element.

Training will be accomplished by several means, including:

-- Seminars and short courses on specific subject matter, conducted for staff and directors of similar responsibility within a cooperative system;

-- On-the-job or in-service training ("coaching") by TDU staff specialists;

-- Sponsorship of staff to attend specialized courses and seminars conducted locally by such organizations as the Chamber of Commerce, Association of Managers, the Manpower Institute and private firms;

-- Scholarships to international training and academic programs such as the Central American Business Administration Institute (INCAE);

-- Workshops on skill improvement in such areas as electronic data processing, office management, accounting operations, pesticide recommendations, interpretation of accounting data;

-- Correspondence courses, consultant linkages and referral services for highly specialized subject matter;

-- Introduction of modern mass and group communication techniques for member information and promotion, including radio, video, graphics and written media, as appropriate;

-- Preparation and distribution of standardized instructional materials such as manuals, check lists, guidelines and general recommendations.

(3) Consultations - One of the principal reasons for the inclusion of short-term technical assistance capability in the TDU, is to enable the project to respond to particular needs and problems which inevitably occur in the development process. In recognition that needs cannot be predicted and that requirements for specific technical expertise do not merit full-time staff positions in the TDU, provisions are made for the Unit to have the flexibility to draw upon national and international experts for consultancy services.

5. Critical Issues

The institutional development process inevitably implies change, be it in the area of structure, policies, practices, personalities, attitudes or style of operations in the cooperatives. Many of the issues foreseen in this project revolve around the general area of how smoothly transition and permanent, positive changes can be effected both within the cooperative systems and in the regulatory and public environment in which they operate. The effectiveness of the institutional development effort will, in fact, be dependent in large part on the skill of the staff in introducing and institutionalizing modifications in cooperative thinking and practice. Issues considered important or critical are the following:

a. Government programs and policies must allow for reasonably free competition and market-oriented pricing. This is particularly important in the areas of production credit interest rates, agricultural supplies and marketing, and policies affecting import and export of agriculturally related products.

b. Public sector influence or intervention must not defeat project philosophy, objectives, and actions. Examples of this point may be found in the requirement for cooperative by-laws to be approved by government authority and restrictions on financial operations of cooperatives as an interpretation of law.

c. Project implementation must be conducted in awareness and harmony with other development and donor agencies working with the cooperative movement. The project does not intend to compete with other sources of cooperative assistance, nor should achievements in inculcating the business mentality of cooperative institutions be defeated by interventions encouraging subsidy or temporary advantage. Of primary concern in this area is a proposed program of massive production credit to individual and organized farmers from the Interamerican Development Bank.

d. Especially in those institutions facing the most serious problems, issues of the magnitude of changes that can or should be made, without upsetting the stability or credibility of the organizations, are present. This is particularly the case if diagnostic studies reflect needs for radical changes in structures, major policies or key staff.

e. Although the great strength of the Guatemalan cooperative movement is in the federated sector, there are probably advantages from integration for both federations and non-affiliated cooperatives in the movement. Federations sometimes act like closed families, and cooperatives resist affiliation for a variety of reasons, frequently non-economic. Perfecting and extracting the advantages of sound ooperative integration may be a delicate part of development.

Apart from issues related to change from the past, an area of concern in the institutional development process is that of the basic economics of member pursuits and the ability of cooperatives to respond to their needs at costs they can afford. In periods of inflation/devaluation, changes in the tax structure, unpredictable economic and political conditions in neighboring Central American countries and price controls - phenomena likely to occur during the life of the project - the proper posture of cooperatives, which not only must be agile for survival but also be concerned for their member-owners, is a delicate question. Cooperatives cannot protect their members from deteriorating economic conditions, nor can they continually provide essential services at less than cost. Project implementation may be affected by serious doubts as to the viability of members' production and the service structures it requires to survive and prosper.

6. End-of-Project Conditions

Project achievements in institutional development will be observed and measured periodically and incrementally during the life of the project through the process of review of development plans described in the "Implementation" section. The sum of achievements reflected in the status of the participating cooperative systems at the end of the project may, nevertheless, be summarized as indicators of results expected from project inputs.

Institutions participating fully in the project will have:

a. More realistic assessment of their potential and problems;

b. Better trained staff and leadership;

c. Improved structures to deal with their markets, service delivery, and competitive forces;

d. Restored and renewed confidence of their members;

e. Policies in place and being observed, contributing to growth, profitability and viability;

f. Exploited diversification and growth opportunities;

g. Successful resolution of their most serious problems (e.g. delinquency, profitability, solvency);

h. Harmonious, mutually beneficial relationships and operations between base-level cooperatives and parent federations;

i. Standardized and effective systems in place (e.g. audit, accounting, reporting, member information, by-laws; credit administration; savings mobilization);

j. Introduced modern technology as appropriate (e.g. electronic data processing, business analysis, training techniques);

k. Demonstrated attitudes and capability of self-reliance and independence from continued external assistance.

III. CAPITALIZATION COMPONENT

This project component will complement the institutional development activities designed to strengthen cooperative system operations by addressing the movement's capitalization and refinancing needs. The purpose of this component will be to develop innovative approaches to local generation of both paid-in and retained capital while stabilizing and strengthening cooperative balance sheets.

Project resources estimated at US$2.505 million will be supplied through the Fund Management Unit to qualifying cooperatives, credit unions and federations to rebuild net worth lost during the last ten years of political violence, economic disruption and natural calamities. Investments of cash and securities in qualified institutions will restore their economic service potential and lead to reestablishment of their creditworthiness and thus access to credit from both local sources and the project's credit component.

Achievement of the specific objectives of this project component will be dependent on successful implementation of both the institutional development and capitalization component activities. In some cases, successful capitalization and restoration of local economic activity by cooperatives and credit unions will also depend on their access to additional external credit.

Effective stabilization of the cooperative and credit union systems will bring members' shares back to par value (they will become unimpaired) and establish pricing and operating policies which will enable participant institutions to rebuild their reserves and retained earnings to adequate levels. This will necessarily be a slow process and will imply significant policy reform and managerial improvement. It is extremely important in this process that USAID encourage the Government of Guatemala to reduce its subsidized interest-rate lending through BANDESA to rural areas. This non-economic competition severely distorts market pricing by private sector cooperatives and credit unions and inhibits both their profitability and capital generation potential.

1. <u>Specific Objectives</u>

This component has the following specific objectives for those institutions participating in the project:

a. Expand the economically beneficial operations of cooperatives (lending, input supply, marketing and distribution of members' output and other financial, commercial and production-oriented services of cooperatives and credit unions).

b. Increase the volume of available resources in the cooperative system for lending and investment purposes through mobilization of personal savings and share purchases by cooperative members.

c. Strengthen the cooperative system's financial condition by strengthening balance sheets and earnings.

d. Restore member depositor/shareholder confidence in the financial soundness of their cooperatives and credit unions.

e. Restore lender/public confidence in the creditworthiness of the cooperative system.

f. Establish and maintain compliance with minimum operating standards and conditions which will contribute to safety and soundness of cooperative and credit union operations.

g. Forestall and/or prevent possible intervention or liquidation of delinquent cooperatives and credit unions by INACOP, BANDESA or other creditors while appropriate stabilization programs are being implemented.

2. <u>Participation Criteria</u>

Participation in this grant-funded component of the project will be open to all cooperatives, credit unions and federations which agree to meet the eligibility criteria listed below and implement the stringent operational stabilization policies appropriate to resolving their particular economic and financial difficulties.

The capitalization and stabilization component of the project will include two essential elements: first, a Stabilization Fund to effect investment of cash and securities in qualified institutions to restore earning asset levels and share values; and second, a Savings Protection (Guarantee) Fund to guarantee individual depositors' savings accounts in credit unions and other cooperative financial intermediaries. Eligibility criteria for participation in the Savings Protection Program (SPP) will be defined in the early stages of the project and will be based on actuarial analysis of risks and insurability. To become insured by the SPP, a credit union or cooperative would need to meet additional criteria to those established below for the Stabilization Fund.

The TDU will work jointly with each federation and its interested affiliates to undertake a financial and institutional analysis of their operations, diagnose key problem areas and prepare an appropriate development and financial stabilization plan. While the TDU will have final authority for determining compliance with the plan and participation standards, the commitment of participating institutions to resolving their own operating problems, applying appropriate financial disciplines and generating local capital will be key to the component's success.

Participation in the Stabilization Fund will be based on the following criteria:

a. Demonstrated economic potential and financial viability during initial diagnostic study.

b. TDU-approved stabilization and recovery plan (including, but not limited to, annual operating plans and budgets and reserve formation and surplus distribution plans).

c. Acceptable delinquency control system and collections procedures.

d. Approved management.

e. Acceptance of external audit, inspection, supervision and reporting requirements established by the Technical Development and Fund Management Units to verify both compliance with the stabilization plan and general performance.

f. Implementation of realistic pricing policies designed to cover all operating, reserve formation and capital costs.

g. Fidelity bonding.

h. Implementation of sound investment, credit and asset/liability management policies and procedures.

i. Participation in on-going federation services (insurance, bonding, accounting systems, print shop, supplies, fertilizer sales, marketing, etc.)

j. Participation in all TDU and federation supported institutional development programs (management training, specialized courses, adoption of recommended management practices, etc.) in accordance with the specific development needs identified in the diagnostic study.

k. Actively seek growth, development and expansion opportunities.

l. Enter into agreements with other credit institutions to monitor and, if necessary, prevent multiple loans to members which might negatively affect their repayment capacity.

m. Enter into non-disturbance agreements with creditors to restructure external debt and prevent foreclosure and liquidation actions.

n. Implement an appropriate capitalization system and reserve discipline to assure adequate capital growth in balance with asset and liability growth.

3. <u>Institutional and Financial Analyses of Participants</u>

Preliminary financial and institutional analyses of seven national cooperative and credit union federations and a sample of their affiliates were prepared by NCBA and WOCCU under USAID/Guatemala guidance to determine, among other things, the capital strength of the cooperative movement. Key financial data from these studies are summarized for the federations in Table III-1 and for the primary level credit unions and cooperatives of the FENACOAC and FECOAR systems in Table III-2.

In general, these studies indicated that a significant sector of the Guatemalan cooperative movement suffers from:

- High loan delinquency and weak credit administration

- Low profitability and poor operational and pricing policies

- Decapitalization due to asset losses, inadequate reserving and earnings retention policies, member withdrawals and debt amortization

- High levels of risk in the system due to insufficient levels of retained earnings and reserves relative to members' shares and liabilities to third parties

TABLE III-1

QUATRIXC
DATA

COMPARATIVE MATRIX ANALYSIS

CAPITALIZATION

1984 STATUS INDICATORS.

FEDERATIONS

UNADJUSTED BOOK VALUES FROM FINANCIAL STATEMENTS

INSTITUTIONS	FENACOAC	FEDCAR	FEDECOCAG	FEDCMERQ	FEDECOVERA	FEDECOAG	ARTEXCO	TOTALS
TOTAL ASSETS (Mil.)	[illegible]	[illegible]	[illegible]	[illegible]	305	1,977	69	31,497
Loss [illegible]	[illegible]	NA	[illegible]	NA	NA	NA	NA	[illegible]
TOTAL LIABILITIES	[illegible]	[illegible]	[illegible]	3,304	677	3,393	[illegible]	[illegible]
Other deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Loans payable	7,391	[illegible]	1,848	2,738	108	2,396	[illegible]	22,122
Other liabilities	445	526	1,799	916	499	687	[illegible]	[illegible]
TOTAL CAPITAL	[illegible]	1,795	777	367	179	(1,295)	17	[illegible]
Share capital	[illegible]	[illegible]	323	[illegible]	NA	[illegible]	2	[illegible]
Reserves , R.E.	[illegible]	571	(475)	[illegible]	NA	(1,242)	[illegible]	[illegible]
Other capital	134	316	929	[illegible]	NA	[illegible]	[illegible]	[illegible]
NET INCOME	3	12	(539)	1	93	(45)	(6)	(479)
Gross income	[illegible]	326	957	289	345	186	7	[illegible]
Total expense	1,261	314	1,496	288	252	231	13	[illegible]

COMMON SIZE ANALYSIS (% of Assets)

Liabilities	83.0	75.3	82.4	90.0	75.4	164.3	75.0	86.4
Capital	17.0	24.7	17.6	10.0	24.6	(64.3)	25.0	13.6
Shares	11.6	11.2	7.3	[illegible]	NA	0.4	2.9	5.7
Res.,R.E.,Other	5.4	13.4	10.3	9.2	NA	(64.7)	22.1	[illegible]
Capital/Shares (%)	146	220	241	1,184	NA	NA	859	237

- Declines in membership and market size

- Poorly paid and trained staff and leadership, frequently employing only the most rudimentary techniques of financial and operational management

- Inadequate external regulation of cooperatives and credit unions often combined with a lack of effective internal controls and financial discipline

On the other hand, the studies showed that the movement offers both considerable strengths and resiliency in the face of nearly catastrophic circumstances. The goal of the capitalization component of the project is to enable cooperatives and credit unions to build on these social and institutional strengths while providing additional financial resources to help deal with their economic difficulties. The major strengths of the system include:

- National network of organizations serving both urban and rural constituencies largely beyond the reach of other private and public sector institutions or reachable only on a highly subsidized basis

- Strong community identification and in-depth knowledge of their markets and client-members

TABLE III-2

[illegible]

COMPARATIVE MATRIX ANALYSIS

CAPITALIZATION

PRIMARY LEVEL COOPERATIVES AND CREDIT UNIONS

FENACOAC AND FECOAR SYSTEMS

[illegible]ADJUSTED BOOK VALUES FROM FINANCIAL STATEMENTS

[illegible]STITUTIONS	FENACOAC	FECOAR	TOTALS
[illegible] ASSETS (Net)	31,329	6,334	37,66[illegible]
[illegible] Allowances	1,125	NA	[illegible]
[illegible] LIABILITIES	16,072	4,774	[illegible]
[illegible] deposits	1,054	[illegible]	[illegible]
[illegible] payable	9,145	1,460	[illegible]
[illegible] liabilities	2,373	314	3,[illegible]7
[illegible] CAPITAL	15,257	1,5[illegible]	[illegible]
[illegible] capital	14,393	1,[illegible]	[illegible]
Reserves [illegible]	326	[illegible]	[illegible]
[illegible] capital	36	7[illegible]	[illegible]
[illegible] INCOME	[illegible]	NA	[illegible]
[illegible] income	2,817	NA	[illegible]
Total expense	2,797	NA	[illegible]
[illegible]MMON SIZE ANALYSIS (% of Assets)			
Liabilities	51.3	75.4	[illegible]
Capital	48.7	24.6	[illegible]
[illegible]	47.5	[illegible]	[illegible]
[illegible]	1.2	[illegible]	[illegible]
[illegible] (%)	[illegible]	115	[illegible]

TABLE III-2

[illegible]

Totals for FENACOAC affiliates based on 57 reporting credit unions in WOCCU report 9/85. Loans payable include only reported FENACOAC loans to credit unions; loans from other sources are included in other liabilities. Reserves and retained earnings (R.E.) include loan loss allowances and thus are overstated while total assets are understated. Data are for 1984.

Totals for FECOAR affiliates are for 1983.

- A core of successful, solvent and profitable cooperatives and credit unions which provides both leadership and a development example to the rest of the movement

- Experienced and at least minimally qualified staff in most cooperatives and credit unions

4. Estimated Capital Adjustments

a. Federations

The seven federations surveyed had total unadjusted capital at the end of 1984 of Q.4.284 million, as shown in Table III-1. This represented 13.6% of total assets of Q.31.497 million. Share capital totaled Q.2.731 million, or 8.7% of total assets. Total "pure" equity capital consisting of reserves, retained earnings, donations and other accounts unencumbered by members' individual claims was Q.1.355 million, or 4.3% of total assets. The federations' liabilities totaled Q.27.213 million, or 86.4% of total assets.

The unadjusted book value of federation shares (calculated by dividing total capital by total shares) ranged from a high of 1,184% of par in FECOMERQ to a low of 146% in FENACOAC. Only FEDECOAG had negative net worth, and thus fully impaired capital.

After adjusting for Q.6.263 million in estimated potential write-downs of non-recoverable loans and other losses (per the NCBA and WOCCU studies), the capital picture of the federations changes dramatically, as can be seen in Table III-3. Share capital of affiliated cooperatives is entirely impaired (reduced to zero value) in FECOAR and FECOMERQ. Inadequate data are available to determine possible write-downs in FEDECOCAGUA, but if potential losses there are of a similar order of magnitude as FECOAR's (29% of total assets), then its share capital may also be impaired. It is similarly difficult to assess the true asset value of ARTEXCO. Only FENACOAC appears able to absorb possible asset write-downs without impairing its share capital (in fact, the book value of its shares would increase slightly from 145% to 161% of par).

This analysis suggests that increasing the level of reserves and retained earnings ("pure" equity capital available to absorb expected and unexpected losses) is an essential need which the movement must address on an ongoing basis. This pure capital can be obtained only from earnings and thus the importance of improving cooperative pricing, cost control and reserving policies. Share capital, on the other hand, represents investments by individual members in their cooperatives which, in the event of withdrawal, are normally redeemable at par. Thus, unlike corporate stocks, cooperative shares do not provide a loss cushion for the institution. Share capital is an important part of the cooperative's capital

TABLE III-3

QUATRIX4
B:L\

BEST AVAILABLE

COMPARATIVE MATRIX ANALYSIS

ADJUSTED CAPITALIZATION

1984 STATUS INDICATORS

FEDERATIONS

ADJUSTED VALUES FROM FINANCIAL STATEMENTS

INSTITUTIONS	FENACOAC	FECOAR	FEDECOCAG.	FECOMERQ	FEDECOVERA	FEDECOAG	ARTEXCO	TOTALS
TOTAL ASSETS (Net)	12,568	8,084	4,424	3,671	805	1,377	68	31,497
Gross write-down	1,805	2,345	121	641	NA	1,351	0	6,263
- Allowances	1,251	312	121	NA	NA	NA	NA	1,684
Net write-down	554	2,033	0	641	0	1,351	0	4,579
ADJUSTED ASSETS	12,014	6,051	4,424	3,030	805	526	68	26,918
TOTAL LIABILITIES	10,432	6,089	3,647	3,304	607	3,083	51	27,213
UNADJUSTED CAPITAL	2,136	1,995	777	367	198	(1,206)	17	4,284
Share capital	1,459	908	323	31	NA	8	2	2,731
Res., R.E.& Other	677	1,087	454	336	NA	(1,214)	15	1,355
CAPITAL ADJUSTMENT	(554)	(2,033)	0	(641)	0	(1,351)	0	(4,579)
Share capital	(475)	(908)	0	(31)	0	(8)	0	(1,422)
Res., R.E.& Other	(79)	(1,125)	0	(610)	0	(1,343)	0	(3,157)
ADJUSTED CAPITAL	1,582	(38)	777	(274)	198	(2,557)	17	(295)
Share capital	984	0	323	0	0	0	2	1,309
Res., R.E.& Other	598	(38)	454	(274)	0	(2,557)	15	(1,802)
COMMON SIZE ANALYSIS (% of Assets)								
Liabilities	86.8	100.6	82.4	109.0	75.4	586.1	75.0	101.1
Capital	13.2	(0.6)	17.6	(9.0)	24.6	(486.1)	25.0	(1.1)
Shares	8.2	0.0	7.3	0.0	0.0	0.0	2.9	4.9
Res., R.E., Other	5.0	(0.6)	10.3	(9.0)	0.0	(486.1)	22.1	(6.7)
Capital/Shares (%)	161	No shares	241	No shares	NA	No shares	850	(23)

NOTES:

1. FENACOAC write-downs based on WOCCU report 9/85. Share write-down includes charges against delinquent borrowers' share accounts accounts only. Share capital of other credit unions is unimpaired.

2. FECOAR write-downs based on NCBA report 9/85 corrected to write off reconstruction loans against capital and not long term loans payable. Share capital is completely eliminated.
FECOAR has negative net worth.

3. FEDECOCAGUA potential write-downs are completely covered by allowances. Accumulated losses are only about half of capital donations. Write-downs do not incur charges against capital. Share capital is unimpaired.

4. FECOMERQ write-downs based on NCBA report 9/85 corrected to write off reconstruction loans against capital and not long term loans payable. Share capital is completely eliminated.
FEDECOCAGUA has negative net worth.

5. FEDECOAG write-down based on NCBA 9/85 report and 11.85 "Estimated Financial Requirements" table showing write-off of entire amount of accounts receivable. Share capital is completely eliminated. FEDECOAG's negative net worth is more than doubled.

6. No write-downs are required for FEDECOVERA. Total capital remains intact.

7. No write-downs are required for ARTEXCO. Total capital remains intact.

structure because it is a source of low-cost, long-term funds. Guatemalan cooperatives have unfortunately tended to overestimate the value of share capital while underestimating the need to build reserves and retained earnings to protect that share capital. The project will strive to address this critical deficiency.

The project can make a critically important one-time injection of capital resources to compensate for past difficulties, but appropriate pricing and earnings strategies must be implemented with the assistance of the TDU to assure that cooperatives and credit unions continue to build the financial "cushion" of reserves and retained earnings necessary for stability. The overall average of 4.3% of total assets in unadjusted equity capital is clearly inadequate to meet current losses and 10% would appear to be a minimally acceptable target level for future operations.

b. Cooperatives and credit unions

Analysis of the capital structure of cooperatives and credit unions affiliated with FECOAR and FENACOAC, respectively, is shown in Table D 2 . At this level, the aggregate volume of reserves, retained earnings and other unencumbered capital in relation to total assets is significantly less than at the federation level. On average, credit unions have only 1.2% of total assets in pure equity capital and FECOAR's cooperatives only 3.2%. Similar data are not available for other sectors of the movement, but all indications are that these capital ratios are significantly lower.

Estimated capital adjustments for the FECOAR cooperatives are the same as those of the federation, Q.2.033 million (see Table III-3). Estimated write-offs of the rural FENACOAC affiliates, based on factoring of delinquent loans and reduction of offsetting share account balances (per the WOCCU report of 2/85), total Q.1.911 million, or Q.106,000 more than the estimated losses of Q.1.805 million at the federation level.

These preliminary estimates of potential write-downs were modified significantly on the basis of additional data provided by FENACOAC during the design activity of May, 1986. The estimated losses increased to Q.4.4 million based on a wider sampling of rural credit unions and, the inclusion of accumulated deficits in the loss amounts. Detailed analysis of these revised figures, and their impact on both FENACOAC and the credit unions' consolidated balance sheets is presented in the Financial Plan and Analysis chapter, section IX. A similar analysis is presented of FECOAR's financial position.

Detailed analysis of delinquent accounts at the credit union level will be required to determine the share of these losses which is attributable to the death and disappearance of members and the portion which is due to economic difficulties of the membership and other causes.

c. Summary

Total estimated write-downs of cooperative movement assets are Q.6.369 million (Q.6.263 million at the federation level and an additional Q.106,000 at the credit union level). The amount of project-financed capitalization of US$ 2.5 million, or approximately Q.6.3 million thus appears reasonable. It is probable that the actual amount of funding required for this component will be considerably less, as some federations opt not to participate in the program and as cooperatives become increasingly successful at recovering slow-pay accounts receivable and loans outstanding. In some cases, such as FEDECOAG, the institutions may not be viable and thus would not warrant capitalization grants. In the project budgets, capitalization grants have been initially estimated only for FENACOAC, FECOAR, FECOMERQ and FEDECOCAGUA. The amounts and recipients will probably change during implementation.

5. Federation Rankings

The federations have been ranked according to the three criteria listed below in order to assess their probable participation in the capitalization component of the project. The rankings are shown in Table III-4. It should be stressed that these are preliminary

TABLE III.4

MATRIX 6

COMPARATIVE MATRIX ANALYSIS

FEDERATION RANKINGS

IN TERMS OF

DEGREE OF SHARE IMPAIRMENT, QUALITY OF MANAGEMENT AND

CAUSES OF CAPITAL WRITE-DOWNS

BASED ON INSTITUTIONAL ASSESSMENTS

INSTITUTIONS	IMPAIRMENT	MANAGEMENT	CAUSES
FENACOAC	I	1	B
FECOAR	III	2	C
FEDECOAGUA	II	1	A-B
FECOMERQ	III	3	B-C
FEDECOVERA	NA	3	NA
[illegible]	III	3	D
[illegible]	II	2	NA

NARRATIVE SUMMARY:

FENACOAC: SLIGHTLY IMPAIRED CAPITAL DUE PRIMARILY TO ECONOMIC CAUSES; FIRST CLASS MANAGEMENT

FECOAR: FULLY IMPAIRED CAPITAL DUE PRIMARILY TO DEATH AND DISAPPEARANCE; SECOND CLASS MANAGEMENT

FEDECOAGUA: MODERATELY IMPAIRED CAPITAL DUE TO OTHER AND DEATH AND DISAPPEARANCE REASONS; FIRST CLASS MANAGEMENT

FECOMERQ: FULLY IMPAIRED CAPITAL DUE TO ECONOMIC AND DEATH AND DISAPPEARANCE REASONS; THIRD CLASS MANAGEMENT

FEDECOVERA: CAPITAL POSITION UNCLEAR, CAUSES UNCLEAR; THIRD CLASS MANAGEMENT

[illegible]: FULLY IMPAIRED CAPITAL DUE PRIMARILY TO DEATH AND DISAPPEARANCE; THIRD CLASS MANAGEMENT

[illegible]: CAPITAL MODERATELY IMPAIRED, REASONS UNCLEAR; SECOND CLASS MANAGEMENT

BEST AVAILABLE

rankings only; their purpose is to estimate the types of stabilization instruments which will likely be needed and their probable timing.

a. <u>Degree of share capital impairment:</u> Type I federations are those which have the least degree of capital impairment and will require capitalization grants primarily not to stay solvent but to increase the volume of capital funds for their affiliates experiencing share impairment. Type II institutions are those which have a higher degree of possible impairment and their affiliates are probably in greater difficulty. Type III federations have negative net worth and their affiliates are also considered to be in extreme difficulty.

b. <u>Quality of management:</u> Type 1 federations and affiliates will need to make the least managerial and operational changes to qualify for stabilization fund assistance. Type 2 institutions will require substantial improvement of operations. Type 3 organizations will need dramatic turn-arounds in their business activities to assure their continued viability and successful use of capitalization resources.

c. <u>Causes of capital write-downs:</u> Type A institutions have losses due to a variety of problems not directly tied to death and disappearance of members or radical reductions in their debt repayment capacity due to the rural depression in Guatemala. Type B organizations have losses primarily due to the rural economic depression. Type C cooperatives have losses primarily due to the death and disappearance of their members.

