PROJECT EVALUATION SUMMARY (PES) - PART I

1. PROJECT TITLE Credit Union Strengthening	2. PROJECT NUMBER 515-0189	3. MISSION/AID/W OFFICE USAID/Costa Rica
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) 86-5	
	☒ REGULAR EVALUATION ☐ SPECIAL EVALUATION	

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 82	B. Final Obligation Expected FY 83	C. Final Input Delivery FY 87	A. Total $ 1,000,000 B. U.S. $ 600,000	From (month/yr.) July 1982 To (month/yr.) July 1986 Date of Evaluation Review August 1, 1986

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
I. UNRESOLVED ISSUES: a) Subscribed as opposed to paid-in shares constitute the greater portion of the federation' capital base; b) Rapid deposit growth has increased the liquidity state thereby depressing earnings and putting pressure on liability-to-equity ratio; c) Non-financial services offered by FEDECREDITO's affiliate credit unions drain resources-reducing profits; d) Federation and its members need to make cost effective decisions re. computer system's compatibility/expandibility; e) Federation and its members will need increasingly sophisticated asset/liability management techniques to counter possibility of pressure on spread due to the term structure of assets/liabilities.	FEDECREDITO	Ongoing
II. RECOMMENDATIONS FOR FUTURE DEVELOPMENT: Given the list of unresolved issues and corresponding risks involved, the evaluation team recommends a number of major business development activities be undertaken to assist the movement's future development. This program should define strategies for expansion into new markets and provide guidance for resolving current potential problems as mentioned in the evaluation report.	FEDECREDITO	Ongoing

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS			10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT N/A
☐ Project Paper	☐ Implementation Plan e.g., CPI Network	☒ Other (Specify) Evaluation Report	A. ☐ Continue Project Without Change
☐ Financial Plan	☐ PIO/T	☐ Other (Specify)	B. ☐ Change Project Design and/or ☐ Change Implementation Plan
☐ Logical Framework	☐ PIO/C		C. ☐ Discontinue Project
☐ Project Agreement	☐ PIO/P		

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)	12. Mission/AID/W Office Director Approval
Beverly Latham, Project Officer Rafael Rosario, Agriculture Development Officer	Signature Typed Name: Daniel A. Chaij, Mission Director Date: February 4, 1987

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13. SUMMARY

The final evaluation report for the Credit Union Strengthening Project stated that project objectives have been fully achieved. The principal objective was to strengthen and expand the ability of the Costa Rican credit union system to provide essential financial services to low and middle income families by reinforcing the administrative and operational capabilities of the federation and to extend its services to member credit unions. The evaluation report states that the credit union system has been transformed during the four years of AID assistance. It now represents a viable alternative to the nationalized banking system for a significant percentage of the population. The federation's administrative personnel has more than doubled. Member coops have increased from 26 at project start to 50 at present, and individual membership stands at over 94,000.

In addition to the original capitalization source, which was local currency generated by the PL480 Title I Program, the federation has capitalized on funds received from other sources including the BID/COLAC IV (International Development Bank/Latin American Confederation of Credit Unions) loan as well as loans generated using its own resources. As a result, the capital position of the federation exceeds the estimate contained in the implementation plan.

FEDECREDITO has also significantly improved its income position to the point where the organization is presently financially self-sufficient. At the same time, the Federation has built a sound administrative system, including competent managers and staff, along with well-documented policies and procedures for nearly all aspects of the organization's operations.

14. EVALUATION METHODOLOGY

The World Council of Credit Unions (WOCCU) was contracted in July 1986 to deliver the evaluation report under Purchase Order No. 515-6419. WOCCU formed an evaluation team comprised of Gordon Hurd, WOCCU's Development Resources Coordinator and consultants Peter Livingston and Marcus Schaefer. Mr. Livingston is the former Vice-President of Economics and Research for the U.S. Credit Union National Association, Inc. (CUNA). Mr Schaefer is the General Manager of the FDIC Federal Credit Union. Edison Silva, Manager of Financial Operations for the Latin American Confederation of Credit Unions (COLAC), and Peter Marion, WOCCU's Regional Coordinator for Latin America, completed the team.

Field work covered a two week period during which project documentation was reviewed, interviews were conducted with all management staff of FEDECREDITO affiliates, discussions were held with USAID officials and on-site surveys of nine affiliates were carried out. The last week was devoted to analysis of the information obtained and preparation of a draft report. A conference was held before the team's departure to brief USAID and FEDECREDITO on the evaluation's findings.

15. EXTERNAL FACTORS

The chief external factor affecting this project was the economic crisis that has influenced all sectors in Costa Rica since the beginning of this decade.

16. INPUTS

As mentioned above, capitalization for FEDECREDITO was originally based on loan activity from the local currencies generated by the PL480 Title I Program. These funds, received in 1984, have been disbursed and the projected capitalization subscribed.

From 1982 to 1985 the federation expended nearly 46.3 million colones for administrative and operational costs or about US$1.1 million, nearly double the counterpart required by the Grant Agreement.

Technical assistance, another important factor in project success, was provided by COLAC. The evaluators described this TA as exemplary. The contract between FEDECREDITO and COLAC provided for a resident consultant to be based at FEDECREDITO and work closely with the federation's management staff. The evaluators felt that the technical assistance provided by this consultant influenced the overall success of the project to a considerable degree.

An Administrative Credit fund was established for the members to draw from for the purpose of upgrading their administrative personnel, specifically by providing to each of the participating members the funds to hire three individuals: a manager, an accountant and an agriculture extensionist.

17. OUTPUTS

At project onset FEDECREDITO was on the verge of bankruptcy. Today the federation is 100% self-sufficient. The goal of twentyfive member cooperatives benefitting from the Administrative Credit Program was reached and the fund is being recycled to reach a new goal of 45 by the 8th year. Loan terms had been shortened to one year in most cases in order to accelerate the rotation of these resources. All member credit unions had reached self sufficiency by the 4th year and a total of 38% of the principal has been repaid and made available for more loans. Finally, not only has FEDECREDITO's staff doubled from 19 to 40 over project life, the quality has improved to the extent that now 19 have university degrees and 10 have advanced technical training. In 1982 only one staff member had a university degree.

18. PURPOSE

The purpose of the Project was to strengthen the National Federation of Saving and Loan Cooperatives' (FEDECREDITO) administrative, operational, and institutional capacity and to expand its services to the affiliated cooperatives in rural areas.

The project was divided into three components: Administration of Base Cooperatives; Strengthening of FEDECREDITO's Administration; and Technical Assistance. The evaluation's findings showed success in all three areas.

The evaluation team found significant the fact that this project correlates strongly with each of the four "pillars" of of AID's overall development strategy. It exemplifies the Agency's objectives with respect to institutional development. A strong human and financial resource base has been established within a system designed to provide continuing benefits to its members. The objective of providing a viable alternative to the nationalized banking system for a segment of the population hitherto not serviced has been met as indicated by the fact that most of FEDECREDITO's affiliates are located in rural areas and serve the mostly middle to low income farmers living in these areas.

19. GOAL/SUBGOAL

The goal of this project was to strengthen the cooperative sector in Costa Rica. The subgoal of expanding the services of FEDECREDITO to reach a large section of the population that hitherto did not have access to an array of banking services was to be achieved through strengthening the federation's administrative base. An indication of how successful the project was in reaching its goals can be seen in the number of individual members now being adequately served by the institution and its affiliates.

20. BENEFICIARIES

FEDECREDITO and its affiliates directly benefitted from the technical assistance and grant funding provided by the project. The indirect beneficiaries are small farmers and entrepreneurs numbering almost 100,000. Before the project, this important segment of the poplation did not have access within the public sector banking community to the services provided by FEDECREDITO. The credit union movement in Costa Rica now serves roughly 16% of the population, a figure that the evaluation team found significant in comparison with other Latin American countries.

The Country Development Strategy Statement (CDSS) for FY 1983-87 mentions as a specific goal-"...provide credit and technical assistance to farmers, especially small producers, through an extensive rural cooperative network." The FEDECREDITO project clearly complied with this Mission strategy goal.

One of the FEDECREDITO system's most notable achievements has been the mobilization of impressive amounts of deposits. These funds have been used to finance productive activities such as small businesses in both rural and urban areas. The evaluators think that this capital has contributed to raising the productive output of the Costa Rican economy by stimulating employment and increasing income for these small producers.

In addition the report states that, the savings habits that have been instilled, and the system-wide improvements in capabilities and attitudes are likely to be lasting benefits of this project.

21. UNPLANNED EFFECTS

The evaluation report notes that in a very modest way, the project may have contributed to alleviation of the balance-of-payments problem. The federation's savings were mobilized from domestic sources, ie. credit union members, thereby reducing dependance on external capital to finance small-scale productive endeavors.

22. LESSONS LEARNED

a) The Admimistrative Credit Program approach to assisting member credit unions to attract and maintain qualified personnel was more successful than planned. The member credit unions who originally took out loans under the program were quick to repay their debt. This spirit of cooperation, which was instilled by the federation's leadership, helped to free the program's funds for use by additional members.

b) Governments, though generally regarded as obstacles to private sector development, can play a beneficial role as shown by the Government of Costa Rica in this case. Active encouragement was provided to the development of the FEDECREDITO system through the passage of favorable legislation.

c) Nearly half of FEDECREDITO's member credit unions provide non-financial services, which include offering agricultural supplies, grocery and hardware stores, pharmacies, ready-to-wear, etc. These additional services are relatively unprofitable, furthermore they sometimes put a drain on capital and human resources.

d) Some of the member credit unions have recently installed computer systems. The federation, having just installed its own system was not in a position to offer technical assistance in this area, nor develop a set of guidelines to insure standardization and compatibility. Organizations, such as the FEDECREDITO system, should be in the forefront of computer technology in order to insure that an integrated system, capable of producing financial and management decision-making data for all levels of the movement can be implemented.

e) A lesson of note from this experience is that projects can be successful without elaborate designs, rigorous implementation requirements or exorbitant funding.

f) As was mentioned in the PES summary, the technical assistance provided by COLAC was outstanding. In part this is due to the particular relationship that exists between the two organizations, ie. creditor (COLAC) to borrower (FEDECREDITO). Moreover, the support of a worldwide network such as that of the credit union movement with its vertical integration linking individual credit unions to national federations, which in turn are linked to regional confederations and finally to the World Council of Credit Unions is a real advantage to be considered by project designers. The responsibility for implementation is therefore spread out more effectively and efficiently.

h) Finally, and perhaps most important to note here: the quality of the implementing organization could be the most critical factor in determining the success or failure of any project. Success could not have been achieved in the Credit Union Strengthening Project had it not been for the commitment and hard work of the staff and leadership of FEDECREDITO at all levels.

23. SPECIAL COMMENTS OR REMARKS

All pertinent issues have been covered in the preceding four pages.

(Attachment to PES# 86-5)

EVALUATION COST DATA

USAID/Costa Rica/Rural Dev. or Bureau/Officer ____________

Form completed by Beverly Latham — Typed Name; Rural Development Division — Office; Nov. 13, 1986 — Date

1. No. and Title of Project/Activity: Credit Union Strengthening Program Evaluation
   (or Title of Evaluation Report) Evaluation of OPG No. 515-0189

2. Date of Evaluation Report: September 30, 1986
   Date of PES (if different): November 30, 1986

3. Mission Staff Person Days involved in this Evaluation (estimated):
   - Professional Staff 2 Person Days
   - Support Staff 0 Person Days

4. AID/W Direct-Hire or IPA TDY support funded by Mission (or office) for this evaluation: None

Name	Period of TDY (Person-Days)	Dollar Cost: (Travel, Per Diem, etc)		Source of Funds*
N/A	N/A	N/A	N/A	N/A

5. Contractor Support, if any, for this evaluation:**

Name of Contractor	Contract #	Dollar Amount of Contract	Source of Funds*
World Council Of Credit Unions Inc.	Purchase Order No. 515-6419 6/16/86	$23,465.00	PD&S/ARDN

*Indicate Project Budget, PD&S, Mission O.E. or Central/Regional Bureau funds

**IQC, RSSA, PASA, PSC, Purchase Order, Institutional Contract, Cooperative Agreement, etc.

D. SCOPE OF WORK

The contractor shall provide the following:

1. Determination of the extent to which the Grantee has complied with the terms of the Project Agreement and thoroughly describe any problems associated with compliance;

2. A discussion of any previous evaluations to determine what use was made of the previous evaluations, conclusions and recommendations in the review of the project;

3. Description of the extent to which the Project has made progress towards achievement of its specifically stated objectives as defined in the grant proposal and Project Agreement;

4. Determination of the extent to which the Project has had "developmental" impact as expected and expressed in the grant proposal;

5. A separate section which determines the extent to which the Project has contributed to the Mission's overall development strategy; and

6. A separate section on the lessons learned to date describing the causal relationship factors that have proved critical to Project success, including the political, policy, economic, social and bureaucreatic preconditions within the host country and AID. This should also include a discussion on the techniques or approaches which have proved most effective or had to be changed and why.

7. Clear presentation of the overall, general, and specific observations and recommendations regarding implementation, project design, and any other factors which the Contractor deems relevant. It is expected that specific recommendations will be made regarding future Project Implementation, and will include, but not be limited to:

   - the elimination of constraints to successful Project Implementation;

   - actions which could be taken by the Mission and/or the Grantee that would contribute to more efficient Project management;

The evaluation will:

- Determine the capacity of FEDECREDITO to function as the central financial entity for the savings and credit cooperative system.

- Measure the impact obtained at the level of the Federation and its cooperatives in the growth of the savings and credit federated system.

- o Identify the specific areas toward which FEDECREDITO should direct its action over the medium term in order to achieve its development objectives.

- o Determine the main limitations to FEDECREDITO's ability to further productive activities that will enable it to generate new employment opportunities.

The Contractor will cover the following specific areas:

I. <u>At the Federation Level</u>:

a. Financial Area - Evaluate:

1. The economic/financial evolution of FEDECREDITO.
2. The economic results of FEDECREDITO's activities.
3. The financial structure of the Federation.
4. Compliance with the financial policies set by the Federation and the savings and credit cooperative system.
5. In addition, the Contractor will quantify the financial resources required for the Federation's credit program and identify areas of internal and external support required by FEDECREDITO over the medium-term, giving special emphasis to mobilizing internal savings.

b. Credit Area - Analyze:

1. The make-up and present status of the current credit portfolio.
2. The development impact of the credit given with funds from administrative credit.
3. The credit policies set for the various lines of credit, particularly in terms of the length of terms, amounts, interest rates, etc.
4. The development of the collection system and its efficiency in controlling delinquency.
5. The efficiency of credit procedures and of the current manuals and regulations.
6. The effective interest rate structure in relation to the cost of funds in the national market.

c. Attraction of Deposits - Evaluate:

1. Compliance with policies set for attracting and investing savings through deposits.
2. The evolution and sources for obtaining demand and time deposits.
3. Use of funds attracted.
4. The manuals and documents produced for the administration of the program.

d. Technical Assistance and Education - Analyze:

1. Quality and impact of technical assistance provided by COLAC.
2. Training and technical assistance programs developed and determine the impact obtained on leaders and officials, as well as on the development of the cooperatives.
3. The results of technical assistance with regards to the objectives of the Federation, the cooperatives and their members.
4. The content, frequency, and participation in the training programs developed by the Federation.
5. Compliance with the technical assistance and training policies set up by the Federation and the federated system.

e. Institutional Development of FEDECREDITO - Evaluate:

1. FEDECREDITO's administrative and organizational structure in order to determine its efficiency and effectiveness with regards to the objectiveness of the system.
2. The human and physical resources that the organization has available at present, and their efficiency in the various assignments completed.
3. The efficiency and effectiveness of the systems and procedures of FEDECREDITO.
4. The present installed capacity in order to determine the capacity to absorb new funds.
5. The extent of integration of the savings and credit cooperative movement.
6. The extent to which FEDECREDITO instutional capacities (management, technical, financial, etc.) are being developed in order to continue project benefits after AID funding ends.
7. The likely project benefits which will be sustained after AID funding ends.

II. At the Cooperative Level:

The member cooperatives of FEDECREDITO will be evaluated and the following areas included:

a. Analysis of financial and social growth during the 1982-85 period.

b. Analysis of the main indicators of the savings and credit affiliated system.

c. Identification of the most prevalent strengths and weaknesses of the cooperatives.

d. Analysis of the impact of the programs and services offered by the Federation.

E. REQUIRED REPORTS

The Contractor shall present 5 copies in English of a written report which covers all of the above points not later than August 1, 1986.

The report shall include:

1. An executive summary which will be a self-contained document and which will include the specific methodology used, findings, conclusions and recommendations. It will also include the sections on development impact and lessons learned.

2. A copy of the scope of work under which the evaluation was carried out. Any deviation from the scope shall be explained.

3. A listing of the evaluation team including host country personnel, their field of expertise and role they played on the team.

4. A paginated table of contents.

World Council of Credit Unions

CREDIT UNION STRENGTHENING PROGRAM EVALUATION

EXECUTIVE SUMMARY

Volume I

Prepared for the

RURAL DEVELOPMENT OFFICE
of
USAID/Costa Rica

OPG 515-0189

by

Gordon Hurd
Peter Livingston
Marcus Schaefer
J. Peter Marion

September, 1986

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Preface

This Executive Summary is the first volume of a two-volume evaluation prepared by the World Council of Credit Unions for the Rural Development Office of the USAID/Costa Rica mission on the Credit Union Strengthening Operational Program Grant 515-0189. This volume contains a summary of the evaluation methodology, findings, conclusions, recommendations and sections on development impact and lessons learned.

Volume II contains the body of the report, including in-depth analyses of project results and the status of the national credit union system at the federation and credit union levels, and the appendices.

The evaluation team wishes to note here its sincere appreciation for the support and collaboration of the staff and leadership of FEDECREDITO and its affiliated office of USAID/Costa Rica. Without their active involvement, this report would not have been possible.

EXECUTIVE SUMMARY

A. METHODOLOGY

In May 1986, the USAID Mission in Costa Rica prepared a statement of work for the evaluation of its project with the Costa Rican national credit union system, the Credit Union Strengthening Operational Program Grant 515-0189. The World Council of Credit Unions (WOCCU) was contracted in July to deliver the evaluation report under Purchase Order No. 515-6419. An evaluation team was formed, comprised of Gordon Hurd, WOCCU's Development Resources Coordinator, and consultants Peter Livingston and Marcus Schaefer. Mr. Livingston is the former Vice President/Economics and Research for the U.S. Credit Union National Association, Inc. (CUNA), while Mr. Schaefer is the General Manager of the FDIC Federal Credit Union. In addition, Edison Silva, Manager of Financial Operations of the Latin American Confederation of Credit Unions (COLAC), joined the team during the third week in Costa Rica. Technical guidance and direction was provided by Peter Marion, WOCCU's Regional Coordinator for Latin America.