6. Current Capitalization Systems

None of the surveyed federations nor their affiliates has explicit policies for the obligatory establishment of reserves and accumulation of retained earnings in relation to loans or other risk assets. Their reserving methods are based on setting aside a given percentage (usually 20% to 30%) of net income. Only FENACOAC has set aside sufficient loan loss allowances to offset most of its probable write-offs. The FECOAR system has accumulated substantial pure equity capital, but it is clearly insufficient to cover expected losses.

All federations require payment of membership shares, ranging from Q.25 to Q.500. In addition, FECOAR and FECOMERQ require loan capitalization, or obligatory investment, in the federation's share capital by the borrowing cooperative of 5% of the amount of the loans it receives from the federation. The cooperatives affiliated with these federations in turn require their own members to make share purchases in the amount of 5% to 10% of loans received. Credit unions also typically require this type of loan capitalization. FENACOAC, however, requires that its affiliated credit unions maintain 5% of their total share accounts invested in federation shares.

The effectiveness of loan capitalization depends on maintaining low delinquency levels. In any event, share capital merely provides a source of relatively low-cost, long-term funds for the cooperative or credit union. Unlike earnings, share capital is not available to meet losses suffered by the firm except in the event of liquidation.

The level of dividends paid on share accounts is generally too low to attract voluntary capitalization by members or affiliates. The difficulty of withdrawing shares also inhibits voluntary investments by members beyond the minimum required for membership.

7. Implementation of the Stabilization Fund

a. Description of the process

Financial stabilization of federations, cooperatives and credit unions will be a joint undertaking of the institutions themselves, their creditors, the TDU and the Fund Management Unit. It will be based on reaching a clear understanding of the institutional development needs which must be addressed, implementing appropriate remedial measures and effecting capital investments in those institutions which successfully improve their business operations and internal capitalization. The basic steps in the process are summarized below:

(1) Completion of a joint diagnostic study of the interested institution focussed on its financial condition and future prospects, management capability and competitive environment. A key aspect will be the evaluation of its assets and classification of accounts receivable and loans outstanding. Loan classification categories will include: current accounts, delinquent but recoverable loans, non-recoverable loans due to death or disappearance of members and non-recoverable loans due to personal bankruptcy of members.

(2) Written agreement between the interested federation, its affiliated cooperatives and credit unions, the FMU and the TDU to participate in the project which specifies precedent, current and subsequent conditions.

(3) Preparation of a development plan specifying activities and investments to be undertaken by the institution and its members to improve its operating performance, including participation in project-sponsored institutional development services.

(4) Installation of a capitalization system and discipline, designed to increase both share and pure equity capital. Successful generation of additional capital will be required to qualify for project credit, not for initial acceptance into the program.

(5) Implementation of the agreed-upon institutional development program.

(6) Effect debt rescheduling and non-disturbance agreements.

(7) Approval of stabilization investments by the TDU and their disbursement by the FMU and write-off of non-recoverable assets by participants.

(8) TDU and FMU monitoring and technical support to participants.

(9) Annual reviews and renewals of development plan implementation and stabilization investments.

(10) Qualification of participants as creditworthy to participate in the credit component

b. Functional responsibilities

Following is a brief summary of the key functions of each element of the project's capitalization component.

(1) Cooperatives and federations will undertake complete institutional analyses and approve and implement required policy and procedural changes and their individual development plans. The federations will monitor their

participating affiliates' performance and provided needed technical support in concert with the TDU.

(2) The TDU will participate with the federations and cooperatives in the diagnostic studies, provide required technical guidance and facilitate preparation of the development plans and financial projections. It will approve capitalization grants and pre-qualify loan applications.

(3) The FMU will disburse capitalization grants either in cash or securities ("stabilization certificates" backed by investments in approved instruments and loans to creditworthy cooperatives) to TDU-approved federations and cooperatives and monitor their progress in executing their development plans. The FMU will receive and process loan applications which have been pre-qualified by the TDU and disburse loans to institutions which have been approved by the Credit Committee.

(4) INACOP or other designated auditors will examine the books of participating institutions at least annually and will certify the asset write-downs to be offset by capitalization grants.

(5) The Superintendency of Banks will examine the books of the FMU, and its debtors if necessary, to certify that funds are properly managed.

c. Stabilization Illustration

The following illustration is provided to describe in simplified terms the operation of the project's stabilization component. As noted previously, stabilization is the process of providing additional earning assets to viable cooperatives, credit unions and federations to offset losses due to death and disappearance of members and the recent economic depression. Stabilization grants are not intended to substitute for collection of past-due accounts by participating organizations, but rather to assure their technical solvency during the recovery process. Members' share investments will be implicitly protected by the stabilization grants and earning asset levels will be restored, thus enabling the cooperatives and credit unions to reactivate their service activities and attract additional member capitalization.

Two cases are presented to clarify the stabilization process, including sample financial statements in Table III-5. The first (Option #1) is one in which direct cash grants are made by the Stabilization Fund in the Fund Management Unit through the federation to an affiliated cooperative which has non-recoverable loans due to death and disappearance of members.

The second case (Option #2) is of a cooperative whose losses are due to economic or prior administrative problems, in which the Stabilization Fund first issues Stabilization Certificates

OPTIONS

STABILIZATION INVESTMENT OPTIONS

Sample Alternative Cases

BASE CASE

Federation

ASSETS			LIABILITIES AND CAPITAL		
Cash & investments		30	Liabilities		60
Loans outstanding		70	Notes to BANDESA	60	
			Capital		40
			Shares	40	
Total		100	Total		100

Cooperative: Pre-write-off

ASSETS			LIABILITIES AND CAPITAL		
Cash & investments		0	Liabilities		70
Loans outstanding		100	Notes payable	70	
[illegible]	50				
Non-recoverable	50		Capital		
			Shares	30	
Total		100	Total		

NOTE:

Cooperative carries non-recoverable loans of 50 on its balance sheet.

Cooperative: Post-write-off

ASSETS			LIABILITIES AND CAPITAL		
Cash & investments		0	Liabilities		70
Loans outstanding		50	Notes payable	70	
Current	50				
Non-recoverable	0		Capital		[illegible]
			Shares	30	
			Retained earnings	(50)	
Total		50	Total		[illegible]

Cooperative writes-off 50 in non-recoverable loans and charges retained earnings for the loss. Share value is completely eliminated

OPTIONS2

STABILIZATION INVESTMENT OPTIONS

Sample Alternative Cases

OPTION No. 1

Federation

ASSETS		LIABILITIES AND CAPITAL	
Cash & investments	30	Liabilities	
Loans outstanding	70	Notes to BANDESA	60
Stabilization Investments	50	Capital	
		Shares	40
		Stabilization Fund	50
Total	150	Total	[illegible]

NOTE:

Federation [illegible] 50 as Stabilization Fund addition to its Capital which is paid in cash to the cooperative and recorded as Stabilization Investments.

Cooperative: Post-Stabilization

ASSETS			LIABILITIES AND CAPITAL	
[illegible] investments		50	Liabilities	
Loans outstanding		30	Notes payable	70
[illegible]	50			
[illegible] receivable	)		Capital	
			Shares	30
			Retained earnings	(50)
			Stabilization Fund	50
Total		100	Total	

NOTE:

Cooperative receives 50 in cash from federation (which it will convert into new loans to members). This is balanced by the Stabilization Fund addition to Capital which restores share value to par.

OPTIONS3

STABILIZATION INVESTMENT OPTIONS

BEST AVAILABLE

Sample Alternative Cases

OPTION No. 2

Federation

ASSETS			LIABILITIES AND CAPITAL		
Cash & investments		30	Liabilities		90
Loans outstanding		100	Notes to BANDESA	60	
Prior loans	70		Notes to FMU	30	
"New" loans	30				
Stabilization Investment Pool		50	Capital		90
			Shares	40	
			Stabilization Fund	50	
Total		180	Total		[illegible]

Notes:

1. [illegible] receives Stabilization Fund of 50 from FMU which it invests in Stabilization Investment Pool, which consists of [illegible] Type A cooperatives and other instruments; net earnings are [illegible].

2. [illegible] borrows 30 from FMU for on-lending to cooperative, [illegible] "new" loans.

Cooperative: Post-Stabilization

ASSETS			LIABILITIES AND CAPITAL		
Cash & investments		0	Liabilities		[illegible]
Loans outstanding		80	Notes payable	70	
Current	50		Note to federation	30	
Non-recoverable	0				
"New" loans	30				
			Capital		
Stabilization			Shares	30	
Certificates		50	Retained earnings	(30)	
			Stabilization Fund	50	
Total		130	Total		[illegible]

NOTES:

1. Cooperative receives Stabilization Certificates of 50 from federation balanced by Stabilization Fund of 50. Certificates add to [illegible] assets and Stabilization Fund restores share value to [illegible].

2. Cooperative receives additional loan from federation of 30 which it [illegible] into "new" loans to members.

through the federation to the cooperative followed by a loan. The Certificates return the institution to technical solvency and add slightly to earnings, while the loan supplies needed liquidity to restore economic operations.

In both cases, loans written off are not "forgiven." If the member returns to the cooperative, he will be expected to repay his debt. Similarly, all shares and deposits held by the delinquent members whose loans are written off will first be offset against their outstanding loan balances. Stabilization grants (either in cash or certificates) will thus not protect the shares of delinquent borrowers. These grants will only protect the shares of members who made good-faith investments in their cooperative and are repaying their loans or otherwise using its services.

(1) Initial conditions

Sample balance sheets for both the federation and cooperative levels for pre-injection and post-injection conditions are shown for the two options in Table III-5. The initial, or pre-injection, conditions show the federation to have total assets of Q.100, including cash of Q.30 and loans outstanding of Q.70. These are financed by debt (liabilities) of Q.60 and shares (capital) of affiliates totaling Q.40.

The cooperative has gross loans outstanding totaling Q.100, of which Q.50 are non-recoverable (bad loans) for total net assets of Q.50. On the other side of the balance sheet, the cooperative has total debt liabilities of Q.70, members' shares of Q.30 (at par) and retained earnings of minus Q.50 (due to the charge-off of non-recoverable loans). The cooperative has negative net worth of Q.20 and members' shares are fully impaired.

These initial conditions are summarized below:

-- Federation owes Q.60 to BANDESA.

-- Federation and BANDESA agree with cooperative to effect a non-disturbance agreement.

-- Audit confirms loan losses (recoverable vs. non-recoverable).

-- Loan losses are charged to retained earnings.

(2) Option No.1

In this case, cash of Q.50 is supplied to the federation in the form of capital shown as its Stabilization Fund; on the asset side, this cash is paid to the cooperative and recorded on the federation's balance sheet as Stabilization Investments.

Technically speaking, these Stabilization Investments have no net value until the cooperative increases its net worth (capital) through retained earnings or recovery of its charged-off loans.

The Stabilization Investment appears on the cooperative's balance sheet as a capital item, the Stabilization Fund. This offsets the negative retained earnings of Q.50 and returns share value to par (Q.30). On the asset side, the investment is shown as cash, but this will be turned into earning assets (loans outstanding to members, inventories, etc.).

These operations are summarized below:

-- This option applies to cooperatives whose losses are due to death and disappearance.

-- Cash is paid directly to the cooperative to be used to make "new" loans and other productive investments or operations (working capital).

-- The Stabilization Fund has no claim on assets.

(3) Option No.2

In this case, stabilization investments are used to restore the value of members' share capital without making a direct cash grant to the cooperative. This approach is suggested for cases where losses are due to causes other than death and disappearance. The purpose is to restore the institution's technical solvency without directly rewarding possibly poor management with cash infusions. The cooperative is returned to a sound financial basis, but in order to restore the level of economic activity, it must borrow from the federation and be considered on the basis of its creditworthiness.

These operations are summarized below:

-- For cooperatives whose losses are due to economic problems and member insolvency.

-- Stabilization "certificates" are given to cooperatives in lieu of cash; the cash remains with the federation and is invested in loans to good cooperatives (Type A) and other instruments; stabilized cooperatives receive net earnings only (interest on certificates). Certificates may be redeemed to meet BANDESA debt service requirements and member withdrawals.

-- Credit is provided to cooperatives based on the prospects and creditworthiness of new members or old borrowers who are current in their obligations with the cooperative.

8. Savings Protection Program

The Savings Protection Program (SPP) is expected to evolve from the operations of the Stabilization Fund in the credit union sector. Functioning in a manner analogous to deposit insurance in the industrialized nations, its purpose is to increase depositor confidence in the credit union system and thus generate significant additional capital for lending operations. While the bulk of this additional capital will be concentrated in the credit union sector at first, it is probable that an increasing share of these funds may be directed to other sectors of the cooperative movement as their creditworthiness improves. Directing this excess liquidity into new cooperative lending programs will be a major task of the successor organization to the FENACOAC Fund Management Unit.

The SPP, if feasible and successfully implemented, can be expected to leverage significant amounts of additional savings. This will depend on careful program design and improved operating performance of participating credit unions. The Stabilization program will help the movement to overcome its previous losses due to exogenous conditions, but program success will depend largely on improved management and earnings.

A feasibility and design study for the SPP will be undertaken during the project. Key items to be examined include: corporate structure; risk analysis and determination of required capitalization and premium rates; types of coverage; voluntary or obligatory participation; policy and procedures; legal powers; and, reinsurance protection.

The program will probably require an initial capital investment by insured credit unions which, depending on the results of the feasibility study, may need to be matched in some proportion with project funds. Upon completion of the project, the funds would be permanently vested in the deposit insurance organization's capital fund.

The SPP fund would assume the role of financial stabilization of the credit union movement. It would facilitate mergers and liquidations (if necessary) of credit unions experiencing financial difficulties. Ultimately, it would protect the rural savings public against default and thus enhance the efficiency of rural financial markets by increasing the monetization of savings.

9. Related Policy Development

Cooperative institutions participating in the stabilization activities of the project will need to examine and improve their capitalization policies. These include, but are not limited to, the following areas of policy at both the federation and cooperative levels: capital retentions; cash share investments; payment of share withdrawals and system liquidity management to support such payments; dividends paid on share capital; asset/liability management (matching of sources and uses of funds by maturity);

credit administration and delinquency control; reserve formation; and growth of retained earnings.

Financial stabilization of the cooperative movement will require the development and implementation of capital and savings generation programs to complement project grants. These programs will be tailored to the specific needs and potentials of each sector of the movement. Following is a summary of key program elements to be implemented in the credit union and agricultural cooperative sectors to increase total savings and capitalization. Their purpose is to preserve project-financed capitalization, to protect future internally generated capital and external indebtedness, and to permit sound operations providing needed services to the rural population.

a. Credit unions

(1) Payment of dividends on share capital (capitalized in members' share accounts)

(2) Creation of appropriate savings instruments

(3) Implementation of mechanisms to assure the liquidity (redemption) of shares and deposits

(4) Improvement in the quality of services offered (facilities, staff skills, service hours, physical security of facilities, etc.)

(5) Increase in perceived safety of deposit and share savings through:

-- Deposit insurance (SPP), if feasible

-- Regular audits and inspections

-- Aggressive loan collections

-- Fidelity bonding

(6) Implementation of a central liquidity facility in FENACOAC to support credit union savings mobilization, including:

-- Liquidity reserving, daily investments and limitations on credit union investment powers

-- Liquidity planning and analysis (cyclical and secular)

-- Agile communications and transfer mechanisms

(7) Expansion of advertising, promotion and sales

(8) Expansion of clientele (members and non-members; corporate accounts; non-cooperative business sector)

(9) Improvement of staff skills and training in savings mobilization

(10) Establishment of policies and procedures to support growth of retained earnings and reserves, including:

-- Explicit reserve requirements based on risk assets and gross income

-- Explicit pricing requirements (interest rates on loans which cover operating costs, capital costs and transfers to reserves and retained earnings)

-- Regulatory enforcement of capital ratios (reserves and retained earnings in relation to total assets) and solvency

-- Establishment of minimum operating standards for safety and soundness of operations and monitoring of compliance

b. Agricultural cooperatives

(1) Promote and communicate the capitalization concept to members

(2) Establish mechanisms to generate share capital from the following sources and in the following order of importance:

-- Retained earnings from operations

-- Assessments on loans (loan capitalization)

-- Capital retentions (discounts) on transactions

-- Paid-in shares (cash from new members)

(3) Declaration of dividends on members' shares, capitalized in share accounts but not distributed in cash

(4) Increase perceived safety of members' shares through:

-- Deposit insurance (if feasible)

-- Regular audits and inspections

-- Aggressive loan collections

-- Fidelity bonding

(5) Specialized subscriptions of capital shares for specialized needs (investment in production facilities, for example)

(6) Expansion of clientele

10. Critical Issues

A number of critical issues will be faced by the TDU, the Government of Guatemala and the cooperative movement in the implementation of the project which affect the degree of success achieved. These are summarized below.

a. Creation of a capital consciousness in cooperative leaders, staff and members focussed on:

   -- Profitability

   -- Reserve formation and use

   -- Accumulation of retained earnings and use

   -- Dividend payment

b. Creation of appropriate incentives at each level of the cooperative system to encourage better asset management, loan collections, etc. The need to assure that capitalization assistance to different cooperative federations, individual cooperatives and individual members does not create disincentives for positive performance (new capital investment, loan repayment, accumulation of earnings).

c. Avoidance of a grant-funded "bail out" mentality.

d. No debt forgiveness to surviving members (i.e., loans may be written off and not collected, but the member thereby loses his own shares and/or deposits as well as his eligibility for future credit or use of services on other than a cash basis. (In cases of forgiveness, on the other hand, the member receives a write off and still may come back for more. There may, however, be some sort of moratorium on interest or other treatment for cases of extreme hardship).

e. Need for regulatory support (audit and examination, cease and desist orders, delegated intervention powers, liquidity reserving, statutory reserve formation, etc.).

f. Need for appropriate legal powers for the movement for deposit insurance operations.

g. Repayment of stabilization fund investments to the FMU.

h. Management of the Stabilization Fund (especially the investment pool backing stabilization certificates, eligible investments, portfolio diversification, etc.).

i. Avoidance of a pro-federation bias to the exclusion of cooperatives which could and would qualify for assistance whereas their federation does not.

j. Implementation of better measures to fight administrative corruption and/or conflicts of interest by staff or elected leadership of cooperatives and federations.

k. Establishment of a business mentality and the provision of services on a financially self-sufficient basis as opposed to subsidized services to the poorest of the poor.

l. Strengthening of the base level cooperatives and credit unions to increase their absorptive capacity for both internally and externally generated capital.

11. <u>End-of-Project Conditions</u>

The capitalization and stabilization component of the project, in combination with the institutional development component, should produce the following end-of-project conditions. Achievement of these conditions is predicted primarily for those institutions fully participating in the project, but it is also probable that other cooperatives and credit unions will benefit indirectly even if their level of participation is only partial.

a. Technically solvent cooperatives and credit unions.

b. Safe and sound operations meeting minimum performance standards.

c. Regulatory structure and capability meeting minimum performance standards.

d. Increased savings and capital (shares and retained earnings) throughout the cooperative movement.

e. Functioning stabilization fund (primarily for non-financial cooperatives).

f. Functioning deposit insurance fund (primarily for credit unions).

g. Greater variety of investment instruments for members and third parties in the cooperative system.

h. Appropriate mix of share capital versus retained earnings and reserves to assure an adequate level of pure equity capital in relation to both liabilities and total assets.

IV. CREDIT COMPONENT

The credit fund is the final stage in the overall implementation of the Cooperative Strengthening project building on the Institutional Strengthening and Capitalization/Stabilization activities. The objectives of this component are detailed as follows:

1. Specific Objectives

a. Help restore economic activity in the rural areas of Guatemala by providing federations and their member cooperatives with an adequate supply of funds for both short-term (production) and long-term (investment) loans;

b. Reactivate the service capability of federations and member cooperatives affected by recent natural disasters and political turmoil throughout the country;

c. Assure proper disbursement and recovery of credit funds by improving credit policies and procedures;

d. Improve financial statement analysis, budget and cash flow prepration, and repayment capacity analysis of the professional staff at both the federation and cooperative levels;

2. Participation Criteria

It is anticipated that many of the exisiting federations and their member cooperatives will want to participate in the benefits of the Credit component of this project. In order to qualify as an eligible candidate, the institutional applicants must first comply with the following general criteria:

a. Belong to a federation (if a cooperative borrower);

b. Have a rural membership orientation outside of Guatemala City;

c. Be current in all respects with membership dues and capitalization requirements;

d. Be actively involved in financing income-generating projects such as agricultural production, marketing, small enterprise, artisanry, etc.;

e. Be bonded for all types of contingencies;

f. Have an approved internal and external audit program;

g. Have adopted operating and financial policies which will contribute to the economic viability of the institution.

h. Participate in the Institutional Development component of the project, as determined by the initial diagnostic assessment; and,

i. Receive the prior written approval of the TDU if grant monies for institutional stabilization have been disbursed. It is assumed that approval will not be witheld if the federation or cooperative is in compliance with the operating plan as set forth by the TDU.

If a federation or cooperative has demonstrated compliance with the general criteria mentioned above, a more in-depth review of the institution's strengths and weaknesses will be conducted by the staffs of the TDU and FMU to determine the creditworthiness of the applicant for receiving new funds. The following key areas to be analyzed are:

-- Current financial condition

-- Net earnings and repayment capacity

-- Cash flow capacity

-- Collateral guarantees available, such as mortgages, chattels, and personal signature guarantees

-- Current loan programs, terms and conditions

-- Current credit-oriented policies and procedures

-- Capitalization policies

-- Delinquency control policies and procedures associated with the reporting, monitoring, and resolution of problems

-- Current status of loans in foreclosure and/or liquidation and estimated loan losses

-- Quality and preparation of the professional staff

3. Participant Summary

Institutional profiles of seven cooperative federations have been conducted and their relative strengths and weaknesses have been identified. Based upon the reports submitted by NCBA, a matrix was designed for comparative purposes to rank the institutions according to ten different credit-related measures defined as follows:

Working Capital: The difference between current assets and current liabilities. It is used as a measure of short-term liquidity.

Solvency: The difference between total assets and total liabilities. It is a measure of the equity or residual value of the assets after all creditor's are paid off.

Profitability: The residual income of a business operation after all costs have been deducted. It represents the return to ownership capital.

Leverage: The degree to which assets are financed with debt capital instead of equity capital. The higher the percentage of debts, the greater the leverage.

Capitalization: The ability of a business to generate equity capital in the form retained earnings or ownership contributions.

Repayment Capacity: The ability to a business to generate cash flow to amortize both short and long-term obligations.

Credit Policies: The existence and implementation of adequate policy guidelines for financing various types of income generating businesses.

Delinquency Control: The effective implementation of delinquency reporting, monitoring, follow-up, and control.

Management Experience:	The combined skill, talent, and experience of management personnel in providing effective leadership to the cooperative membership.
Risk Assessment	A subjective measure of rsk exposure, taking into consideration the collective sum of each individual indicator (Items 1-9).

The following are the general conclusions of the matrix of credit indicators detailed in Table IV-1.

a. Of the seven federations, only FENACOAC, and possibly FEDECOCAGUA, appear to be in good enough condition to qualify for initial disbursements of credit.

TABLE IV-1

COMPARATIVE MATRIX ANALYSIS

CREDIT INDICATORS

OF

FEDERATIONS

INSTITUTIONS	FENACOAC	FECOAR	FEDECOCAG.	FECOMERQ	FEDECOVERA	FEDECOAG	ARTEXCO	TOTALS
WORKING CAPITAL	5	4	2	4	4	4	4	27
SOLVENCY	4	3	3	2	3	1	1	16
PROFITABILITY	4	2	1	2	3	1	[illegible]	14
LEVERAGE	4	1	2	1	2	1	1	12
CAPITALIZATION	4	2	3	1	N/A	N/A	N/A	[illegible]
REPAYMENT CAPACITY	4	1	2	2	2	1	1	13
CREDIT POLICIES	2	1	4	2	1	N/A	N/A	12
DELINQUENCY CONTROL	2	1	4	1	N/A	N/A	N/A	9
MANAGEMENT EVAL.	5	2	1	2	N/A	2	4	16
RISK ASSESSMENT	4	2	3	2	2	1	1	15
TOTALS	46	18	28	19	17	11	13	N/A

RANKING SCALE

5 =EXCELLENT

4 = GOOD

3 = AVERAGE

2 = WEAK

1 =UNACCEPTABLE

N/A =NOT AVAILABLE

b. With the exception of FEDECOCAGUA, all of the federations have an excellent working capital position, in spite of the fact that other serious financial problems may exist. This condition may temporarily satisfy any short-term credit needs.

c. In many cases, the excellent working capital position can be attributed to the failure, on behalf of the federations, to keep current with their long-term lender (BANDESA). This continuing situation is totally unacceptable if new credit is to be disbursed to the federations.

d. After working capital, management experience of the federations is the next strongest asset.

e. The most serious weaknesses of the federations are lack of adequate capitalization, low leverage, poor repayment capacity, and unacceptable delinquency control.

Due to the limited number of qualified participants in the Credit component of this project, it is estimated that a very nominal amount of credit funds will be needed in the first phase of the project.

4. Implementation

The implementation of this component of the project will be divided into two phases. The first phase will deal with the establishment of credit policies and procedures which will be implemented at the FMU, federation, and cooperative levels. In the initial stages, the TDU will be heavily involved with the Guatemalan staff of the FMU. The establishment of coordinated policies and procedures will be an area of critical importance in achieving a uniform, systemwide approach to credit analysis.

The second phase of the project will encompass the actual loan analysis, approval and disbursement at each level of the cooperative sector. This area will be primarily the responsibility of the Guatemalan staff of the FMU, the federations, and the cooperatives and credit unions. Since each level has some unique characteristics, these will be discussed separately in the appropriate sections.

a. Phase I

The following operating policies and procedures need to be defined and implemented before any new credit can be granted:

-- Pre-Credit Assessments

-- Loan Purposes

- Budget Information
- Standardized Loan Forms
- Lending Ratios and Guidelines
- Loan Approval Authority
- Interest Rate Policy
- Commitment Letters
- Loan Disbursement Procedures
- Delinquency Control Procedures

Each of these areas have important issues which need to be addressed. In order to identify the specific areas of concern, they will be treated individually.

1) Pre-Credit Assessments

As mentioned earlier, the TDU personnel will initially assist the FMU personnel in conducting a pre-assessment of all federations desiring to borrow new money. In this phase, each organization will have a separate, custom-made development plan prepared which will enable them to be eligible for credit funds. If the organization has already received project stabilization funds, the new development plan will be structured to enhance the earlier plan which was approved at the time the stabilization funds were disbursed.

2) <u>Loan Purposes</u>

The FMU and the TDU will determine which income-generating enterprises will qualify for short and/or long-term credit. A major factor in the selection criteria will be the income-generating potential of each enterprise, compared to the risks associated with producing such income. Emphasis should be given to projects which generate good cash flow, as well as those which do not require extensive outlays of capital to get started. The level of management experience required must also be considered.

3) <u>Budget Information</u>

Once all the eligible loan purposes have been identified, the FMU, TDU and federation staffs will develop enterprise budgets for each qualified enterprise, in order to determine the correct amount of credit to be advanced and the amount of repayment expected. This information will have to be continually updated as the economics of each enterprise change, due to the changing market conditions of the different inputs required.

4) Standardized Loan Forms

In order to improve the overall quality of credit analysis within the different federations, it is recommended that a complete set of standardized forms be used so that everyone can benefit from a uniform approach to credit underwriting. Many of the problems of poor credit analysis can be traced directly to poorly conceived forms that fail to pinpoint critical information necessary for correct credit analysis. Here, the TDU should take the primary responsibility in drafting forms which can be utilized by all the federations. The FMU staff will also assist as needed to assure that nothing important is omitted.

5) Lending Ratios and Guidelines

Of critical importance in the underwriting process is the use of certain "rules of thumb" to assist the individual loan officers in properly analyzing the credit application. Credit should never be granted to either an individual borrower, cooperative, or federation on the basis of a multiple of share capital (e.g., three times the amount of member shares or savings certificates) or a fixed percentage of net earnings. As a basis for correct financial analysis, the following are several standard ratios used throughout the lending industry which focus on key areas of concern:

-- Working capital position (current assets - current debts)

-- Current ratio (current assets/current debts)

-- Debt/asset ratio (total debts/total assets)

-- Debt coverage ratio (total debt payments/operating income)

-- Loan collateral ratio (total collateral/total loan)

While these ratios might change, depending upon the type of industry being financed, the following represents some rather broad parameters for financing agricultural-type enterprises:

Working Capital:	Usually a dollar amount sufficient to margin short-term operating lines of credit.
Current Ratio:	Generally between 1.2 to 1.5 :1, but never less than 1.1 :1. The higher the ratio the better.
Debt/Asset Ratio:	Generally between 20%-40% but never greater than 50%. The lower the percentage the better.

Debt Coverage Ratio:	Generally not greater than 83% and typically around 75%. The lower the percentage the better.
Loan Collateral Ratio:	Generally never less than 1.6:1 and typically around 2:1. The higher the ratio the better.

While ratios and guidelines can certainly help in the analysis of different loan applications, there is no substitute for the judgement factor which can only be acquired through experience. This is why it is so important that the FMU and Credit Managers have experience in lending through the good times, as well as the bad times. That type of experience can help buffer the extreme price variations that are so prevalent in the agricultural sector and prevent unseasoned lending officers from getting "caught-up" in the meteoric swings of the marketplace.

In order to illustrate the application of these ratios in actual loan examples, three case studies are presented in Annex 1.

These examples illustrate the need for proper credit analysis and sound judgement on behalf of the loan officers of the lending institution. The main point of the different examples is that each case must be treated differently, and what works for one case does not necessarily work for the others. Therein lies the critical component of training and institutional development which will play a key role in helping the credit departments of each federation make sound credit decisions.

6) Loan Approval Authority

In conjunction with the pre-assessment phase of the Credit component, the staffs of the TDU and in the FMU should review the lending capabilities of the credit departments of each of the individual federations. After careful study, a determination should be made as to the proper level of loan approval authority that each federation should have with respect to the credit funds for this project. Loan approval authorities are important, because weaker federations may be able to qualify for credit earlier than normal, if the credit approval decisions are made at the FMU. On the other hand, the stronger federations will be able to have more decentralized approval authority and allow a more timely disbursement of credit without excessive red tape.

Loan approval authorities may be set on a certain dollar figure, or based on a certain type of enterprise, or both. As institutions gain skill in proper credit analysis techniques, the levels of approval authority can be easily raised.

7) Interest Rate Policy

After a loan proposal has been accepted and the approval granted, a market rate of interest should be charged which will cover the operating costs of the institution, cost of capital, additions to retained earning, and a reserve for bad debts in relation to the risk levels.

A general interest rate structure for the entire project is proposed in Table IV-2. Where the interest rates may vary is at the federation and cooperative levels, which need to take a closer look at their own operating costs to assure that the items mentioned above are adequately taken into account. In no case, however, should the cooperative charge less than the market rate, simply because it is a cooperative or because it's costs may be believed to be less than they really are. It is recommended that the TDU assist the FMU in arriving at an appropriate interest rate level for each federation. Different rates of interest may apply to different institutions, depending upon their own unique set of circumstances.

8) Commitment Letter

A standardized letter of commitment should be drafted by the FMU which will be issued to the borrowing institution at the time of loan approval. The commitment letter will outline the terms and conditions of the loan approval, and will require the legal signature of the borrower,indicating its agreement to comply with all of the requirements. Typical conditions of approval are:

-- Creditor's to be paid

-- Assets to be bought or sold

TABLE IV-2

PROPOSED

INTEREST RATE STRUCTURE

A.I.D.

3.0%

GOVERNMENT

5.[illegible]%

TRUST UNIT

8.[illegible]%

FEDERATIONS

12.[illegible]%

COOPERATIVES

12.0%

MEMBERS

-- Production or commercial techniques to be implemented

-- Inspection visits to be conducted

-- Timely financial information to be submitted

The typical terms of approval are:

-- Loan amount

-- Interest rate

-- Capitalization requirements

-- Payment amount

-- Frequency of payments

-- Collateral guarantees required

-- Disbursement dates

-- Disbursement schedule(s)

-- Expiration date of the commitment

The commitment letter becomes the major document in the loan closing process. If it is done correctly, many problems and misunderstandings can be avoided between the lender and the borrower. If the terms and conditions are not complied with, the commitment becomes void and the obligation to disburse funds ceases to exist.

9) <u>Loan Disbursement Procedures</u>

In order to facilitate an orderly disbursement of funds, the FMU should draft some standardized loan disbursement procedures for all borrowers. Of primary concern is the fulfillment of certain requirements prior to the disbursement of any loan funds. The loan officer in charge of the account should be responsible for the disbursement of funds. He should be required to initial the commitment letter conditions as they are satisfied. The cashier's department should not be permitted to disburse funds until the signatures have been obtained. In addition, if operating funds have been approved, the loan officer should be required to follow a disbursement budget to assure that funds are disbursed in accordance with the approved loan budget. If conditions change and it becomes necessary to increase certain budgeted items, a separate letter of approval should be issued to the borrower, outlining the revised changes in the budget.

10) Delinquency Control

It is obvious that a sound FMU credit department will not only be able to disburse the funds correctly, but also recover the money in a timely fashion. Effective delinquency control is a major problem that has been identified in almost all of the federations who will be beneficiaries of this project. It will be the responsibility of the FMU as well as the TDU to implement some much needed discipline in the reporting, monitoring, and control of delinquency. There are many effective ways of monitoring delinquent loan accounts. (Exhibit C shows a typical delinquency control sheet which may be used by the assigned loan officer.) In institutions where there is a high level of delinquency, it becomes imperative that someone is constantly monitoring the progress of the delinquent accounts to assure that their problems are resolved as quickly as possible. The proposed delinquency control sheet is good because a person can quickly determine the current status of the account and the last date of contact. Often delinquent accounts are left untouched for weeks because of heavy work loads and inadequate follow-up.

As the institutions mature in their ability to control their delinquent loans, a proposed computerization of all delinquent loans into a useable database management format would be extremely helpful. This would provide management with all of the pertinent information it needs to stay on top of the delinquent accounts. The database management system

Exhibit C

DELINQUENCY CONTROL SHEET

DATE ________

As of ____________

PREPARED BY ________

DELINQUENT BORROWER	PRINCIPAL BALANCE	DELINQUENT PAYMENT	PAYMENT DUE DATE	DELINQUENT LOAN STATUS	LAST CONTACT
SAN FRANCISCO	$100,000	$12,500	02/12/86	BORROWER TO MAKE PAYMENT BY 4/1/86	03/03/86

could also easily be expanded to contain a credit history of past and present borrowers of the project. This would certainly be helpful in approving new loan requests to old borrowers with past credit histories in earlier projects.

b. Phase II

Once the issues identified in Phase I have been properly coordinated into standardized operating policies and procedures, Phase II can begin. The key components of Phase II are: (1) loan analysis, (2) loan approval, and (3) loan disbursements and collections. It will undoubtedly take some time for everyone to get accustomed to the new rules and regulations. Therefore, it is anticipated that considerable training and practice will take place before the respective institutions become proficient in the credit lending phase of the project. Since there are some unique areas of concern at each level of the cooperative sector in analyzing, approving, and disbursing loans, each level will be treated separately.

1) FMU - Federation Level

At this highest level, the credit department of the FMU should be primarily concerned with the federation's ability to properly identify creditworthy cooperatives who have a good track record of extending credit to their members. The federation must also have enough liquidity to pay back the new indebtedness as it becomes due and payable. The ability to properly analyze the cash flow of the federation is crucial in the repayment analysis. In conjunction with a new loan application, the federation should be required to provide the Credit Department with the following items:

-- Current financial statement

-- Current income statement

-- Current cash flow budget

-- Current delinquency report

-- Summary of the amount of new credit needed, the local cooperatives who will receive the money, the purpose(s) for which the money will be lent, and the type of guarantees to be pledged. Loan documentation of individual borrowers may also be required, either for rediscounting purposes or to assure adequate analysis.

Upon receipt of these items, the assigned credit officer from the FMU should analyze the cash flows of the federation and determine an appropriate repayment schedule. The loan officer should also review the past credit history of the cooperatives to whom the credit will be extended to assure himself that the cooperatives have a good repayment record. Assuming that all of the above information and analysis is satisfactory, a summary presentation should be drafted and presented to the FMU Credit Committee for its approval. All loans to federations must be approved by the FMU, consisting of representatives of each of the participating federations in the project.

The Credit Committee should render a written opinion on all loan proposals submitted, outlining the reasons for approval or rejection of each loan application. If the loan is approved, a commitment letter should be sent to the federation, outlining the basis of the approval and the terms and conditions to be fulfilled, prior to the disbursement of funds. If a loan application is rejected, the Credit Committee should outline the reasons for the rejection, and the issues which need to be corrected, prior to future consideration for new credit.

2) <u>Federation - Cooperative Level</u>

At the next level down, the federation must intensify it's efforts to correctly assess the loan making capacity of it's member cooperatives. In order to achieve this, several actions are needed. First, it is recommended that each affliated cooperative or credit union be ranked once a year on the performance of their own loan portfolios. The loan portfolios of the cooperatives should be divided into the various types of enterprises financed (i.e., agriculture, commerce, housing, handicrafts, personal loans, etc.). Once divided, the respective divisions can be ranked according to their volume, yield and delinquency rate. The rankings can be similar to the classifications used in the Capitalization component of the project. With this type of information, the federation can effectively stay abreast of the performance of its member cooperatives.

In conjunction with ranking the loan portfolio, there is a definite need to identify and write off all uncollectible loans. In order to avoid overstating earnings, it is recommended that all cooperatives cease to accrue interest for book purposes on loans that are delinquent over 90 days. If loan recoveries are made or delinquencies resolved, interest can be easily readjusted. In addition to the cessation of interest accrual, it is recommended that all loans over six months delinquent be placed in a separate liquidation account and adequate reserves be established to cover anticipated loan losses. By doing these things, the cooperative will present a much more accurate picture of it's financial condition and portfolio quality when applying for new credit.

When a member cooperative makes application for new credit, it should be required to provide the federation with the following information:

— A summary of the amount of new credit needed, the purpose of the funds, the anticipated loan term, the sources of repayment, and the types of guarantees to be pledged.

Individual loan documentation may also be required, particularly in the Project's inital phases.

-- Current financial statement

-- Current income statement

-- Current portfolio ranking and delinquency report

-- Current cash flow budget.

The Credit Department of the federation must pay particular attention to the cooperative's ability to service long-term debt which must be paid out of the earnings of the cooperative. In many instances when earnings are insufficient, member capital is inadvertently used to make the required payments. This situation can cause a severe liquidity crisis of the cooperative which ultimately will result in decapitalization of the institution. By factoring the loan portfolio as mentioned above, the federation can quickly see if there is a particular portion of the portfolio that is causing a drag on earnings or has excessive delinquency.

If the information submitted is satisfactory, a line of credit can be approved by the federation for the cooperative to use. As a control measure, certain conditions can be specified in the commitment letter, based upon the composite ranking (A, B, or C) of the cooperative. For example, if both production and investment credit is approved for a "B" cooperative, a typical condition could be as follows:

-- All production loans shall not exceed 70% of the total production cost.

-- All investment credit loans shall not exceed 50% of the total cost of the project.

On the other hand, an "A" cooperative might be sufficiently strong so that the loan conditions read as follows:

-- All production loans shall not exceed 90% of the total production cost.
-- All investment credit loans shall not exceed 70% of the total cost of the project.

In this manner, credit can be extended to different cooperatives on a differential basis, requiring more conservative loans for cooperatives who have a higher level of risk.

3) <u>Cooperative - Member Level</u>

At the lowest or grass-roots level, there is a real need for sound credit skills. Unfortunately, it seems that most of the talented loan officers rise to higher levels within the cooperative framework, leaving the actual credit analysis to inexperienced or unskilled personnel. In many cases, the level of sophistication of the farmer-borrowers is inadequate. This necessitates a greater level of skill on behalf of the loan officer in getting the necessary information from the farmer to properly process the loan application.The loan officers must have a sound understanding of credit, as well as the types of enterprises that they finance. As was pointed out in the Lending Ratios and Guidelines section previously, certain rules of thumb are necessary to help loan officers mature in their judgement and decision-making capability. The single most important quality is the ability to discern good borrowers from bad ones. In order to assist the loan officer in that decision-making process, a "good" borrower should be able to meet the following criteria:

-- Have a good credit history with the cooperative and be current on any existing loans.

-- Have a sufficient amount of assets that can be pledged to the cooperative as a guarantee for the new loan.

-- Have experience in managing the type of enterprise that will be financed by the cooperative.

-- Be willing to implement new ideas and techniques in maximizing net income.

-- Provide the cooperative with all of the necessary information and documentation to process the loan.

In order to properly strengthen the member cooperative credit department, it is recommended that all loan officers receive the support of the TDU. As part of the strengtheing process, the TDU and federation staffs should plan field visits to both review new loan applications, as well as critique recently approved applications with the local lending officers. Much of the success of the entire Credit component will hinge upon the ability of the TDU and federations to reach out and strengthen local leadership.

5. Critical Issues

It is the intent of this project that the Credit component be administered in a strict, business-like manner. Federations which do not pass the eligibility criteria, as outlined in earlier sections of this report, will not receive credit funds. In essence, political pressures will not influence the decision-making capacity of the FMU.

With this framework in mind, the key issues facing the FMU are as follows:

a. The economic viability of the lending institutions who have serious problems at the present time.

b. The capacity of the lending federations to adopt the new credit analysis techniques and underwriting skills. Specifically, this includes a differentiation of repayment capacity between short-term and long-term credit. It also includes a change of lending policy from a savings multiple orientation to a cash flow/repayment capacity orientation.

c. The ability of the FMU to assess correctly the degree of risk in each of the credit intermediaries and ultimate borrowers, as well as the eligible enterprises to be financed.

d. The effective reporting, monitoring, and control of delinquent loans.

e. The ability to attract and keep experienced professional employees with the requisite talents and skills.

f. The ability of all the cooperative lending institutions to compete against BANDESA in providing credit services at profitable interest rate margins.

6. End-of-Project Conditions

By the end of the project, it is expected that the participating institutions will have acquired the following benefits from the Credit component:

a. Standardized credit management skills and techniques throughout the cooperative industry.

b. Expertise in lending to various income-generating enterprises which encompass a good cross-section of the different types of viable businesses in rural Guatemala.

c. Ability to correctly assess different levels of risk with different types of rural enterprises.

d. Effective delinquency reporting, monitoring and control resulting in a higher quality loan portfolio.

e. Ability to use more flexible lending instruments, such as pre-approved lines of credit and rediscount windows, to gain greater efficiencies in the credit delivery system.

f. Increased participation in activities producing economic gain throughout the cooperative movement.

g. Credit is supplied to members at interest rates which cover costs of capital, operations, reserve formation and accumulation of retained earnings

SAMPLE LOAN ANALYSES

The following examples all have unique characteristics which require more than a standard approach to loan underwriting. As will be seen, the ratios can pinpoint key problem areas.

In Table IV-3, borrower "A" has a 2 acre apple orchard and wants to borrow $3,000 for his short-term operating expenses and another $3,000 to refinance his carry-over with BANDESA over a five year period. He presents a budget which shows a net income (excess cash flow) of $1,530 and through his outside work, he is able to cover his family living needs. As collateral for his loan, he is willing to pledge his crop, which will have a market value of $4,800, plus his land which has a current market value of $18,000. His main drawback is that he only has $200 of savings in the cooperative and wants to borrow $6,000. Using the standardized approach of three times share capital, this borrower would only qualify for a loan of $600. Alternatively, using a 30% earnings factor on net income, the borrower would only qualify for a loan of $459. Utilizing the budget presented and subtracting the additional amount of debt service required to amortize a loan of $3,000 @ 18% interest over 5 years ($959), you project that the borrower can still meet all of his obligations on a conservative basis and still have $571 left over after the crop year is over. The ratios indicate a good working capital position, a good current ratio, a low debt/asset ratio, a normal debt coverage ratio, and an excellent collateral margin. Clearly, this loan request could be approved, if the loan officer felt comfortable with all other information presented. This is where the judgement factor becomes critical.

TABLE IV-3

COMMERCIAL
BORROWER "A"
2 ACRES ORCHARD

FINANCIAL STATEMENT

BEFORE LOAN				AFTER LOAN			
ASSETS		LIABILITIES		ASSETS		LIABILITIES	
SAVINGS	$200	ACCOUNTS	$500	SAVINGS	$200	ACCOUNTS	$500
CROPS	$500	BANDESA	$3,000	CROPS	$3,500	COOP	$3,000
ANIMALS	$300			ANIMALS	$300		
LAND	$18,000			LAND	$18,000	MORTGAGE	$3,000
ASSETS	$19,000	DEBTS	$3,500	ASSETS	$22,000	DEBTS	$6,500
		CAPITAL	$15,500			CAPITAL	$15,500

INCOME STATEMENT		INCOME STATEMENT	
GROSS INCOME	$4,800	GROSS INCOME	$4,800
OPERATING EXPENSES	$3,000	OPERATING EXPENSES	$3,000
OPERATING INCOME	$1,800	OPERATING INCOME	$1,800
PRODUCTION INTEREST	$270	PRODUCTION INTEREST	[illegible]
LOAN AMORTIZATION	$0	LOAN AMORTIZATION	[illegible]
NET INCOME	$1,530	NET INCOME	[illegible]
OTHER INCOME	$500	OTHER INCOME	$500
FAMILY LIVING	$500	FAMILY LIVING	[illegible]
EXCESS CASH FLOW	$1,530	EXCESS CASH FLOW	[illegible]

LOAN AMOUNTS REQUESTED:		CREDIT RATIOS	
CROP LOAN	$3,000	WORKING CAPITAL:	[illegible]
LONG TERM LOAN	$3,000		
		CURRENT RATIO:	[illegible]
TOTAL LOAN	$6,000		
		DEBT/ASSET RATIO:	[illegible]
LOAN AMOUNTS GRANTED:			
		DEBT COVERAGE RATIO:	[illegible]
CROP LOAN	$3,000		
LONG TERM LOAN	$3,000	COLLATERAL MARGIN:	[illegible]
TOTAL LOAN	$6,000		
... COLLATERAL:			
... MORTGAGE	$4,300		
... ESTATE MORTGAGE	$18,000		
... VALUE OF COLLATERAL	$22,300		

In Table IV-4, borrower "B" has 2 acres of row crop ground and wants to borrow $350 for his short-term production needs, as well as refinance his carry-over debt with BANDESA of $500 over a 5-year period. He presents a budget which shows a net income of $74, and through outside work, he can meet his family living expenses. For collateral, he is willing to pledge his crop, valued at $500 when marketed, plus his land which has a current market value of $3,000. He has $500 invested in his savings account with the cooperative, and utilizing the standardized loan factor of three times share capital, he would easily qualify for a loan of $850. Using 30% of net income however, he would only qualify for a loan of $22.

Through a more disciplined approach to credit underwriting, the loan officer could see that if he lent the borrower $500 to refinance his BANDESA debt, and $350 for crop production, the production interest would drop from $76 to $27 because of the refinance, but the annual amortization required on $500 would be $160, and the net income would be a negative $37. The borrower's cash flow would not be sufficient to service his long term debt load.

As an alternative, if the borrower took out $250 from his savings account and only borrowed $250 long term to pay off BANDESA, his loan amortization payments would drop to $80 and provide a positive net income of $43. Using this scenario as an acceptable approach, a review of all of the ratio indicators confirms acceptable margins of risk. The overriding issue, however, would once again be the judgement factor of

TABLE IV-4

BEST AVAILABLE

SUBSISTENCE
BORROWER "B"
2 ACRES ROW CROP GROUND

FINANCIAL STATEMENT

BEFORE LOAN				AFTER LOAN			
ASSETS		LIABILITIES		ASSETS		LIABILITIES	
SAVINGS	$500	ACCOUNTS	$500	SAVINGS	$250	ACCOUNTS	$500
CROPS	$500	BANDESA	$500	CROPS	$800	COOP	$300
ANIMALS	$300			ANIMALS	$300		
LAND	$3,000			LAND	$3,000	MORTGAGE	$250
ASSETS	$4,300	DEBTS	$1,000	ASSETS	$4,350	DEBTS	$1,050
		CAPITAL	$3,300			CAPITAL	$3,300

INCOME STATEMENT		INCOME STATEMENT	
GROSS INCOME	$500	GROSS INCOME	[illegible]
OPERATING EXPENSES	$350	OPERATING EXPENSES	[illegible]
OPERATING INCOME	$150	OPERATING INCOME	[illegible]
PRODUCTION INTEREST	$76	PRODUCTION INTEREST	[illegible]
LOAN AMORTIZATION	$0	LOAN AMORTIZATION	$80
NET INCOME	$74	NET INCOME	[illegible]
OTHER INCOME	$500	OTHER INCOME	[illegible]
FAMILY LIVING	$500	FAMILY LIVING	[illegible]
EXCESS CASH FLOW	$74	EXCESS CASH FLOW	[illegible]

LOAN AMOUNTS REQUESTED:		CREDIT RATIOS	
CROP LOAN	$350	WORKING CAPITAL:	[illegible]
LONG TERM LOAN	$500		
		CURRENT RATIO:	1.[illegible] : 1
TOTAL LOAN	$850		
		DEBT/ASSET RATIO:	[illegible]
LOAN AMOUNTS GRANTED:		DEBT COVERAGE RATIO:	[illegible]
CROP LOAN	$300		
LONG TERM LOAN	$250	COLLATERAL MARGIN:	5.4:1
TOTAL LOAN	$550		

LOAN COLLATERAL:	
CROP MORTGAGE	$500
REAL ESTATE MORTGAGE	$3,000
TOTAL VALUE OF COLLATERAL	$3,500

TABLE IV-5

BEST AVAILABLE

NON-QUALIFIED
BORROWER "C"
2 ACRES ROW CROP GROUND
PURCHASE ADDITIONAL 2 ACRES

FINANCIAL STATEMENT

BEFORE PURCHASE ASSETS		BEFORE PURCHASE LIABILITIES		AFTER PURCHASE ASSETS		AFTER PURCHASE LIABILITIES	
SAVINGS	$1,200	BANDESA	$500	SAVINGS	$1,000	BANDESA	$500
CROPS	$500			CROPS	$500		
ANIMALS	$300			ANIMALS	$300		
LAND	$3,000			LAND	$6,000	MORTGAGE	$3,000
ASSETS	$5,000	DEBTS	$500	ASSETS	$7,800	DEBTS	$3,500
		CAPITAL	$4,500			CAPITAL	$4,300

INCOME STATEMENT (BEFORE)		INCOME STATEMENT (AFTER)	
GROSS INCOME	$500	GROSS INCOME	$1,000
OPERATING EXPENSES	$300	OPERATING EXPENSES	$600
OPERATING INCOME	$200	OPERATING INCOME	$400
PRODUCTION INTEREST	$27	PRODUCTION INTEREST	$54
LOAN AMORTIZATION	$0	LOAN AMORTIZATION	$959
NET INCOME	$173	NET INCOME	[illegible]
OTHER INCOME	$500	OTHER INCOME	[illegible]
FAMILY LIVING	$500	FAMILY LIVING	[illegible]
EXCESS CASH FLOW	$173	EXCESS CASH FLOW	[illegible]

LOAN AMOUNTS REQUESTED:	
CROP LOAN	$600
LONG TERM LOAN	$3,000
TOTAL LOAN	$3,600

LOAN AMOUNTS GRANTED:	
CROP LOAN	$600
LONG TERM LOAN	$3,000
TOTAL LOAN	$3,600

LOAN COLLATERAL:	
CROP MORTGAGE	$1,000
REAL ESTATE MORTGAGE	$6,000
TOTAL VALUE OF COLLATERAL	$7,000

CREDIT RATIOS	
WORKING CAPITAL:	$1,300
CURRENT RATIO:	[illegible] : 1
DEBT/ASSET RATIO:	45%
DEBT COVERAGE RATIO:	[illegible]%
COLLATERAL MARGIN:	1.94:1

the loan officer. He might know that the borrower has some weak ground and that the projections might be too optimistic. In that case, the loan would be declined. However, if everything was in order, this loan application could also be approved as outlined above.

In Table IV-5, borrower "C" has 2 acres of row crop ground and finds out that his neighbor next door is willing to sell his 2 acres for $3,000. The borrower is optimistic about the prospects of doubling his operation to achieve greater economies of scale. He presents a budget which shows how he has operated his existing 2 acres and he claims that he has continually generated a profit of $173 for the past several years. He has a savings account of $1,200 to add credence to his claims and is now requesting a long-term 5-year loan of 3,000 to purchase his neighbors 2 acres, as well as an operating loan of $600 to finance his crop production needs for both his two acres, and the two acres he is purchasing. He is willing to provide adequate collateral in the form of a crop lien, as well as a mortgage on all of the real estate.

In addition to the income generated from the farm, the borrower is also able to do odd jobs to provide income for family living expenses. He does not want to use his savings account money to purchase the land because he wants to keep some reserves on hand in case of a poor crop in the future. Assuming a typical lending approach of three times share capital, this loan request would be just enough to meet the limit of $3600.