Field work was conducted from July 14 to August 1, 1986. During the initial two weeks, the evaluation team focused on gathering information through 1) review of project documentation, 2) interviews with all management staff of the National Credit Union Federation (FEDECREDITO), 3) discussions with USAID officials, and 4) on-site surveys of nine credit unions. The last week was devoted to analysis of the information obtained and preparation of a draft report. Briefings for both the FEDECREDITO Board and USAID were held to present the Team's major findings and recommendations. Appendix 1 of Volume II contains the list of persons contacted and credit unions surveyed.

The draft report was subsequently revised and edited by the evaluation team. Comments and observations provided by both FEDECREDITO and COLAC have been incorporated in this final report. However, the World Council of Credit Unions is solely responsible for the views expressed.

B. FINDINGS AND CONCLUSIONS

This project was intended to strengthen and expand the ability of the Costa Rican credit union system to provide essential financial services to low- and middle-income families. Specifically it sought to:

- Improve the administrative and operational capabilities of FEDECREDITO.
- Expand federation services to member credit unions.
- Encourage the adoption of sound financial and economic policies by both the federation and its member credit unions to permit them to become operationally self-sustained enterprises.

It is important to note that at the initiation of the project in July 1982, the credit union movement, particularly at the federation level, was experiencing serious financial and operational difficulties. The federation was unable to provide meaningful technical assistance and training services, and its financial operations were in disarray, due to high dollar-denominated debt and over-investment in unprofitable non-financial operations. Its financial position was weakened severely by the rapid devaluation that occurred in the early 1980s, making it virtually impossible for the federation to repay its dollar-denominated loans with COLAC. As a result, credit union membership in the federation had declined to just seventeen credit unions.

In this unpromising setting the project was initiated, first as an effort to resuscitate the movement, and second as a means to recapture the potential that had seemed evident just a few short years before.

The project objectives have been fully achieved; more importantly, the credit union system has been transformed during the four years of AID assistance. It now represents a viable alternative to the nationalized banking system for a significant portion of the population, a development that could scarcely have been foreseen at the project's outset. The following discusses the progress realized for each of the three major objectives.

1. FEDECREDITO Capabilities

There is really no comparison between the federation that existed four years ago and the one found today. Not only have the number of staff increased by about 100%, but more significantly, the caliber of personnel has greatly improved. Currently, 19 employees have university training, compared to just one in 1982. This staff is not only able to do more, but to do it more efficiently, as shown by the asset/employee ratio which improved from c 4.0 million per employee to c 12.4 million between 1982 and 1985.

Previously, guidelines and policies were inadequate for the federation's internal operations as well as for its services. This deficiency has been well addressed, such that extensive policies exist for nearly all aspects of the organization's activities. Of note is the well-defined planning process that effectively uses the input of the member credit unions in setting out the federation's short- and medium-term objectives, and the personnel system that is effective in attracting and retaining qualified and motivated individuals.

2. Expanding FEDECREDITO Services

The federation has expanded both its financial and technical assistance/training services to member credit unions. The federation has promoted a highly successful deposit mobilization program among its member credit unions using market interest rates. While credit union deposits increased from c 219 million to c 1,463 million between

1982 and 1985, the federation increased its deposits from c 31 million to c 295 million. The federation's program enables its member credit unions to aggressively pursue deposits, secure in the knowledge that excess liquidity can always be placed with the federation at attractive interest rates. Not only has this program significantly increased credit union income, but it has been effective in attracting new members, particularly net savers.

In addition, the federation has successfully mobilized capital resources from external organizations, resulting in an additional U.S. US$ 3 million in loan capital for its member credit unions. Importantly, lending criteria have been considerably strengthened, such that the repayment problems encountered with previous intermediation borrowings have been reduced substantially. Also, since these new operations have been strictly in local currency, the devaluation problems that previously affected its liability portfolio have been avoided.

The federation's technical assistance and training services have become increasingly responsive to needs identified at the credit union level. A comprehensive diagnostic approach has been utilized to assess credit union strengths and weaknesses, serving as the basis for detailed institutional plans with specific measurable objectives. Training programs have been designed to provide practical skills for credit union managers, staff, and leadership, and have been implemented using effective training techniques.

Perhaps the most relevant measure of the federation's improved financial and technical services is the number of credit unions and credit union members now found within the system. From a low of 17 affiliates with less than 25,000 members, FEDECREDITO now has 50 credit union affiliates, with nearly 100,000 members. Clearly, the federation is offering a product that is in considerable demand.

3. Improving Movement Financial Self-Sufficiency

As a result of these improved services and impressive growth, the federation as well as its credit unions have strengthened their financial position. The federation is now able to meet its operating costs from earned income and has vastly improved its balance sheet position, as demonstrated by a reduction of its liability/capital ratio from 17:1 to 7:1.

Although the federation is largely responsible for this improvement, it is important to recognize the extremely valuable and unanticipated assistance received from the government. Legislation enacted in 1984 assisted FEDECREDITO, as well as other cooperative organizations with similar problems, to cover the losses incurred on their dollar-denominated loan portfolio. This single act enabled the federation to eliminate these accumulated losses and to start anew to rebuild its financial position.

The financial position at the credit union level has similarly improved. The project's administrative credit program enabled 25 credit unions to improve management capabilities, resulting in increased growth and profitability. All credit unions have benefited from the deposit mobilization program, which, as noted, has dramatically increased the amount of capital available for lending and investment purposes. Despite the large increase in deposits, credit unions have generally strengthened their equity position, in part as a result of the capitalization requirement on loans received from the federation. They have also benefited from the overall improvements in the national economy.

Some credit unions with a substantial portion of their loan portfolio in certain agricultural products are currently experienceing some repayment problems. This appears to be mostly a cyclical problem that eventually will be resolved. Credit unions heavily engaged in providing non-financial services have seen their profitability reduced. Overall, though, credit unions are significantly stronger than they were four years ago.

In terms of the project objectives, as contained in the grant agreement, the results have been most encouraging. It is significant that these achievements resulted from a relatively modest input of resources and a limited set of specified activities. AID resources have been well spent: the credit union movement has been revitalized, and the potential originally envisioned for the movement is within reach.

C. DEVELOPMENT IMPACT

Although this project focused on restoring the national organization and the credit union system, it has had an important national impact for Costa Rica and its citizens. The fourfold growth in members affiliated to FEDECREDITO means that about 16% of the total population are now served by the federated credit union movement. Compared to movements in other Latin American countries, as well as most other developing countries, this is an impressive figure.

These members have seen their deposits increase over the past four years to an average of c 15,700 by the end of 1985. Interest income has been increased for these members, with an additional c 235 million increment for the period from 1983 to 1985 alone. Loans generated by the system for small farmers, merchants, manufacturers, and others have likewise increased dramatically, from c 208 million in 1982 to c 1,275 million in 1985. Such credit generally is unobtainable from other sources for these individuals.

In a modest way, the project may have stimulated the formation of domestic capital, long recognized as an essential ingredient of development. With appropriate facilities, attractive interest incentives, and assurance of sound management, credit union members have chosen to save a substantial portion of their increased

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liquidity, instead of using it for consumer purchases with potential inflationary effects.

In short, this project appears to have initiated a number of trends that can only have a positive impact on the nation's economic development.

D. LESSON LEARNED

A number of lessons can be derived from this project which will be of interest to individuals engaged in the design and implementation of similar cooperative development projects. These can be summarized as follows:

1. Administrative Credit Revolving Fund

A revolving loan fund used to pay competitive salaries, can be an effective way to attract qualified personnel for local level institutions. These resources enabled the participating credit unions to increase salaries, thereby attracting better-prepared managers and staff, resulting in improved institutional performance.

2. Market Interest Rates

Savings can be mobilized, even among lower- and middle-income groups, if market level rates are offered. Contrary to some expectations, these groups have been most responsive to attractive rates.

3. Government Role in Private Sector Development

Governments can play an important role in the development of private-sector cooperative institutions by: 1) respecting their independence, 2) promoting their growth and development, 3) providing the public with adequate controls against mismanagement or corruption, and 4) providing relief to private sector organizations affected by unforeseen changes in national economic conditions which are clearly beyond their effective control.

4. Loan-Based Capitalization System

Reliance by a cooperative financial organization on a loan-based capitalization system produces distortions and risks that could threaten its financial stability. An alternative or complementary proportional savings- or asset-based approach is likely to be more equitable to the membership and reduce risks for the organization.

5. Creation of Equity

Treating share capital as equity in credit union organizations can overstate their ability to support liabilities, potentially leading to repayment or default problems. Building reserves and retained earnings through increased profitability creates the necessary financial cushion to meet potential losses.

6. Credit Union Non-Financial Services

Credit unions may find non-financial services to be only marginally profitable at best, and divert the limited managerial and financial resources away from financial operations, their primary business purpose. Non-financial services may be best provided through cooperative or other organizations completely separated from the credit union.

7. Computer Technology

National membership organizations, like FEDECREDITO, should be in the vanguard of the adoption of computer technology in order to to ensure that the systems developed will be adequately compatible, meet minimum operating standards, and provide sufficient information to meet decision-making needs.

8. Project Design/Implementation

Successful projects do not necessarily require elaborate designs and detailed implementation procedures. A more simplified approach still requires the implementing organization to plan and take responsibility for its own development.

9. Technical Assistance

A membership relationship, such as exists between FEDECREDITO and COLAC, can increase the probability of receiving quality technical services. Since its success is in large measure dependent upon the success of its member, the motivation to provide appropriate assistance is increased. In addition, the membership relationship allows it to call upon other forms of support and assistance.

10. Project Participants

Projects are successful only to the extent that highly competent and motivated individuals are identified to fill key positions within the implementing organization. For project designers, the "who" is at least as important as the "what".

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E. ISSUES

The work of the federation is far from done. Several issues exist that pose potential risks to the on-going development of the movement. These include:

1. Capital Base

Most of the federation's capital consists of subscribed as opposed to paid-in capital, mostly from credit union borrowers. Further, only 14% of FEDECREDITO's members account for 55% of its shares. The federation's financial position is potentially threatened if the subscribed shares are not paid, and/or if major shareholders choose to withdraw. Also, credit union shares are exposed to relatively high risks due to FEDECREDITO's relatively low level of equity.

2. Deposit Mobilization

Rapid deposit growth has increased system liquidity, tended to depress earnings and put pressure on the liabilities-to-equity ratio. The movement is now very much driven and exposed to new financial risks. Their reduction will require the development of substantially more sophisticated financial planning, marketing and management capabilities.

3. Intermediation of Development Finance Capital

While this service remains important to many credit unions and their members, it has become a relatively smaller portion of the federation's operations. To continue to provide credit at rates farmers and other producers can afford, the movement will have to develop new sources of funds and/or reduce lending costs.

4. Non-Financial Services

The drain on credit union resources, both financial and managerial, posed by the widespread provision of non-financial services reduces credit union profitability and could threaten their financial stability. The movement has yet to clearly decide to either retain these services and manage them more efficiently, or eliminate them and concentrate solely on the provision of financial services.

5. Computer Systems

The federation as well as several credit unions have begun implementation of computer systems. Initial review indicates that there is a substantial risk that a lack of standardization, flexibility, and expandibility could occur, thereby seriously limiting the potential benefits obtained from this technology.

6. Planning and Development

How can the valuable technical assistance, training, and development services provided by the federation be financed without being largely subsidized by the financial operations? To what extent can dues and fees be expected to cover these costs? What operational adjustments are needed?

7. Savings Protection/Guaranty Program

Can a program be established to protect member savings and deposits in the event of credit union liquidation? This may tend to reduce the cost of funds and marketing expenses for the movement.

8. Expanded Credit Services

How can the credit union system meet the large demand for credit that exists for housing, small business development, and other critical needs? Are these credit services possible within the financial and managerial limitations of credit unions? Can external capital be identified to meet this demand?

9. Loan Protection/Live Savings Program

What guidelines are needed to assure the actuarial soundness of this program? Does it have an appropriate financial structure, including segregation of program assets, liabilities and capital from other FEDECREDITO divisions?

10. Credit Union Financial Condition

Credit unions are FEDECREDITO's principal clients and owners. What are their financial abilities to capitalize the federation and purchase its financial and non-financial services? How significant is delinquency? What is the degree of technical solvency?

11. Federation Cost Containment

How can FEDECREDITO control rising administrative costs? What structural adjustments, systems modifications and cost accounting techniques are needed? How can productivity be improved?

12. New Services Development

A number of new ventures have been put forward, including the development of a banking entity, expansion of credit services to meet needs in housing and small business development, and establishment of a program to protect member savings. Such expansion must be analyzed against the risk of overextending the movement's existing human and financial resources particularly at the federation level.

What financial services and products are needed by the current and potential membership, at both the member and credit union levels, which are not currently being met by the credit union system, but are potentially feasible? How can system consolidation and new services development be reconciled? What are the movement's strategic objectives for market position and performance?

13. Cash Flow Management

The federation and its member credit unions will be subject to potentially large swings in their deposit base with changing national economic conditions. Placement of these funds may also be subject to severe seasonal and cyclical fluctations. Increased skills in cash flow prediction and management at both the national and primary levels will be required to minimize potential risks.

14. Asset/Liability Management

The federation and its credit unions may be exposed to continuing pressures on their spreads, due to the term structure of their assets and liabilities. Increasingly sophisticated asset/liability management techniques will be required to maintain adequate margins throughout the system.

15. Information Management

Although the federation has a relatively good information base, increasing competitive demands will require this information to be systematized for management decision-making purposes.

F. RECOMMENDATIONS

To assist in the resolution of these issues and establish a strong foundation for continued development, the evaluation team recommends that FEDECREDITO obtain the necessary technical and financial resources to undertake a program of major business development components. These would include:

1. Market Analysis and Development

An analysis of the current and potential market segments served by the credit union system and an identification of the types of services and products of interest to this market segment. A whole range of options, unavailable in the Costa Rican context, yet common to U.S. credit unions, could be introduced. A comprehensive market development strategy would be produced to guide the movement's business planning for the next decade.

2. Financial Policy and Management Development

This component would develop solution strategies addressing issues related to capitalization, equity strengthening, asset/liability management, pricing policies, and other factors fundamental to the long-term financial health of the federation and the movement.

3. FEDECREDITO Systems Development

This component would support continued upgrading of FEDECREDITO's internal operating systems based on an in-depth organizational analysis to identify the most appropriate structure, division of responsibilities, work flow, etc., to permit the organization to efficiently manage its expanding activities, and to develop new business programs.

4. Computer Systems Development

This component would develop standards and guidelines for the implementation of a movement-wide system that will meet information and operating requirements at all levels.

5. Savings Protection/Guaranty Program Development

This component will determine the feasibility of establishing a savings protection program to protect credit union member savings from losses due to institutional insolvency. If feasible, it will assist the design, development and implementation of the program.

This program builds on the success of the current project and represents an integrated strategy to address the movement's continuing needs in the areas of market development, finance, operations, computerization and consolidation of the savings base.

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World Council of Credit Unions

CREDIT UNION STRENGTHENING PROGRAM EVALUATION

EVALUATION

Volume II

Prepared for the

RURAL DEVELOPMENT OFFICE
of
USAID/Costa Rica

OPG 515-0189

by

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September, 1986

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Preface

This is the second volume of a two-volume evaluation prepared by the World Council of Credit Unions for the Rural Development Office of the USAID/Costa Rica mission on the Credit Union Strengthening Operational Program Grant 515-0189. This volume contains the body of the report, including in-depth analyses of project results and the status of the national credit union system at the federation and credit union levels, and the appendices.

Volume I contains the Executive Summary of this report, including the methodology, findings, conclusions, recommendations and sections on development impact and lessons learned.

List of Abbreviations

AID	Agency for International Development
BANCOOP	Costa Rican Cooperative Bank
BID	Inter-American Development Bank
BID/COLAC IV	Loan Program No. IV from BID to COLAC to FEDECREDITO
C or c	Colones (Costa Rica national currency)
CAD	Savings deposit Mobilization Program
CDSS	Country Development Strategy Statement
CLF	Central Liquidity Facility
COLAC	Latin American Confederation of Credit Unions
DFF	Development Finance Facility
FDIC	Federal Deposit Insurance Corporation
FEDECREDITO	National Credit Union Federation of Costa Rica
FY	Fiscal Year
GOCR	Government of Costa Rica
HRD	Human Resources Division
LC$	Local Currency U.S. Dollar Equivalents
LP/LS	Loan Protection/Life Savings Program (similar to mutual insurance
OPG	Operation Program Grant
PL 480	Public Law 480
SMP	Savings Mobilization Program
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

I. INTRODUCTION

METHODOLOGY

In May 1986, the USAID Mission in Costa Rica prepared a statement of work for the evaluation of its project with the Costa Rican national credit union system, the Credit Union Strengthening Operational Program Grant 515-0189. The World Council of Credit Unions (WOCCU) was contracted in July to deliver the evaluation report under Purchase Order No. 515-6419. An evaluation team was formed, comprised of Gordon Hurd, WOCCU's Development Resources Coordinator, and consultants Peter Livingston and Marcus Schaefer. Mr. Livingston is the former Vice President/Economics and Research for the U.S. Credit Union National Association, Inc. (CUNA), while Mr. Schaefer is the General Manager of the FDIC Federal Credit Union. In addition, Edison Silva, Manager of Financial Operations of the Latin American Confederation of Credit Unions (COLAC), joined the team during the third week in Costa Rica. Technical guidance and direction was provided by Peter Marion, WOCCU's Regional Coordinator for Latin America.

Field work was conducted from July 14 to August 1, 1986. During the initial two weeks, the evaluation team focused on gathering information through 1) review of project documentation, 2) interviews with all management staff of the National Credit Union Federation (FEDECREDITO), 3) discussions with USAID officials, and 4) on-site surveys of nine credit unions. The last week was devoted to analysis of the information obtained and preparation of a draft report. Briefings for both the FEDECREDITO Board and USAID were held to present the Team's major findings and recommendations. Appendix 6 contains the list of persons contacted and credit unions surveyed.

The draft report was subsequently revised and edited by the evaluation team. Comments and observations provided by both FEDECREDITO and COLAC have been incorporated in this final report. However, the World Council of Credit Unions is solely responsible for the views expressed.

II. PROJECT RESULTS

A. COMPLIANCE WITH PROJECT AGREEMENT

Authorization for the Credit Union Strengthening Operational Program Grant (OPG) No. 515-0189 was provided on July 16, 1982 at a level of US$600,000 for a period of four years.

1. Conditions Precedent

Prior to disbursement of funds, FEDECREDITO was required to provide the following:

a. A financial recovery plan based on realistic economic projections, to include: savings mobilization plans; a more aggressive capitalization program for FEDECREDITO; revision of present lending and savings interest rate policies; alternatives to reduce and/or cancel the dollar debt; and expansion of lending operations to the affiliated credit unions.

b. Regulations governing the operation of the Revolving Fund for Administrative Credit including descriptions of procedures, eligibility criteria, and lending terms and conditions.