The loan officer however, wants to do some more in-depth analysis on this request so he begins by projecting the borrower's total income, including the 2 acres he is going to buy. A pro-forma income statement reveals that the borrower will be able to generate an operating margin of $400 before any short term interest or long term loan amortization. The loan officer projects short term interest of $54, but finds that there is a real problem with the long-term loan amortization. The amount necessary to amortize a $3,000 loan for five years at 18% interest is $959. Plugging those figures into the borrower's cash flow, there is a deficit margin of $613. At that rate, the borrower would only last 2 years using his savings account money to make the required debt service.

Alternatively, the loan officer looks at the possibility of using some of the borrower's savings account money, as was done in Table IV-4 to improve the cash flow. He finds that even if the borrower applies 100% of his savings to help finance the land purchase, he still must borrow $1,800 ($3,000 - $1,200). The loan amortization payment on $1,800 is $576, which still produces a negative cash flow of $230. Clearly, this loan application must be declined because of poor cash flow, notwithstanding the borrower's excellent financial statement, earnings history, and working capital position.

V. ADMINISTRATIVE AND OPERATING STRUCTURE

Organizational Functions

A. USAID/Guatemala

1. Supply funding

2. Manage Mission support to project

B. Technical Development Unit (TDU)

1. Provide technical services

   a. Diagnostic studies

   b. Technical assistance and training

   c. Analytical support

2. Approve participation agreements

3. Approve participant development plans

B. <u>Technical Development Unit</u> (cont'd.)

4. Approve development grants

   a. Insitutional support (operating grants)

   b. Stabilization/Recapitalization (capital grants)

   c. Staff incentive program (operating grants)

5. Monitor participant institutions

   a. Compliance with participation agreements

   b. Development plan implementation

   c. Operating performance

6. Pre-qualify credit applicants

7. Participate in loan approval process by provision of technical assistance to FMU

8. Approve Staff Incentive Program (SIP) awards

   a. Salary Incentives (bonuses)

   b. Salary topping

C. <u>Funds Management Unit (FMU)</u>

1. Manage financial resource deposited with FMU

   a. Institutional support grants

   b. Stabilization and Savings Protection Funds

   c. Credit Fund

2. Process qualified loan applications

   a. Underwriting analysis

   b. Credit checks and verifications

   c. Approve credit terms and conditions

3. Monitor current and potential borrowers

   a. Loan agreement compliance

   b. Financial performance

4. Effect collections

   a. Routine collections

   b. Judicial collections

5. Operate central credit reference bureau (CCRF)

D. Participant Federations

1. Participate in diagnostic studies

   a. of federations themselves

   b. of interested affiliates

2. Prepare federation development plan

   a. Objectives

   b. Policy and procedural adjustments

   c. Implementation schedule of activities

   d. Financial plan

3. Assist affiliates to prepare development plan

   a. Objectives

   b. Policy and procedural adjustments

   c. Implementation schedule of activities

   d. Financial plan

4. Pre-qualify development grants to affiliates (see B.4)

5. Effect non-disturbance agreements with external creditors

6. Monitor affiliates and report to TDU and FMU

   a. Grantees (see B.5)

   b. Debtors (see C.3)

7. Effect collection (see C.4)

8. Supply credit data to FMU/CCRF (see C.5)

9. Execute federation development plans and report to TDU

10. Provide plan-specified development services to affiliates

11. Prepare loan applications to FMU

    a. Internal purposes

    b. On-lending purposes

12. Pre-qualify SIP applications from affiliates; prepare own SIP application

E. <u>Cooperatives and Credit Unions</u>

1. Participate in diagnostic studies

2. Prepare institutional development plans (see D.3)

3. Prepare capitalization/stabilization grant proposals

4. Process member loan applications (see C.2)

5. Prepare loan applications to federations (see D.11)

6. Implement development plans and report to federation

7. Implement stabilization plans and report to federation

8. Supply credit data to federation for FMU/CCRF (see D.8)

9. Effect collections (see C.4)

10. Prepare SIP applications

Operating Structure

I. Technical Development Unit

A. Project Operations Committee

1. Functions

Assist the CDU Team Leader in the following areas:

a. Preparing project implementation policy

b. Grant approvals

c. Loan application approvals (pre-qualification)

d. Participation agreement approvals

e. Development plan approvals

f. SIP award approvals

g. Approval of annual project operating plans and budgets

2. Composition

a. CDO Team Leader

b. Senior expatriate advisors

c. Sr. Guatemalan staff of TDU

B. Cooperative Development Organizations

1. Functions

a. Provide specialized technical assistance for financial services development (credit unions and cooperatives)

b. Provide specialized technical assistance for agricultural cooperative development

c. Provide specialized technical assistance for staff development programs

d. Provide specialized short-term technical assistance

e. Provide technical backstopping, research, recruitment, procurement, and operational support to on-site specialists

2. <u>Composition</u>

a. Long-term specialists

	Term	Counterpart(s)
(1) Credit Union Specialist	5y	FENACOAC manager CONFECOOP manager INACOOP director
(2) Finance & Credit Specialist	3y	Federation credit managers, controllers and field officers
(3) Ag. Coop. Operations Specialist	5y	Ag. Federation managers and other personnel
(4) Staff & Institutional Development Specialist	4y	Federation managers of development services, training and other personnel

b. Short-term specialists

(1) Expatriate sources (U.S. and other cooperative development organizations)

(2) Guatemalan sources

C. Personnel

1. CDO Team Leader (1)

2. Other technical assistance specialists (3)

3. Guatemalan staff

a. Credit & Finance Officer

b. Auditor

c. Coop/Credit Union Analysts (4)

d. Development Plan Monitor

e. Promotion and Projects Specialist

f. Office Manager

g. Secretary/Word Processors (2)

II. Funds Management Unit

A. Board of Directors

1. Functions

a. Policy-making body for credit disbursement and Fund/Trust account management

b. Loan application approval

c. Portfolio monitoring

d. Legal action against delinquent borrowers and participants in non-compliance

e. Approval of annual operating plans and budgets

2. Composition

a. AID/PASA Project Manager (in start-up phase only)

b. Federation representatives (3 - 10)

c. Ex officio non-voting position: Executive Secretary of CONFECOOP

2. <u>Technical Development Unit</u>

   a. Audit and examination of credit applicants

   b. Technical assistance to credit administration function (see B.1.d.)

   c. Pre-qualify loan applications

   e. Secretarial and administrative support

C. <u>Personnel</u>

1. FENACOAC PERSONNEL (staff members assigned on a part-time basis to operate the Fund/Trust account Unit)

   a. Trust Management Officer (senior FMU official; part-time)
   b. Loan Officer (increase to full-time by year five)
   c. Accountant (full-time beginning in year two)
   d. Secretary/word-processor (part-time)
   e. Messenger (full-time)
   f. Other functions, such as cashier, personnel administration, etc., provided by FENACOAC departments

2. TDU personnel would handle most voluminous record-keeping and documentation responsibilities of project. At end of project, Credit and Finance Officer and Development Plan Monitor positions would be transferred to FMU or its successor organization.

Projection of Principal Events and Activities of the Project

		1987 Year I				1988 Year II				1989 Year III				1990 Year IV				1991 Year V			
Events and Activities	Startup 1986	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
A. Start-up and Preparatory Phase																					
1. USAID/Guatemala Project Manager on board	10/86	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
2. Conclude agreements for external technical assistance	9/86																				
3. AID/FENACOAC Grant Agreement--FMU--concluded	9/86																				
4. Administrative agreement negotiated with FENACOAC-TDU	10/86																				
5. Expatriate staff placed:																					
-Finance and Credit Specialist		*	*	*	*	*	*	*	*	*	*	*	*								
-Credit Union System Specialist		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
-Agricultural Cooperative Operations Specialist		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
-Staff Development Specialist						*	*	*	*	*	*	*	*	*	*	*	*				
6. Guatemalan long-term staff placed:																					
<u>Technical Development Unit</u>																					
-Credit & Finance Officer			*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
-Auditor			*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
-Coop/CU Analysts				*	*	*	*	*	*	*	*	*	*	*	*						
-Development Plan Monitor						*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*

VI. IMPLEMENTATION PLAN

This chapter presents the Project implementation plan in the form of a summary GANTT chart. The scheduling of principal events and activities of the Project is shown for the start-up and preparatory phase, major Project interventions, each Project component and for review and evaluation.

Projection of Principal Events and Activities of the Project

Events and Activities	Startup 1986	1987 Year I				1988 Year II				1989 Year III				1990 Year IV				1991 Year V			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
A. Start up and Prepratory (cont.)																					
11. FMU administration agreements concluded:																					
-General policies		X																			
-Procedures		X																			
-Control and auditing		X																			
-Disbursement and accounting		X																			
B. Project Interventions																					
1. Diagnostic studies of federations																					
-Group I (leading federations)				X																	
-Group II (other federations)					X																
2. Negotiate development plans with federations																					
Group I (federations)				X																	
Group II (federations)					X																
3. Implement federation development plans																					
-Group I					***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-GroupII							***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
4 Diagnostic Studies of co-operatives and credit unions																					
-Group I							***	***	***												
-Group II										***	***	***									

Projection of Principal Events and Activities of the Project

Events and Activities	Startup 1986	1987 Year 1				1988 Year II				1989 Year III				1990 Year IV				1991 Year V			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Technical Development Unit (cont.)																					
-Promotion & Projects Officer						***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Office Manager		***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Secretary/word processor			***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
FENACOAC/Funds Management Unit																					
-Fund Management Officer		***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Loan Officer				***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Accountant		***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Secretary/word processor		***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Messenger		***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
7. TDU office installed, equipped		X																			
8. Diagnostic studies formats, procedures complete			X																		
9. Policies and norms developed for interventions																					
-Capitalization					X																
-Institutional Development			X																		
-Credit						X															
10. Tracking, reporting system established			X																		

Projection of Principal Events and Activities of the Project

Events and Activities	Startup 1986	1987 Year I				1988 Year II				1989 Year III				1990 Year IV				1991 Year V			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
C **Institutional Development Component (cont.)**																					
5. Arrange scholarships, study programs (on-going)								****	****	****	****	****	****	****	****	****	****	****	****	****	
6. Train INACOOP auditors								X				X				X				X	
7. Prepare, refine savings mobilization strategies			X																		
8. Prepare and publish promotional materials							****	****	****	****	****										
9. Design staff incentive programs						X															
10. Implement incentive programs							****	****	****	****	****	****	****	****	****	****	****	****	****	****	****
D. **Capitalization Component**																					
1. Conduct capitalization seminars--federations and coops/credit unions				**	**																
2. Install capitalization systems						****	****	****	****	****	****	****									
3. Effect debt rescheduling and non-disturbance agreements						****	****	****	****	****	****	****	****	****	****	****	****	****	****	****	****

Projection of Principal Events and Activities of the Project

Events and Activities	Startup 1986	1987 Year I				1988 Year II				1989 Year III				1990 Year IV				1991 Year V			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
B. Project Interventions (cont.)																					
5. Development Plan implementation (coops/credit unions)																					
-Group I								***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Group II											***	***	***	***	***	***	***	***	***	***	***
6. Audit and review federation plans/performance							X				X				X				X		
7. Monitor coop/credit union plan implementation (on-going)										***	***	***	***	***	***	***	***	***	***	***	***
C. Institutional Development Component																					
1. Conduct seminars and workshops (annual program of each federation)						***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
2. Conduct specialized courses--TDU staff (on-going annual program)			***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
-Computer training							X														
-Audit/examination design											X										
3. Observation and orientation trips--key staff (through CONFECOOP)											X								X		
4. Prepare manuals, systems, policy drafts and model materials (on-going)				***	***	***	***	***	***	***	***	***	***	***	***	***	***				

Projection of Principal Events and Activities of the Project

Events and Activities	Startup 1986	1987 Year 1				1988 Year II				1989 Year III				1990 Year IV				1991 Year V			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
E. Credit Component (cont.)																					
7. Perform credit review, loan monitoring						*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
F. Project Implementation Review/Evaluation																					
1. Annual reviews					*******				******				******				******				X
2. Project evaluations									X								X				

Projection of Principal Events and Activities of the Project

Events and Activities	Startup 1986	1987 Year 1 1	2	3	4	1988 Year II 1	2	3	4	1989 Year III 1	2	3	4	1990 Year IV 1	2	3	4	1991 Year V 1	2	3	4
D. Capitalization Component (cont.)																					
4. Approve and disburse stabilization investments						****	****	****	****	****	****	****	****	****	****	****	****	****	****	****	****
5. Monitor and audit for capitalization compliance							****	****	****	****	****	****	****	****	****	****	****	****	****	****	****
6. Annual reporting of federation and coop/credit union financial position							X				X				X				X		
E. Credit Component																					
1. Conduct credit policy seminars--feds/coops/CUs				****																	
2. Conduct pre-credit assessments--federations					****	****	****	****	****	****	****	****	****	****	****	****					
3. Assist in preparation of loan applications					****	****	****	****	****	****	****	****	****	****	****	****					
4. Establish application processing, evaluation procedures--FMU					X																
5. Negotiate loan agreements, contracts						****	****	****	****	****	****	****	****	****	****	****	****	****	****	****	****
6. Disburse loans						****	****	****	****	****	****	****	****	****	****	****	****	****	****	****	****

VII. END OF PROJECT INDICATORS

Project achievements in institutional development will be observed and measured periodically and incrementally during the life of the Project through review of the development plans described in the "Implementation" section. Achievements in improved financial performance and operations of the participating cooperative systems at the end of the project may be measured by the following indicators of results expected from project inputs.

I. INSTITUTIONAL DEVELOPMENT COMPONENT INDICATORS

Narrative Summary	Output Indicators
Institutions participating fully in the project will have:	
a. More realisitic assessment of their potential and problems;	1. Standard systems for appraisal and rating of coops/credit unions.
b. Better trained staff and leadership;	Number Trained: 1,420 1. Federation staff 150 2. Coop staff & leadership 1,250 3. INACOP auditors 20

Narrative Summary	Output Indicators
c. Improved structures to deal with their markets, service delivery, and competitive forces;	1. Standard systems for internal Fed/coop/credit union evaluation. 2. Staff trained in basic market analysis techniques.
d. Restored and renewed confidence of their members;	1. Membership growth of 8,000 persons 2. Total members of participating coops/credit unions: 130,000
e. Policies in place and being observed, contributing to growth, profitability and viability;	1. Documented policies, confirmed by auditors and INACOP inspectors in 100% of participants 2. Policies to include: -break-even pricing -capitalization/reserving -prompt payment incentives -personnel incentives

Narrative Summary	Output Indicators
f. Exploited diversification and growth opportunities.	1. Growth/diversification areas identified. 2. Pilot/other efforts underway to exploit identified opportunities. 3. Feasibility analysis techniques devised, documented and implemented by all federations.
g. Successful resolution of their most serious problems (e.g. delinquency, profitability, solvency); *Delinquency defined as total balance (not just past-due payments) of delinquent loans divided by total loans outstanding.	1. Delinquency: 90% of participants have reduced delinquency* rate by 50% or more over average 1983-85 rate. 2. Profitability: 75% of participating coops/credit unions are at break-even or better. 3. Solvency: 90% of participants have net share value at 100% or more of par, after factoring delinquency.
h. Harmonious, mutually beneficial relationships and operations between base-level cooperatives and parent federations;	1. Functioning feedback/intermediate representational structures in place (where currently non-existent or dysfunctional).

Narrative Summary	Output Indicators
i. Standardized and effective systems in place (e.g. audit, accounting, reporting, member information, by-laws, credit administration, savings mobilization);	1. Standard systems designed, documented and implemented in each federation and model systems for each coop sector. 2. 75% of participating coops/credit unions adequately implementing model systems.
j. Introduced modern technology as appropriate (e.g. electronic data processing, business analysis, training techniques);	1. Federations operating basic microcomputer systems, including electronic spreadsheet and word processing applications at a minimum. 2. Computerized accounting systems in place (where feasible). 3. Standard performance monitoring systems in place in each federation. 4. Video and other mass media-based training packages developed and implemented.

Narrative Summary	Output Indicators
k. Demonstrated attitudes and capability of self-reliance and independence from continued external assistance.	1. Feds, coops and credit unions assume burden of recurrent costs for training and institutional development activities initially funded by project. 2. Federations technically self-sufficient to operate their own, improved systems. 3. 75% of coops and credit unions technically self-sufficient to operate improved systems.
l. Improved cooperative/credit union management.	1. 90% of participating feds/coops/credit unions have improved their performance ranking by at least 1 grade, compared to the initial ranking at time of diagnostic studies. 2. 90% of individual staff of participant coops/credit unions meet qualifications criteria established by their federations.

II. CAPITALIZATION COMPONENT INDICATORS

Narrative Summary	Output Indicators
The capitalization and stabilization component of the project, in combination with the institutional development component, should produce the following end-of-project conditions. Achievement of these conditions is predicted primarily for those institutions fully participating in the project, but it is also probable that other cooperatives and credit unions will benefit indirectly even if their level of participation is only partial.	
a. Technically solvent cooperatives and credit unions.	1. 90% of participating coops/credit unions will have share value greater than or equal to par after factoring delinquency and other losses.
b. Safe and sound operations meeting minimum performance standards.	2. 75% of participating coops/credit unions will meet minimum standards per the institutional rating systems.

Narrative Summary	Output Indicators
c. Regulatory structure and capability meeting minimum performance standards.	1. Standard audit/examination system designed and implemented. 2. INACOP personnel trained in system application. 3. 75% of INACOP audits/examinations cover items defined in system.
d. Increased savings and capital (shares and retained earnings) throughout the cooperative movement.	1. 50% increase in amount of absolute annual increments of deposits and members' shares over average annual increments in 1983-85 period. 2. Positive annual growth of reserves and retained earnings sufficient to increase the ratio of reserves and retained earnings to total assets towards a target level of 10% or maintain it at that level.

Narrative Summary	Output Indicators
e. Functioning Stabilization Fund (primarily for non-financial cooperatives).	1. Stabilization fund policies, systems and procedures defined and implemented at FMU and federation levels (in at least FENACOAC and FECOAR). 2. 90% of participating cooperatives/credit unions meeting stabilization fund operating, performance and reporting standards.
f. Functioning Savings Protection/deposit insurance Fund (primarily for credit unions).	1. Feasibility study conducted. 2. If feasible, deposit insurance fund established, capitalized and coverage extended to eligible credit unions. 3. All insured credit unions meeting qualification and coverage requirements.

Narrative Summary	Output Indicators
g. Greater variety of investment instruments for members and third parties in the cooperative system.	1. Instruments defined and designed. 2. Policies, systems and procedures defined and implemented. 3. Test marketing of new instruments completed.
h. Appropriate mix of share capital versus retained earnings and reserves to assure an adequate level of pure equity capital in relation to both risk assets and total assets.	1. Minimum acceptable ratio values of reserved and retained earning to total and risk assets defined for each sector. 2. Model reserve formation policies and systems designed and implemented by 90% of participating coops/credit unions and 100% of federations. 3. Model reserve/retained earnings systems are based on gross income (gross margin) set aside until minimum capital ratio (reserves and retained earnings to total assets) levels are met. 4. Model loan loss allowance systems are based on factoring of delinquent accounts assuring adequate coverage of potential losses.

Narrative Summary	Output Indicators
i. External debt of coops/credit unions and federations restructured in accordance with estimated repayment capacity.	1. All participants in capitalization component have negotiated non-disturbance agreements with their external creditors. 2. 90% of loan agreements have been restructured.
j. Interest and dividend rates paid on deposits and shares adjusted to costs and market.	1. Competitive position of each participant <u>vis-à-vis</u> rates offered on deposits and shares determined during diagnostic studies. 2. 75% of participating institutions offering competitive rates.
k. Liquidity management techniques in place to assure coop system's ability to meet ordinary and extraordinary cash withdrawal/loan demand.	1. Cash position review systems designed and implemented to permit maintenance and monitoring of liquid asset levels in relation to shares and liabilities. 2. Lines of credit established with external sources of liquidity adequate to meet massive cash demand at coop/credit union levels.

III. CREDIT COMPONENT INDICATORS

Narrative Summary	Output Indicators
By the end of the project, it is expected that the participating institutions will have acquired the following benefits from the Credit component:	
a. Standardized credit management skills and techniques throughout the cooperative industry.	1. Model credit administration system designed and implemented in each cooperative sector. 2. 90% of participating institutions meet minimum implementation standards of model system. 3. Model system includes determination and application of risk- and cost-based interest rates for each loan type.

Narrative Summary	Output Indicators
b. Expertise gained in lending to various income-generating enterprises which encompass a cross-section of the different types of viable businesses in rural Guatemala.	1. Standard enterprise budgets and credit appraisal techniques developed for each type of business financed by participating institutions. 2. 90% of participating institutions using project credit funds are adequately implementing the business and agricultural lending packages developed.
c. Ability developed to correctly assess different levels of risk associated with different types of rural enterprises.	1. 90% of credit officers correctly applying loan appraisal/risk analysis techniques included in the business lending packages.
d. Effective delinquency reporting, monitoring and control methods implemented, resulting in a higher quality loan portfolio.	1. Standard delinquency measures defined and implemented by all participating institutions. 2. 75% of participating institutions meeting at least quarterly delinquency reporting standards.

Narrative Summary	Output Indicators
e. Ability developed to use more flexible lending instruments, such as pre-approved lines of credit and rediscount windows, to gain greater efficiencies in the credit delivery system.	1. Lending instruments defined and designed. 2. Policies, procedures and systems defined and implemented. 3. Test marketing of new instruments completed (particularly pre-approved lines of credit, rediscount lending, group lending and microenterprise lending).
f. Increased participation in activities producing economic gain throughout the cooperative movement.	1. 75% of participating coops/credit unions increase the percentage share of productive lending in total lending.
g. Credit is supplied to members at interest rates which cover costs of capital, operations, reserve formation and accumulation of retained earnings.	1. Break-even interest rates determined for each participant institution during diagnostic studies. 2. 90% of participants are charging break-even or higher interest rates on loans to members.

VIII. FINANCIAL PLAN AND ANALYSIS

I. SUMMARY DESCRIPTION

The Cooperative Strengthening Project will be implemented over a period of 5.25 years at a total cost of $19,725,971 (see Table VIII-2). This includes total USAID/Guatemala financing of $11,000,000 (see Table VIII-1) and counterpart funding by the participating Guatemalan institutions of $8,725,971 (see Table VIII-5).

The Project will be implemented by two closely coordinated units, the Technical Development Unit (TDU) and the Funds Management Unit (FMU), in conjunction with the participating private sector Guatemalan cooperative federations and the national cooperative confederation (CONFECOOP). In addition, the national cooperative institute (INACOP, a semi-autonomous governmental regulatory and promotional agency) is also expected to play a role.

The TDU will be comprised of an AID-contracted core technical team of four full-time cooperative advisors, together with international and national short-term specialists (see Table VIII-4). This Unit will provide on-site technical and administrative support to the participating federations and their affiliated cooperatives and credit unions.

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BUDGET SUMMARY

COOPERATIVE STRENGTHENING PROJECT
Financial Plan in U.S. Dollars

LINE-ITEMS	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
TOTAL PROJECT BUDGET	106,605	943,752	1,956,805	3,221,512	2,680,357	2,090,969	11,000,000
I. INSTITUTIONAL DEVELOPMENT	106,605	877,702	1,139,755	1,445,462	1,175,307	919,919	5,664,750
A. TECHNICAL ASSISTANCE	106,605	748,187	791,900	757,871	638,825	546,570	3,589,958
1. AID/PASA PROJECT MANAGER	84,215	107,093	116,326	114,398	119,112	143,878	684,022
a. SALARIES	12,646	50,967	52,499	54,033	55,566	57,098	282,809
b. BENEFITS	2,529	10,193	10,500	10,807	11,113	11,420	56,562
c. ALLOWANCES	8,672	21,245	22,155	23,098	24,076	27,279	126,525
d. MISCELLANEOUS PERSONNEL	22,544	175	604	193	202	698	[illegible]
e. TRAVEL & TRANSPORTATION	18,325	6,400	11,591	7,025	7,346	27,205	77,[illegible]
f. EQUIPMENT & COMMODITIES	15,000	0	0	0	0	0	15,000
g. OTHER DIRECT COST	231	912	958	1,005	1,255	1,107	[illegible]
h. INDIRECT COST	4,268	17,201	17,719	18,236	18,754	19,271	[illegible]
2. INTERNAT'L TECH. ASSIST.	22,390	641,094	675,574	643,473	520,713	402,692	[illegible]
a. SALARIES	0	165,900	231,600	242,548	191,904	133,702	[illegible]
b. BENEFITS	0	44,550	62,370	65,488	51,571	36,190	[illegible]
c. ALLOWANCES	0	77,250	102,486	105,614	85,247	62,595	[illegible]
d. MISCELLANEOUS PERSONNEL	0	58,025	25,621	1,213	1,069	1,796	[illegible]
e. CONSULTANTS	0	11,845	12,444	13,014	13,620	14,259	[illegible]
f. TRAVEL & TRANSPORTATION	0	50,390	35,910	27,252	27,100	46,[illegible]	[illegible]
g. EQUIPMENT & COMMODITIES	0	51,950	38,124	[illegible]	4,[illegible]	2,430	[illegible]
h. EVALUATION	0	0	0	14,192	14,775	[illegible]	28,977
i. OTHER DIRECT COST	0	2,400	2,544	2,616	2,688	2,760	[illegible]
j. PROJECT SUPPORT	17,770	15,375	15,419	16,159	16,933	17,741	[illegible]
k. TRAINING	0	2,000	13,258	16,072	4,627	2,426	38,383
l. INDIRECT COST	4,620	132,289	139,404	132,780	107,449	83,995	599,537
B. GUATEMALAN PROGRAM OPERATIONS	0	129,515	347,855	687,591	536,482	373,349	[illegible]
1. TOU/FMU LOCAL OPERATIONS	0	122,015	150,416	150,038	124,730	98,673	638,872
a. TOU SALARIES	0	25,080	45,612	47,891	41,945	35,290	195,818
b. FMU SALARIES	0	6,612	6,880	8,216	9,666	11,242	42,[illegible]
c. BENEFITS	0	7,923	13,123	14,027	12,905	11,[illegible]	59,[illegible]
d. CONSULTANTS	0	6,350	6,610	6,871	7,199	7,528	34,358
e. TRAVEL & TRANSPORTATION	0	20,470	32,774	34,436	28,904	20,842	[illegible]
f. EQUIPMENT & COMMODITIES	0	21,500	4,725	0	0	0	[illegible]
g. FMU EXTERNAL AUDIT	0	10,000	10,500	11,025	11,576	12,[illegible]	[illegible]
h. TRAINING	0	1,800	9,256	10,494	10,249	10,910	41,[illegible]
i. OTHER DIRECT COST	0	32,320	23,436	24,598	25,789	27,024	[illegible]
j. (less) LOAN INTEREST	0	0	(1,500)	(7,500)	(23,400)	(47,250)	[illegible]
2. FEDERATION INST. SUPP. GRANTS	0	7,500	66,299	105,111	112,631	113,297	[illegible]
a. PERSONNEL	0	6,000	29,400	39,690	32,410	19,[illegible]	[illegible]
b. TRAVEL & TRANSPORTATION	0	1,500	7,350	9,918	8,099	4,856	31,[illegible]

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BUDGET SUMMARY

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COOPERATIVE STRENGTHENING PROJECT
Financial Plan in U.S. Dollars

LINE ITEMS	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
c. TRAINING	0	0	8,024	20,790	21,798	18,496	69,108
d. EQUIPMENT & COMMODITIES	0	0	3,150	1,653	1,156	606	6,565
e. AUDITS	0	0	13,650	23,142	33,553	49,774	120,119
f. PROMOTION & PUBLICITY	0	0	4,725	9,918	15,615	20,031	50,289
3. INACOOP REG. DEV. ASSISTANCE	0	0	2,620	2,750	2,880	3,020	11,270
a. AUDITOR TRAINING	0	0	2,620	2,750	2,880	3,020	11,270
b. AUDIT/EXAMINATION DESIGN	0	0	0	0	0	0	0
4. CONFEDCOOP INST. SUPP. GRANT	0	0	6,300	16,532	5,787	18,215	46,834
a. OBSERVATIONAL TRAVEL	0	0	0	11,020	0	12,140	[illegible]
b. PUBLISHING & MATERIALS	0	0	2,100	2,205	2,315	2,430	[illegible]
c. EQUIPMENT & COMMODITIES	0	0	1,050	0	0	0	1,050
d. PROMOTION & PUBLICITY	0	0	3,150	3,307	3,472	3,645	13,574
5. STAFF INCENTIVE PROGRAM	0	0	122,220	413,160	290,454	150,234	[illegible]
a. FEDERATIONS	0	0	7,875	13,200	9,342	4,719	35,136
b. COOPERATIVES & CREDIT UNIONS	0	0	114,345	399,960	281,112	145,515	940,932
II. CAPITALIZATION/STABILIZATION	0	0	601,000	1,230,000	674,000	0	2,505,000
A. STABILIZATION FUND	0	0	601,000	1,230,000	332,000	0	[illegible]
B. SAVINGS PROTECTION FUND	0	0	0	0	342,000	0	342,000
III. CREDIT	0	50,000	200,000	500,000	815,000	1,155,000	[illegible]
CONTINGENCY	0	16,050	16,050	16,050	16,050	16,050	80,250

The FMU will be administered by FENACOAC, the national credit union federation of Guatemala. This Unit will manage local currency-funded project operations, including local contracting, personnel management, logistical support and financial administration of subgrants and loan funds to the federations, confederation and INACOP.

The Project consists of three basic components, Institutional Development, Capitalization and Credit. Funds will be provided by USAID/Guatemala to strengthen the cooperative movement's current and proposed internal development and member service activities in each of these areas. Over half of total AID funding will be directed to Institutional Development activities, with approximately one-fourth each to the Capitalization and Credit components.

USAID/Guatemala funding of the project is summarized in Table VIII-1. This shows the amount of funding required to support each project component, with summary totals by major line item. Table VIII-6 (in Annex 1) summarizes the detailed budget working papers included in the Appendix and shows expected AID-funded expenditures by sub-line item.

Following is a brief discussion of each major budget component:

Institutional Development

Technical Assistance

This includes international technical assistance costs for the project manager and advisory team. Cost estimates are presented for personnel-related items as well as short-term consultants, specialized training to be provided by international instructors and U.S. sources, vehicles, microcomputers, office equipment and supplies, project evaluation services, international travel and transportation, project backstopping and technical support, other direct and indirect costs.

Guatemalan Program Operations

This includes personnel costs for both the TDU and FMU staffs, as well as administrative costs incurred by FENACOAC to support these project units. It also presents estimates for national consultants, domestic travel and transportation, microcomputers and office equipment and supplies, training and national instructors' costs, external audit of TDU/FMU and participant organizations and other direct costs. The total is reduced by net interest income to be earned on loans granted by the FMU to participating federations.

Federation Institutional Support Grants

These include grants to qualified, participating federations to cover additional personnel, travel and transportation, training, equipment, advertising and audit costs (of selected affiliated cooperatives and credit unions). These costs would be progressively assumed by the federations or phased out once the initial development activities had been completed, depending on the particular development requirements and strategy of each federation.

INACOP Regulatory Development Assistance

This includes funding for INACOP to develop standard audit and examination guidelines for credit unions and cooperatives as well as train staff in their use.

CONFECOOP Institutional Support Grant

This includes financing for the confederation to provide observational travel (partial funding only) for selected cooperative movement leaders and staff, publish a newsletter on Project-supported and other cooperative development activities for distribution throughout the movement, purchase office supplies and equipment and finance pro-cooperative movement advertising.

Staff Incentive Program

This includes funding to be provided by the FMU through the federations to qualified cooperatives and credit unions for salary increments to key management and operational personnel on a declining basis as well as performance incentives to selected federation staff.

Capitalization

This includes AID funding for the Stabilization and Savings Protection Funds. The former will provide cash and/or certificates to eligible cooperatives and credit unions to permit their write-off of non-recoverable loans and receivables without impairing members' paid in capital shares. The latter will form the financial base for a deposit insurance fund which will be financed on a continuing basis by insurable credit unions' annual premium and capital contributions.

The Guatemalan cooperative movement will generate additional debt and equity capitalization as a direct result of the project which will include increased retained earnings and capital reserves, members' paid-in share capital and savings deposits (credit unions only).

Credit

This includes funds to be lent by the FMU to creditworthy federations for their internal investment and on-lending to eligible affiliated cooperatives and credit unions for income generating activities of their membership. Estimates have been made of the credit absorption capacity of the federations and their affiliates based on their current and projected sales and credit volumes; these are not reproduced in the summary budgets in order to avoid raising potentially false expectations regarding funding allocations. In any case, actual loan disbursements will only be made on the basis of in-depth financial analysis of both end-users and credit intermediaries.

Expected increments in credit operations by the federations and their affiliates due to their own capital generation activities are not included in the summary budgets. This is because these funds are already accounted for as additional counterpart funding in the capitalization component of the Project. To include them also in the Credit component would be duplicative.

II. REQUIRED FINANCING

Total required financing by source, currency and major line items is summarized in Table VIII-2. AID resources are budgeted at $3,670,208 in U.S. dollar funds and $7,329,792 in local currency (Quetzal) equivalents. The U.S. dollar resources are required for the

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COOPERATIVE STRENGTHENING PROJECT

SUMMARY COST ESTIMATE AND FINANCIAL PLAN

SOURCE	A. I. D. F X	A. I. D. L C	A. I. D. Sub-total	HOST COUNTRY L C	TOTAL
TOTAL PROJECT BUDGET	3,670,208	7,329,792	11,000,000	8,725,971	19,725,971
I. INSTITUTIONAL DEVELOPMENT	3,589,958	2,074,792	5,664,750	5,539,521	11,204,271
A. TECHNICAL ASSISTANCE	3,589,958		3,589,958		3,589,958
1. AID/PASA PROJECT MANAGER	684,022		684,022		684,022
2. INTERNAT'L TECH. ASSIST.	2,905,936		2,905,936		2,905,936
B. GUATEMALAN PROGRAM OPERATIONS		2,074,792	2,074,792	5,539,521	7,614,313
1. [illegible] LOCAL OPERATIONS		635,372	635,372	769,046	1,404,418
2. FEDERATION INST. SUPP. GRANTS		404,748	404,748	3,144,372	3,549,120
3. INACOP REG. DEV. ASSISTANCE		11,270	11,270	477,415	488,685
4. CONFECOOP INST. SUPP. GRANT		46,834	46,834	132,615	179,449
5. STAFF INCENTIVE PROGRAM		976,068	976,068	1,416,073	2,392,141
II. CAPITALIZATION/STABILIZATION		2,505,000	2,505,000	2,286,450	4,791,450
A. STABILIZATION FUND		2,163,000	2,163,000		2,163,000
B. SAVINGS PROTECTION FUND		342,000	342,000		342,000
C. RETAINED EARNINGS				463,950	463,950
D. MEMBER SHARES				1,305,000	1,305,000
E. MEMBER DEPOSITS				517,500	517,500
III. CREDIT		2,750,000	2,750,000	900,000	3,650,000
CONTINGENCY	80,250		80,250		80,250

international technical assistance line items of the Institutional Development component and for contingencies. These funds would be administered by the AID-contracted cooperative development organization.

The AID-funded local currency equivalent in this component is budgeted for the Guatemalan program operations (TDU and FMU) and subgrants to the federations, CONFECOOP, INACOP and to cooperatives and credit unions participating in the Staff Incentive Program. The remainder of the local currency funding is programmed for the Capitalization and Credit components.

Host country contributions are budgeted exclusively in local currency and total $5,539,521 for Institutional Development, $2,286,450 for Capitalization and $900,000 for Credit. The nature and purpose of this counterpart funding is described in greater detail in section IV of this chapter.

III. PROJECTION BY FISCAL YEAR

Table VIII-3 summarizes projected expenditures by fiscal year, beginning in the first quarter of FY87 and ending in the second quarter of FY92. It will be noted that AID expenditures reach a peak in FY89 and subsequently decline as technical assistance and other funding is reduced. The counterpart funding by Guatemalan institutions increases steadily throughout the life of the Project, stabilizing at an annual rate of about $2.2 million in FY92.

TABLE No. VIII-3

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COOPERATIVE STRENGTHENING PROJECT

PROJECTION OF EXPENDITURES BY FISCAL YEAR

FISCAL YEAR	A. I. D.	HOST COUNTRY	TOTAL
FY 1987	814,419	1,047,311	1,861,730
FY 1988	1,703,542	1,456,098	3,159,640
FY 1989	2,905,335	1,597,710	4,503,045
FY 1990	2,315,646	1,840,393	4,656,039
FY 1991	2,238,716	2,207,579	4,445,395
FY 1992	522,742	576,880	[illegible]
TOTAL	[illegible]	8,725,971	[illegible]

IV. PERSONNEL REQUIREMENTS

The estimated personnel requirements for both international and national technical and administrative staff are shown in Table VIII-4. A total of 83.52 person-years are projected, including 23.24 person-years of international short- and long-term technical assistance and 60.28 person-years of Guatemalan TDU and FMU personnel services.

International Technical Assistance Personnel

International technical assistance ideally would be provided by qualified staff from U.S.-based Cooperative Development Organizations through a cooperative agreement with USAID/Guatemala. Personnel required include:

AID/PASA Project Manager to provide liaison with USAID/Guatemala and managem Mission-related functions.

Credit Union System Specialist to advise FENACOAC, its affiliated credit unions and other cooperatives and federations as required, particularly in the areas of savings mobilization, credit administration, financial management, deposit insurance operations and financial stabilization.

Credit and Finance Specialist to provide specialized support to the FMU, FENACOAC and the other federations and to participating cooperatives and credit unions in the areas of credit administration and financial management.

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COOPERATIVE STRENGTHENING PROJECT

INTERNATIONAL AND GUATEMALAN PERSONNEL REQUIREMENTS

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
POSITIONS			PERSON YEARS				
INTERNATIONAL TECHNICAL ASSISTANCE PERSONNEL							23.24
AID/PASA Project Manager	0.25	1.00	1.00	1.00	1.00	1.00	5.25
Credit Union System Spclst	0.00	1.00	1.00	1.00	1.00	1.00	5.00
Credit & Finance Spclst	0.00	1.00	1.00	1.00	0.00	0.00	3.00
Ag. Coop. Operations Spclst	0.00	1.00	1.00	1.00	1.00	1.00	5.00
Staff Development Spclst	0.00	0.00	1.00	1.00	1.00	0.00	3.00
International Consultants *	0.00	0.11	0.11	0.11	0.11	0.11	0.55
Evaluation Consultants *	0.00	0.00	0.00	0.12	0.12	0.00	0.24
Project Technical Support	0.17	0.17	0.17	0.17	0.17	0.17	1.02
Internatl. Training Instructors*	0.00	0.00	0.09	0.09	0.00	0.00	0.18
GUATEMALAN TECHNICAL AND FUNDS MANAGEMENT PERSONNEL							59.28
TECHNICAL DEVELOPMENT UNIT							46.[illegible]
Credit & Finance Officer	0.00	0.75	1.00	1.00	1.00	1.00	4.75
Auditor	0.00	0.75	1.00	1.00	1.00	1.00	4.75
Coop/CU Analysts	0.00	2.00	4.00	4.00	2.00	0.00	[illegible]
Develop. Plan Monitor	0.00	0.00	1.00	1.00	1.00	1.00	4.00
Promotion & Projects Spclst	0.00	0.00	1.00	1.00	1.00	1.00	4.00
Office Manager	0.00	1.00	1.00	1.00	1.00	1.00	5.00
Sec./word processors	0.00	1.50	2.00	2.00	2.00	2.00	[illegible].50
National Consultants *	0.00	0.25	0.25	0.25	0.25	0.25	1.25
National Training Instructors *	0.00	0.00	0.27	0.27	0.27	0.27	[illegible]
FUNDS MANAGEMENT UNIT							[illegible]
Trust Mgmt. Officer	0.00	0.25	0.15	0.15	0.15	0.15	[illegible]
Loan Officer	0.00	0.10	0.25	0.50	0.75	1.00	2.[illegible]
Accountant	0.00	1.00	1.00	1.00	1.00	1.00	[illegible]
Sec./word processor	0.00	0.10	0.10	0.10	0.10	0.10	0.50
Messenger	0.00	1.00	1.00	1.00	1.00	1.00	5.00
TOTALS	0.42	12.78	19.39	19.76	16.72	14.05	[illegible]
COST SUMMARY			U.S. DOLLARS				
PERSONNEL AND OPERATING COSTS **	106,605	870,202	942,316	907,909	763,555	635,243	[illegible]
A. INTERN'L. TECH. ASSISTANCE	106,605	748,187	791,900	757,871	638,825	546,570	[illegible]
1. AID/PASA PROJECT MANAGER	84,215	107,093	115,326	114,398	118,112	143,878	[illegible]
2. INTERNAT'L TECH. ASSIST.	22,390	641,094	676,574	643,473	520,713	402,692	[illegible]
B. GUATEMALAN PROGRAM OPERATIONS	0	122,015	150,416	150,038	124,730	88,673	[illegible]
1. TDU/FMU LOCAL OPERATIONS	0	122,015	150,416	150,038	124,730	88,673	[illegible]

* Person-years calculated @ 260 days per year. Rounded to 2 decimals.
** Includes all costs associated with each listed budget component, not just personnel-related costs.

Agricultural Cooperative Operations Specialist to advise these organizations in the areas of marketing, production, organization, sales, distribution, purchasing and other business activities.

Staff Development Specialist to provide support to all participating organizations in the areas of staff remuneration and incentive programs, adult education and training methods.

Short-term technical consultants and instructors will be required to support particular sub-objectives of the Project, such as developing audit and examination systems, the Savings Protection Program (deposit insurance), input supply and marketing strategies, etc., as well as responding to opportunities which present themselves in the course of Project implementation.

The technical advisory team will be supported in the U.S. by project backstopping officers of the Cooperative Development Organizations providing field personnel. These staff will be responsible for consultant recruitment and placement, Project monitoring, research activities, technical analysis and on-site consultation.

Evaluation consultants are programmed for years three and four to perform progress reviews and provide guidance to the implementation team on project modification.

International instructors are projected for year two to provide specialized computer training to Project and federation staff and for year three to assist INACOP and the federations in designing audit and examination systems.

Guatemalan Technical Development Unit Personnel

The TDU will employ specialized Guatemalan staff both to implement the Project and to provide technical and administrative support to the participating federations and other institutions. The TDU will also provide critically important technical guidance to the credit staff of FENACOAC working in the FMU. In particular, the Credit and Finance Officer and Auditor of the TDU and the Credit Union System Specialist and Credit and Finance Specialist, will provide guidance to the FMU in evaluating loan applications and requests for capitalization and institutional support grants.

Project implementation will be supported by an Office Manager responsible for daily administration of the TDU and coordination of administrative functions with the FMU and FENACOAC's designated Trust Management Officer. Support staff will consist of two Secretary/Word Processors; other administrative support will be provided by FENACOAC's FMU personnel.

Financial and operational evaluation of potential participant federations, cooperatives and credit unions will be the responsibility of the Cooperative/Credit Union Analysts in coordination with the international specialists. Their evaluations will provide the basis for implementing specific development plans in each participant institution and awarding capitalization, operational support and staff incentive grants. Compliance and execution of these plans will be reviewed by the Development Plan Monitor throughout the life of the Project. A Promotion and Projects Officer will work with qualified participants to develop specific business activities to improve member services, growth and profitability.

Specialized consultants and instructors will be contracted by the TDU to support training and other Project activities. This will include developing curriculum and implementing cooperative and credit union management and operations training seminars in conjunction with federation training staff.

Guatemalan Funds Management Unit Personnel

FENACOAC will provide staff for the FMU and act as local contractor and personnel administrator for the TDU. A senior level Trust Management Officer will be named by FENACOAC to direct the largely administrative operations of the FMU in accordance with directives from the FMU Board of Directors (Junta Directiva). These administrative functions will include accounting and financial reporting, funds management, filing and messenger services.

The only operational function to be performed by the FMU will be credit analysis of loan applications; this will be performed by a Loan Officer. By the end of Project, it is estimated that the FMU will have only three full time positions, the Loan Officer, Accountant and Messenger. Net interest revenues from FMU loans to federations and investments are expected to cover all administrative costs of the Unit.

V. HOST COUNTRY CONTRIBUTIONS

The purpose of the Project is to strengthen the ability of the Guatemalan federated cooperative movement to provide profitable, income generating services to its largely low income, rural membership. Thus its primary focus is on improving already existing services and operations rather than creating new ones. Accordingly, the host country contribution is measured as the local funding currently provided for these ongoing operations as well as increments in total capitalization attributable to Project implementation.

The value of this counterpart funding is considerable and is summarized in Table VIII-5. The total amount of the funding presented in this table has been discounted by twenty-five percent from actual estimates to minimize any potential errors on the high side. In general, these estimates have been derived from the financial statements of potential project participants obtained in the pre-project institutional assessment studies and from the financial impact analysis presented in section IX of this chapter.

TABLE No. VIII-5

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COOPERATIVE STRENGTHENING PROJECT

HOST COUNTRY CONTRIBUTIONS

	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
TOTAL HOST COUNTRY CONTRIBUTION	1,396,415	1,475,992	1,638,283	1,907,763	2,307,518	8,725,971
I. INSTITUTIONAL DEVELOPMENT						
B. GUATEMALAN PROGRAM OPERATIONS	1,039,415	1,005,742	1,005,133	1,159,413	1,329,818	5,539,521
1. IDU/PMU LOCAL OPERATIONS	66,784	70,123	73,629	77,311	81,199	369,046
2. FEDERATION INST. SUPP. GRANTS	569,052	597,505	627,380	658,749	691,686	3,144,372
3. [illegible]ACOP RES. DEV. ASSISTANCE	86,400	90,720	95,256	100,019	105,020	477,415
4. [illegible]FEDCOP INST. SUPP. GRANT	24,000	25,200	26,460	27,783	29,172	132,615
5. [illegible] INCENTIVE PROGRAM	293,179	222,194	182,408	295,551	422,741	1,416,073
II. CAPITALIZATION/STABILIZATION	282,000	395,250	483,150	523,350	602,700	2,286,450
A. RETAINED EARNINGS	0	56,250	96,900	123,600	187,200	463,950
B. MEMBER SHARES	178,500	235,500	282,750	296,250	312,000	1,305,000
C. MEMBER DEPOSITS	103,500	103,500	103,500	103,500	103,500	517,500
III. CREDIT	75,000	75,000	150,000	225,000	375,000	900,000
A. FENACOAC	75,000	75,000	150,000	225,000	375,000	900,000
B. FECOAR	0	0	0	0	0	0
C. FECOMERQ	0	0	0	0	0	0
D. FEDECOCAGUA	0	0	0	0	0	0
E. FEDECOAG	0	0	0	0	0	0
F. FEDECOVERA	0	0	0	0	0	0
G. ARTEXCO	0	0	0	0	0	0
H. FEDECOCON	0	0	0	0	0	0
I. FEDEPESCA	0	0	0	0	0	0
J. FENACOVI	0	0	0	0	0	0

Percent allocation rate = 75 %

The amount of the counterpart funding generated by the federations and their affiliates will be tracked during the life of the Project using their financial statements and related reports. The Development Plan Monitor in the TDU will have primary responsibility for this key activity. Microcomputer software will be developed and/or adapted and installed to monitor the performance of participating institutions and provide both individual and summarized data on counterpart contributions.

Counterpart funding has been estimated for the Guatemalan Program Operations of the Institutional Development, Capitalization and Credit components of the Project. The nature and amounts of funding for each of the line items shown in Table VIII-5 are described below. As noted previously, only 75% of the projected amounts discussed in this section have been explicitly budgeted as counterpart funding. Unless otherwise noted, all quetzal amounts have been converted to U.S. dollars at the rate of Q2.50 per $1.00.

Institutional Development

TDU/FMU Local Operations

The counterpart funding defined for the AID-supported TDU/FMU operations is FENACOAC's indirect administrative costs, excluding its annual general meeting and other non-administrative indirect costs. The amount is derived from the financial analysis of FENACOAC presented in the WOCCU assessment study.

FENACOAC's indirect administrative costs were Q222,612 in 1984. This amount was then inflated at five percent per year for the five years of Project implementation, converted to U.S. dollars and discounted by 25% to calculate the counterpart contribution.

Federation Institutional Support Grants

The counterpart for these grants is defined as the total administrative costs incurred by each potential participant federation, with the exception of FENACOAC. In the latter case, administrative costs included in this section are net of the indirect administrative costs already included as the counterpart for the TDU/FMU.

The sum of the administrative costs of the federations was inflated at five percent annually, converted to dollars and discounted. Following are the reported 1984 administrative costs of each federation (other operating costs such as marketing, sales, cost of goods sold, etc. are excluded):

FENACOAC	Q330,808
FECOAR	183,393
FECOMERQ	333,962
FEDECOCAGUA	739,763
FEDECOAG	138,610
FEDECOVERA	165,495
ARTEXCO	4,810
TOTAL	Q1,896,841

INACOP Regulatory Development Assistance

The INACOP counterpart was estimated as the portion of the Institute's budget which is directed to cooperative audit and examination. It is the least precise of the counterpart estimates and is based on an assumed ten percent of INACOP's 1983 budget (Q2,855,677) allocated to audit and examination, or the approximate equivalent of thirty staff members at an annual cost of Q9,600 each (Q288,000). This amount was inflated annually at five percent, converted to dollars and discounted.

CONFECOOP Institutional Support Grant

The CONFECOOP counterpart includes the confederation's basic administrative costs, which were approximately Q80,000 in 1983. This amount was inflated annually at five percent, converted to dollars and discounted.

Staff Incentive Program

This component includes incremental funding to cooperatives and credit unions to permit increases in managers' and other key staff's salaries. The counterpart is defined as that portion of these salaries which is paid by the local cooperatives themselves. No counterpart estimate is included for the federation staff incentive portion since these costs have already been allocated to the federation institutional support grant category.

The accompanying Table 5.1 shows how the counterpart funding was estimated. The total salary cost is based on an estimated 110 potential participant cooperatives and credit unions, with an average of three staff members each eligible to participate in this component, for a total of 330 positions. The current and Project-supported average remuneration costs were determined on the basis of salary information provided in the assessment studies and estimates of appropriate local salary levels prepared by FENACOAC.

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SIP1

STAFF INCENTIVE PROGRAM

Annual Budget Estimates

U.S. Dollars

Items		Year 1	Year 2	Year 3	Year 4	Year 5
Estimated annual salary cost per staff member	A	1,185	1,244	1,?49	2,04?	[illegible]
No. participant staff	B	330	330	330	[illegible]	[illegible]
[illegible] salary cost (A*B)	C	[illegible]71,050	[illegible]10,5[illegible]0	[illegible],170	[illegible]	[illegible]
Percent of Project contribution	D	0%	[illegible]%	10[illegible]%	[illegible]	[illegible]
[illegible] number of participant staff [illegible] [illegible] [illegible] participation: B*D)	E	0	99	330	[illegible]	
Unit of Project support per staff member	F	1,100	1,155	1,212	[illegible]	
Total Project support (E*F)	H	0	114,345	39[illegible],9[illegible]	[illegible]	[illegible]
Net host country contribution (C-H)	G	[illegible]91,050	[illegible]96,175	24[illegible]	[illegible]	[illegible]

The current average salary cost was $1,185 and this was projected to reach $2,149 by end of Project. The maximum number of positions supported by the Project is estimated to be 330. Of this total, no positions would be covered in year one, only 30% or 99 positions would be covered in the second year, 100% would be covered in year three, and the number would decline by 33% in each of the following two years. Thus 67% of 330 positions would be supported in year four (221 staff members) and 33% in year five (109 positions).

The average annual subsidy amount per position increases by five percent annually, from a base of $1,100 in year one to a maximum of $1,335 in year five. The total salary cost for the 330 positions rises from $390,905 in year one to $709,170 in year five, while the amount of Project support goes from $114,345 in year two to a maximum of $399,960 in year three and then declines to $145,515 in year five. Total salary costs for the Project period are estimated at $2,829,028, total AID support is calculated at $940,932 and total counterpart funding at $1,888,096. This amount is discounted for inclusion in Table VIII-5.

Capitalization

Retained Earnings

Incremental retained earnings generated by the primary level FECOAR-affiliated agricultural cooperatives and FENACOAC's affiliated credit unions comprise this portion of the counterpart funding for the Capitalization component. The estimates of additional retained earnings (including reserves) generated by these cooperatives and credit unions are based on the financial impact analysis contained in section IX of this chapter. In effect, they represent the difference in annual retained earnings between the Base Case and the End of Project Case projected out for the life of the Project. This difference is the result of improvements in profitability rates combined with increases in earning assets provided by the Project's Capitalization investments in Stabilization and Savings Protection Funds in the cooperatives and credit unions and their federations.