<u>Status</u>: With respect to the first condition, USAID engaged a consultant to conduct the required analysis and prepare the recovery plan. The report, entitled "Plan de Recuperación Financiera de FEDECREDITO R.L." was submitted on October 15, 1982. It contained recommendations to 1) recapitalize the federation, 2) increase the income and financial resources available to the federation, and 3) strengthen its administrative capabilities.

Although the federation has taken a somewhat different course over the life of the project, based on changing circumstances, the basic thrust of the recovery plan has been followed. Capitalization for FEDECREDITO was originally based largely on the loan activity resulting from the use of local currency funds generated by the PL480 program. Although not received until 1984, these funds have been disbursed and the projected capitalization subscribed. In addition, the federation has capitalized on funds received from other sources, including BID/COLAC IV and loans generated using its own capital resources. As a result, the capital position of the federation already exceeds the estimate contained in the recovery plan.

The federation has significantly improved its income position such that the organization is presently financially self-sufficient without reliance on external donations. This has been a result largely of the deposits program that has enabled the federation, along with its member credit unions to dramatically expand the amount of financial resources available within the system. At the same time, the federation has built a sound administrative system, including competent managers and staff, along with well-documented policies and procedures for nearly all aspects of the organization's operations.

With respect to the second condition precedent, the federation prepared its "Reglamento de Créditos para Gastos de Administración" in September, 1982, which included all lending criteria specified in the grant agreement.

2. Covenants

The grant agreement also included three covenants applicable during the life of the project:

a. FEDECREDITO would not distribute benefits (dividends) to its member credit unions.

b. The federation would maintain savings and lending interest rates at market levels.

c. Priority would be given to use accumulated earnings to offset its dollar debt.

Status: The federation has largely complied with these covenants. Cash dividends have not been paid out to member credit unions; however, dividends have been added to the share capital that each credit union holds in FEDECREDITO. These shares can only be withdrawn upon termination of membership. Although the federation retains effective control over the use of these funds, as discussed subsequently in this report, the equity position of FEDECREDITO would be better strengthened by increasing reserves and retained earnings.

The federation as well as its member credit unions have attempted to operate on a market-rate basis. It must be recognized that the federation has several types of loan programs using resources from several different sources. With its own funds, the federation is operating at or slightly above market rates. However, it also places development finance loans, using funds provided by AID and BID. These rates are usually set somewhat below market rates in order to achieve specified development objectives.

With respect to reduction of its outstanding dollar debt, the federation received some unanticipated assistance from the Government of Costa Rica through legislation to provide relief to the credit union sector. Due to the dramatic devaluation that began in 1981, all organizations with dollar-denominated loans were faced with serious losses. The governmental measure provided the affected credit union organizations, including FEDECREDITO, with local currency to offset these losses. At this moment, FEDECREDITO has more than sufficient dollar funds to repay its outstanding dollar obligations. However, if it repays in full, it will forfeit government assistance; thus, FEDECREDITO is continuing to repay COLAC according to the established schedule.

3. Budget

The total cost of the project was placed at US$1,158,985, of which the AID/OPG of US$600,000 was to be nearly matched by the counterpart contribution of US$558,985 in local currency. The project budget as shown in the grant agreement provided the following resources:

Table 1

PROJECT BUDGET

	AID		FEDEC.	TOTAL		
Line Items	US$	LC$	LC$	US$	LC$	TOTAL
1. Rev. Fund/ Coop. Admin.	-0-	210,000	147,860	-0-	357,860	357,860
2. FEDECREDITO Admin.	35,000	155,000	410,616	35,000	565,616	600,616
3. Technical Assistance	200,000	0	509	200,000	509	200,509
TOTAL	235,000	365,000	558,985	235,000	923,985	1,158,985

Under the first line item, AID support was to be used for providing loans to member credit unions in order for them to employ qualified personnel. The second line item provided salary support for FEDECREDITO personnel and the purchase of equipment. The third line item was for the provision of technical assistance from COLAC, to include a resident advisor and a number of short-term consultancies. Counterpart local currency contributions from FEDECREDITO were to support the management of the administrative credit program, as well as to complement the salary support for federation personnel.

Status: AID funds have been utilized nearly as budgeted. Actual costs charged to each line item were as follows:

Table 2

COMPARISON OF BUDGETED AND ACTUAL PROJECT EXPENSES

	Budget	Actual	Variation
1. Revolving Fund Cooperative Admin.	US$210,000	US$202,593.90	- 3.5%
2. FEDECREDITO Admin.	190,000	207,341.75	+ 9.0%
3. Technical Assistance	200,000	190,064.35	- 5.0%
TOTAL	US$600,000	US$600,000.00	0%

The counterpart contributions from FEDECREDITO were not accounted for separately, and apparently the AID mission did not require this information. Since the project provided assistance to nearly every aspect of the federation's operations, a compilation of the total operational and administrative costs provides an approximation of the federation's contribution. For the four years 1982 through 1985, the federation expended nearly c 46.3 million for operational and administrative costs, or at an average exchange rate for the period of 42:1, about US$1.1 million, nearly double the required contribution amount. Although some of those expenditures may have been in "non-project" areas, it seems clear that the budgeted figure of US$558,985 has been exceeded.

4. Implementation Requirements

Per the grant agreement, a number of requirements were included applicable to project implementation.

a. Administrative Credit Program

Twenty-five credit unions were to receive loans by the end of the project. Loans were scheduled for three years, with repayment beginning in the fourth year, at an interest rate of 10%. Credit unions were expected to hire three individuals: a manager, an accountant and an agricultural extensionist.

Status: Twenty-five credit unions have received administrative credit loans. The loan terms have been shortened, generally to one year, in order to accelerate the rotation of the loan resources. Loan amounts have been increased and repayments begun immediately. These changes were designed to increase the effectiveness of the program for the participating credit unions and were approved the USAID mission.

b. Strengthening FEDECREDITO Administrative Capabilities

The second project component addressed a number of areas, specifically:

(1) Improvement in FEDECREDITO'S financial management systems and procedures.
(2) Preparation of annual operating plans
(3) Provision of technical assistance to member credit unions

Status: The federation has demonstrated notable success in expanding and improving its capabilities, not only to manage its financial services, but to respond to the needs of its member credit unions with new services and programs. A number of comprehensive, well-designed manuals have been developed and disseminated to credit unions governing all aspects of credit union management. The federation has utilized an intensive diagnostic procedure to develop long-term plans, which among other things set specific growth targets for member credit unions while addressing institutional deficiencies. These plans serve as the basis for the technical assistance and training activities provided by the federation.

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c. Technical Assistance

The third component was focused on improving the areas of administrative and financial management, planning, and credit management. Funding was provided for one resident advisor and short-term technicians in specialized areas as required. FEDECREDITO would contract for these services with COLAC.

<u>Status</u>: Resident technical assistance has been provided by COLAC for the four years of the project. Assistance has been provided in the specified areas, with particular emphasis on the development of sound financial management practices, an aggressive savings mobilization program, and improved credit operations. Short-term technical assistance has been limited to 1) the Recovery Plan described earlier and 2) the development of an improved accounting system for FEDECREDITO.

5. Reporting and Evaluation

The grant agreement called for quarterly reports from FEDECREDITO; these have been provided without exception. The reports have been thorough, containing information not only on the AID-financed activities but on all aspects of significance to FEDECREDITO's development.

Annual evaluations were also prescribed, the first three by FEDECREDITO, and an end-of-project evaluation by COLAC. The yearly evaluations were not completed. A brief report was prepared for the period 1982-84 which described the progress made in quite general terms, and a summary report entitled "Informe de Progreso 1981-1986" was prepared for a presentation to the USAID Mission in April 1986.

In summary it would appear that the project has complied with most of the conditions and requirements contained in the grant agreement. It would appear that the USAID Mission permitted FEDECREDITO to utilize flexibility in project implementation, based on changing conditions and needs, which has contributed to project success.

B. REVIEW OF PREVIOUS EVALUATIONS

1. Previous Evaluations

As noted above, only one evaluation was carried out for the first two years of the project. This brief report covered the progress made at that point, noting the greater than anticipated growth in key indicators such as assets, loans, savings, and capital. It also noted the factors that had contributed to the progress shown, including the approval of loans from BID/COLAC, and BANCOOP using funds provided under PL 480. The report did not elaborate on any problems or constraints to project implementation. To our knowledge, no specific comments or recommendations were provided on the basis of that report.

2. 1983-87 Development Plan

Although not part of the prescribed evaluation process, the evaluation/planning exercise undertaken by COLAC in 1983 provided the basis for FEDECREDITO's development since that time. This extensive process was divided into three distinct phases: 1) Analysis of national economic, legislative, and systemic factors affecting the development of the credit union movement, 2) analysis of the strengths and weaknesses of FEDECREDITO and its affiliated credit unions, and 3) preparation of a five-year development plan.

The plan presents a detailed prescription for development, focusing on four major areas: 1) Member/Cooperative Development and Expansion, 2) Financial Consolidation, 3) Strengthening of Services, and 4) Strengthening of System Capabilities. Specific programs were defined under each major area, including specific measurable goals for each year of the plan. To a large extent, FEDECREDITO and its member credit unions have effectively utilized this plan as a guide, and have successfully met most of the specified goals. FEDECREDITO has expressed an interest in a similar development plan exercise to guide their efforts for the next five-year period.

C. ACHIEVEMENT OF PROJECT OBJECTIVES

As stated in the project agreement, the basic objective of AID's assistance was to:

1. Improve the administrative and operational capabilities of FEDECREDITO.
2. Expand federation services to member credit unions.
3. Encourage the adoption of sound financial and economic policies by both the federation and its member credit unions to permit them to become operationally self-sustained enterprises.

1. Administrative and Operational Capabilities

FEDECREDITO's capabilities have unquestionably improved as a result of the project. The size of its staff has about doubled, from 19 to 40 in the past four years. Yet staff efficiency has improved considerably, as measured by an asset/employee ratio that has increased from c 4.0 million per employee to c 12.4 million from December 1982 to December 1985. As measured by academic background and training, the federation's staff has also improved. In 1982, only one employee had university-level education; in 1986, the federation includes 19 employees with university training and 10 with technical training. The staff is young, highly motivated, and willing to work long hours.

The organizational structure is appropriate for the efficient provision of services to member credit unions. In addition, the federation has been very active in formulating systems, policies and procedures for most operational functions. As a result, the organization has been able to manage the tremendous growth in financial operations that has occurred with a minimum of organizational stress.

2. Expansion of Services

Clearly, the federation has expanded the volume of services provided to member credit unions. Most notable are the financial services provided, including the offering of a central liquidity facility to absorb surplus credit union funds, and the provision of credit to increase loan capital for productive purposes. To illustrate, funds held by the federation in deposits, mostly from member credit unions, increased from c 38 million in December, 1982 to c 570 million as of June, 1986. Similarly, the federation has been able to increase the amount of loan capital brought into the system from external sources, again for the benefit of its members. This amount has increased from c 32 million to c 112 million between December, 1982 and the present. It has also diversified the types of credit programs available, enabling its members to choose the terms and conditions most appropriate to their credit needs.

The federation continues to offer high-quality technical assistance and training services. With the initiation of a comprehensive diagnostic approach, the federation has provided an extremely useful tool for credit unions to plan and manage their on-going development. In addition, those rural credit unions engaged in agricultural credit programs receive specialized technical assistance to increase the productivity and income of project participants.

In interviews with credit union managers and leaders, there was clear evidence that the resurgence of FEDECREDITO as a strong national representative and service organization was valued, as were the quality financial and development services that have been provided over the past four years.

3. Self-Sustained Enterprises

At both the national and primary levels, the respective organizations have been established on a more solid financial footing. The federation has been able to bolster its capital position considerably over the past four years, such that its liability/capital ratio has improved from 17:1 to 7:1, despite the fact that the federation has greatly increased its liabilities through the deposit program. Credit unions have instituted similar deposit programs, while protecting their capital base. Given the considerable liquidity that has existed recently, the credit union system demonstrated the capabilities to capture a sizeable share of those funds.

The federation has used the 5-Year Plan developed in 1983 with the assistance of COLAC to guide its financial development. Specific, realistic targets were set, using projections based on extensive analysis of the national economy and the federation's strengths and weaknesses. Annual plans are prepared to focus federation activities on achievement of plan objectives, to include specific goals for major indicators, as well as cash flow projections. Through the diagnostic approach mentioned above, credit unions have similar tools to manage their growth and development.

The federation attained financial self-sufficiency last year if donations and other non-recurring income sources are included. It appears probable that FEDECREDITO's earned income will be sufficient to meet all costs incurred in 1986. For credit unions, with the recent increase in liquidity, most have been able to stabilize the financial situation.

Of some concern, however is the fact that many credit unions still maintain a multiple-services function, including supermarkets, pharmacies, furniture and hardware stores, agricultural supplies, and other related activities. In most cases, these activities have been only marginally profitable. Obviously, these activities reduce the overall profitability of these credit unions, and if sufficiently serious, could jeopardize their financial stability. The federation is well aware of this problem, but as yet has not developed an effective response.

In summary, it appears that the objectives envisioned when the project was approved in 1982 have been clearly achieved; in fact, FEDECREDITO and its members have surpassed the expectations of perhaps its most fervent supporters. We should add, however, that considerable work remains ahead in order to meet the risks and problems that may become more pronounced by that time. Although the movement should continue to explore new business opportunities, it should focus on the consolidation of the progress made during the past four years.

D. DEVELOPMENT IMPACT

The original project proposal contained a number of indicators to measure the development impact to be achieved by the end of 1988, which was the end of project contained in the proposal. Comparison of those estimates with the figures obtained as of June, 1986 produces the following:

Table 3

COMPARISON OF ACTUAL VS. ESTIMATED PROJECT IMPACT INDICATORS

Indicator	Actual June 1982	Estimated 1988	Actual June 1986
Credit Unions Receiving Federation Loans	6	55	64
Credit Union Members	29,000	45,000	94,139
Annual Credit Union Loan Volume (millions)	c 7.5	c 188.6	c 1,275.3*
Affiliated Credit Unions	26	55	50
Credit Unions with Full-Time Managers, Accountants, and Field Inspectors	10	45	25**

* Balance of loans outstanding
** Particpant credit unions in administrative credit program

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Other measures were included as follows:

1. FEDECREDITO Self-Sufficiency

Upon completion of the last fiscal year ending in December, 1985, the federation achieved financial self-sufficiency if donations and other non-recurring income sources are included. For 1986, it appears that the federation will achieve full self-sufficiency. It should be noted, however, that this will provide them with only a small surplus to fund reserves and equity growth.

2. Significant Improvements in Credit, Financial, and Business Management

The increased management capacities of the entire movement are clear. At both FEDECREDITO and the credit unions, greatly increased amounts of funds are being managed, and far more successfully. Of particular note are the deposits managed by the system which have increased many times over in the past four years. This is indicative of the system's ability to mobilize and place these funds at rates often above market levels, and the confidence that the system has generated. In addition, the system is lending at significantly higher levels while incurring far less serious problems with loan delinquency. Loans are being increasingly channelled into productive endeavors, particularly for small business ventures, based on a rigorous analysis of the profitability of the proposed activity. The increased entrepreneurial approach that is found throughout the system has resulted in an unwillingness to accept inefficient management practices.

3. Mobilization of US$3 Million in Loan Capital From National and International Sources

FEDECREDITO has been successful in mobilizing funds from BID/COLAC, AID/PL 480, and CODESA, which combined is slightly more than US$3 million. These funds have been used for the most part to provide loans at slightly below market rates to small farmers, thereby reducing their costs and presumably stimulating investment.

4. Additional Measures of Development Impact

Beyond these somewhat limited measures of impact, we should note the real impact that has occurred at the level of the individual member. The movement now serves about 16% of the population, a significant figure in comparison with most other Latin American countries. Since the project's inception, membership has increased fourfold. Increasingly greater numbers are being attracted into credit unions, in no small measure by the attractive interest rates being offered on deposits. Per-member deposits increased from about c 9,600 in 1983 to c 15,700 in 1985. At an interest rate of 14%, the average member has received an additional c 1,354 in interest income over that period. Overall, an additional c 235 million in interest income was pumped into the national economy from credit unions during that two-year period. Credit unions have benefited from the increased liquidity within the national economy in recent times. Yet they have been able to capture a portion for savings, thereby reducing the likelihood that the excess liquidity would result in inflationary consumer spending.

The formation of domestic capital has long been recognized as an essential ingredient for development. This project has demonstrated that lower and middle income families can, in a modest way, contribute to that objective if provided with attractive savings incentives, and if provided with assurance that their money is being safely and efficiently managed. The savings habits that have been instilled, and the system-wide improvements in capabilities and attitudes, are likely to be lasting benefits of this project.

E. CONTRIBUTION TO USAID DEVELOPMENT STRATEGY

The USAID/Costa Rica Country Development Strategy Statement (CDSS) noted that in order to achieve one of its objectives of promoting production, programs would be developed to meet the "... working capital requirements of the productive private sector i.e., industry and agriculture". The Statement also noted that "Many small farmers still lack access to land, credit and technology ... Lack of credit, sharply rising costs of inputs, and lagging product prices are seriously jeopardizing the production possibilities...".

As part of its development strategy for the FY 1983-87 period, the Mission noted its intention to "...provide credit and technical assistance to farmers, especially small producers, through an extensive rural cooperative network." Clearly the FEDECREDITO project was considered a part of this program strategy.

About two-thirds of FEDECREDITO's member credit unions are found in the rural areas; much of the federation's programs and services have been focused on these credit unions. They have been the major benefactors of FEDECREDITO's administrative credit program. Membership and savings growth have been strong among rural credit unions, and these have been the major recipients of external capital intermediated by the federation, most notably the BID/COLAC IV, and the AID/PL 480 loans. These programs are specifically designated for agricultural production purposes, providing loan funds at attractive rates of interest and agricultural technical assistance to small producers. These two loan programs mentioned above have enabled the federation to provide c 87.3 millions in capital for agricultural purposes, a figure multiplied several times over by the amount provided by the credit unions themselves.

One of the FEDECREDITO system's most notable achievements has been the mobilization of impressive amounts of deposits. These funds have been used to finance productive activities such as small businesses in both rural and urban areas. Clearly this capital has assisted in raising the productive output of the Costa Rican economy, stimulating

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employment and increasing income for a significant number of small producers.

Of significance is the fact that this project correlates strongly with each of the four "pillars" of AID's overall development strategy. It exemplifies the Agency's objectives with respect to institutional development; a strong human and financial resource base has been established within a system designed to provide continuing benefits to its members. In a nation with a nationalized banking system, the FEDECREDITO system represents one of the few private sector alternatives for financial and related services, particularly in rural areas. It has actively dialogued with national government officials to obtain policies more favorable to private sector finance institutions. And it has been a leader in stimulating the adoption of new technology, including not only equipment such as computerized accounting and information systems, but policies that will make its member credit unions able to successfully compete as business enterprises in the financial marketplace.