Member Shares

Additional share investments by members is another element of counterpart funding of this component. Additional share purchases by members are estimated for FENACOAC's and FECOAR's affiliates in response to improved yields on share account balances, automatic capitalization (reinvestment) of dividends on share accounts and the implementation of a sales retention system in the FECOAR system.

In the case of FENACOAC's affiliates, total share growth is estimated at Q5,935,000 without the Project and Q8,905,000 with the Project; the difference of Q2,970,000 is the counterpart funding.

In the case of FECOAR, share growth without the Project is estimated at Q145,000. Growth with the Project is projected at Q695,000, for a counterpart-funded difference of Q550,000. The sources of this additional capitalization are increased dividends (Q444,000) and a one percent retention of sales payments (Q251,000).

Member Deposits

This counterpart funding is produced only in the credit union sector and it measures the expected difference in total savings deposit mobilization with and without the Project. With the Project, total additional deposits are estimated at Q5,170,000; without it, new savings deposits would be Q3,445,000. The counterpart-funded difference is Q1,725,000.

Credit

Additional credit resources obtained in addition to the new capitalization described above is defined as the counterpart contribution for the Credit component. Estimates are provided for FENACOAC only, since information on projected external indebtedness of the other federations was not provided in the assessment studies. The amount estimated for FENACOAC is Q3.0 million from COLAC/IDB. Additional amounts are expected from the Cooperative Housing Foundation but have not been included.

VI. METHOD OF FINANCING

The Project will be implemented in two parts: (1) a contract or cooperative agreement between USAID/Guatemala and a Cooperative Development Organization (CDO) responsible for providing international technical assistance and project management services; and, (2) a contract or cooperative agreement between the Mission and FENACOAC covering all local expenditures, including TDU/FMU operations and other Institutional Development activities and the Capitalization and Credit components.

Both the designated CDO and FENACOAC will be non-profit PVOs and the optimal methods of financing are, respectively, FRLC and Direct Pay. The FRLC method will facilitate financing of dollar costs incurred by the CDO and the Direct Pay method will assure adequate control and flexibility for administering local currency costs incurred by the TDU and FMU.

The Team Leader employed by the CDO will be responsible for approving Direct Pay reimbursement requests prepared by FENACOAC and for providing the Mission with quarterly fiscal reports covering all local currency and dollar expenditures. These reports will include for each major AID budget line item actual expenditures for the current quarter and year to date, total expenditures since start of Project, amount and percent of variance (annual and project to date basis), balance remaining and net advance position. Annual reports tracking counterpart funding will also be submitted, based on financial reporting received from the participating federations, cooperatives and credit unions, CONFECOOP and INACOP.

The accompanying Table VIII-8 shows the recommended methods of implementation and financing.

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METHODS OF IMPLEMENTATION

AND FINANCING

METHOD OF IMPLEMENTATION	METHOD OF FINANCING	AMOUNT ($000)
[illegible]chnical Assistance:		
[illegible] Agreement with USDA	Direct Pay (intra-governmental transfer)	$631
[illegible] Cooperative Agreement with Cooperative Development Or[illegible]ization	Federal Reserve Letter of Credit (FRLC)	$2,9[illegible]
[illegible]ntingency	Direct Pay or FRLC	$[illegible]00
[illegible] Program Operations:		
[illegible] Cooperative Agreement with FENACOAC	Direct Pay	$2,[illegible]
[illegible]italization:		
[illegible] Cooperative Agreement with FENACOAC	Direct Pay	$2,[illegible]
[illegible]redit:		
[illegible] Cooperative Agreement with FENACOAC	Direct Pay.	[illegible]
TOTAL		$11,000

VII. AUDIT AND EVALUATION

Audit of project expenditures will be accomplished in five ways:

First, the contracted CDO will be audited annually by its external audit firm; these costs are covered by the CDO's indirect cost rate.

Second, auditing of the CDO will also be performed by the Defense Contract Audit Agency (DCAA) in accordance with AID regulations; this audit cost is met by AID from non-Project funding.

Third, external audit of all local currency expenditures administered by the FMU and participating federations will be undertaken by a firm contracted in Guatemala acceptable to the Mission; a total of $55,255 is included in line item I.B.1.g to cover these costs during the life of the Project.

Fourth, internal audit of all FMU accounts will be performed by FENACOAC's Internal Auditor. Greater detail on the capabilities of this internal audit function in FENACOAC is contained in the 1985 WOCCU institutional assessment report. The internal audit departments of the other participating federations will also be required to prepare an opinion on all Project funds administered by them.

Fifth, external audit of selected participant cooperatives and credit unions will also be performed. This will be funded by line item I.B.2.e of the Project budget (in Federation Institutional Support Grants) which totals $120,119 for the five year period.

VIII. FINANCIAL ANALYSIS OF IMPLEMENTING AGENCY

A. FENACOAC ANALYSIS

FENACOAC is the recommended Project implementation agency because of its experience in wholesale financial operations, extensive rural outreach capability, sound management practices and qualified personnel. This federation and its national system of affiliated credit unions have continued to strengthen their financial position, despite the financial and economic crisis currently affecting Guatemala. Gains have been most pronounced in the area of savings mobilization, including both share and deposit accounts. The credit union system attracted nearly Q2.5 million in additional deposits and Q735,000 in shares during 1985. At the federation level, deposits nearly quintupled, rising from Q106,000 to Q490,000. This is the direct result of FENACOAC's and the credit union's efforts to increase the level of saver oriented services and the movement's capital self-sufficiency.

The following brief analysis of FENACOAC's financial position is based on the 1985 audited financial statements included in Annex 2 and the institutional assessment of FENACOAC prepared in October 1985. This analysis focuses on six key areas of performance: capital adequacy, asset quality, management, earnings, liquidity and growth. Amounts are expressed in thousands of quetzales; the period of analysis is Dec. 1982 through Dec. 1985.

Capital Adequacy

Total capital, including affiliates' shares, has risen from 15% to 17% of total assets during the 1982-85 period. Equity capital reserves represented 5% of total assets; if bad debt allowances are included in this equity ratio, 13.3% of total assets are available in unallocated funds to absorb potential losses.

The federation is clearly in a relatively strong position by Latin American standards, where this "total equity" ratio averages around 5%. Nevertheless, in comparison with the level of delinquency in FENACOAC's loan portfolio, the federation's capital is only minimally adequate. The Project will have an important impact in reducing potential losses by strengthening the capital position of FENACOAC's affiliates through improved pricing and capitalization policies.

A further capital strength of the federation is found in its "hidden reserves" or assets which have not been revalued in accounting terms although, if sold at today's market prices, they would show strong capital gains. These include both the federation's fixed assets and its U.S. dollar-denominated investments. The latter, if revalued to market, would show net gains of Q705,900, more than offsetting the probable loss of FENACOAC's investment in CECOMERCA of Q45,000.

Asset Quality

FENACOAC's major problem is loan delinquency, both in its own portfolio and more importantly, in the portfolios of its affiliated credit unions. The level of slow-pay accounts of its member institutions to FENACOAC has ranged from Q3.5 million in 1985 to Q5.5 million in 1983. Overall, the total of these accounts has remained more or less stable, with variations due mainly to rescheduling and refinancing operations.

The purpose of this refinancing has been to help the affiliates weather the extreme financial crisis experienced by many due to Guatemala's political and economic situation, as well as poor credit administration at the local level in several cases. The federation has implemented more flexible collection policies and procedures, intervened several credit unions in extreme difficulty and drastically reduced new credit extensions.

Overall, delinquent loans (measured as all loans with one or more delinquent payments) as a percentage of total loans outstanding, have ranged from 35% to 53% (it was 43% at year-end 1985). At the same time, bad debt allowances have risen significantly (doubling in the period), so that the ratio of total reserves to delinquent loans is nearly fifty percent (48.6%).

The true test of a federation's management is its ability to respond successfully to changing environmental conditions. FENACOAC has met this test, though not without difficulty. The federation has developed and implemented policies which are gradually leading to recovery of its delinquent loan portfolio and, perhaps even more significantly, is actively aiding its affiliates to mobilize savings and develop the complementary financial and managerial policies and techniques required for expanded horizontal financial intermediation. It has clearly identified financial services as the primary focus of the national credit unions system and is working with its affiliates to encourage their specialization as financial intermediaries.

Earnings

FENACOAC has maintained a relatively high level of profitability during the recent period. Gross interest spread has declined from an average of 5.40% in 1982-84 to 5.10% in 1985, as growth in the cost of capital has exceeded return on assets. This has, however, been somewhat offset by the fact that the federation is now paying 3% in share dividends to members plus near market rates on deposit accounts.

The major problem facing FENACOAC is escalating operating costs, which have risen from 4.10% of average total assets to 6.41%. Even after non-financial income is taken into account, the federation's net operating costs have grown from 2.79% of average assets in 1982 to 3.84% in 1985. As a result, the operating margin has fallen by over

In response to this delinquency and the slackening of credit demand in rural Guatemala, FENACOAC's non-credit investments have risen to nearly Q4.5 million, or 35% of total assets. The federation's investment ratio (earning assets to costing funds) has reached an exceptional 116%, although if delinquent loans are subtracted from earning assets, the ratio falls to 86%.

Management

Management is the most important factor in assessing the financial strength of an institution, and it is in this area that FENACOAC has demonstrated its qualifications to implement the Project. As examined in detail in the institutional assessment, the federation has well-developed internal management systems, including planning, budgeting, internal audit and control, financial operations and service delivery, which are defined and documented in FENACOAC's Operations Manual and operating policies.

The federation's operational and representational units are linked at both the headquarters and member credit union levels through operating committees of the Board of Directors and the Regional Chapters. The Board is elected by the affiliated credit unions at Regional Chapter meetings annually. The Regional Chapters link operations and membership representation by bringing together credit union staff and leadership and federation officers on a quarterly basis in each geographical region. These Chapters serve as a vital feedback link for monitoring and improving the federation's services.

gradually replace much of its external funding with local resources during the next decade. The Project will substantially accelerate this process.

Growth

The credit union system experienced substantial financial growth during the 1981-85 period. While membership increased only slightly, by 6.6% to 88,600, credit union members' share accounts grew by 22.1% to Q15.2 million and deposit accounts by 77% to Q5.5 million.

At the federation level, asset growth resumed in 1985, primarily due to growth in affiliates' deposit accounts. While total assets increased by 2% (after declines in the two previous years), shares were nearly constant while deposits grew by 361%. The federation's loans to credit unions, however, fell by 8%; fortunately, delinquency fell by even more (17%). Cash and investments grew by 46.9%, in response to both deposit growth and net reductions in other assets accounts.

On balance, FENACOAC and its affiliates are now poised to provide improved and expanded savings and credit services to rural Guatemalans, despite a decade of geological, political and economic catastrophes.

one hundred basis points (from 2.35% to 1.26%). This decline has necessitated a reduction in additions to the bad debt allowance from an average of 2.29% of assets in 1983-84 to only 1.15% in 1985.

Improved operating efficiency and profitability at the credit union level is clearly needed if FENACOAC is to reduce its relatively high technical assistance costs, the major element of its operating expense. The Project will play a key role in strengthening credit union operations and thus both reducing the need for FENACOAC to provide costly institutional development services to its rural affiliates while improving their ability to pay an increasing share of these costs.

Liquidity

By nearly any measure, the federation is extremely liquid. Cash and investments represent 38% of deposits, notes payable and affiliates' shares and 35% of total assets. This excessive level of liquidity is due to reduced loan demand by affiliates (due in part to their increased local savings mobilization and in part to reduced credit demand by members), to more stringent creditworthiness criteria and to recent increases in the supply of loanable funds received from COLAC and the Cooperative Housing Foundation.

FENACOAC will be under increasing pressure to intermediate wholesale savings funds at reduced margins (interest spreads) as its affiliates generate additional resources. It is probable that the federation will

FMU Recurrent cost estimate:	Cost ($)
TDU salaries (continuing personnel):	
Credit and Finance Officer	7,292
Development Plan Monitor	4,375
FMU salaries (all staff)	11,242
Salary sub-total	22,909
Benefits (25% of salaries)	5,727
Total personnel cost	28,636
Other costs:	
Depreciation ($21,500 for 5 years)	4,300
Travel & transportation*	10,213
Other direct cost*	13,242
Audit 12,154	
Total other costs	39,909
Total direct cost	68,545
Estimated indirect cost (20% of direct costs)	13,709
TOTAL RECURRENT COST	$82,254

* Estimated as 49.23% of total cost in these line items at end of project. This percentage represents the share in total personnel cost of continuing personnel in the TDU and FMU at end of project.

Total recurrent cost of $82,254 represents 3% of the projected outstanding balance of FMU loans to federations of $2,750,000 at end of project.

B. RECURRENT COSTS

The Project's financial operations have been designed to assure that the participating federations, cooperatives and credit unions have sufficient interest spreads to cover expected operating costs. This was examined more fully in the earlier section on financial impact. In contrast to earlier projects, due consideration has been given to actual and probable cost levels involved in providing financial services. As a result, this design includes interest costs at approximately market levels to cooperative members of 18% per annum, a spread of 6% to the cooperative or credit union and 12% per annum to the federation. The latter in turn have a 4% spread as they pay 8% to the FMU (which is close to the cost of local savings in Guatemala). The FMU is projected to capitalize 5% as an implicit cost of capital and operate on a gross spread of 3%.

As shown in the impact analyses, the spreads shown above appear adequate to cover increased operating costs at the federation and cooperative/credit union levels. At the FMU level, 3% also appears to be sufficient to cover recurrent operating costs by the end of project. This estimate is based on the following analysis and assumption that the Project will have significantly strengthened the loan-making and collections capabilities of the intermediary federations.

disbursement, the funds would become capital donations to the participating federations and would be recoverable by the FMU only if the recipient institutions failed to fulfill their Project Agreements. In such a case, the FMU would proceed to take legal recovery action in accordance with the written agreement between it and the federations or cooperatives which failed to comply.

The Stabilization Funds would be invested at the local and/or federation levels as required to generate increased earnings and services for the membership, as described in the financial impact section of this chapter and the Capitalization chapter. If, however, the number of qualifying cooperatives and credit unions is less than expected, or if the amount of Stabilization or Savings Protection Fund capital commitments needed to cover losses is less than expected, then it is possible that the FMU will have undisbursed balances at end of project. In such a case, it is recommended that the undisbursed balances be kept on deposit in the FMU and allocated either to its successor institution or to the federations in accordance with the recommendations of the final Project evaluation.

At the end of project, each of the qualified federations would have as capital funds in the equity section of its balance sheet, the amount of Stabilization and/or Savings Protection Funds that it had received. In addition, of course, it would have the additional paid-in capital shares of its affiliates and retained earnings generated by improved pricing and operational efficiency. In the liabilities section of the

C. GUARANTEE FUND MECHANISMS

The Project includes as a major element of the Capitalization component the establishment of a Savings Protection Fund designed to guarantee a given maximum value of share and deposit savings accounts invested by members in their credit unions. It is expected that this will act as an important stimulus to savings mobilization in Guatemalan credit unions just as it has in the industrialized nations. The specific levels of coverage, premium rates, eligibility and capitalization requirements, organizational structure and legal powers will be examined in depth in the course of the project and established on the basis of actuarial soundness and operational efficiency.

The Stabilization Funds programmed for disbursement in either cash or securities to cooperatives and credit unions represent a second, albeit implicit, type of guarantee mechanism. These funds restore the level of earning assets in qualified cooperatives and credit unions while assuring their technical solvency and ultimate ability to repay both their restructured external debt and, if necessary, their member-owners' share and deposit accounts. The Stabilization Funds represent implicit guarantees of solvency rather than explicit guarantees of stated amounts deposited in the institution by members.

It is expected that the full amount of the budgeted Stabilization and Savings Protection Funds will be disbursed to the qualifying federations and their affiliates. The FMU would act essentially as a payment agent for these funds under the direction of the TDU; upon

The impact analysis presents three cases for FENACOAC, FECOAR and their respective affiliates. Each case contains proforma financial statements, the adjustments entailed in going from one case to the next and detailed notes explaining the assumptions and parameters of each case. The cases presented are:

Base case: actual or estimated balances at year-end 1984;

Stabilized case: adjustments to the base case balances and income statement parameters showing the write-off of uncollectable loans and the injection of Project capitalization funds;

End of project case: adjustments to the stabilized case balances and income statement parameters including Project credit resources and growth in member's deposits and share capitalization.

The three cases for the two sectors, credit unions and agricultural cooperatives, and their respective federations are summarized below. Detailed explanations are contained in the notes to each proforma financial statement. Amounts are in thousands of quetzales.

Credit Unions

The base case in Table VIII-9.1 shows the consolidated movement balance sheet at Dec. 1984. The movement had total assets of Q31,329, funded by Q16,072 in liability funds and Q15,257 in capital funds. Net loans outstanding totaled Q20,994; cash and investments totaled Q1,584 and balance sheet, it would have the value of new external indebtedness (including savings deposits in the case of credit unions) plus loans received from the FMU.

The FMU at end of project would have on its balance sheet the quetzal equivalent of the $2.75 million received for Project credit. These funds would appear in the equity section of its balance sheet together with the capitalized 5% implicit interest cost and any retained earnings and other reserves generated through operations. The loans to federations would be the FMU's principal assets, plus cash and investments of any surplus liquidity.

The major task for the Project participants during year five will be the design of the successor agency to the FMU, whether it is a new cooperative financing institution or a new division of an existing institution (such as FENACOAC), and its ownership and capital structure.

IX. FINANCIAL IMPACT ANALYSIS

This section examines the impact of Project resources and pricing policy changes on the financial condition of FENACOAC, FECOAR and their affiliated cooperatives and credit unions. As expected, the proforma balance sheets and income statements prepared for these institutions show substantial improvements in earnings and business volume due to AID and counterpart investments in the movement. Balance sheets are strengthened and yields to investing members are improved. Conditions for continued and sustained growth are created.

other assets were Q8,751. Return on assets was a disappointingly low 7.43% and the net margin was only 0.10%.

The stabilized case in Table VIII-9.2 shows the write-off of Q4,400 in uncollectable loans against reductions in offsetting share account balances of Q1,829 and charges to retained earnings of Q2,571. Solvency is restored by the injection of Q2,565 in Stabilization Funds and Q855 in Savings Protection Funds which are backed by Stabilization Certificates and Savings Protection Certificates. These represent claims on investment pools managed by FENACOAC potentially available to the participating credit unions to meet their liquidity needs. The return on assets is increased to 9.31% by raising the loan interest rate to an effective 15% (a nominal 18%) and obtaining 8% on the certificates. The net margin remains approximately constant, but the new resources permit raising the yield on liability savings deposits to 8% (from 5%) and on shares to 4% (from 0.96%). This is expected to have a major salutary effect on savings mobilization.

The end of project case in Table VIII-9.3 shows major growth of savings deposits and share accounts plus substantial additional external indebtedness from Project funds and COLAC. As a result, loans outstanding nearly double, liquidity grows rapidly and additional funds are available for capital investment in the Savings Protection Fund (Q653) and FENACOAC shares (Q445). Both return on assets and net margin grow dramatically.

Table VIII-9.1

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CONSOLIDATED BALANCE SHEET OF FENACOAC AFFILIATES

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

Balance Sheet	Dec. 1984 Balances	ADJUSTMENTS DR	CR	Adjusted Balances	Rate %	Income/Cost	Notes
ASSETS							
Cash and Investments..	1,594			1,594	4.00	63	1
Loans outstanding net/	20,994			20,994	10.78	2,263	2
Stabilization Certifs.	0			0		0	
Savings Prot. Certifs.	0			0		0	
Other Assets..........	8,751			8,751			
Total......	31,329	0	0	31,329	7.43	2,326	
LIABILITIES							
Savings Deposits... ..	4,054			4,054	5.00	203	3
Notes Payable.........	9,145			9,145	6.90	631	4
Other Liabilities.....	2,873			2,873			
Total......	16,072	0	0	16,072	5.19	834	
CAPITAL							
Member Share Savings..	14,895			14,895	0.96	143	5
Retained Earnings.....	(799)			(799)			
Reserves & other accts	1,161			1,161			
Stabilization Fund...	0			0		0	
Savings Protect. Fund.	0			0			
Total......	15,257	0	0	15,257	0.94	143	
CAPITAL & LIABILITIES	31,329	0	0	31,329	3.12	977	

Income Statement	Percent Spread	Amount Margin	Notes
Interest Income	7.43	2,326	
Interest Expense	(3.12)	(977)	
Interest Margin	4.31	1,349	
Non-interest Income	1.57	491	
Operating Expense	(5.37)	(1,683)	
Net operating expense	(3.80)	(1,192)	
Operating margin	0.50	157	
Nonoperating expense	(0.41)	(127)	6
Net Margin	0.10	30	

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CONSOLIDATED BALANCE SHEET OF FENACOAC AFFILIATES

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

Balance Sheet	Adjusted Balances	GROWTH ADJUSTMENTS DR	CR	End of Project Balances	Rate %	Income/Cost	Notes
ASSETS							
Cash and Investments..	1,584	2,388		3,972	4.00	159	1
Loans outstanding(net)	16,594	15,867		32,461	15.00	4,859	2
Stabilization Certifs.	2,565			2,565	8.00	205	7
Savings Prot. Certifs.	855			855	8.00	68	8
Sav. Prot. Fund Shares	0	653		653	8.00	52	15
Other Assets..........	3,751	445		4,196			16
Total......	30,349	19,353	0	49,702	10.77	5,354	
LIABILITIES							
Savings Deposits......	4,054		5,170	9,224	8.00	738	3
Notes Payable.........	9,145		4,625	13,770	8.62	1,187	4
Other Liabilities.....	2,873			2,873			
Total......	16,072	0	9,795	25,867	7.44	1,925	
CAPITAL							
Member Share Savings..	13,066		8,905	21,971	4.00	879	5
Retained Earnings.....	(3,370)		653	(2,717)			9
Reserves & other accts	1,161			1,161			10
Stabilization Fund....	2,565			2,565		0	11
Savings Protect. Fund.	855			855		0	12
Total......	14,277	0	9,558	23,835	3.69	879	
CAPITAL & LIABILITIES	30,349	19,353	19,353	49,702	5.64	2,804	

Income Statement	Percent Spread	Amount Margin	
Interest Income	10.77	5,354	
Interest Expense	(5.64)	(2,804)	
Interest Margin	5.13	2,550	
Noninterest income	1.62	805	
Operating expense	(5.55)	(2,758)	
Net operating expense	(3.93)	(1,953)	13
Operating Margin	1.20	597	
Non-operating expense	(0.41)	(204)	6
Net Margin	0.79	393	14

Table VIII-9.2

[illegible] 19-Jun-86
[illegible] MARION

Round to 0 decimals

CONSOLIDATED BALANCE SHEET OF FENACOAC AFFILIATES

BEST AVAILABLE

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

Balance Sheet	Dec. 1994 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Rate %	Income/Cost	Notes
ASSETS							
[illegible] and Investments..	1,584			1,584	4.00	63	1
Loans Outstanding (net)	20,994		4,400	16,594	15.00	2,489	2
Capitalization Certif.	0	2,565		2,565	8.00	205	7
Savings Proj. Certif.	0	855		855	8.00	68	8
Other Assets........	8,751			8,751			
Total Assets	31,329	3,420	4,400	30,349	9.31	2,526	
LIABILITIES							
Savings Deposits.........	4,054			4,054	8.00	324	3
Notes Payable..........	9,145			9,145	6.90	631	4
Other Liabilities......	2,873			2,873			
Total Liab...	16,072	0	0	16,072	5.94	955	
CAPITAL							
Member Share Capital..	[illegible]	1,029		10,[illegible]	4.00	523	5
Retained Earnings.....	[illegible]	2,571		(3,070)			9
Reserves [illegible]	1,051			1,051			10
Capitalization Fund	0		2,565	2,565		0	11
Savings Project Fund	0		855	855		[illegible]	12
Total.......	15,257	4,400	3,420	14,277	3.66	523	
CAPITAL & LIABILITIES	31,329	7,820	7,820	30,349	4.87	1,479	

Income Statement	Percent Spread	Amount Margin	
Interest Income	9.31	2,526	
Interest Expense	(4.87)	(1,479)	
Interest Margin	4.44	1,049	
Non-Interest Income	1.62	491	
Operating Expense	(5.55)	(1,683)	
Net Operating Expense	(3.93)	(1,192)	13
Operating Margin	0.51	156	
Non-Operating Expense	(0.42)	(127)	6
Net Margin	0.10	29	14

10. Given the credit unions' already low levels of these equity accounts, reserves are not reduced against the loan write-offs (base case).

11. Stabilization Funds allocated to the credit unions balance the Stabilization Certificates described in note 7. Growth in retained earnings are not yet used to offset the Stabilization Certificates and balancing Stabilization Funds amounts because of the high growth rate in total assets. Retained earnings are instead invested in Savings Protection Fund shares. Reductions in the Stabilization Fund and Savings Protection Fund accounts would only begin after retained earnings are once again positive.

12. Savings Protection Funds allocated to the credit unions balance the Savings Protection Certificates described in note 8. As retained earnings accumulate, these balances could be reduced in the same manner as the stabilization funds and certificates described in note 11 above.

13. Net operating costs are assumed to remain at the base case level in percent terms; thus, operating expenses grow in proportion to assets. The estimated amount of growth in operating costs is sufficient to cover additional salary costs incurred through the Staff Incentive Program.

14. The net margin is substantially increased over the base case. This increase in profitability will permit full amortization of the negative retained earnings within 7 years after the end of project.

15. A new account for Savings Protection Fund shares is shown. This represents investments by credit unions in the SPP Fund from their retained earnings generated through the program. See note 11.

16. This represents investments by credit unions in FENACOAC's ordinary share capital at the rate of 5% of additional member share savings received at the credit union level (Q.3,[illegible]95,000).

STABFENS [illegible]-Jun-86 CONSOLIDATED BALANCE SHEET OF FENACOAC AFFILIATES
D:BL2,[illegible] ARION
NOTES: END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

BEST AVAILABLE

1. Yield is estimated bank rate for small deposits (same as base case). Increase [illegible] cash and investments is due to growth in following sources of funds (amounts in thousands of quetzales):
   Deposits: 20% of Q.5,710...............Q.1,034
   Shares: [illegible] of Q.[illegible]..................Q. 991
   Notes Payable to [illegible] and FMU:
   [illegible] of Q.4,[illegible].........................Q. 4[illegible]

2. Effective yield is increased to 15% based on increase of basic loan interest rate to members to 19%. Growth estimate is optimistic and assumes both improved economic conditions and wider membership. Increment in loans outstanding is due to growth in following sources of funds (amounts in thousands of quetzales):
   Deposits: [illegible] of Q.5,710...............Q.4,136
   Shares: 85% of Q.[illegible].................Q.7,569
   Notes Payable to [illegible] and FMU:
   [illegible] of Q.4,[illegible].........................Q.4,162

   Deposit interest rate is increased to average 8% to attract added deposit savings and offset member resistance to loan interest increase. Increase in deposits is estimated at 150% of 1980-84 growth of Q.[illegible],000, or Q.1,[illegible] per year for five years. Total growth is [illegible]% in five years.