We should also note that in a very modest way, the project may have contributed to alleviation of the balance-of-payments problem. The above noted savings were mobilized from domestic sources, that is, credit union members, reducing the reliance on external capital to finance small-scale productive endeavors. Although FEDECREDITO expects that external financing will continue to be required to finance some of its development activities, the commitment to thrift and the reliance on local resources has been so thoroughly ingrained that external support is viewed as only a complement.

F. LESSONS LEARNED

For development practioners interested in the development of broad-based financial institutions able to serve small-scale producers, this project has many relevant lessons. Some of the lessons relate to the way in which the project was designed and implemented. Others became apparent with the evolution of the project, and in most cases represent continuing issues with which the federation must grapple. The following identifies those lessons of major significance to the evaluation team.

1. Administrative Credit Revolving Fund

The project design established a revolving fund to permit member credit unions to attract and maintain qualified personnel. This approach was most successful in upgrading the managerial skills available for these local institutions. As it was a loan rather than a grant, participating credit unions had to show improved results in order to justify this expense to their members. Credit union performance has been measurably increased, and loan repayments have been made as scheduled. The evaluation team recommends this approach to building local institutions.

One aspect worthy of further study is whether the loan terms correspond to the realization of the expected benefits. A positive cost/benefit analysis would suggest that the increase in credit union profitability should at least equal the amount of the loan plus interest. For most credit unions, the impact on profitability is unlikely to be immediate, but would be realized several years hence. Loan repayments should be set to correspond to this period. FEDECREDITO's shortening of the loan repayment period, although not resulting in any repayment problems, may have marginally reduced the cash flow/profitability of the participating credit unions for the short term.

2. Market Interest Rates

The project has been a dramatic demonstration of the effect of market interest rates in mobilizing local savings. With the policies encouraged through this project, credit unions as well as FEDECREDITO have offered market, or in some cases slightly higher interest rates on member deposits. In addition, a variety of terms have been offered, generally ranging from one month to one year. Credit union members, mostly lower- and middle-income families, have demonstrated an interest-rate sensitivity, such that deposits at the credit union level increased from c 533 million to more than c 1,460 million between 1983 and 1985 alone. During the same period, FEDECREDITO deposits increased from slightly more than c 65 million to nearly c 295 million. Domestic savings formation is possible, even among small-scale savers, if they are provided with attractive incentives.

3. Government Role in Private Sector Development

Although often viewed more as an obstacle than an aid to private sector development, governments can play a most beneficial role as shown by the government of Costa Rica (GOCR). Active encouragement was provided to the development of the FEDECREDITO system, through the passage of favorable legislation, particularly assistance for losses incurred on external dollar-denominated loans. In effect, the GOCR recognized that these organizations were affected by economic conditions that could not have been foreseen at the time of the original loan negotiations, conditions entirely beyond the control of these private organizations. The government's actions in enabling these organizations to overcome these serious difficulties, as well as its role in promoting and supervising the development of the credit union movement while also respecting its independence, is a model to be encouraged.

4. Loan-based Capitalization System

The federation relies almost exclusively on this system to increase its capital base. Several distortions and risks are introduced as a result. First, large and/or regular borrowers may find themselves with excessive amounts of capital tied up in the federation, producing possible dissatisfaction among these credit unions, and in the event of their withdrawal, a capital shortage for the federation. Second, this approach bears no relationship to the capacity to meet that capitalization requirement; smaller credit unions often have greater amounts invested in FEDECREDITO than larger ones. Third, it burdens the loan transaction, making it more costly, although this may not be fully appreciated by the ultimate borrower. Fourth, under present conditions, capital raised under this method cannot keep pace with the increase in deposits, meaning that over time, the federation's liability/capital ratio will deteriorate.

The evaluation team suggests that alternative or complementary proportional capitalization methods, using some type of savings or asset-based approach, be introduced in the the FEDECREDITO system, and designers of projects with similar capitalization requirements should avoid sole reliance on a loan-based method.

5. Creation of Equity

In Costa Rica, as in most other countries, credit union shares are considered as part of capital. Shares represent the members' ownership of the institution and confer voting rights for the election of the Board of Directors and other committees. At the same time, shares represent these member-owners' claims on the assets of the credit union or federation. Thus, like deposits, they can be withdrawn; the only difference is that in Costa Rica, share withdrawal usually requires the termination of membership in the organization. Yet, in the final analysis, the shares belong to the investing organization or member, not the recipient federation or credit union.

In contrast, the true equity of the credit union or federation consists of its free reserves and retained earnings. These accounts have no external claim upon them and can be used for any legitimate purpose decided upon by the organization's leadership. Of particular importance is the use of equity to support the organization's debt structure and provide a "financial cushion" against possible losses.

Treatment of shares as equity overstates the capacity to handle debt. In the event of default on some of the organization's loans, the only real sources of funds to repay its external creditors are its reserves and retained earnings. The organization cannot use its members' share capital to repay these creditors without seriously undermining confidence in the credit union or federation as a secure depository institution.

A consequence of treating shares as equity is that the imperative to increase profitability in order to adequately fund reserves and retained earnings is reduced. Since present practices permit equity to be increased by raising share capital, this approach is deemed more convenient than the more arduous task of increasing profitability. While shares are an important source of capital funding, the true equity strength of a credit union or federation is found in its reserves and undivided earnings.

Greater emphasis on the build-up of equity, and not simply share capital, is recommended in the design of future credit union and cooperative development projects. The substantial share capital accumulated by FEDECREDITO with project support does protect external investors such as BANCOOP and COLAC, but risk to the investing credit unions and their individual members is greatly increased. Only the creation of additional equity, primarily through improved earnings, can reduce this risk exposure and thereby enhance the security of members' share savings.

6. Credit Union Non-Financial Services

Nearly half of FEDECREDITO member credit unions provide non-financial services, including agricultural supplies, grocery and hardware stores, pharmacies, and others. From our review of financial reports, and confirmed in discussions with federation and credit union officials, these services are relatively unprofitable. Further, these services drain capital as well as scarce management resources from the credit union. Although it did not appear to be a problem in the credit unions visited, failure to maintain clearly distinct accounting records may make it difficult to assess the profitability of the different lines of business.

These services are provided in response to substantial member demand, and it appears they are generally valued and supported by the membership. However, the dilution of the organization's profitability resulting from these services, which if serious enough could threaten the viability of the financial services operations, suggest that alternative structures be considered, such as separate credit unions entirely distinct from the credit union.

Experience from the Costa Rica project suggests that future credit union development projects should discourage the establishment of a wide array of non-financial services.

7. Computer Technology

Some of FEDECREDITO's member credit unions have already installed computer systems; others are considering possible options. The federation, having just installed its own system, has not been in a position to provide technical assistance in this area, nor develop a set of guidelines to ensure standardization and compatibility. Failure to act within the near future may result in a variety of computer-based accounting and information systems that will be incompatible with each other and with the federation's system.

It is clear that national organizations with a base of member organizations, such as the FEDECREDITO system, must be in the forefront of computer technology in order to ensure that an integrated system capable of producing financial and management decision-making data for all levels of the movement can be implemented.

8. Project Design/Implementation

A useful lesson from the present project is that projects can be successful without elaborate designs and rigorous implementation requirements. A fairly simplified design was used for this project, defining a small number of outcomes expected from a small set of specified activities. The amount of resources was quite modest, just US$600,000. Of note is that USAID local currency resources were creatively used to support local costs of the federation and the administrative credit program.

In effect, although provided with the resources, FEDECREDITO had the responsibility for extricating itself from the precarious situation of 1982. The USAID mission monitored the project's progress, and provided advice and assistance as required, but the hard decisions had to be made by FEDECREDITO. With the able assistance of the COLAC resident advisor, the decisions taken proved to be appropriate. Flexibility during the project's implementation, in response to a re-examination of existing circumstances, contributed to project success. Under similar circumstances, the evaluation team would recommend a similar simplified design and flexible implementation approach.

9. Technical Assistance

As described, the technical assistance provided by COLAC was exemplary. Not only did the resident advisor make significant contributions, but notable monitoring and technical support was provided by the regional organization. Since FEDECREDITO is a member of COLAC, as well as a borrower, it is clearly in COLAC's interest to provide the support necessary to improve the movement's technical and financial capabilities. In contrast to non-credit union consulting organizations, COLAC cannot permit one of its member organizations to fail.

The vertical integration linking individual credit unions to national federations, which in turn are linked to regional confederations, and then to the World Council of Credit Unions, is one of the real advantages of the worldwide credit union movement. Not only does it increase the probability of specialized, quality technical assistance being provided for specific projects, but it ensures a measure of institutional sustainability upon the termination of external assistance.

10. Project Participants

This project demonstrates an axiom that bears repeating, specifically that the qualities of the implementing participants are perhaps <u>the</u> critical factor to project success. In this case, the commitment, enthusiasm, and hard work of FEDECREDITO's staff and leadership, supported by its member organizations resulted in a complete turn-around for the movement within four years.

Where are such individuals found? In this case, a conscious effort was made to upgrade the federation's staff. Young, university-trained staff were recruited, with the skills and dedication required to make a difference. Respected professionals were sought to fill Board positions. As noted in a previous point, the project placed the responsibility for revitalizing the movement squarely on the shoulders of the federation. With capable staff and leadership, they were able to meet the challenge.

It is often difficult for project designers to identify in advance the specific qualities of intended project participants. Yet this more than any other single factor will be the determinant of project success.

G. GENERAL OBSERVATIONS/FUTURE DIRECTIONS

1. General Observations

The major points related to this project have been detailed in the previous sections. In summary, the project effectively complied with the requirements stated in the grant agreement. Some flexibility was observed, for example, with implementation of the administrative credit program, and the annual evaluation requirements were not met. As a result, there were no previous evaluations for this team to review.

The objectives of the project have been met. The federation has been restored to financial health. It has a solid base of 50 member credit unions, serving nearly 100,000 members. Growth in key indicators such as savings, deposits, loans, and assets has been exceptional at the credit union level, in part a result of the market-level interest rates used to increase deposits. FEDECREDITO has actively promoted these effort, and has provided valuable technical assistance to bolster the management capacities of the member credit unions. Its financial operations have mobilized additional funds for credit union lending, both through its own deposit mobilization program and through the mobilization of external capital. It should not be overlooked that the entire movement has benefited from improvements in the national economy over the past few years, notably increased employment, lowered inflation rates, and increased liquidity; conditions that have played no small part in the resurgence of the movement.

The impact resulting from a strengthened credit union movement is demonstrated by, among other things, the more than 50% increase in per-member deposits and the estimated c 235 million in additional interest income received by credit union members between 1983 and 1985 alone.

The project has contributed to the USAID development strategy, most notably through the provision of financial services to rural producers. Lacking access to credit and other services from traditional financial institutions, small farmers have received

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assistance from the nearly half of FEDECREDITO's member credit unions located in rural areas.

The evaluation team did not observe significant constraints to project implementation; in fact, project management appears to have been most harmonious and efficient. We would suggest a similar approach for any future collaboration. We do recommend that evaluations be limited to two: mid-term and final, and that they actually be done.

The success achieved to date does not imply that there is no need for further concern. In fact, it the view of the evaluation team that several risks exist that, although not cause for alarm currently, could become more pronounced within the next two years. Accordingly, the evaluation team has consistently recommended to FEDECREDITO that now is the time, while conditions are favorable, to consolidate the gains achieved and to address weaknesses in the movement's structure, systems, and policies.

2. Future Directions

a. Issues

It is our view that the FEDECREDITO system must deal with a number of major issues in order to move confidently into the future. These have been described in some detail above; briefly these are:

(1) Capital Base

Most of the federation's capital consists of subscribed as opposed to paid-in capital, mostly from credit union borrowers. Further, only 14% of FEDECREDITO's members account for 55% of its shares. The federation's financial position is potentially threatened if the subscribed shares are not paid and/or if major shareholders choose to withdraw. Also, credit union shares are exposed to relatively high risks due to FEDECREDITO's relatively low level of liquidity.

Specific items to be addressed include:

- Distortions caused by loan-based capitalization system
- Excessive reliance on subscribed capital
- Need to increase equity by building reserves and retained earnings
- Equity requirements for leveraging internal and external capital
- Development of a proportional capitalization system

(2) Deposit Mobilization System

Rapid deposit growth has increased system liquidity, tended to depress earnings and put pressure on the liabilities-to-equity ratio. The movement is now very much driven and exposed to new financial risks. Their reduction will require the development of substantially more sophisticated financial planning, marketing and management capabilities.

Specific issues to be analyzed include:

- Impact on liability/equity ratio of rapid growth in deposits
- Possible volatility introduced into system with reliance on deposits for growth
- Expansion of lending opportunities for market-rate capital within/outside credit union movement
- Possible margin squeeze on federation and/or credit unions
- Risks in loans to private businesses and investments in national exchange.

(3) Intermediation of Development Finance Capital

While this service remains important to many credit unions and their members, it has become a relatively smaller portion of the federation's operations. To continue to provide credit at rates farmers and other producers can afford, the movement will have to develop new sources of funds and/or reduce lending costs.

Items requiring examination include:

- Feasibility of accepting hard-currency loans/probability of obtaining GOCR guarantee for devaluation risk
- Limited availability of local currency loan capital, principally BID and PL 480
- Continuing demand for development finance capital, particularly by small farmers
- Impact on credit union stability/growth with reduced flow of external capital

(4) Non-Financial Services

The drain on credit union resources, both financial and managerial, posed by the widespread provision of non-financial services reduces credit union profitability and could threaten their financial stability. The movement has yet to clearly decide to either retain these services and manage them more efficiently, or eliminate them, and concentrate solely on the provision of financial services.

Questions to consider:

Should member credit unions be encouraged to divest these profit-draining services that are valued by the membership? If so, what strategy will be most effective? If not, what technical support can be provided to make these services more profitable.

(5) Computerization

The federation as well as several credit unions have begun implementation of computer systems. Initial review indicates that there is a substantial risk that a lack of standardization, flexibility, and expandibility could occur, thereby seriously limiting the potential benefits obtained from this technology.

Issues to consider:

What strategy can the federation adopt to ensure that a) credit unions make cost effective decisions with respect to computerization, and b) the systems will be compatible to permit transmittal of financial, statistical, and management information?

(6) Planning and Development

How can the valuable technical assistance, training, and development services provided by the federation be financed without being largely subsidized by the financial operations? To what extent can dues and fees be expected to cover these costs? What operational adjustments are needed?

(7) Savings Protection/Guaranty Program

Can a program be established to protect member savings and deposits in the event of credit union liquidation? This may tend to reduce the cost of funds and marketing expense for the movement.

(8) Expanded Credit Services

How can the credit union system meet the large demand for credit that exists for housing, small business development, and other critical needs? Are these credit services possible within the financial and managerial limitations of credit union? Can external capital be identified to meet this demand?

(9) Loan Protection/Live Savings Program

What guidelines are needed to assure the actuarial soundness of this program? Does it have an appropriate financial structure, including segregation of program assets, liabilities and capital from other FEDECREDITO divisions?

(10) Credit Union Financial Condition

Credit unions are FEDECREDITO's principal clients and owners. What are their financial abilities to capitalize the federation and purchase its financial and non-financial services? How significant is delinquency? What is the degree of technical solvency?

(11) Federation Cost Containment

How can FEDECREDITO control rising administrative costs? What structural adjustments, systems modifications and cost accounting techniques are needed? How can productivity be improved?

(12) New Services Development

A number of new ventures have been put forward, including the development of a banking entity, expansion of credit services to meet needs in housing and small business development, and establishment of a program to protect member savings. Such expansion must be analyzed against the risk of overextending the movement's existing human and financial resources particularly at the federation level.

What financial services and products are needed by the current and potential membership, at both the member and credit union levels, which are not currently being met by the credit union system, but are potentially feasible? How can system consolidation and new services development be reconciled? What are the movement's strategic objectives for market position and performance?

(13) Cash Flow Management

The federation and its member credit unions will be subject to potentially large swings in their deposit base with changing national economic conditions. Placement of these funds may also be subject to severe seasonal and cyclical fluctations. Increased skills in cash flow prediction and management at both the national and primary levels will be required to minimize potential risks.

(14) Asset/Liability Management

The federation and its credit unions may be exposed to continuing pressures on their spreads, due to the term structure of their assets and liabilities. Increasingly sophisticated asset/liability management techniques will be required to maintain adequate margins throughout the system.

(15) Information Management

Although the federation has a relatively good information base, increasing competitive demands will require this information to be systematized for management decision-making purposes.

b. Recommendations for Future Development

Given these unresolved issues, and the potential risks involved, the evaluation team recommends a number of major business development activities be undertaken to assist the movement's future development. We believe that such a program will not only define the strategies for expansion into new markets, but will provide guidance for the resolution of current and potential problems.

We recommend a program of continued development assistance including five major components in the following areas:

(1) Market Analysis and Development

An analysis needs to be performed to more clearly identify the market segments best served by FEDECREDITO and its member credit unions and to design and implement a comprehensive market development strategy. Areas to be addressed include:

- Individuals/groups not adequately served with financial service
- Interest rate structures on savings and loans
- Expansion of credit services and products to meet unmet demands in small businesses, housing, and others
- Demand for non-financial services/competitive alternatives
- New products/services, particularly those related to computer technology
- Alternative promotion and distribution systems

(2) Financial Policy Analysis

This component would focus on resolution of the various financial issues discussed in this report, directed focusing at both the credit union and federation levels. Initial development activities would be undertaken in the areas of:

- Equity strengthening
- Capitalization methods
- Deposit mobilization strategies
- Spread analysis
- Pricing policies
- Asset/liability management techniques
- Credit/investment policies
- Break-even analysis
- Functional costing

(3) FEDECREDITO Systems Development

Given the dramatic expansion in the volume of business handled by the federation, and the possibility of initiating new business ventures, a review of the organization's structure is recommended. The analysis would examine staffing patterns, functional responsibilities, the impact of computer technology, breakdown of direct and indirect costs, work flow, internal systems and procedures, and other related areas to identify alternative structures appropriate to evolving requirements. Included in this study would be an analysis of the feasibility of establishing a subsidiary banking institution to expand the federation's deposit mobilization capabilities.

Based on these analyses, and building on the successes of the current project, this component would assist FEDECREDITO to continue development of its internal operating systems. Initial systems development activities would focus on cost accounting, loan protection/life savings program operations, credit union performance monitoring and product development and marketing.

(4) Computer Systems Development

As stated earlier, it is imperative that adoption of computer technology by FEDECREDITO and its member credit unions be undertaken in a systematic fashion. This study would identify system requirements, hardware and software options, networking

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options, data processing and information analysis alternatives, and other factors to ensure that the systems to be developed generate information in the most useful and efficient manner. It should be noted that this study is not intended to establish a single system, but to develop guidelines so that credit unions can a) make intelligent decisions about the vast array of computer options available, and b) ensure a measure of system-wide compatibility.

(5) Savings Protection/Guaranty Program Development

Given the size of the movement, it is now appropriate to design and implement adequate protection mechanisms in order to preserve public confidence in the movement. The absence of any deposit insurance program means that members' savings are at risk if a credit union fails for any reason. This program component will determine the feasibility of establishing a savings protection facility to serve member-depositors and, if feasible, assist its design, development and implementation. Experience in the industrialized nations suggest that credit union savings protection programs are key elements for improving management standards and successfully competing in the savings market.

We view these program components as critically important to the successful evolution of the movement. They build upon the impressive progress registered during the past four years and will guide the movement's future growth and development. Each of these components is of the highest priority; it is hoped they could be initiated within the next year. We encourage USAID to provide the financial resources required to undertake them.

c. Central Financial Entity

The evaluation scope of work requested an assessment of the federation's capacity to function as the central financial entity for the credit union system. As described in this report, quite clearly FEDECREDITO is already performing that function. Its deposits program serves as a mechanism to absorb excess liquidity at the credit union level. These funds are either channelled back into the system to credit unions requiring additional loan capital or placed in loans or investments outside the system. FEDECREDITO also intermediates external loan capital that is channelled to the member credit unions. Although some weaknesses exist, the federation generally performs this function in an exemplary manner.

The introduction of the computer has opened new opportunities for more efficient and responsive management. Reduced costs, narrowed margins, and expanded investment options are possible, all signifying increased income for credit unions and their members. In time, the FEDECREDITO program could acquire the capabilities similar to those found in corporate central credit unions in the U.S.

The above-mentioned program components will provide many of the tools for continued development of the national credit union central finance system. We believe it is fundamentally sound at present. It generates a major portion of the net income realized by the federation. It has the potential to be even more productive, and in doing so will provide a considerable degree of financial stability not only to FEDECREDITO, but to the entire movement.

d. Productive Activities/New Employment Opportunities.

The scope of work also requested the identification of limitations to the movement's capacity to further productive activities and generate new employment. Although limitations exist, we believe that they are small compared to the opportunities available. The movement is serving a market segment not generally served by other financial institutions, particularly small farmers and other rural producers. Without the credit made available through the credit union system, these rural producers as well as small entrepreneurs in urban areas would be unable to initiate or expand their business ventures. The credit provided creates employment not only for the borrowing member, but has a multiplier effect throughout the community.

In Costa Rica, as in most developing countries, most economic activity is carried out by small-scale producers. Generally unable to qualify for credit from traditional banking institutions, these small producers constitute a market particularly appropriate to credit unions. The recommended market development component should identify additional market segments currently not adequately served by any financial institution and, accordingly, will identify opportunities for the movement to expand its impact on production and employment.

Potential factors that would limit the movement's expansion include:

(1) The ability of small producers to pay market rates for credit. In Costa Rica it was noted that most urban small producers could readily pay these interest rates, since they could pass them on to the ultimate purchaser. However, agricultural producers have little opportunity to pass on interest costs, since they have virtually no control over prices received for their produce. It would appear that government regulation of prices for certain basic food products also contributes to the low prices received by the farmer.

(2) The above suggests that capital raised at market rates may not serve the credit needs of agricultural producers. The ability of FEDECREDITO to mobilize additional development finance loan capital, principally from BID or AID will determine its ability to respond to these needs. Lacking additional external funds, the continuing involvement of the small farmer in the credit union movement may be problematic.

(3) A limitation found in nearly any productive credit program is the capacity to provide appropriate technical assistance. Without the skills and knowledge to increase production or sales, the

credit is of limited value. It is often difficult to find individuals who can provide such assistance effectively, and in nearly all cases, it is quite costly. FEDECREDITO and its credit unions have provided some assistance to small farmers through the BID/COLAC IV loan program. To what extent can this be sustained without this support? Can such technical assistance be extended to the thousands of small producers presently receiving little if any technical support?

(4) Productive credit programs require additional credit underwriting expertise in order to make sound loans. It is essential for the credit union to understand the nature of the business venture. Financing of businesses in new markets will require enhanced management capabilities for the institution. It is unclear whether the system can readily generate these capabilties without external assistance.

In summary, the evaluation team believes that the FEDECREDITO system is in a position to greatly expand its market, vastly increasing the number of people served. Yet, a number of unresolved issues and problems suggest that it must proceed cautiously. A number of major program components have been recommended to consolidate the progress realized to date and to assist the movement's future development.

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III. STATUS OF THE CREDIT UNION SYSTEM

A. FEDERATION LEVEL

1. Financial Area

In order to understand better the development of the federation, we utilized analytic approaches which divided the federation into cost centers. We adjusted the income and expense statements and the balance sheets to reflect these cost centers. These cost centers were as follows:

- Central Liquidity Facility (CLF)

  This part of the federation deals exclusively with monies deposited by the member credit unions or other entities, and loaned or invested for non-restricted purposes, usually at market rates. It includes most of the resources generated by past operations, such as share capital. CLF financial statements are included in Appendix 2.

- Development Finance Facility (DFF)

  This part deals with usually below-market rate, subsidized lending activities financed by loans and deposits from outside entities. The funds for these activities consist for the most part of PL 480 and BID/COLAC IV monies. These funds are loaned out to credit unions for their use in extending productive credit to their members. DFF financial statements are included in Appendix 3.

- Human Resource Development (HRD)

  This part deals with outreach institutional development and technical assistance activity. This division also solicits and maintains data on all affiliated credit unions. This division has always been supported by donations and/or surplus from other divisions. Recently the federation has begun an effort to increase the amount paid by the member credit unions for the services provided. HRD financial statements are included in Appendix 4.

Included in each cost center is a divisional or departmental manager, any professional and support staff, and all costs normally charged to those divisions and departments, as listed in their audited statments.

All other costs, such as the management of the federation, central supplies, auto maintenance, etc., are treated as administrative overhead. Overhead was distributed to the three divisions. Human resource development was charged 30% of the overhead. This is the amount which FEDECREDITO charges. The remaining overhead was distributed according to the number of staff in each of the remaining two cost centers.

The financial health of FEDECREDITO is first measured by its ability to earn sufficient income from its financial services to support the direct and overhead costs of those same activities. The direct and overhead costs of the human resource development (HRD) activities must also be supported. A second level of financial health is therefore the ability to absorb those HRD costs as well. Finally, the financial health of the federation is measured by its ability to retain net earnings or equity at year-end, in order to support continued growth and financial stability.

Before analyzing the financial records, the study team determined that three sources of FEDECREDITO income should be excluded from the primary measurement of financial health. These three are classifiable as unearned income. They are donations, income from the loan protection/life savings (LP/LS) program and the monies donated by the Costa Rican government to repay the losses incurred by the federation during the 1982 devaluation. All three sources of income share the characteristic that they do not derive from the basic financial and related activities of the federation. In addition, donations cannot normally be counted on to continue indefinitely, and the monies for the devaluation losses will be ending shortly. Finally, the LP/LS program needs to be accounted for as a separate cost center, all of whose income and expenses need to be handled separately and whose risks and reserving requirements need to be analyzed thoroughly. In fact, it is not clear whether this program is being operated on a completely sound actuarial and financial basis.

Therefore, in order to obtain a more accurate picture of the financial health of FEDECREDITO, we established the following methodology. We calculated total income for each cost center, excluding donations, government devaluation payments, and the LP/LS program. This clears the income and expense statements of short-term, non-repeating or possibly inappropriate income sources.

From this income we subtracted the cost of funds relevant to the cost center. This left the gross margin. From the gross margin we subtracted cost center operating costs excluding overhead. Note that we also charged as an expense any contribution to reserves for loan losses. This left a balance which we called the adjusted margin. From this balance we then subtracted the overhead or indirect costs. We called this remainder the net operating margin to FEDECREDITO. Finally, the profit or loss was then calculated taking into account the donations, non-repeating and/or special income.

For the purpose of our analysis, we differed slightly from standard FEDECREDITO accounting practices, and therefore have slight differences between our results and those of the federation. In particular, as already mentioned, we expensed all contributions to the allowance for loan losses, which was not the practice of the federation until recently. In addition we treated the allowance for loan loss as part of capital, rather than as a contra-account in

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assets. These differences lead to only minor differences in the final results, but we believe give a truer picture of the state of health of the federation. The allowance for loan loss has been growing, as it should. It is therefore acting as an equity account. We believe that the capital position of the federation requires careful study, and will discuss this issue at some length in section III.A.1.f.

a. Economic/Financial Evolution

FEDECREDITO has grown substantially since 1982. Beginning with assets of approximately 75 million colones in 1982, it reached 495 million by year-end 1985, as shown in Table 4. By June of 1986 that total had grown even more, to over 810 million colones (see Table 5).

During the same period the composition of the assets changed as shown in Table 6. In 1982 only 15% of the assets were in loans, while 35% were in cash and investments. The rest was distributed among fixed assets and a large account receivable from governmental recognition of their devaluation losses. By year-end 1985 the distribution was quite different. 71% of the assets were in loans, while only 17% were in cash and investments. The remainder was in fixed assets and other investments, with little of the devaluation losses remaining to be received. Substantial growth in the deposit base in the first half of 1986 has increased the level of investments. In June of 1986 investments were over 36% of total assets, loans were 55%, as shown in Table 7.

This asset history was matched by an equally impressive growth in liabilities. In 1982, credit union deposits in FEDECREDITO funded approximately 41% of total assets. By year-end 1985 that percentage had grown to nearly 60% of a much larger base. In addition FEDECREDITO had brought a substantial amount of external resources to its member credit unions, though in percentage terms that portion had decreased. In 1982 external notes payable were 36 million colones (some of which was due to revaluation). By year-end 1985 that amount had reached 116 million. This amount has remained stable in 1986.

Assets were funded by a changing mix of liabilities over the same period. At year-end 1982 assets were funded by 40.6% deposits, 48.4% outside loans, and 5.4% shares and other capital. By mid-year 1986 this had changed to 69.9% deposits, 18.7% outside loans and other liabilities, and 11.4% shares and other capital.

Clearly, capital has grown substantially in the same period. From 4 million colones in 1982 (just over 17:1 ratio of liabilities to capital), capital has grown to over 92 million colones in 1986 (over 80 million by FEDECREDITO's method of measuring capital).

b. Economic Results

During the same period, the federation has managed to almost reach self-sufficiency, according to our analysis. As noted in the section on methodology, we define self-sufficiency as the ability to operate the financial and related operations without a loss. This includes

Table 4

FEDECREDITO BALANCE SHEET
1982 - 1985

TOTALS BALANCE SHEET (in colones)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Assets:				
Cash and checking	10,016,108	2,689,087	8,593,361	1,300,034
Investments	76,124,568	17,352,349	19,081,366	25,353,929
Loans, short term	244,552,212	142,517,950	36,995,037	8,464,675
Loans, long term	105,616,788	67,665,831	8,464,675	2,827,563
Other assets	58,406,689	51,053,261	45,004,319	37,406,700
TOTAL ASSETS	494,716,365	281,278,478	118,138,758	75,352,901
Liabilities:				
Passbook savings dep.	13,310,757	8,710,016	3,080,562	2,179,111
Notes payable, s.t.	24,577,273	7,326,403	6,605,016	5,109,241
Fixed deposits, s.t.	280,300,588	139,997,998	62,354,633	28,410,314
Fixed deposits, l.t.	1,688,660	2,210,305	38,908	0
Notes payable, l.t.	91,493,898	84,084,639	32,977,164	31,320,204
Other liabilities	23,423,190	12,223,616	7,296,265	4,296,570
TOTAL LIABILITIFS	434,794,366	254,552,977	112,402,548	71,315,440
Capital:				
Credit union shares	34,932,299	11,041,342	3,238,714	2,329,317
Other capital accounts	13,324,066	7,195,245	3,575,252	219,000
Statutory reserves	1,784,751	1,067,175	467,874	736,751
Undivided earnings	2,008,049	1,359,014	121,079	382,399
Loan loss allowance	7,872,834	6,062,725	2,293,330	369,994
TOTAL CAPITAL	59,921,999	26,725,501	9,696,249	4,037,461
liabilities/cap. (FED)	8.2	12.0	14.9	19.3
liabilities/cap. (WOC)	7.3	9.5	11.6	17.7

Table 5

ALLOCATED BALANCE SHEETS OF FEDECREDITO COST CENTERS
JUNE, 1986

1986 INFORMATION BALANCE SHEET (in colones)	CENTRAL LIQ. FAC.	DEVELOPMENT FIN. FAC.	HUMAN RES. DEV.	TOTAL
Assets:				
Cash and checking	8,771,003	0	NA	8,771,003
Investments	290,821,215	0	NA	290,821,215
Loans, short term	245,836,385	37,368,821	NA	283,205,206
Loans, long term	89,459,285	70,934,255	NA	160,393,540
Other assets	68,491,546	5,496,716	NA	73,988,262
TOTAL ASSETS	703,379,434	113,799,792	NA	817,179,226
Liabilities:				
Passbook savings dep.	18,599,476	0	NA	18,599,476
Notes payable, s.t.	0	29,358,113	NA	29,358,113
Fixed deposits, s.t.	550,423,037	0	NA	550,423,037
Fixed deposits, l.t.	1,325,000	0	NA	1,325,000
Notes payable, l.t.	0	82,452,753	NA	82,452,753
Other liabilities	42,030,167	0	NA	42,030,167
TOTAL LIABILITIES	612,377,680	111,810,866	NA	724,188,546
Capital:				
Credit union shares	54,778,158	7,486,644	NA	62,264,802
Other capital accounts	12,339,774	1,686,502	NA	14,026,276
Statutory reserves	1,570,155	214,596	NA	1,784,751
Undivided earnings	2,229,058	304,650	NA	2,533,708
Loan loss allowance	10,892,450	1,488,694	NA	12,381,144
TOTAL CAPITAL	81,809,594	11,181,087	NA	92,990,681
liabilities/cap. (FED)	8.5	11.4	NA	8.8
liabilities/cap. (WOC)	7.5	10.0	NA	7.8

Table 6

FEDECREDITO BALANCE SHEET AS A PERCENT OF TOTAL ASSETS 1982 - 1985

TOTALS BALANCE SHEET (% distribution, asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Assets:				
Cash and checking	2.0%	1.0%	7.3%	1.7%
Investments	15.4%	6.2%	16.2%	33.6%
Loans, short term	49.4%	50.7%	31.3%	11.2%
Loans, long term	21.3%	24.1%	7.2%	3.8%
Other assets	11.8%	18.2%	38.1%	49.6%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%
Liabilities:				
Passbook savings dep.	2.7%	3.1%	2.6%	2.9%
Notes payable, s.t.	5.0%	2.5%	5.6%	6.8%
Fixed deposits, s.t.	56.7%	49.3%	52.8%	37.7%
Fixed deposits, l.t.	0.3%	0.8%	0.1%	0.0%
Notes payable, l.t.	18.5%	29.9%	27.9%	41.6%
Other liabilities	4.7%	4.3%	6.2%	5.7%
TOTAL LIABILITIES	87.9%	90.5%	95.1%	94.6%
Capital:				
Credit union shares	7.1%	3.9%	2.7%	3.1%
Other capital accounts	2.7%	2.6%	3.0%	0.3%
Statutory reserves	0.4%	0.4%	0.4%	1.0%
Undivided earnings	0.4%	0.5%	0.1%	0.5%
Loan loss allowance	1.6%	2.2%	1.9%	0.5%
TOTAL CAPITAL	12.1%	9.5%	8.2%	5.4%
Capital, % liabilities	13.8%	10.5%	8.6%	5.7%

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Table 7

BALANCE SHEETS OF FEDECREDITO COST CENTERS
AS A PERCENT OF TOTAL ASSETS
JUNE, 1986

1986 INFORMACION BALANCE SHEET (% distribution, asset base)	CENTRAL LIQ. FAC.	DEVELOPMENT FIN. FAC.	HUMAN RES. DEV.	TOTAL
Assets:				
Cash and checking	1.2%	0.0%	NA	1.1%
Investments	41.3%	0.0%	NA	35.6%
Loans, short term	35.0%	32.8%	NA	34.7%
Loans, long term	12.7%	62.3%	NA	19.6%
Other assets	9.7%	4.8%	NA	9.1%
TOTAL ASSETS	100.0%	100.0%	NA	100.0%
Liabilities:				
Passbook savings dep.	2.6%	0.0%	NA	2.3%
Notes payable, s.t.	0.0%	25.8%	NA	3.6%
Fixed deposits, s.t.	78.3%	25.8%	NA	67.4%
Fixed deposits, l.t.	0.2%	0.0%	NA	0.2%
Notes payable, l.t.	0.0%	72.5%	NA	10.1%
Other liabilities	6.0%	0.0%	NA	5.1%
TOTAL LIABILITIES	87.1%	98.3%	NA	88.6%
Capital:				
Credit union shares	7.8%	6.6%	NA	7.6%
Other capital accounts	1.8%	1.5%	NA	1.7%
Statutory reserves	0.2%	0.2%	NA	0.2%
Undivided earnings	0.3%	0.3%	NA	0.3%
Loan loss allowance	1.5%	1.3%	NA	1.5%
TOTAL CAPITAL	11.6%	9.8%	NA	11.4%
Capital, to liabilities	13.4%	10.0%	NA	12.8%

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the need to support the human resource development activities, but excludes donations, devaluation payments, and loan protection/life savings income. Table 8 presents FEDECREDITO's income and expenses for the 1982-1985 period. Table 9 shows the first half results for 1986.

The federation shows a small surplus at June 1980 after these factors are taken into consideration. It is important to note that donations have formed an increasingly small proportion of the federation's total revenues, falling from a high of 13% in 1983 to a low of 2% in 1985.

FEDECREDITO's earnings have improved steadily during the 1983-1986 period as shown in Tables 10 and 11. The gross interest margin calculated as a percent of average total assets has widened from a negative position of -2.1% in 1983 to a positive 3.4% in 1986. At the same time, net operating costs have fallen from 6.3% to only 2.1%. As a result, the operating margin has increased dramatically, rising from -8.4% in 1983 to 1.2% in 1986. The net margin, before unearned income rose from -10.4% to 0.1%. The adjusted net margin, which includes unearned income, rose from 0.1% to 0.9% during the period. FEDECREDITO has clearly been effective in turning around its operating position.

c. Structure

The team developed cost center and consolidated balance sheet and income and expense statements for the federation, based upon before and after closing data provided by the federation. (There are certain minor differences between these statements and the federation's, which will be referred to as necessary in the report). All fixed and non-earning assets were distributed according to the rules explained previously, as were all overhead expenses. All administrative division costs are treated as overhead.