4. Cost is weighted average for ordinary and reconstruction loans from FENACOAC to credit unions plus loans from project funds in the FMU [illegible]. Structure of the notes is (amounts in thousands):
   FENACOAC ordinary loans [illegible]..........Q.[illegible],402 (47%)
   Reconstruction loans [illegible]..............Q.[illegible],743 (20%)
   Project and other new loans [illegible]......Q.4,[illegible]25 ([illegible]%)

   [illegible] rate is increased to [illegible]% to attract additional share savings and act as counter to member resistance to increased lending rate. [illegible] shares is estimated at [illegible]% of 1980-84 growth of Q.[illegible],000, or Q.[illegible],000 per year for five years. Total growth is [illegible] in five years.

[illegible] Includes bad debt provisions and adjustments to prior years.

[illegible] Capitalization Certificates are issued to type B and C credit unions. [illegible] required includes write-off of bad debts and offset to previous accumulated losses. Net yield to the credit union is estimated to be [illegible] (gross yield of 12% to federation less 4% operating spread).

[illegible] Protection Certificates are issued to type A credit unions. [illegible] includes write-off of bad debts and offset to previous accumulated losses. Yield is determined on same basis as Capitalization Certificates (8%).

[illegible] Retained earnings are increased by Q.[illegible],000, reflecting the increase in net margins produced by increasing the loan interest rate to [illegible]% and the replacement of lost earning assets by the project's capitalization component. Estimated annual increments in retained earnings are (in thousands): year 1, Q.30; year 2, Q.29; year 3, Q.[illegible]; year 4, Q.[illegible]; year 5, Q.[illegible].

Table VIII-9.4

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D:SL2.CVS MARION

FENACOAC BALANCE SHEET AND INCOME STATEMENT

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

Balance Sheet	Dec. 1985 Balances	ADJUSTMENTS DR	CR	Adjusted Balances	Rate %	Income/Cost	Notes
ASSETS							
Cash and Investments..	4,106			4,106	10.05	413	
Loans outstanding(net)	8,024			8,024	6.67	535	
Stabilization Certifs.	0			0		0	
Savings Prot. Certifs.	0			0		0	
Other Assets..........	737			737			
Total......	12,867	0	0	12,867	7.36	948	1
LIABILITIES							
Savings Deposits......	490			490	5.10	25	
Notes Payable.........	9,723			9,723	2.37	230	
Other Liabilities.....	479			479			
Total......	10,692	0	0	10,692		255	
CAPITAL							
Member Share Savings..	1,452			1,452	3.00	44	
Retained Earnings......	16			16			
Reserves & other accts	707			707			
Stabilization Fund....	0			0		0	
Savings Protect. Fund.	0			0		0	
Total......	2,175	0	0	2,175		44	
CAPITAL & LIABILITIES	12,867	0	0	12,867	2.32	299	2

Income Statement	Percent Spread	Amount Margin	
Interest Income	7.36	948	
Interest Expense	(2.32)	(299)	
Interest Margin	5.04	649	
Non-interest Income	0.66	85	
Operating expense	(4.45)	(573)	
Net operating expense	(3.79)	(488)	
Operating Margin	1.25	161	
Non-operating expense	(1.12)	(144)	3
Net Margin	0.13	17	

FENACOAC

The base case in Table VIII-9.4 shows the federation's balance sheet and income statement for Dec. 1985. Assets totaled Q12,867, including Q4,106 in investments and Q8,024 in net loans outstanding. Most of the funding was provided by credit union deposits (Q490), notes payable (Q9,723) and affiliates' shares (Q1,452). Return on assets was relatively low and so was the cost of capital. Net margin, on a percentage basis, slightly exceeded the credit union rate (0.13% versus 0.10%).

The stabilized case in Table VIII-9.5 shows the injection of Q3,420 in Project Capitalization component resources. These are invested in the Stabilization Investment Pool backing the Stabilization Certificates issued to participating affiliated credit unions and in the Savings Protection Pool backing Savings Protection Certificates issued to qualified (potentially insurable) type A credit unions. The gross spread on these new resources is 4%, which just covers FENACOAC's estimated net operating cost rate of 3.59%. The net margin improves substantially to 0.35%.

The end of project case in Table VIII-9.6 shows a near doubling of credit union deposits, an over 50% increase in notes payable to the FMU and COLAC and substantial additions to the capital accounts for affiliates' shares (Q445), retained earnings (Q144) and Savings Protection Fund shares (Q653). These additional resources are primarily invested in loans outstanding to credit unions (Q4,625), cash and investments

[illegible] 20-Jun-86 Round to 0 decimals
[illegible] MARION

FENACOAC BALANCE SHEET AND INCOME STATEMENT

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

BEST AVAILABLE

Balance Sheet	Dec. 1985 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Rate %	Income/Cost	Notes
ASSETS							
Cash and Investments..	4,106			4,106	10.05	413	
Loans Outstanding (net)	8,024			8,024	6.67	535	
Stabil. Invest. Pool..	0	2,565		2,565	12.00	308	4
[illegible] Prod. Pool.....	0	855		855	12.00	103	5
Other Assets..........	737			737			
Total.......	12,867	3,420	0	16,287	8.34	1,338	1
LIABILITIES							
Savings Deposits.......	490			490	5.00	25	
Notes Payable..........	9,700			9,700	2.37	230	
Other Liabilities......	179			179			
Total.......	10,392	0	0	10,392		255	
CAPITAL							
[illegible] Shares...	[illegible]			1,452	3.00	44	
[illegible]	16			16			
[illegible]	[illegible]			[illegible]			
Stabilization Reserve			2,565	2,565	8.00	205	6
[illegible] Prod. Reserve..			855	855	8.00	68	7
Total.......	2,475	0	3,420	5,895		317	
CAPITAL & LIABILITIES	12,867	3,420	3,420	16,287	3.52	573	2

Income Statement	Percent Spread	Amount Margin	Notes
Interest Income	8.74	1,338	
Interest Expense	(3.82)	(577)	
Interest Margin	4.92	785	
Non-Interest Income	0.66	107	
Operating Expense	(4.25)	(692)	
Net [illegible] Expense	(3.59)	(585)	3
Operating Margin	1.23	200	
Non-operating Expense	(0.88)	(144)	3
Net Margin	0.35	56	

STABFED1 [illegible]
[illegible] MARION

[illegible] BALANCE SHEET AND INCOME STATEMENT

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

[illegible]

[illegible] weighted average return on assets.

[illegible] Weighted average cost of capital.

[illegible] Includes bad debt provisions and adjustments to prior years.

BEST AVAILABLE

3. Slight economies of scale are forecast for the federation, resulting in a reduced operating expense rate (from 4.45% of total assets to [illegible]%). Non-interest income is projected at the pre-stabilization rate of [illegible]% of total assets. Net operating costs thus decline from [illegible]% to [illegible]% of total assets, while in quetzal terms they increase from Q.488,000 to Q.585,000. This 20% increase in absolute terms is sufficient to cover increased project-related expenditures.

BEST AVAILABLE

BEST AVAILABLE

[illegible] [illegible]
[illegible] [illegible]

FENACOAC BALANCE SHEET AND INCOME STATEMENT

[illegible] CASE WITH PROJECT CAPITALIZATION INVESTMENTS

[illegible]

---

1. [illegible] weighted average return on assets.

2. [illegible] average cost of capital.

3. [illegible] bad debt provisions and adjustments to prior years.

4. [illegible] investment pool consists of loans to type A credit unions [illegible] capitalization assistance and investments in [illegible] financial institutions and instruments. This pool would [illegible] FENACOAC and would back the Stabilization Certificates [illegible] to credit unions requiring capitalization assistance to [illegible]. As more credit unions become solvent and credit-[illegible] the pool would be increasingly invested in loans to credit [illegible]. [illegible] in the pool would be matched to meet credit [illegible] service obligations after they have been appropriately [illegible]. This investment pool would be decreased as [illegible] mature and are paid out to the credit unions' creditors. [illegible] would be maintained in value to the extent that increased [illegible] earnings by credit unions are substituted for the [illegible] Certificates in their capital accounts. These retained [illegible] would thus provide the source of funds to amortize the [illegible] external debt. The gross yield on investments in the [illegible] at 12% per annum.

5. [illegible] protection pool consists of investments in approved [illegible] institutions and instruments which back the Savings Protection Certificates issued to type A credit unions requiring [illegible] assistance. This pool would not be depleted by [illegible] to credit unions except in the case of liquidation, in [illegible] case they would be paid directly to depositors or advanced to [illegible] credit unions willing to accept transfered share and savings [illegible] accounts from the liquidated credit union. Credit unions [illegible] the Savings Protection Certificates would be expected to [illegible] rescheduled external debt from improved loan recoveries [illegible] increased retained earnings. The gross yield on investments [illegible] is projected at 12% per annum.

6. [illegible] Certificates issued by the federation to credit unions [illegible] capitalization assistance. Net earnings of an estimated [illegible] on investments in the pool would be paid through to credit unions [illegible] the certificates. A spread of 4% would remain in the [illegible] to cover operating costs. See note 4.

7. Savings Protection Certificates issued by the federation to type A credit unions requiring capitalization assistance. Net earnings estimated at 8% on investments in the pool would be paid through to credit unions [illegible] the certificates. A spread of 4% would remain in the [illegible] cover operating costs. See note 5.

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BEST AVAILABLE

FENACOAC BALANCE SHEET AND INCOME STATEMENT

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

NOTES:

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1. Yield is weighted average return on assets.

2. Weighted average cost of capital.

3. Includes bad debt provisions and adjustments to prior years.

4. Stabilization investment pool consists of loans to type A credit unions not needing capitalization assistance and investments in approved financial institutions and instruments. This pool would be managed by FENACOAC and would back the Stabilization Certificates issued to credit unions requiring capitalization assistance to achieve solvency. As more credit unions become solvent and creditworthy, the pool would be increasingly invested in loans to credit unions. Maturities in the pool would be matched to meet credit union debt service obligations after they have been appropriately rescheduled. This investment pool would be decreased as certificates mature and are paid out to the credit unions' creditors. The pool would be maintained in value to the extent that increased retained earnings by credit unions are substituted for the Stabilization Certificates in their capital accounts. These retained earnings would thus provide the source of funds to amortize the restructured external debt. The gross yield on investments in the pool is estimated at 10% per annum.

5. The savings protection pool consists of investments in approved financial institutions and instruments which back the Savings Protection Certificates issued to type A credit unions requiring capitalization assistance. This pool would not be depleted by disbursements to credit unions except in the case of liquidation, in which case they would be paid directly to depositors or advanced to other credit unions willing to accept transfered share and savings deposit accounts from the liquidated credit union. Credit unions receiving the Savings Protection Certificates would be expected to repay their rescheduled external debt from improved loan recoveries and increased retained earnings. The gross yield on investments in the pool is projected at 10% per annum.

6. Stabilization Certificates issued by the Federation to credit unions requiring capitalization assistance. Net earnings of an estimated 6% on investments in the pool would be paid through to credit unions receiving the certificates. A spread of 4% would remain in the Federation to cover operating costs. See note 4.

7. Savings Protection Certificates issued by the federation to type A credit unions requiring capitalization assistance. Net earnings estimated at 6% on investments in the pool would be paid through to credit unions receiving the certificates. A spread of 4% would remain in the

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[illegible] MARION

BEST AVAILABLE

FORWARD BALANCE SHEET AND INCOME STATEMENT

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

Balance Sheet	Adjusted Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	End of Project Balances	Rate %	Income/Cost	Notes
ASSETS							
Cash and Investments..	4,106	1,021		5,127	10.05	515	9
Loans outstanding net	8,024	4,625		12,649	8.62	1,090	10
Stabil. Invest. Pool..	2,565			2,565	12.00	308	4
Savings Prot. Pool....	855	653		1,509	12.00	181	5
Other Assets..........	737			737			
Totals......	16,287	6,299		22,586	9.27	2,094	1
LIABILITIES							
Savings Deposits......	490		472	962	9.00	83	11
Notes Payable..........	9,723		4,625	14,348	4.57	656	12
Other Liabilities.....	479			479			
Totals.....	10,692		5,057	15,749		739	
CAPITAL							
Credit Union Shares...	1,452		445	1,897	[illegible]	95	13
Retained Earnings......	15		144	[illegible]			14
[illegible]	737			[illegible]			
[illegible]	2,565			2,565	3.00	215	6
Savings Prot. [illegible]	855			855	3.00	68	7
[illegible] Shares			653	653	8.00	52	15
Totals......	5,595		1,242	6,837		421	
CAP. AND LIABILITIES	16,287	6,299	6,299	22,586	5.10	1,159	2

Income Statement	Percent Spread	Amount Margin	
Interest Income	9.27	2,094	
Interest Expense	(5.13)	(1,159)	
Interest Margin	4.14	935	
Other Interest Income	0.66	149	
Operating Expense	(4.00)	(903)	
Net Operating Expense	(3.34)	(754)	3
Operating Margin	0.80	181	
Nonoperating expense	(0.64)	(144)	3
Net Margin	0.16	37	

(Q1,021) and the Savings Protection Pool (Q653). While the interest and net margins decline from the stabilized case, they are still positive and yields to credit unions on their deposits and shares are substantially increased.

Agricultural Cooperatives

The base case in Table VIII-9.7 shows the estimated consolidated balance sheet and income statement for FECOAR's affiliated agricultural cooperatives based on the sample of three cooperatives analyzed in the NCBA assessment study. These institutions had some Q6,301 in total assets, invested primarily in loans to members, fixed assets, other assets (including investments) and inventories. Their principal sources of funding were notes payable to FECOAR (Q4,293) and members' shares (Q1,434). Sales margins (Q185) made up less than half of the gross margin; its major component was interest income. Nonetheless, total interest expense exceeded interest income and the cooperatives had negative net income.

The stabilized case in Table VIII-9.8 shows the write-off of Q2,345 in uncollectable loans balanced by reductions in share accounts (Q195) and charges to retained earnings (Q2,150). Solvency is restored by the infusion of Stabilization Fund capitalization (Q2,150) which is invested in liquid assets (Q215), loans outstanding (Q1,817) and inventories (Q118). The income statement projection includes substantial improvement in the interest yield, widening of the sales margin to the Cuna del Sol cooperative's rate and increased yields on federation to cover operating costs. See note 5.

8. Slight economies of scale are shown for the federation, resulting in a reduced operating expense rate (from 4.25% to 4.00% of total assets). Non-interest income is projected at the previous rate of 0.66% of total assets. Net operating cost thus declines from 3.59% to 3.34% of total assets, while in absolute terms, quetzal costs increase from Q.585 thousand to Q.754 thousand.

BEST AVAILABLE

[illegible] Includes cash proceeds from increased savings deposits (Q.432,000), credit union share investments (Q.445,000) and retained earnings generated by the federation (Q.144,000).

[illegible] Loans outstanding increase by the amount of new COLAC and Project funds. Yield on this loan portfolio increases from 6.57% to 8.62% in response to replacement of old reconstruction and other loans by new funds at a 12% yield.

[illegible] Savings deposits increase as credit unions invest their required liquidity reserves in the federation. Cost of the deposits is increased from 5.[illegible]% to [illegible]% to support concentration of liquidity in the federation by affiliates.

[illegible] These increments include COLAC and Project loan funds, which raise the cost of borrowed funds from [illegible]% to 4.57% on a weighted average basis.

[illegible] New shares invested in the federation represent 5% of additional share savings at the credit union level. Dividend rates are shown increasing from [illegible]% to [illegible]%, to increase system profitability.

[illegible] [illegible] retained earnings are estimated at Q.144,000. They are held in [illegible] investments.

[illegible] These Savings Protection Fund shares represent invested retained earnings of credit unions participating in the program. They are invested in the [illegible] protection pool.

Table No. VIII-9.7

FECOAR Version: 1 20-Jun-86 FINAL

[illegible]

CONSOLIDATED BALANCE SHEET OF FECOAR AFFILIATES

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

[illegible]

	Dec. 1984 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Notes
[illegible] INCOME STATEMENT					
Net sales	2,5?6			2,5?6	
Cost of goods sold	?,510			2,510	
[illegible]	136			135	
[illegible]	[illegible]			227	
[illegible]	79			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			2-5	
[illegible]	[illegible]			[illegible]	

[illegible]

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible] percent of sales	[illegible]	[illegible]

[illegible]

[illegible] goods sold as percent of sales	[illegible]	[illegible]
[illegible] cost of notes payable	[illegible]	[illegible]
[illegible] cost of members' shares	[illegible]	[illegible]
[illegible] as percent of sales	[illegible]	[illegible]

Table No. VIII-9.8

FEDDAR Version: 1 20-Jun-86 FINAL

[illegible]

CONSOLIDATED BALANCE SHEET OF FEDDAR AFFILIATES

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

[illegible]	Dec. 1984 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Notes
ASSETS					
[illegible] assets.........	19	115		134	9
Loans outstanding......	4,105	1,317	2,345	3,377	10
[illegible]............	118	118		236	11
[illegible] assets......	694			694	
Other assets...........	1,365			1,365	
Total assets	[illegible],301	1,550	2,345	[illegible],506	
[illegible]					
[illegible]......	259			259	
[illegible]........	4,293			4,297	
[illegible].....	40			40	
Total [illegible]	4,591	0	0	4,591	
[illegible]					
[illegible]	1,474	197		1,279	12
[illegible]	253			253	
Other [illegible]	111			111	
[illegible]	299	2,150		2,449	13
[illegible]	0		2,150	2,150	14
[illegible]	1,510	2,345	2,150	[illegible],415	
[illegible] Capital	[illegible],301	4,495	4,495	[illegible],506	
[illegible]					
[illegible]..........	[illegible]			4,959	
[illegible]........	227			507	
Other [illegible]......	99			[illegible]	
[illegible].........	[illegible]			[illegible]	
[illegible].....	[illegible]			[illegible]	
[illegible]...........	345			131	
[illegible]........	196			545	
[illegible].........	[illegible]			[illegible]	
[illegible]...........	(19)			306	

Table No. VIII-9.7

FEDDAR Version: 1
[illegible]

CONSOLIDATED BALANCE SHEET OF FEDDAR AFFILIATES

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

	Dec. 1984 Balances

BEST AVAILABLE

NOTES:

Base case presents a projected consolidated balance sheet for all FEDDAR affiliates. It is based on the sample of three affiliates shown in Table. This sample included one good, one medium and one poor cooperative. The amounts of all balance sheet and income statement items were doubled to make the projection.

1. This ratio is used to estimate net sales. Values in the sample ranged from 22.66 to [illegible].50.
2. Yields are assumed to be zero given the low average balances. Used to estimate interest income.
3. This is the weighted average yield and it includes the impact of loan delinquency. Sample values ranged from 14.87% to 4.07%. Used to estimate interest income.
4. Used to estimate other income. Sample values ranged from 2% to [illegible]% of net sales; this variance reflects differences in sales volume more than differences in income levels.
5. Used to estimate cost of goods sold. Sample values ranged from [illegible]% to [illegible]%.
6. Used to estimate interest cost. Sample values ranged from 4.[illegible]% to [illegible]%.
7. Used to estimate interest cost. Assumed to be zero given the low or negative net income figures.
8. Used to estimate operating expenses. Sample values ranged from 11% [illegible]%.

FECOAR Version: 1
D:C13.BL3

CONSOLIDATED BALANCE SHEET OF FECOAR AFFILIATES

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

	Dec. 1984 Balances

NOTES:

Stabilized case shows adjustments based on loan write-offs and injection of stabilization funds and their reinvestment in the cooperatives. Amounts are in thousands of quetzales. The net stabilization investment of Q2,150 is invested in liquid assets (10%), inventories (previous level is doubled) and loans outstanding (the balance of funds).

1. Average sample ratio value.
2. Maintained at zero yield.
3. Yield increased to 15% based on projected retail credit rate of 18%. This net yield is close to the best cooperative's yield (Cuna del Sol).
4. Kept at the relatively low Cuna del Sol level.
5. Reduced to Cuna del Sol level.
6. Maintained at base case level.
7. Increased to 4% to reflect capital mobilization strategy of project. All dividends will be capitalized in members' share accounts.
8. Maintained at base case level.
9. Increased by 10% of stabilization fund investment.
10. Decreased by gross write-down of uncollectable loans of Q.2,345. Increased by conversion into loans of balance of stabilization fund investment after deductions for liquid assets and increase in inventories.
11. Inventories doubled over previous level with proceeds of stabilization investment.
12. Write-down of offsetting share account balances of delinquent members whose loans are written off. Amount estimated at 8% of loan write-down based on assumed loan to share ratio of 12 to 1.
13. Net write down of loans after deducting offsetting share accounts is charged to retained earnings.
14. Net charge to retained earnings is fully offset by stabilization fund investment. No charge is made to reserve accounts given the cooperative's relatively low level of equity capitalization.

Table No. VIII-9.8

FEDCAR Version: [illegible]-Jun-86 FINAL

[illegible]

CONSOLIDATED BALANCE SHEET OF FEDCAR AFFILIATES

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

Investments

	Dec. 1984 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Notes
ANALYTICAL INCOME STATEMENT					
Net sales	[illegible]			[illegible]	
Cost of goods sold	[illegible]			4,463	
Sales margin	[illegible]			496	
Interest	[illegible]			537	
Other income	[illegible]			99	
Gross margin	[illegible]			[illegible]	
Operating expenses	[illegible]			545	
Income before interest	[illegible]			[illegible]	
Interest cost	[illegible]			[illegible]	
Net income	[illegible]			[illegible]	

INCOME STATEMENT PROJECTION PARAMETERS

INCOME ITEMS

Sales to inventory ratio	[illegible]	1
Yield on liquid assets	[illegible]	2
Yield on loans outstanding	[illegible]	3
Other income as percent of sales	2.00	4

EXPENSE ITEMS

Cost of goods sold as percent of sales	[illegible]	5
Interest cost of notes payable	5.75	6
Interest cost of members' shares	[illegible]	7
Operating expense as percent of sales	[illegible]	8

Table No. VIII-9.9

FECDAR Version: 1 20-Jun-86 FINAL
[illegible]

CONSOLIDATED BALANCE SHEET OF FECDAR AFFILIATES

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

BEST AVAILABLE

[illegible]

	Adjusted Balances	ADJUSTMENTS DR	CR	End of Project Balances	Notes
ASSETS					
Liquid assets.........	234	1,577		1,811	9
Loans outstanding.....	3,577	2,255		5,832	10
Inventories...........	236	236		472	11
Net Fixed assets......	544			544	
Other assets..........	1,365	67		1,432	12
Total Assets	6,106	4,135	[illegible]	10,241	
LIABILITIES					
[illegible] payable......	229			[illegible]	
Loans payable.........	4,293		[illegible]	[illegible]	[illegible]
Other liabilities.....	40			40	
Total Liabilities	[illegible]	[illegible]	[illegible]	[illegible]	
CAPITAL					
[illegible] Shares......	[illegible]		[illegible]	[illegible]	[illegible]
[illegible] Reserve.....	[illegible]			[illegible]	
Other Reserves........	[illegible]			[illegible]	
[illegible] Earnings & Other.	[illegible]		[illegible]	[illegible]	[illegible]
Capitalization Fund....	2,150			[illegible]	[illegible]
Total Capital	1,415	[illegible]	[illegible]	[illegible]	
Liabilities & Capital	6,106	4,135	4,135	10,241	
INCOME STATEMENT					
[illegible] Sales...........	4,989			[illegible]	
[illegible]...............	577			447	
[illegible] Income........	29			[illegible]	
[illegible] Income........	5,594			[illegible]	
Cost of Goods sold....	4,467			[illegible]	
Interest cost.........	331			365	
[illegible] expenses.....	545			779	
Total Expenses........	5,289			[illegible]	
Net Income.........	305			757	

members' share accounts. As a result the net margin increases dramatically.

The end of project case in Table VIII-9.9 shows substantial additions in notes payable to FECOAR (Q2,250), members' shares (Q666) and retained earnings (Q1,219). As a result, total assets rise by two-thirds to Q10,241; funds are invested primarily in liquid assets (Q1,577), loans outstanding (Q2,255), inventories (Q236) and FECOAR shares (Q67). The gross margin grows substantially but this is balanced by increases in interest costs including the dividend rate on members' shares. The net margin improves by about 15%.

FECOAR

The base case in Table VIII-9.10 shows the FECOAR balance sheet and income statement at Dec. 1984. Assets totaled Q8,084; most of the federation's resources were invested in liquid assets (Q3,589) and loans outstanding (Q3,675). These were primarily funded by notes payable (Q5,463) and capital funds (Q1,995), including Q908 in shares. Over 90% of the gross margin was made up of interest income (probably largely accrued on delinquent loan accounts); the sales margin was a slim 2.1%. Net income was about 10% of the gross margin.

The stabilized case in Table VIII-9.11 shows a slight improvement in net earnings due to increased sales volume related to higher total assets. The injection of Q2,150 in Stabilization Fund resources has no direct impact on FECOAR's earnings because the resources are passed

FECOAR Version: 1
[illegible]

CONSOLIDATED BALANCE SHEET OF FECOAR AFFILIATES

BEST AVAILABLE

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

	Adjusted Balances

NOTES:

End of project case shows increases in total assets due to increases in member share capitalization, retained earnings and borrowings from the FMU via FECOAR. These funds are invested in liquid assets, loans outstanding, inventories and FECOAR share capital. Amounts are in thousands.

1. This ratio is reduced to reflect increased volume and product diversity.
2. Yield is increased to 4% based on higher average balances.
3. Yield maintained at 15% based on projected retail credit rate of 18%. This net yield is close to the best cooperative's yield (Cuna del Sol).
4. Kept at the relatively low Cuna del Sol level.
5. Reduced to Cuna del Sol level.
6. Increased to include borrowings from FECOAR and the FMU at 12% wholesale.
7. Increased to 8% to accelerate capital mobilization strategy of project. All dividends will be capitalized in members' share accounts.
8. Maintained at base case level.
9. Increased by 10% of new project credits (Q225), 20% of new members' shares and 100% of estimated additional retained earnings. These may be invested in FECOAR, FENACOAC or other financial intermediaries.
10. Increased by balance of new project loan funds after deductions for liquid assets and inventory investment (Q1,799) and 70% of new share capital (Q466).
11. Inventories doubled over previous level with proceeds of FMU/FECOAR project loan funds.
12. Estimated additional member share capitalization based on 1% retention of net sales during the period (Q251) and capitalization of dividends (Q415).
13. Increased retained earnings generated by the cooperatives. If asset growth slows, these funds may be used to offset stabilization fund investments. At the projected asset levels, these funds should be kept in the cooperatives to maintain their equity capital levels.
14. No change in this fund given the still relatively low equity capital level.
15. FECOAR share capital investment by the cooperatives is increased by 10% of new member share capital (Q666).
16. Project loan funds received from the FMU via FECOAR.