Our analysis rearranges the balance sheet by moving the provision for loan losses from a contra account in assets to capital. By treating this account as equity, we get a different picture of the federation. Total capital, including shares, becomes 11.5% of assets instead of 10%, a relatively small difference. But total equity, that is, the portion truly owned by the federation instead of the credit unions, reaches 3.7% instead of 2.2% of assets. We will discuss the capital and equity distinction in section f., below.

A significant structural issue arises due to the current practice of the federation with respect to raising capital. The federation's capital consists mostly of member shares. These shares are raised through a "forced capitalization" program where credit unions which borrow are obliged to purchase a certain amount of shares. These shares are also in their greater part financed by the federation itself, through loans it makes to its member credit unions. Those loans have a relatively long term. About 60% of the capital of the federation is currently in this form of subscribed but not paid-in capital.

Table 8

FEDECREDITO INCOME AND EXPENSES
1982 - 1985

TOTALS OPERATING STATEMENT (in colones)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Loan interest inc.	60,161,818	33,751,817	11,596,288	2,875,701
Investment interest inc	16,424,914	3,462,488	4,699,925	3,392,421
Commissions	6,590,339	3,259,245	637,128	131,419
Other income	3,198,595	1,814,446	2,274,338	3,149,663
TOTAL INCOME	85,493,613	42,046,850	19,207,679	9,570,885
Cost of funds	65,127,614	32,907,219	18,287,364	5,398,338
GROSS MARGIN	20,365,999	9,139,631	920,315	4,172,547
Personnel cost	7,617,132	4,239,988	2,769,751	500,284
Operating expenses	3,986,354	2,996,439	2,631,359	1,227,987
Other expense	1,059,317	431,031	261,364	928,077
DIRECT EXPENSES	12,662,803	7,667,458	5,662,474	2,656,348
Loan loss provision	2,416,334	3,163,170	1,923,336	118,826
ADJUSTED MARGIN	5,286,862	(1,690,997)	(6,665,495)	1,397,373
Indirect costs	8,043,289	4,057,797	3,357,083	2,154,687
NET OPERATING MARGIN	(2,756,427)	(5,748,794)	(10,022,578)	(757,314)
Donations and other short term sources of funds:				
Donations	1,617,046	2,981,927	3,950,256	137,532
LS/LP program	2,957,903	1,631,881	594,309	178,487
Exchange loss reimburse	1,643,006	457,973	5,530,638	712,330
GAINS OR (LOSSES)	3,461,528	(677,013)	52,625	271,035
TOTAL INCOME	91,711,568	47,118,631	29,282,882	10,599,234
TOTAL EXPENSES	88,250,040	47,795,644	29,230,257	10,328,199

Table 9

INCOME AND EXPENSES OF FEDECREDITO COST CENTERS
JUNE, 1986

1986 INFORMACION OPERATING STATEMENT (in colones)	CENTRAL LIQ. FAC.	DEVELOPMENT FIN. FAC.	HUMAN RES. DEV.	TOTAL
Loan interest inc.	45,650,782	6,916,403	0	52,567,185
Investment interest inc	19,417,130	0	0	19,417,130
Commissions	3,309,516	2,467,874	0	5,777,390
Other income	422,347	77,114	1,299,150	1,798,611
TOTAL INCOME	68,799,775	9,461,391	1,299,150	79,560,316
Cost of funds	55,511,025	5,388,909	0	60,899,934
GROSS MARGIN	13,288,750	4,072,482	1,299,150	18,660,382
Personnel cost	1,367,666	1,094,132	1,874,191	4,335,989
Operating expenses	576,939	461,551	849,267	1,887,757
Other expense	34,123	92,020	0	126,143
DIRECT EXPENSES	1,978,727	1,647,704	2,723,458	6,349,889
Loan loss provision	3,159,859	576,942	0	3,736,801
ADJUSTED MARGIN	8,150,164	1,847,836	(1,424,308)	8,573,692
Indirect costs	4,879,810	890,979	2,473,195	8,243,984
NET OPERATING MARGIN	3,270,354	956,857	(3,897,503)	329,708
Donations and other short term sources of funds:				
Donations	0	0	922,704	922,704
LS/LP program	991,500	181,033	0	1,172,533
Exchange loss reimburse	583,077	106,461	0	689,538
GAINS OR (LOSSES)	4,844,931	1,244,351	(2,974,799)	3,114,483
TOTAL INCOME	70,374,352	9,748,885	2,221,854	82,345,091
TOTAL EXPENSES	65,529,421	8,504,534	5,196,653	79,230,608

Table 10

FEDECREDITO SPREAD ANALYSIS AND FINANCIAL RATIOS
1982 - 1985

TOTALS FINANCIAL RATIOS (asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Interest income	19.7%	18.6%	16.8%	NA
Cost of funds	16.8%	16.5%	18.9%	NA
INTEREST MARGIN	3.0%	2.2%	-2.1%	NA
Dir. oper. expenses	3.3%	3.8%	5.9%	NA
Ind. oper. expenses	2.1%	2.0%	3.5%	NA
Less non-int. income	-2.5%	-2.5%	-3.0%	NA
NET OPERATING COSTS	2.8%	3.3%	6.3%	NA
OPERATING MARGIN	0.1%	-1.2%	-8.4%	NA
Loan loss provision	0.6%	1.6%	2.0%	NA
NET MARGIN	-0.5%	-2.8%	-10.4%	NA
Unearned income	1.6%	2.5%	10.4%	NA
ADJUSTED NET MARGIN	1.1%	-0.2%	0.1%	NA
Earning assets/liabilit	98.0%	89.4%	57.4%	[illegible].4%
Loan yield	21.5%	26.4%	40.9%	NA
Investment yield	35.1%	19.0%	21.2%	NA
Commisions/loans	2.4%	2.5%	2.2%	NA
Cost of funds	18.9%	17.9%	19.9%	NA
Expenses/income	96.2%	101.4%	99.8%	97.4%
Ind. costs/income	8.8%	8.6%	11.5%	20.3%
Loan loss prov./income	2.6%	6.7%	6.6%	1.1%
Personnel costs/income	8.3%	9.0%	9.5%	4.7%
Expenses/fin. income	106.1%	118.1%	172.6%	161.4%
Ind. costs/fin. income	9.7%	10.0%	19.8%	33.7%
Loan loss prov./fin. in	2.9%	7.8%	11.4%	1.9%
Pers. costs/fin. inc.	9.2%	10.5%	16.4%	7.8%
Income/average assets	23.6%	23.6%	30.3%	NA
Earning assets/assets	86.2%	80.9%	54.6%	48.6%
Ind. costs/avg. assets	2.1%	2.0%	3.5%	NA
Adj. net margin/avg. as	0.9%	-0.3%	0.1%	NA
Donations/avg. assets	0.4%	1.5%	4.1%	NA
Pers. costs/Dir. costs	65.6%	58.6%	51.3%	28.9%

Table 11

SPREAD ANALYIS AND FINANCIAL RATIOS OF FEDECREDITO COST CENTERS
JUNE, 1986

1986 INFORMACION FINANCIAL RATIOS (asset base)	CENTRAL LIQ. FAC.	DEVELOPMENT FIN. FAC.	HUMAN RES. DEV.	TOTAL
Interest income	24.1%	11.8%	NA	21.9%
Cost of funds	20.6%	9.2%	NA	18.6%
INTEREST MARGIN	3.5%	2.6%	NA	3.4%
Dir. oper. expenses	0.7%	2.8%	NA	1.9%
Ind. oper. expenses	1.8%	1.5%	NA	2.5%
Less non-int. income	-1.4%	-4.4%	NA	-2.3%
NET OPERATING COSTS	1.2%	-0.0%	NA	2.1%
OPERATING MARGIN	2.4%	2.6%	NA	1.2%
Loan loss provision	1.2%	1.0%	NA	1.1%
NET MARGIN	1.2%	1.6%	NA	0.1%
Unearned income	0.6%	0.5%	NA	0.8%
ADJUSTED NET MARGIN	1.8%	2.1%	NA	0.9%
Earning asset/liabilit	102.2%	96.9%	NA	101.4%
Loan yield	20.6%	NA	NA	NA
Investment yield	13.4%	NA	NA	NA
Commisions/loans	1.5%	NA	NA	NA
Cost of funds	23.9%	9.4%	NA	21.0%
Expenses/income	93.1%	87.2%	233.9%	96.2%
Ind. costs/income	6.9%	9.1%	111.3%	10.0%
Loan loss prov./income	4.5%	5.9%	0.0%	4.5%
Personnel costs/income	1.9%	11.2%	84.4%	5.3%
Expenses/fin. income	95.8%	90.6%	NA	101.9%
Ind. costs/fin. income	7.1%	9.5%	NA	10.6%
Loan loss prov./fin. in	4.6%	6.1%	NA	4.8%
Pers. costs/fin. inc.	2.0%	11.7%	NA	5.6%
Income/average assets	26.1%	16.7%	NA	25.1%
Earning assets/assets	89.0%	95.2%	NA	89.9%
Ind. costs/avg. assets	1.8%	1.5%	NA	2.5%
Adj. net margin/avg. as	1.8%	2.1%	NA	0.9%
Donations/avg. assets	0.0%	0.0%	NA	0.3%
Pers. costs/Dir. costs	70.3%	70.3%	68.8%	69.7%

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So long as the member credit unions pay, this procedure can work. However there is the risk that economic conditions may change. In that case the credit unions may not receive their payments, and will in turn be unable to pay the federation. If this happens, both the capital base of the federation and its loan portfolio would be at risk. Furthermore, ownership of the federation, as represented by shares, is currently in the hands of a small minority of the member credit unions -- those that have borrowed the most over the past four years. This concentration may not be healthy in the event of economic reversals or political differences.

This loan capitalization system, despite its weaknesses, has played an important role in FEDECREDITO's turn-around. It enabled the federation to build a capital base rapidly and thus leverage additional external resources to increase its earnings. From the point of view of external investors, this share capital is indeed equity and protects them from possible losses. From the point of view of the investing credit unions, however, such leveraging in the face of FEDECREDITO's relatively low level of internal equity (total capital minus shares) significantly increases the risk of capital impairment (technical insolvency). While this risk-taking was undoubtedly necessary in the crisis of 1982, it is now time for the movement and the federation to reduce their exposure by increasing internal equity.

A related structural issue is that the development finance facility has been the main source of the forced share purchases. However the DFF has little ability to absorb the relatively high-cost share capital which has been generated. The excess funds instead have been used in support of the central liquidity facility, which has in turn generated less share capital.

As can be seen in Table 4, when total capital in the DFF is allocated in a 1:10 relation to DFF liabilities, total funds (liabilities and capital) exceed total assets. The difference, 8.1% of DFF assets, are invested in the CLF. As a result, CLF assets exceed CLF funds by 1.3% (the CLF is much larger than the DFF). In effect, the DFF is financing a small portion of the CLF. This exercise is only illustrative, but does indicate the need to analyze the capital needs of the federation more closely. Too close a reliance on a simple consolidated balance sheet approach to capital needs may mask a potential capital deficiency.

d. Compliance with Policies

The federation has adopted a series of financial policies which are fairly well described. They require a liability-to-capital ratio of 10:1 maximum. FEDECREDITO currently complies with this policy. It also has a policy of placing 70% of its loans in productive loans, which is not currently met. The demand for credit at FEDECREDITO's rates is low among credit unions. There is a high demand for credit at subsidized rates, but sufficient low-cost funds are not available in large quantities at the moment. Furthermore, there is only limited capability for absorbing more funds, partly because obtaining additional subsidized funds for lending would put the liability/capital ratio in jeopardy. In short, under current conditions, meeting this goal would be difficult.

The federation has a policy of charging commissions on loans. Commissions in the marketplace are generally between one and three points. The federation generally follows market practices.

The federation has a policy of preferring to lend on a wholesale basis to credit unions rather than directly to private borrowers. It has been successful in reducing such direct loans as a proportion of its total loan portfolio. Due to low demand for market rate loans among credit unions and the high amount of deposits that FEDECREDITO has at market rates, the federation is unable to eliminate non-credit union lending. It is not clear that reducing higher return loans, such as those to the private businesses, is appropriate.

The federation has a policy of maintaining liquidity. It does this through its investments in short-term instruments of various types. There is a more complete analysis of this in the section on Deposit Mobilization. In general they are successful in maintaining adequate liquidity.

The federation has a new policy of requiring credit unions to deposit in the federation 10% of their own deposit base, and to deposit anywhere (including the federation) an additional 10%. The credit unions have begun compliance. The policy is too new to fully measure its impact. In aggregate terms, liquid investments by credit unions totalled 39.7% of their deposits at year-end 1985 and their investments in FEDECREDITO TOTALED 20.2%.

e. Financial Resource Requirements

Accurate estimation of the financial resources required by the FEDECREDITO system requires an in-depth market study, identifying creditworthy borrowers and credit unions, analyzing their debt carrying and repayment capacity and estimating the demand for funds segmented according to the type of asset to be financed, loan term and interest rate. Such a study is beyond the scope of the present evaluation although we have attempted to estimate the movement's current absorptive capacity. FEDECREDITO will require additional technical and financial resources to undertake such a market study; support for it from USAID would represent a sound investment in the future of the national credit union system.

It appears evident that the credit union movement is currently in a surplus position regarding the supply and demand for short-term funds at market interest rates. The survey of credit unions indicated, however, that there is considerable (if unquantified) unmet demand for longer term financing, particularly in the housing and small business sectors. These require substantially longer terms and thus access to savings and capital funds not currently mobilized by the credit union movement at the local level. FEDECREDITO is now the principal mobilizer and intermediary of such external funds. The federation will require additional support to assist credit unions to develop appropriate long-term savings instruments which can finance long-term loans; this is another area where USAID support can be of critical long-run benefit.

FEDECREDITO will also need to increase its access to institutions such as pension funds, insurance companies, the Cooperative Housing Foundation (CHF) and others which possess adequate long-term resources but lack the retail distribution system of the credit union movement. Several other credit union federations in the region have now successfully implemented CHF-funded, low-cost housing finance programs and the movement would be benefited if similar arrangements can be developed in Costa Rica.

FEDECREDITO has the financial ability to absorb about 200 million colones in additional liabilities and still maintain a 10:1 ratio of liabilities to capital. However the ratio of total claims (liabilities plus credit unions' shares) to equity is about 25:1, a much more risky level considering current uncertainties about the Costa Rican economy and the lack of delinquency experience in the loan portfolio.

Two major constraints exist to expansion of the credit union system's long-term lending operations, even when resources are obtained. These are the liabilities to capital and total claims to equity limits noted above and the loan-making capability of individual credit unions. Long-term lending requires much more in-depth financial analysis of repayment ability and careful establishment of loan security interest. FEDECREDITO will need resources to develop appropriate loan underwriting guidelines and procedures at both the federation and credit union levels. The movement will also need to continue strengthening its equity position at both levels to absorb the additional risks which are inherent in long-term lending, even with improved collateralization.

USAID/Costa Rica could further expand the FEDECREDITO system's ability to mobilize long-term savings by increasing the federation's equity base. A grant of seed capital to FEDECREDITO's equity could be used to leverage additional savings on perhaps a 15:1 ratio, thus minimizing both the level of USAID resources and short-term pressures on the federation's spread to increase retained earnings prior to implementation. This seed capitalization could be tied to the development of appropriate savings instruments and lending guidelines for serving the long-term credit market.

The FEDECREDITO system can probably absorb up to 200 million colones at the credit union level, about a ten percent increase in the portfolio, without straining operating capabilities. Such a growth in the federation's liabilities would require additional equity of about 5 to 10 million colones, assuming an equity ratio of 5%. This would mean increasing FEDECREDITO's current equity of 31 million colones by about 16% to 32%, which would exceed its current level of operating surplus which is about 1% of equity. A capital grant to FEDECREDITO of 10 million colones (about US$167,000) could thus support additional savings mobilization of 200 million colones, clearly a beneficial leveraging of USAID resources.

Additional mechanisms to obtain long-term funding include the development of a proportional capitalization system, in which a given percentage of members' share savings in the credit union are automatically reinvested by the affiliated credit union in federation shares. This plus other alternatives for increasing FEDECREDITO's capital base are discussed in the following section.

f. Financial Issues

In this section we discuss several issues which came to our attention during this study.

(1) Capital

The capital of the federation is based on shares which have been created through subscription. For example, when the federation makes a loan, a condition of that loan in many cases is that a percentage of it (anywhere from 10% to 40% in some programs) be placed into shares. At the moment two-thirds of the total capital position of the federation is in the form of shares purchased in this way. The federation cannot continue to rely so heavily on this form of capitalization, for the following reasons:

(a) The share pledge loans are often relatively long-term, leaving the federation exposed to possible economic reverses in the country and thus to credit union inability to pay these loans as scheduled. Though the loans are made as part of a single contract, including the monies received by the credit union for productive credit, the amount of the loans which goes into shares is well known by the credit union. The team believes that the possibility of non-payment remains a real one for the future.

(b) The burden of capitalizing the federation falls on the credit unions which borrow the most. In effect they not only pay the interest which supports the operating costs of the federation, but they also must capitalize it. Currently the capital they subscribe is used to support the deposit base created by all the member credit unions. Thus the borrowers create the income stream to pay the savers/depositors as well as the capital base necessary to allow the depositors to receive that income.

(c) A substantial portion of the federation's equity comes from the revaluation of fixed assets and donated capital. Some of the assets funded by this equity are really not very liquid, and may therefore not adequately reflect the true capital position of the federation. These equity (non-share) capital accounts represented 2.7% of total assets at year-end 1985.

(d) Very little equity, only 2.4% of total assets at year-end 1985, has been generated from operations. In our analysis we included the loan loss allowance in the equity base of the federation. It is our judgement that this is a truer statement of the role of the loan loss allowance since FEDECREDTIO is expensing an amount which remains higher than the actual loan loss experience. The allowance represents about 13% of the total capital, and about 32% of the equity. Equity build-up is crucial to the federation. Substantial equity gives the federation a pool of no-cost funds which can ease the impact of narrowing spreads in market rate programs. It is also the "financial cushion" available to absorb losses without impairing members' paid-in shares.

(e) The credit unions are well aware of the difficulties they face with forced capitalization. For example, many find that they cannot pass on the capitalization burden to the borrower. Thus their true cash cost of borrowing from FEDECREDITO is higher than its nominal lending rates. Credit unions indicated a general acceptance of the need for capitalization in our interviews with them, but not at the levels required by the federation.

The study team has two suggestions for dealing with the capital issue. First, we suggest new capital building methods involving the liabilities side of the ledger. One possibility would be to require that some uniform percentage of the share and deposit base of all affiliated credit unions be invested in FEDECREDITO shares. These shares should earn a reasonable dividend for the credit unions.

Second, we suggest a more concerted effort to retain earnings to bolster the true equity strength of the federation. In the long run the only real way to protect the savers and depositors is through retained earnings. The likelihood of a slowdown in funds acquisition, or a lessening of the spread in order to remain competitive, means that the federation faces the need to be conservative in its financial decisions. The current small surplus should not be viewed as a windfall. Instead it should be viewed as an opportunity. It should be guarded wisely, rather than spent or invested in non-earning investments.

The federation should be consolidating its gains. One way to do this is to turn towards continued expansion of already successful lines of endeavor rather than emphasizing new efforts. In 1986 the federation has shown a trend towards higher administrative and personnel costs. This trend is worrisome in an organization which is barely profitable at the moment, and is still not able to capitalize its own growth from those profits. In other parts of this report we deal with developmental and organizational needs which are quite important in our judgement, and which will also require use of some of the surplus funds now being generated.

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(2) Interest Rates

The federation has a relatively narrow spread between the rates it pays and the rates it charges as can be seen in Table 8. It also has very little of its own money (equity) that it can use to increase its effective spread. Only in 1986 has the federation been able to have more income than expense from its financial and related operations. The federation has succeeded in slowly building additional equity in the form of the provision for loan losses, but this equity is still below a minimally safe level of about 5%. Thus the spread, as the primary means by which income is produced, must be protected and enhanced.

The federation has been moving towards a portfolio whose rates are at market levels. In the central liquidity facility portion of their business this is quite posible. On the liabilities side, the federation has been able to offer rates normally competitive in the marketplace. However, the marketplace itself does not offer a large spread between wholesale and retail rates. In other words, the federation cannot earn high enough rates in secure reinvestments, such as other financial institutions, to provide a large spread and allow the credit unions in turn enough margin to pay their own savers. Additionally, wholesale loans to credit unions at close to retail market rates are difficult to place. Thus the federation is forced to consider investments in various securities and retail loans to private businesses. These pay a higher rate, but are riskier, especially the business loans. Virtually all of the delinquency of the federation comes from these business loans.

In the development finance activity of the federation the issues are different. The spread is also relatively narrow. However, the net is higher, because of the impact of commissions. The rates for loans are all subsidized, with the funds coming from low-interest loans from the BID, COLAC; and PL 480 monies. During our interviews with managers of credit unions, the study team heard several times that there would be no market for productive agricultural credit at market rates, only at subsidized rates. While this may be true at the moment, changing market conditions may alter this situation.

Referring to the discussion about building capital, above, we have pointed out that the burden of building the shares of the federation has fallen almost exclusively on the credit unions that borrow for productive agricultural credit. When those credit unions pass on the credits to their members, they also must have some way of compensating themselves for the cost of the shares. For the PL 480 monies, the program with the stiffest capital requirements, for every million colones loaned to a credit union, 400 thousand colones had to be left in the federation as shares. As a practical matter, this has the effect of raising the effective interest rate from a nominal 15% to about 23%. This is close to market retail rates.

The credit union has two ways to make up the difference. The first is from dividends it receives on its shares in FEDECREDITO. It currently receives about 10% as a dividend on its shares. This dividend currently cannot be withdrawn by the credit union unless the credit union withdraws from the federation. It does not therefore produce any cash inflow to the credit union. Secondly, the credit union receives the loan from the federation at a term of four years and loans the money at shorter terms. It can therefore insist on a share investment from its members at a lower level, say 10%, and roll the loan over four times to eventually recoup in the form of shares in the credit union the shares it has invested in the federation. This is a long process which is fraught with marketplace perils.

The problem is similar in all of the subsidized lending programs. The real cost to the borrower is higher than the nominal cost. The means to maintain a viable spread are limited. And the risks remain high in an economy only recently emerging from a most difficult period. If the federation is to continue to support a market rate philosopy for its central liquidity facility, and if it wishes to continue its development finance activities successfully, then an important step will be solving of the capital-building problems described above.

As part of the discussion of rates, the team also notes the role of commissions in providing income to the federation. Commissions are similar to points in the U.S. housing market. In addition to the interest payments, the customer pays an upfront fee. The fee ranges form 1 to 3%. Commission income is significant, as long as the federation rolls over its loans regularly. This means either a growing portfolio where new loans are made from new money, or a portfolio that is well managed, with terms well distributed to guarantee a certain amount of rollover regularly. If the federation has to invest in the securities market, or if it cannot make new loans regularly, commission income will be reduced.

(3) Loan Protection/Life Savings Program

A third financial issue is the way in which the loan protection/life savings program (LP/LS program) is accounted for. The federation has recently decided to account for the program separately. This is the proper decision and reflects the very different nature of this program as a form of mutual insurance. Previously, income from the program was counted as general income, expenses were part of general expenses, and the accumulated net was part of assets. Programs such as this have certain statistical probabilities of losses or costs, which need to be accounted for and managed appropriately. This requires explicit definition and segregation of asset, liability and reserve accounts associated with these operations. There is no evidence in the audited statements of awareness of the true obligations of the program. There is no indication of the extent to which the operating costs of the program have been correctly applied. The evaluation team feels that separate accounting for this program,

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as a cost center, and with an actuarial analysis of all contingent liabilities, is urgently needed. As noted previously, we do not include this program in the overall assessment of the health of the federation. This also implies that we cannot confirm the state of health of this program. The LP/LS program should be studied and evaluated as a separate entity and as a possible expandable business venture.

2. Credit Area

a. The Make-up and Status of the Current Credit Portfolio

Loans outstanding to borrowing credit unions, private firms and others comprise 70.7% of FEDECREDITO's total assets. This is an excellent position, considering the role of the federation as a central liquidity facility for the movement and its resultant need to maintain a substantial portion of its funds in short-term, liquid investments to meet possible withdrawal demands at the credit union level. This also compares favorably with other Latin American credit union federations which have maintained an average loans-to-assets ratio between 49% and 57% in recent years.

The make-up of the loan portfolio is shown in Table 12, where loans outstanding are allocated to the federation's cost centers and distributed according to the source of funds. Nearly 64% of the portfolio is in short-term loans outstanding. The CLF administers 75.6% of the total portfolio, of which 73.3% are in short-term accounts. The DFF has 24.4% of total loans outstanding, of which 65.5% are in long-term credits. Slightly more than half of total loans (51.4%) are funded by credit unions through the Deposit Mobilization Program (CAD), about one-sixth (16.5%) by FEDECREDITO's own funds and the remaining 32.1% by other programs. Thus over two-thirds (67.9%) of total credits are funded by internal movement sources, an outstanding record in comparison to most development banks and other specialized credit agencies.

FEDECREDITO has apparently also achieved notable success in reducing its loan delinquency from the high pre-project level of 38.9% in 1981 to less than 2% in 1986 (see Table 13). Using a conventional delinquency reporting format, overall loan delinquency as of June 30, 1986 was only 1.46%. The CAD program's business loan portfolio was experiencing a 2.32% delinquency and the rate for CAD loans to credit unions was 1.63%. Of these two account types, the majority was over 12 months delinquent. Delinquency cannot yet be quantified for the loan types carrying extended grace periods before principal payment must begin. Of those programs where payment has begun, no delinquency problems are evident as of this time.

The primary area of risk to the credit portfolio that is identifiable at this time is in the area of loans made to private businesses. Since the rate of return on these loans is higher than other loan programs, the rate of delinquency in this area is not surprising. From c 212 million in short-term CAD loans in that portion of the

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Table 12

FEDECREDITO LOAN PORTFOLIO STRUCTURE
JUNE, 1986

Millions of Colones

Loans Outstanding by Cost Center

	Central Liquidity Facility	Development Finance Facility	Total Portfolio	Percent
Loans Outstanding				
Short-Term	245.8	37.4	283.2	63.8%
Long-Term 89.5	70.9	160.5	36.2%	
Total 335.3	108.3	443.6		
Percent	75.6%	24.4%		100.0%

Loans Outstanding by Source of Funds

	Amount	Percent
Deposit Mobilization Program	228.1	51.4%
Own Funds	73.3	16.5%
Other Programs	142.2	32.1%
Total Percent	443.6	100.0%

Table 13

FEDECREDITO LOAN DELINQUENCY ANALYSIS
JUNE, 1986

	CAD PROGRAM		OWN FUNDS	
Loan Type	Amount	Percent	Amount	Percent
Current & < 2 mo.	222,834,376	97.68%	72,061,295	98.37%
6 to 12 months	58,666	1.12%	0	0.00%
over 12 months	5,243,660	2.30%	1,190,573	1.63%
Total	228,136,702	2.32%	73,251,868	1.63%

	OTHER PROGRAMS		TOTAL PORTFOLIO	
Loan Type	Amount	Percent	Amount	Percent
Current & < 2 mo.	142,210,178	100.00%	437,105,849	98.54%
6 to 12 months	0	0.00%	0	0.00%
over 12 months	0	0.00%	6,434,233	1.45%
Total	142,210,178	0.00%	443,598,748	1.46%

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portfolio, there is c 6.4 million that is currently more than two months delinquent. Of that amount, 80% or c 5.3 million is related to business loans.

Of the short term portion of the portfolio of c 212 million, 62% is in 63 loans with a combined balance of c 131 million; c 36 million or 17% is in four loans, and two other loans contain balances of c 20 million and c 25 million respectively (see Table 14). One firm has loans totalling c 26.6 million or 12.52% of the short-term portfolio, and one non-affiliated credit union has loan balances of c 45 million or 21% of the short-term portfolio. In accordance with policy, these loans were referred by the Technical (Credit) Committee to the Board of Directors for approval.

Apparently, the Administrative Credit Program has not experienced major problems in the area of delinquency or discharge of debt, and the anticipated revolving effect of the funds in the program should be sustainable. There has been one case where the debt was difficult to collect, and there currently exists one seriously delinquent account with a balance of c 245,000 due. FEDECREDITO has secured its interest in this instance with property assets of the borrower.

b. The Development Impact of the Credit Provided with Funds from the Administrative Credit Program

To date 25 credit unions have participated in the program using the resources to fund a combined total of 78 positions. Two of the credit unions which participated in the Administrative Credit Program have since withdrawn from the FEDECREDITO system. The majority of the credit unions used the borrowed funds to support the personnel costs for the manager, an accountant and a marketing (or promotional) person. A few used the credit to support personnel expenses for division chiefs and technicians. The terms of these loans vary regarding term, grace period, commission, etc.

The Administrative Credit Program has had a substantial and positive impact on the movement. First, it strengthened a group of credit unions which, while relatively large, still suffered from managerial deficiencies. Second, it produced comparatively better performance in a number of key areas in the participant credit unions as compared to the non-participants. Third, the concept of providing full financial service to the membership is more fully accepted in the participant group. Fourth, the ACP probably stimulated a greater interest in improving managerial performance even in the non-participant group through natural competitive forces. And fifth, it probably improved the overall public image of the movement, thereby encouraging growth in all credit unions, participants and non-participants alike.

Comparative growth data and key ratios for the ACP participants and non-participants are presented in Table 15.

These data show that the ACP participants were more successful at increasing savings, loans and total assets and in improving their key ratios of reserves to assets and reserves to estimated loan

Table 14

FEDECREDITO SHORT-TERM LOAN PORTFOLIO ANALYSIS
JUNE, 1986

Millions of Colones

Loan Size Categories	No. of Loans	Amount
Less than c 5.000,000	6	131
c 5,000,001 to c 10,000,000	4	36
c 10,000,001 to c 20,000,000	1	20
c 20,000,001 and over	1	25
	69	212

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Table 15

COMPARATIVE PERFORMANCE OF CREDIT UNIONS
PARTICIPATING IN THE ADMINISTRATIVE CREDIT PROGRAM
9/84 TO 12/86

	Amount of Change			Percent of Change		
	Partici-pants	Non-Part-cipants	Total	Partici-pants	Non-parti-cipants	Total
Indicators						
Memberhip Growth	11,915	14,776	26,691	30.7%	40.8%	35.6%
(Millions of Colones)						
Asset Growth	738	598	1,336	64.2%	81.5%	70.9%
Statutory Reserves	4.9	0.5	5.4	44.6%	2.9%	58.9%
Loans Outstanding*	675	481	1,156	291.4%	195.8%	242.2%
Estimated Chargeoffs	14.5	4.2	18.6	153.1%	92.1%	133.3%
Passbook Deposit Savings	71	28	97	57.4%	19.3%	37.0%
Fixed Deposit Savings	360	219	579	62.6%	147.3%	80.0%
Share Savings	103	136	239	51.7%	65.8%	58.9%
Total Savings	534	383	915	59.5%	77.0%	65.7%
Ratio Analysis						
Loans to Assets	91.5%	80.4%	86.5%			
Reserves to Chargeoffs	33.86	11.9%	29.0%			
Reserves to Loans	0.7%	0.1%				
Loans to Savings	126.4%	125.6%				
Chargeoffs to Loans	0.66%	0.08%				

Exact figures may vary due to rounding

*9/83 to 12/85

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charge-offs. This substantial growth, however, was won at the cost of a slight increase in loan delinquency (estimated charge-offs) as compared to the non-participants. The Evaluation Team's findings are summarized below:

(1) Participants achieved total savings growth of c 534 million (a 59.5% increase) as opposed to c 383 million (77.0% growth) by non-participants.

(2) Participants achieved asset growth of c 738 million as compared to c 598 in the other group, and they directed 91.5% into loans versus 80.4%.

(3) Participants achieved dramatically higher reserve growth in both absolute and percentage terms. As a result, the participants' reserve growth to loan growth was 0.7% as compared to 0.1%, reserve growth to estimated charge-off growth was 33.8% versus 11.9% and reserve growth to asset growth 0.66% versus 0.08%. While these ratios may still be somewhat low, they indicate relatively stronger equity growth in the participants.

(4) Participants were able to increase loans outstanding faster (291.4% growth versus 195.8%) and generated a larger total increment (c 675 million versus c 481 million).

(5) Estimated loan charge-offs increased both faster (153.1% versus 92.1%) and by a larger amount (c 14.5 million versus c 4.2 million) in the participants.

(6) Both participants and non-participants were about equally effective at directing savings into loans. Nevertheless, the high ratio of loan growth to savings growth (over 125% in both cases) suggests that both groups of credit unions are facing substantial increases in loan demand and pressures on their liquidity.

Additional tables showing the credit unions which participated in the program and the number of positions financed, disbursement history and an analysis of the revolving fund's turnover capability are presented in Appendix 5.

The operation of the Administrative Credit Program (ACP) does not adhere strictly to either the loan policies developed by FEDECREDITO or the mechanics outlined in the original implementation plan. In effect, the circumstances of the credit unions require some flexibility in the application of the program's policies and procedures, a fact illustrated by FEDECREDITO's flexible policies. The result is adherence to the spirit and intent of the program within a reasonable framework supplied by the implementation plan.

The primary impediment to strict adherence to the implementation plan was that in many cases the loan amount suggested was not sufficient to meet the actual loan amounts required by many of the credit unions to finance the activities outlined in the plan over the time frames and including the three staff persons. Of the 25 credit unions who have participated or are participating in the program, sixteen exceeded the average amount suggested. The average amount of total Administrative Credit Program disbursements to credit unions is approximately US$9,600 as of June 30, 1986. The average approved loan amount is US$12,500. FEDECREDITO increased the maximum loan amount from c 500,000 to c 1.0 million in 1985. These measures were deemed necessary because of the rapidly rising salary structure of professionals in the country and the desire to provide the opportunity to hire fully qualified individuals.

The emphasis of the project was primarily on the rural credit unions, which received 67% of the credit actually disbursed and 72% of the amounts approved.

The phenomenal growth in size of the FEDECREDITO system indicators, both of recipients of administrative credit and those who have not participated, comes from the addition of new credit unions to the system and from increased activity of those credit unions already integrated into the system. Six of the 25 credit unions who have participated were not members of FEDECREDITO in September, 1983.

Analysis of the ACP disbursements made and the balance in the Administrative Credit loan account shows that the revolving effect derived from principal repayment has been achieved. As indicated in the previous section, there is not a significant threat of loss to discharge of debt in this program. Approximately, US$80,000 or 38% in principal has been returned and made available for additional loans under the program. As a result, it should not be difficult to reach the goal of serving a minimum of 45 credit unions. However, since there are only 49 credit unions currently affiliated with FEDECREDITO, the additional application of funds will have to occur in credit unions affiliating in the future. The current potential number of credit unions that meet the requirements to become affiliates is approximately 70 out of a national total of 128. The goal of providing loans to 25 credit unions in the first four years was reached.

c. Credit Policies

In order to properly interpret the credit policies associated with the FEDECREDITO loan portfolio, the source of funds for each loan type must be taken into account. Since each program has its own requirements based on the source of those funds, many of the policies are necessarily driven by those requirements. The major exceptions are loan policies developed for the placement of funds derived from FEDECREDITO's savings mobilization program (CAD).

FEDECREDITO has a general institutional credit policy that serves as a framework for more specific policies related to the different sources of funds and purposes of application. For the most part, FEDECREDITO is in compliance with or is very close to meeting the standards set forth. Although loans are made to private businesses, there is a sound business reason for investing these funds, which are obtained at a relatively high cost, in such a way as to provide a margin of profit so that FEDECREDITO can continue to provide quality services to its member credit unions. Currently, 55% of the assets are in near market-rate loans. Thus some progress could be made in this area. The federation is pricing its loans to retain a positive spread and achieve self-sufficiency.

Capitalization policy differs from one loan type to another, and perhaps a more general capitalization policy should be considered in this section. FEDECREDITO has a loan loss provision that meets the policy requirements.

The actual operation of the Administrative Credit Program does not adhere strictly to either the loan policies developed by FEDECREDITO or the mechanics outlined in the original implementation plan as noted previously. It is our understanding that an agreement to this effect was worked out with USAID/Costa Rica.

The policies of the PL 480 program have been followed with one recent exception. Since the program has matured, they have approved one loan recently that is for five years instead of seven, with one year of grace instead of two.

More institutional judgement is used in the administration of the BID/COLAC funds, especially in the term of the loans and the grace period granted. FEDECREDITO management clearly is trying to maintain policies which will allow it to compete successfully in this financial market. In addition, the federation reviews the individual applications and determines, within a range of options, what terms would be appropriate. Approximately 25% of this portfolio is loaned out for four years with one year of grace and 35% for shorter durations.

The credit policies for funds derived from the savings mobilization program (CAD) are a bit more complicated. In March, 1985, a policy was developed for CAD investments that apportioned the funds by percentage for distribution through four different loan types and seven different terms. These are summarized in Table 16.

Table 16

PORTFOLIO COMPOSITION GUIDELINES FOR CAD PROGRAM

Portfolio Share	Borrowers/Loan Type	Capitalization	Term
20%	Obligatory Deposits	10%	6 months or less
20%	CAD/OWN FUNDS	40%	30 months or less
6	CAD/OWN FUNDS	3 to 1	60 months or less
9%	CAD/OWN FUNDS	3 to 1	60 months or less
15%	Private Business		18 months or less
20%	Private Business		6 months or less
10%	Cooperatives/Short-Term		6 months or less

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FEDECREDITO estimates that it will place approximately 50% of these funds at six months or less and that 60% will be on a monthly amortization schedule. Each line has its own terms and conditions, for example the 6% in CAD/OWN FUNDS is for working capital loans funded for five years, with one year grace, 15% on annual balance, variable rate after first year, a 2% one-time commission, a 40% capitalization requirement, and a 10% capital subscription requirement. Obviously there are many different way in which these loan packages are structured.