Table No. VIII-9.9

FEDOAR Version: 1 20-Jun-86 FINAL
[illegible]

CONSOLIDATED BALANCE SHEET OF FEDOAR AFFILIATES

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

Investments

	Adjusted Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	End of Project Balances	Notes
[illegible] INCOME STATEMENT					
Net sales	4,[illegible]5[illegible]			[illegible],[illegible]82	
Cost of goods sold	4,4[illegible]			[illegible].374	
Gross margin	4[illegible]			7[illegible]	
Interest	[illegible]			9[illegible]	
Other income	[illegible]			14[illegible]	
Gross margin	[illegible]			1,[illegible]	
Operating expense	[illegible]			[illegible]	
Income before interest	[illegible]			[illegible]	
Interest cost	[illegible]			[illegible]5	
Net income	[illegible]			[illegible]	

INCOME STATEMENT PROJECTION PARAMETERS

[illegible] ITEMS		
[illegible]	[illegible]	
[illegible]	4.[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Other income as percent of sales	[illegible]	[illegible]
EXPENSE ITEMS		
Cost of goods sold as percent of sales	[illegible]	5
Interest cost of notes payable	7.84	6
Interest cost of members' shares	[illegible]	7
[illegible] expense as percent of sales	[illegible]	8

BEST AVAILABLE

Table No.VIII-9.10

FECOAR Version: 2 20-Jun-86 FINAL
D:C\6,GL3

FECOAR BALANCE SHEET AND INCOME STATEMENT

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

	Dec. 1984 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Notes
ANALYTICAL INCOME STATEMENT					
Net sales	1,334			1,334	
Cost of goods sold	1,306			1,306	
Sales margin	28			28	
Interest	506			506	
Other income	20			20	
Gross margin	554			554	
Operating expense	240			240	
Income before interest	314			314	
Interest cost	260			260	
Net income	54			54	

INCOME STATEMENT PROJECTION PARAMETERS

INCOME ITEMS

Percent sales to assets	12.50	1
Yield on liquid assets and loans outstanding	3.97	2
Other income as percent of sales	1.50	3

EXPENSE ITEMS

Cost of goods sold as percent of sales	97.90	4
Interest cost of notes payable	4.75	5
Interest cost of members shares	0.00	6
Operating expense as percent of sales	17.99	7

Table No. VIII-9.10

FECOAR Version: 2 20-Jun-86 FINAL
[illegible]

FECOAR BALANCE SHEET AND INCOME STATEMENT

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

	Dec. 1984 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Notes
ASSETS					
Liquid assets..........	3,589			3,589	
Loans outstanding......	3,675			3,675	8
Inventories............	0			0	
Net Fixed assets.......	654			654	
Other assets...........	166			166	
Stabilization Invest..					
Total Assets	8,084	0	0	8,084	
LIABILITIES					
Accounts payable.......	435			435	
Notes payable..........	5,463			5,463	
Other liabilities......	191			191	
Total Liabilities	6,089	0	0	6,089	
CAPITAL					
Members' Shares........	948			948	
Statutory Reserves.....	500			500	
Other Reserves.........	506			506	[illegible]
Ret. Earnings & Other.	41			41	
Stabilization Fund.....	0			0	
Total Capital	1,995	0	0	1,995	
Liabilities + Capital	8,084	0	0	8,084	
INCOME STATEMENT					
Net sales..............	1,034			1,034	
Interest...............	506			506	
Other income...........	20			20	
Total Income...........	1,560			1,560	
Cost of goods sold.....	1,006			1,006	
Interest cost..........	260			260	
Operating expenses.....	240			240	
Total expenses.........	1,506			1,506	
Net income.............	54			54	

Table No. VIII-9.11

FECOAR Version: 2 20-Jun-86 , FINAL
D:C\G,GL3

FECOAR BALANCE SHEET AND INCOME STATEMENT

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

	Dec. 1994 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Notes
ASSETS					
Liquid assets.........	3,589			3,589	
Loans outstanding......	3,675			3,675	
Inventories...........	0			0	
Net Fixed assets......	654			654	
Other assets..........	166			156	
Stabilization Invest..		2,150		2,150	8
Total Assets	8,084	2,150	0	10,234	
LIABILITIES					
Accounts payable......	435			435	
Notes payable.........	5,463			5,463	
Other liabilities.....	191			191	
Total Liabilities	6,089	0	0	6,089	
CAPITAL					
Members Shares.......	[illegible]			[illegible]	
Statutory Reserve.....	[illegible]			570	
Other Reserves.........	[illegible]			[illegible]	
Ret. Earnings & Other.	41			41	
Stabilization Fund....	0		2,150	2,150	9
Total Capital	1,995		2,150	4,145	
Liabilities & Capital	8,084	2,150	2,150	10,234	
INCOME STATEMENT					
Net sales.............	[illegible]			[illegible]	10
Interest..............	[illegible]			[illegible]	
Other income..........	20			25	
Total Income..........	1,950			2,020	
Cost of goods sold....	[illegible]			[illegible]	
Interest cost.........	130			130	
Operating expense.....	140			140	11
Total Expenses	1,896			1,953	
Net Income............	54			67	

FEDDAR Version: 2
[illegible]

FEDDAR BALANCE SHEET AND INCOME STATEMENT

BASE CASE PRIOR TO STABILIZATION INVESTMENTS

	Dec. 1984 Balances

NOTES:

Base case presents the balance sheet for FEDDAR as of 1984. During the 1980-84 period the federation experienced slight asset growth. Liquid assets grew rapidly, balanced by declines in inventories, loans outstanding and other assets. Growth was financed by rising accounts payable and capitalized dividends to members and reserves from net earnings.

1. This ratio is used to estimate net sales. Values ranged from [illegible]% to 15.[illegible]% during 1980-84. Sales fell by 50% during this period.
2. Used to estimate interest income.
3. Used to estimate other income. Values ranged from 1.21% to [illegible].85% during 1980-84. Volume declined by 79% during this period.
4. Used to estimate cost of goods sold. Values declined from [illegible]% in 1980 to 97.90% in 1984.
5. Used to estimate interest cost. Values increased from 2.5[illegible]% to 4.[illegible]% during the period.
6. Used to estimate interest cost. Assumed to be zero given the low net income figures.
7. Used to estimate operating expenses. Values ranged from [illegible]% to [illegible]% during the period, largely as a result of variations in sales volume; actual costs varied little.
8. Estimated amounts; loans do not appear separately on the assessment study report's balance sheets.
9. [illegible] has some capital donations for fixed assets.

Table No.VIII-9.11

FECOAR Version: 2
B:C\9.BL3

FECOAR BALANCE SHEET AND INCOME STATEMENT

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

	Dec. 1984 Balances

NOTES:

Stabilized case shows adjustments based on injection of stabilization funds and their reinvestment in the cooperatives. Amounts are in thousands of quetzales.

1. Maintained at base case level, thus a slight increase in net sales.
2. Maintained at base case level.
3. Maintained at base case level.
4. Maintained at base case level.
5. Maintained at base case level.
6. Maintained at base case level.
7. Operating expense kept at base case amount of 2240, thus the slight decline in the percentage rate given the increase in net sales.
8. Stabilization investments in affiliated cooperatives at zero yield.
9. Amount of stabilization funds received from the FMU and invested in affiliated cooperatives (see note 8).
10. Net sales increase slightly due to increase in total assets and projected increase in affiliates' purchases with replenished liquidity from the stabilization funding.
11. Operating costs held constant at base case level (see note 7).

Table No. VIII-9.11

FEDDAR Version: 2 20-Jun-86 FINAL
D:[illegible].3,BLD

FEDDAR BALANCE SHEET AND INCOME STATEMENT

STABILIZED CASE WITH PROJECT CAPITALIZATION INVESTMENTS

	Dec. 1994 Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	Adjusted Balances	Notes
ANALYTICAL INCOME STATEMENT					
Net sales	1,334			1,689	
Cost of goods sold	1,306			1,653	
Sales margin	28			36	
Interest	576			576	
Other income	30			25	
Gross margin	634			637	
Operating expense	240			240	
Income before interest	394			397	
Interest cost	340			340	
Net income	54			57	

INCOME STATEMENT PROJECTION PARAMETERS

INCOME ITEMS

Percent sales to assets	[illegible]	
Yield on liquid assets and loans outstanding	[illegible]	2
Other income as percent of sales	[illegible]	3

EXPENSE ITEMS

Cost of goods sold as percent of sales	97.90	4
Interest cost of notes payable	4.75	5
Interest cost of members' shares	0.00	6
Operating expense as percent of sales	14.2[illegible]	7

BEST AVAILABLE

[illegible] VIII09.12

FECDAR Version: 2 20-Jun-86 FINAL

[illegible]

FECDAR BALANCE SHEET AND INCOME STATEMENT

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

	Adjusted Balances	ADJUSTMENTS DR	CR	End of Project Balances	Notes
ASSETS					
Liquid assets..........	3,529	525	340	[illegible]	[illegible]
Loans outstanding......	3,575	[illegible]		5,[illegible]	[illegible]
Inventories............	0	900		900	[illegible]
Net Fixed assets.......	[illegible]54			[illegible]	
Other assets...........	166			166	
Stabilization Invest...	[illegible]			[illegible]	
Total Assets	[illegible]	[illegible]	340	[illegible]	
LIABILITIES					
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
[illegible]	191			[illegible]	
Total Liabilities	[illegible]	0	[illegible]	[illegible]	
CAPITAL					
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
[illegible]	2,150			[illegible]	
Total Capital	4,145	0	[illegible]	4,[illegible]	
Liabilities & Capital	10,234	[illegible]	[illegible]	[illegible]	
INCOME STATEMENT					
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	25			[illegible]	
Total Income...........	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
Interest cost..........	[illegible]			[illegible]	
Operating expense......	[illegible]			[illegible]	
Total Expenses.........	[illegible]			[illegible]	
Net Income.............	[illegible]			[illegible]	

GUABDG3 19-Jun-86
D:C:\G.GL4 COOPERATIVE STRENGTHENING PROJECT

BEST AVAILABLE

Financial Plan in U.S. Dollars

DETAILED PROJECT BUDGET Inflation= 5.00 % per year

LINE ITEMS	Notes	PROJECT TOTALS Items	Sub-totals
TOTAL PROJECT BUDGET			11,000,000
I. INSTITUTIONAL DEVELOPMENT COMPONENT			5,654,730
A. TECHNICAL ASSISTANCE			3,539,959
1. - [illegible] PROJECT MANAGER			[illegible]94,[illegible]22
a. SALARIES	1		232,809
1) Salary+COLA/Quarters1-3		201,185	
2) Salary+COLA/Quarter 4		31,624	
3) Salary base FICA,4-8			
b. BENEFITS			56,562
1) Project Manager	2	56,562	
c. ALLOWANCES	3		126,525
1) Quarters (housing)		66,415	
2) Post Differential		42,422	
3) Education		13,701	
4) Temp.Lodg.& Sup.Post A.		3,987	
d. MISCELLANEOUS PERSONNEL	4		24,465
1) Medical examinations		1,765	
2) [illegible] insurance		1,010	
3) [illegible]		[illegible]	
4) Foreign Transfer Allow.		700	
5) Furniture & appliances		20,000	
e. TRAVEL & TRANSPORTATION			77,997
1) Relocation	5		
-- Storage of HHE		4,620	
-- HHE shipping		22,154	
-- Vehicle shipping		5,537	
-- Unaccomp. air freight		4,376	
2) International & US	6		
-- Post assignment USA-GUA		6,645	
-- R & R		7,584	
-- Home leave		7,150	
-- Consultations USA-GUA		945	
3) Per diem & other	7		
-- Consultations USA-GUA		557	
-- Miscellaneous		112	
4) Incountry travel	8		
-- Per diem		6,700	
-- Vehicle operation		17,302	
-- Miscellaneous		1,575	
f. EQUIPMENT & COMMODITIES	9		15,000
1) Project vehicles		15,000	

Table No. VIII-9.12

FECDAR Version: [illegible] [illegible]-Jun-86 FINAL
[illegible]

FECDAR BALANCE SHEET AND INCOME STATEMENT

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

	Adjusted Balances	ADJUSTMENTS DR	ADJUSTMENTS CR	End of Project Balances	Notes
[illegible] INCOME STATEMENT					
Net sales	[illegible]			[illegible]	
Cost of goods sold	[illegible]			[illegible]	
Sales margin	[illegible]			[illegible]	
Interest	[illegible]			[illegible]	
Other income	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	
[illegible]	[illegible]			[illegible]	

[illegible]

[illegible]		
[illegible]	[illegible]	
[illegible] loans outstanding	[illegible]	[illegible]
[illegible] of sales	[illegible]	[illegible]

[illegible]

Cost of goods sold as percent of sales	[illegible]	[illegible]
Interest cost of notes payable	[illegible]	[illegible]
Interest cost of members' shares	5.00	[illegible]
[illegible] as percent of sales	[illegible]	[illegible]

FECOAR Version: 2
[illegible]

FECOAR BALANCE SHEET AND INCOME STATEMENT

END OF PROJECT CASE WITH CAPITALIZATION, GROWTH AND CREDIT

	Adjusted Balances

NOTES:

End of project case shows increases in total assets due to increases in affiliated cooperatives' shares, retained earnings and project credit from the FMU. These funds are invested in liquid assets, loans outstanding and inventories. Amounts are in thousands of quetzales.

1. The sales to assets ratio is increased to pre-1984 levels, reflecting increased purchases by affiliates. The level of sales is 50% of affiliated cooperatives' cost of goods sold, which is probably low.
2. Yield is increased to reflect addition of project-funded loans to affiliates at the 10% wholesale rate.
3. Maintained at base case level.
4. Maintained at base case level.
5. Increased to include borrowings from the FMU at 8% wholesale rate.
6. Increased to [illegible]% to accelerate capital mobilization strategy and improve yields to affiliates. All dividends will be capitalized.
7. Increased to cover expanded services to affiliates and staff incentives. Projected rate is slightly below 1982-84 average, reflecting improved operating efficiency.
8. Liquid assets are increased by 10% of new shares (Q7), 100% of capitalized share dividends (Q[illegible]) and 100% of retained earnings (Q[illegible]). Account is decreased by investment in inventories (Q340).
9. Loans outstanding are increased by 100% of project credit from FMU. Inventory increase is funded by reduction in liquid assets (Q340) [illegible] 90% of new share capitalization (Q[illegible]).
10. Project-funded credit from the FMU.
11. Estimated additional shares purchased by affiliates (10% of their additional share capitalization).
12. Increased retained earnings generated by FECOAR. The estimated level of retained earnings remains constant under the income statement projection assumptions in both the stabilized and end of project cases.

through in cash to the affiliated cooperatives. Nevertheless, this increment in resources in the affiliates will enable them to pay at least their interest in cash to the federation and thus improve its cash flow.

The end of project case in Table VIII-9.12 shows substantial increases in FECOAR's total funding due to Project credits (Q2,250), member cooperatives' shares (Q263) and retained earnings (Q322). These are invested primarily in loans outstanding. Liquid assets are, on balance, slightly decreased by the building up of inventories. Profitability remains constant despite improved operating efficiency; share yield to affiliates is improved and the sales margin as a percent of sales is kept constant, thus benefiting the membership.

Annex I

Table VIII-6

DETAILED PROJECT BUDGET

Financial Plan in U.S. Dollars

TABLE No. VIII-6

GUABDG3
D:C:\G,GL4

19-Jun-86
COOPERATIVE STRENGTHENING PROJECT

Financial Plan in U.S. Dollars

DETAILED PROJECT BUDGET

Inflation= 5.00 % per year

BEST AVAILABLE

LINE ITEMS	Notes	PROJECT TOTALS Items	Sub-totals
(2) Airfare: Int'l & US			
-- Consultn: USA-GUA		1,890	
-- Post assignment USA-GUA		26,219	
-- R & R		11,790	
-- Home leave		6,300	
-- Orientation/debriefing		5,935	
(3) Per diem & other			
-- Consultn: USA-GUA		1,106	
-- Orientation debriefing		4,564	
-- Miscellaneous		1,099	
(4) In-country travel (in [illegible])			
-- Per diem (other)		0	
-- Fares		0	
-- Miscellaneous		0	
C. EQUIPMENT & COMMODITIES	18		110,749
(1) Project vehicles		30,000	
(2) Data processing		54,735	
(3) Training equipment		21,975	
(4) Office equipment		4,039	
D. EVALUATION	19		29,977
(1) Consultant fees		17,330	
(2) Travel: Airfare		3,139	
(3) Travel: Per diem		6,480	
(4) Other direct cost		1,129	
E. OTHER DIRECT COST	20		13,009
(1) Telecommunications		3,299	
(2) Data processing		548	
(3) Misc. supplies		548	
(4) Photocopies		300	
(5) Services		300	
(6) Resource materials		548	
(7) Staff development		3,288	
(8) Translation		300	
(9) Equip. maint/rental		300	
(10) Miscellaneous		3,288	
F. PROJECT SUPPORT	21		99,417
(1) Salaries		55,468	
(2) Benefits		14,975	
(3) Travel			
-- Airfare USA-GUA		11,742	
-- Per diem GUA		6,400	
-- Miscellaneous		1,075	
(4) Other direct cost			
-- Telecommunications		1,920	
-- Data processing		330	
-- Misc. supplies		315	
-- Photocopies		315	

19-Jun-86

COOPERATIVE STRENGTHENING PROJECT

Financial Plan in U.S. Dollars

DETAILED PROJECT BUDGET

Inflation= 5.00 % per year

LINE ITEMS	Notes	PROJECT TOTALS Items	Sub-totals
C. OTHER DIRECT COST			5,268
Misc. & contingency	10	5,268	
D. INDIRECT COST			95,449
1 OH Texas A & M	11	95,449	
II. INTERNATIONAL TECHNICAL ASSISTANCE			2,905,936
A. SALARIES	12		963,254
1 Coop. System Spclst		303,906	
2 Credit & Fin. Spclst		173,397	
3 Coop. Op. Spclst		303,906	
4 Staff Development Spclst		182,055	
B. BENEFITS			260,079
1 T.A. Staff	13	260,079	
C. ALLOWANCES	14		433,176
1 Quarters (housing)		201,397	
2 Post Differential		144,359	
3 Education		70,544	
4 TA building & Supp. [illegible]		16,747	
D. MISCELLANEOUS PERSONNEL	15		97,024
1 Medical examinations		4,756	
2 DBA Insurance		3,063	
3 Temp. Quarters All.		5,370	
4 Foreign Transfer Allow.		2,835	
5 Furniture allowance		81,000	
E. CONSULTANTS	16		65,180
1 Fees (international)		40,952	
2 Travel: Fares			
-- Domestic USA airfare		7,313	
-- RT USA to Guatemala		4,971	
-- Local travel		550	
3 Travel: Other			
-- Per diem USA		1,648	
-- Per diem Guatemala City		9,240	
-- Per diem other		1,785	
-- Miscellaneous		1,512	
4 Other Direct Cost		1,781	
F. TRAVEL & TRANSPORTATION	17		196,350
1 Relocation			
-- Storage of HHE		14,019	
-- HHE shipping		87,409	
-- Vehicle shipping		21,349	
-- Unaccomp. air freight		14,380	

TABLE No. VIII-6

GUA8OG3 19-Jun-86
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COOPERATIVE STRENGTHENING PROJECT

Financial Plan in U.S. Dollars

DETAILED PROJECT BUDGET

Inflation= 5.00 % per year

LINE ITEMS	Notes	PROJECT TOTALS Items	Sub-totals
(1) Fees (Guatemalan)		26,928	
(2) Travel: fares			
-- Local travel		1,930	
(3) Travel: other			
-- Per diem: other		[illegible]	
-- Miscellaneous		750	
(4) Other Direct Cost		1,350	
4. TRAVEL & TRANSPORTATION	[illegible]		[illegible]
(1) Airfare: Internat'l			
-- Observation: GUA-USA		[illegible]	
(2) Per diem & other			
-- Observation: GUA-USA		[illegible]	
-- Miscellaneous		[illegible]	
(3) In-country travel			
-- Per diem		[illegible]	
-- Fares		2,4[illegible]	
-- Vehicle operation		[illegible]	
-- Miscellaneous		[illegible]	
5. EQUIPMENT & COMMODITIES	[illegible]		[illegible]
(1) Data processing		[illegible]	
(2) Training equipment		[illegible]	
(3) Office equipment		[illegible]	
6. EXTERNAL AUDIT	[illegible]	[illegible]	[illegible]
7. TRAINING	[illegible]		41,[illegible]
(1) Instructors' fees		15,[illegible]	
(2) Travel: fares			
-- Local travel		[illegible]	
(3) Travel: other			
-- Per diem: other		[illegible]	
(4) Seminars, workshops		[illegible]	
(5) Scholarships tuition Guate.		[illegible]	
(6) Training materials		[illegible]	
(7) Other Direct Cost		[illegible]	
8. OTHER DIRECT COST	[illegible]		[illegible]
(1) Telecommunications		15,[illegible]	
(2) Data processing		[illegible]	
(3) Office supplies		[illegible]	
(4) Commodities		[illegible]	
(5) Services		[illegible]	
(6) Resource materials		[illegible]	
(7) Staff development		[illegible]	
(8) Translation		[illegible]	
(9) Equip. maint rental		[illegible]	
(10) FENACOAC services		[illegible],120	
(11) Office rental		[illegible],040	
(12) Miscellaneous		2,[illegible]40	

TABLE No. VIII-6

[illegible]
[illegible]

19-Jun-86

COOPERATIVE STRENGTHENING PROJECT

Financial Plan in U.S. Dollars

DETAILED PROJECT BUDGET

Inflation= 5.00 % per year

BEST AVAILABLE

LINE ITEMS	Notes	PROJECT TOTALS Items	PROJECT TOTALS Sub-totals
[illegible] LOAN INTEREST		(90,250)	(90,250)
[illegible] INSTITUTIONAL SUPPORT GRANTS	[illegible]		404,748
a. [illegible]ONNEL		126,944	
b. TRAVEL & TRANSPORTATION		31,723	
c. TRAINING		[illegible]	
d. EQUIPMENT & COMMODITIES		[illegible]	
e. AUDITS		120,[illegible]	
f. [illegible] & PUBLICITY		[illegible]	
[illegible] REGULATORY DEVELOPMENT ASSISTANCE	[illegible]		[illegible]
a. [illegible]		[illegible]	
b. [illegible]		[illegible]	
[illegible] SUPPORT GRANT	[illegible]		[illegible]
a. [illegible]		[illegible]	
b. [illegible]		[illegible]	
c. [illegible]		[illegible]	
d. [illegible]		13,574	
[illegible]	[illegible]		[illegible]
a. [illegible]		[illegible]	
b. [illegible] & CREDIT UNIONS		[illegible]	
[illegible] STABILIZATION	[illegible]		[illegible]
[illegible] FUND			[illegible]
a. [illegible]		[illegible]	
b. [illegible]		[illegible]	
c. [illegible]		[illegible]	
d. [illegible]		[illegible]	
e. [illegible]		[illegible]	
f. [illegible]		[illegible]	
g. [illegible]		[illegible]	
h. [illegible]		[illegible]	
i. [illegible]		[illegible]	
j. [illegible]		0	
b. [illegible] PROTECTION FUND		[illegible]	[illegible]
[illegible]	[illegible]		[illegible]

TABLE No. VIII-6

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19-Jun-86

COOPERATIVE STRENGTHENING PROJECT

Financial Plan in U.S. Dollars

DETAILED PROJECT BUDGET — Inflation= 5.00 % per year

LINE ITEMS	Notes	PROJECT TOTALS Items	Sub-totals
A. FENACOAC		630,000	
B. FECOAR		900,000	
C. FEDIMERQ		300,000	
D. FEDECOCAGUA		550,000	
E. FEDECOAG		50,000	
F. FEDECOVERA		150,000	
G. ARTEXCO		50,000	
H. FEDECOCN		100,000	
I. FEDEPESCA		0	
J. FENACOVI		0	
CONTINGENCY		80,250	80,250
GRAND TOTAL		[illegible]	[illegible]

ANNEX 2

FENACOAC, R. L.

NATIONAL CREDIT UNION FEDERATION OF GUATEMALA

FINANCIAL STATEMENTS

Balance Sheet	December 31	
Assets	1985	1984
Cash and Banks		
Cash	Q. 5,025	Q. 11,207
Banks	2,999,990	1,606,750
	3,005,015	1,617,957
Loans Outstanding – Net	8,023,693	8,926,306
Investments	1,466,017	1,426,012
Other Assets – Net	143,443	375,923
Fixed Assets – Net	183,833	199,110
Deferred charges	45,064	22,766
TOTAL	Q. 12,867,065	Q. 12,568,074

Liabilities and Capital

Liabilities	December 31 1985	1984
Deposits	Q. 489,797	Q. 106,338
Accounts payable and contingent liabilities	475,753	402,276
Notes Payable		
Banks	8,686,704	9,880,835
Other financial institutions	1,000,000	0
Agreements and contracts	36,158	41,380
	9,722,862	9,922,215
Deferred Credits	3,336	1,152
TOTAL	10,691,748	10,431,981
Capital		
Credit Union Shares	1,452,201	1,458,905
Reserves	706,540	672,498
Retained Earnings	16,576	4,690
TOTAL	2,175,317	2,136,093
TOTAL LIABILITIES AND CAPITAL	Q. 12,867,065	Q. 12,568,074

Income Statement

	December 31			
Income		1985		1984
Interest Earned	Q.	947,722	Q.	978,421
Insurance and Other Income		327,746		287,319
TOTAL INCOME		1,275,468		1,265,740
Expense				
Interest Paid		299,019		252,405
Insurance Expenses		243,188		173,182
Provision for Loan Losses		146,868		282,689
Administrative and Operating Costs		572,465		552,329
TOTAL EXPENSES		1,261,540		1,260,605
NET OPERATING INCOME		13,928		5,135
Non-Operating Items				
Prior year income adjustments		3,899		361
Prior year expense adjustments		(1,251)		(806)
		2,648		(445)
NET INCOME	Q.	161,567		4,690