This policy is designed to spread the credit over a wider variety of borrowers and terms in order to create a diversification effect. The strategy appears to be sound and recognizes the increased risk in business loans. So long as the percentages are adhered to and delinquency is controlled, a good balance should be struck with this structure. It also has the advantage of permiting the "investment" of funds that are acquired at a relatively expensive cost to be turned over at a reasonable rate of return. The Credit Committee is authorized to approve loans up to c 5,000,000, and any amounts above that must be approved by the Board of Directors. The Credit Committee is made up of the Manager, Operations Division; Director, Office of Resource Mobilization; and the Internal Controller.

d. Collection System

There is a well-defined collection program currently in place at FEDECREDITO. If a loan account payment is not received by the due date, a letter is sent during the first week of delinquency, signed by an official of the credit department with a copy sent to the Manager of Operations. If payment still is not forthcoming, a second letter is sent the following week giving the borrower eight days to bring the account current. This letter is signed by the Manager of Operations with copies to the President of the Board of Directors. A third letter is sent if the account remains delinquent, providing one last opportunity for payment within four days of the date of the correspondence. This document is signed by the General Manager of FEDECREDITO with copies to the President, the Manager of Operations, FEDECREDITO's attorney, the Credit Department and to the file. Finally, a telegram notice advises the delinquent account holder that the account has been sent to an attorney for collection. All the above referenced materials have been developed in a package that allows timely and efficient administration of collection procedures. In any event, after two months, all delinquent accounts are automatically turned over to an attorney for collection. According to the federation collection staff, extension agreements and other types of refinancing are negotiated infrequently.

FEDECREDITO's collection efforts seem to have improved markedly in 1982 over 1981's miserable performance. Since that time it has been reasonably effective in keeping delinquency under control. In recognition of the potential risks in making business loans with CAD funds, the Department of Savings Mobilization is in the process of improving its evaluation procedures for those types of borrowers. The collection area will also need to consider making any necessary

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changes to adapt to collecting these types of loans and maintaining adequate collection controls.

e. Credit Procedures, Manuals and Regulations

FEDECREDITO has paid close attention to developing procedures and manuals to implement its credit programs. They include assigning responsibility for each phase of the credit application and disbursement process by title of personnel. In addition to having the responsibilities clearly laid out in writing in the credit manuals, these also include copies of all the appropriate forms and documents. Clearly, this is an ongoing process and by utilizing their micro-computer driven word processing systems, they can readily maintain these manuals current.

In place are a full set of regulations governing the following:

1. General orientation.
2. Who is eligible for credit.
3. Requirements to receive credit.
4. Maximum amounts & terms.
5. Loan types, rates of interest and other charges.
6. Collateral.
7. Capitalization requirements.
8. Disbursement.
9. Loan approval limits.
10. Amortization.
11. Refinancing, extension agreements and loan consolidations.
12. Supervision of loans.
13. Application for credit and approval limits.
14. Restictions for provident use of credit.
15. Review and revision and regulations.

Similar regulations are in effect for each major loan type. The most recent version of regulations available applies to the Savings Mobilization Program approved by the Board of Directors in 1986. Regulations for the other loan programs should be reviewed and updated at least once per year as stipulated in the the regulations.

Recognition of the importance of regulations appears to be ingrained in the FEDECREDITO staff; therefore, lack of sound regulations is not a problem for the organization.

f. Interest Rate Structure and Cost

The overall structure of FEDECREDITO's assets, liabilities, equity and spread is addressed in section III.A.1. One obvious element that deserves additonal exploration is the "real" interest rate on loans from FEDECREDITO to the affiliated credit unions. The stated or nominal cost of these loans is significantly increased by the required capitalization of as much as 40% of the amount borrowed and any commission that may be charged. A sample calculation of the effective cash cost is shown below:

Thus the effective interest rate in this example is over 7% higher than the nominal rate. Since in this case the commission is a one time charge, the effective rate would be somewhat reduced after the first year. This same exercise must be applied to each loan type given the terms of the loan to derive the effective rate to the credit unions.

BID/COLAC Production Credit Loan:

Amount borrowed	US$1,500,000
Nominal Rate 15.00%	US$ 225,000
Capitalization required 10.00%	US$ 150,000
Opportunity cost of capitalization funds @ 19.00%	US$ 28,500
Commission paid @ 3.00%	US$ 45,000
Total cost year 1	US$ 298,500
Actual amount of funds received	US$1,350,000
Effective rate year 1	22.11%

The actual return on earning assets is higher for FEDECREDITO than nominal rates would suggest.

The cost of funds to FEDECREDITO has also been developed in the financial and deposit mobilization sections of this analysis. The current high cost of funds to FEDECREDITO from the mobilization program and the movement of credit unions' funds into the higher-cost fixed-term category effectively narrows the spread available.

Based on the above illustration, FEDECREDITO's effective interest rate structure appears to be somewhat high in relation to the cost of funds to qualified borrowers in the national market. The effective cash cost of 22% in slightly above the IMF-reported commercial bank lending rate of 21.5% and somewhat below the nominal credit union retail lending rates which ranged from 21% to 27% in our survey. This rate, however, may be somewhat low compared to finance company or other private lender rates to non-prime borrowers. Thus FEDECREDITO is probably competitive as a retail lender to other than top-quality clients.

The limited data available to the Evaluation Team do suggest, however, that FEDECREDITO may not be quite so competitive as a wholesale lender to credit unions for retail on-lending to their members. Credit unions reported savings interest rates of from 8% on shares to 27% on longer-term fixed deposits. These rates compare to the IMF-reported commercial bank short-term deposit interest rate of 16.5%. Even if credit unions are paying a few percentage points more than this for their deposits, the cost of such savings may still be substantially below FEDECREDITO's 22% lending rate. Such a differential may, in fact, be reducing FEDEDREDITO's ability to generate additional wholesale loans to credit unions.

Because it is possible that the federation, and even some credit unions, may be too far above their respective wholesale and retail market interest rates, the movement should examine its pricing and marketing strategies. This may prevent the need for some organizations to continue chasing high yields at the risk of increased loss exposure which could result in possible solvency problems should economic conditions worsen.

3. Deposit Mobilization

FEDECREDITO's savings mobilization program has been a dramatic success at both the credit union and federation levels. According to FEDECREDITO's aggregate data for its affiliated credit unions, total members' savings, including passbook accounts, term or fixed deposits and share savings, increased from c 39.9 million (US$2.5 million) in 1981 to c 2,019.3 million (US$37.6 million) in 1985. This phenomenal growth rate of 96.9% per year reflects increases in both the number of credit unions affiliated to the federation and the level of savings in each affiliate.

At the FEDECREDITO level, credit union passbook savings and fixed deposits grew from c 30.6 million to c 570.4 million from December, 1982 to June, 1986, an annual growth rate of 110%. We have not included shares in this total because they were not fully paid in.

a. Compliance with Savings and Investment Policies

Policies governing the CAD program are divided into two categories: policies for attracting funds and policies for placing funds generated by this program. These are summarized below:

(1) Savings Attraction Policy Elements

(a) Minimum deposit of c 25.000. (b) Pay a rate of interest from 1 to 4 percentage points above the rate paid in the national banking system. (c) Place at least 20% of the portfolio in fixed term or liquid investments as a cushion. (d) Certificates issued by FEDECREDITO may be used by the member credit unions as loan collateral. (e) Interest rates may be adjusted weekly after due consideration of market rates, liquidity in the fund, investment opportunities, maturities that week and the condition of the financial market. (f) The federation will accept investment funds from the credit union movement, and non-profit associations. (g) The term for certificates offered may be no more than one month different from the fixed-term certificate maturities being offered in the national financial system. (h) Passbook savings must be encouraged because of their low cost.

FEDECREDITO is in compliance with its savings mobilization policies. Currently, it is difficult for FEDECREDITO to maintain a significantly higher rate on the deposit funds from its affiliates over what they could earn in the national banking system (i.e., a differential of 1% to 4%). This is due to the high liquidity characterizing the current financial marketplace. The underlying economic causes were discussed earlier. Affiliated credit unions have been sending relatively large sums of savings deposits received from their members to FEDECREDITO for investment. FEDECREDITO in turn is finding it somewhat difficult to invest or loan the funds at a rate significantly higher than they are paying to their affiliates.

One advantage the federation does have is the experience of its staff (particularly the Manager of Operations) and the ability to negotiate lower settlement costs with its brokers based on volume. Unfortunately, the lower-cost passbook savings accounts are not attracting funds as most affiliates opt for the higher-paying fixed-term accounts. This sensitivity to rate on the part of the affiliates has the effect of further raising FEDECREDITO's cost of funds and brings into question the long-term viability of the passbook savings account as presently structured.

(2) Policies for Placement of CAD Funds

(a) Affiliated credit unions receive a preferential rate. (b) At least 20% of the portfolio will be invested in short-term or negotiable instruments. (c) A return of at least 4% above the cost of funds. (d) The borrower pays settlement costs. (e) A commission on the principle loaned, depending on the type of credit union, up to two percent, will be charged with member credit unions exempted. (f) All funds not invested in the National Exchange must be approved by the Technical (Credit) Committee. (g) The applying organization must submit financial and other official information. (h) All requests for CAD monies must be reviewed by the Operations Division and organized with the appropriate portfolio. (i) The maximum loan limit that may be approved by the Technical Committee is c 5 million. Any amounts over this must be approved by the Executive Committee. (j) The federation reserves the right to require certain collateral consistent with the value of the loan.

Investment policies for the CAD are more fully described below:

Purpose

To maintain liquidity and stability in the investment of CAD funds. To invest the resources in a manner consistent with the socio-economic objectives of FEDECREDITO.

Policy Elements

Avoid concentrating investments in a small number of entities. Invest in entities of known financial soundness.

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Maintain permanently a liquidity fund in order to guarantee the ability to meet liquidity needs of the system.

Maintain the liquidity fund in National Financial Institutions that guarantee maximum return, timely recovery and maximum security.

Invest in credit unions in the national sector with short-term working capital needs for specific projects.

Excess funds are to be invested in entities which comply with the norms established in the regulations. Periodically, FEDECREDITO will have securities in the liquidity fund analyzed to determine market value.

Liquid Investments

The liquidity fund will consist of up to 30%, but in no event less than 20%, of the total balance of the CAD funds.

FEDECREDITO may acquire the securities of fixed or variable rates of return in the primary or secondary market of the various institutions and entities of the financial system.

Only up to 10% of the liquidity or capital funds may be placed with a single institution, and no less than 50% of resources must be placed in securities of the National Banking System.

Investments in the Cooperative Sector

Recipients of the funds must comply with all national laws and statutes and policies of the federation.

Have a debt-to-equity ratio of no more than seven to one and be of technically sound financial condition.

Maintain with the federation the equivalent of at least 20% of their deposits in fixed-term and 30% in passbook savings.

The maximum amount that may be invested with CAD funds is up to 50% of the borrower's deposits in FEDECREDITO.

This amount is established at the time according to the available funds in the program in which case the amount will be no more than 20% of the funds available for each borrower.

All investments in affiliated credit unions may not exceed six months in term.

Affiliated credit unions pay a rate 2% higher than the rate which is paid on their deposits at FEDECREDITO.

Non-affiliated credit unions and cooperatives pay a rate at least 4% above the average cost of funds for the CAD program and in addition they are required to pay a commission of 1% each semester on the amount of the investment.

Short-Term Investments

Recipients of the funds must comply with all national laws and statutes and policies of the federation.

Have a debt-to-equity ratio of no more than four to one and be of technically sound financial condition.

Have at least c 3,000,000 in assets.

Present financial statements for the last three years, audited by a Certified Public Accountant.

Present a copy of the certificate which verifies the identity of the officers of the organization signed by the authorized official. Present a brief description of the nature and the direction of the activities of the organization.

The maximum investment is up to 5% of the available fund of Short-Term Investments. The maximum amount of investment at one time is determined by the debt-to-equity ratio.

All short-term investments are placed at a maximum term of six months.

Up to three rollovers of the same investment, if approved by the Technical Committee, are allowed before amortization of the debt must begin.

A commission of 3% of the outstanding balance on the loan is charged.

The Technical Committee will from time to time review the margins and choose to distribute the Short-Term Investment funds differently.

Costs associated with the transaction are absorbed by the investor.

These policies meet the operating needs of FEDECREDITO. Presently, a much higher percentage of the portfolio is in liquid investments in the National Exchange and in investments in banking institutions. The portfolio is structured to provide a larger number of maturities at the end of the calendar year to accommodate the increased withdrawals from affiliated credit unions that historically occur. This is due to withdrawals by credit unions members for production (especially coffee), vacations, Christmas-time spending and the like. The investments in the National Exchange Markets are reviewed periodically using the National Exchange Rating System which provides in-depth financial information on those organizations that are permitted to

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participate in this market. Investments in bank certificates and bankers acceptances are relatively secure and therefore have a moderate rate of return. Other investments in securities are less secure and carry only the pledge of the brokerage house to make the investor whole on any losses. There is no legal backing for this position; it is solely based on the brokerage house's interest in maintaining its image by reimbursing its customer for any transaction losses. FEDECREDITO, for the most part, opts for security of principal over the chasing of higher interest rates.

b. Evolution of Sources for Deposits

The ability of FEDECREDITO to attract passbook and fixed deposits from the affiliated credit unions is a function of the affiliates' confidence in the strength, security and return provided by the system. Since the time of the crisis discussed earlier, FEDECREDITO has worked diligently to restore that confidence and build a structure that provides a rate of return that will redound to the benefit of the member credit unions. Passbook deposits in affiliated credit unions totalled approximately c 120.1 million at the end of 1982 and fixed deposits totalled c 98.7 million. By the end of 1985 passbook deposits had reached c 321.9 million and fixed deposits had reached c 1,140.9 million for an increase of 168% and over 1000% respectively. After adjusting for inflation, the growth rates are 73.7% and 670.7% respectively.

It is fair to say that confidence in the FEDECREDITO system has been restored. This phenomenal growth has come both from the credit unions that retained their membership during the crisis, those who withdrew and later returned and those who later joined the federation for the first time. The stability of these savings over time is untested and there is no certainty as to the propensity to save by the members of the credit unions over the long term and in the face of changing economic conditions. Nonetheless, FEDECREDITO has established itself as a strong alternative for investment of the credit unions' funds and an important intermediary in the financial marketplace.

c. Use of the Funds Mobilized

As mentioned above, the placement of funds by FEDECREDITO in a financial market characterized by high liquidity and at a rate of return that provides a positive spread over the cost of those funds is a difficult task. This is clearly recognized by FEDECREDITO and substantive measures have been taken to maximize the return on investment of these funds. Some may argue that a concession, in terms of the mission of the organization to serve only the credit union movement, has been made by investing some of the funds in loans to businesses. This observer views these loans more as an investment that enables FEDECREDITO to serve better the interests of the credit union movement by providing a fair return on the deposits they place with the federation.

Given the growth in size and number of the investment portfolio related to the CAD funds, consideration should be given to developing a more systematic asset/liability management system using existing staff resources.

d. Manuals/Documents for Program Administration

The Deposit Mobilization Program is well documented. The manuals clearly state the policies and procedures that govern this program. As with the credit programs, the procedures manuals assign responsibility by title. A complete trail of activity on both the moblization and placement of funds is identified and copies of pertinent forms such as investment memorandum, financial statement analysis sheet, daily report on funds flow, etc. are included.

4. Technical Assistance and Education

a. Quality and Impact of COLAC Technical Assistance

Under this project, technical assistance has been principally provided by the COLAC Resident Advisor, Dr. Raúl Sánchez, for a period of four years. In addition, COLAC has provided other forms of assistance, most notably through 1) the extensive diagnostic process that led to the Five-Year Development Plan, 2) the BID/COLAC IV loan which provided an additional US$1.5 million in local currency funds, plus the services of a productive credit advisor for two years, and 3) close monitoring of the project's development through regular visits.

In our estimation, the quality of the technical assistance provided by the COLAC resident advisor has been been outstanding. He has not only amply fulfilled the terms of his original scope of work, but the confidence he has established with leaders and managers at both the federation and credit union levels has enabled him to provide assistance in virtually every aspect of the movement's development. Any listing of the areas in which he has had major impact is probably incomplete, but the most notable include:

(1) Initiation of the comprehensive diagnostic process whereby the federation assesses the current strengths and weaknesses of its member credit unions to establish medium/long-term planning objectives. These serve as the basis for the development strategy that credit unions are now implementing. The increased strength and impressive growth shown at the primary level can be traced to this initiative.

(2) Refinement of FEDECREDITO's production credit program, through the development of improved policies and guidelines, resulting in more business-like operations. Loan applications are evaluated according to the feasibility of the proposed project, thus credit has been increasingly directed into truly productive activities, and loan delinquency is not a significant problem for the federation.

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(3) Development and expansion of the system's deposit mobilization program, which has generated funds flow beyond the most optimistic expectations. Policies and guidelines were developed covering both the mobilization of member savings and use of these funds in sound loans and investments. By encouraging the use of market rates, and often above-market rates, to be paid on deposits, the project has demonstrated that low and middle income groups are interest-rate sensitive and will respond with significant amounts of savings. At both the federation and credit union levels, these activities have not only provided a service to members, but have permitted access to significantly higher levels of funds for lending and/or investment, resulting in increased income and financial stability for the insititutions.

(4) Refinement of internal planning and development capabililties for the federation, with particular focus on financial planning and forecasting, resulting in greater ability to meet financial targets.

(5) Development of alternatives to handle FEDECREDITO's dollar debt problem with COLAC, resulting in an extension of the repayment period, while at the same time obtaining governmental assistance to assume the monetary loss. Resolution of this difficult issue has, by itself, enabled the federation to move from a financial position of extreme precariousness to relative soundness.

The COLAC advisor has participated actively in the decision-making process with federation management and board members; his influence is well recognized and valued. As an advisor, he has been able to offer information and alternatives, without assuming the functions and responsibilities that properly belong to FEDECREDITO management and board members. Although committed to movement growth and expansion, he has also served as a restraining influence in an attempt to ensure that the movement does not take on risks it is unprepared to handle.

Although not directly a part of this project, it is worth mentioning the related assistance provided by COLAC. The Five-Year Development Plan, as noted earlier has served as the guide for the federation's activities since 1983. COLAC supported the need for development capital to permit the FEDECREDITO system to expand its agricultural production credit activities. As part of this program, an agricultural credit advisor was made available for the past two years, ably assisting rural credit unions to implement the PCP program. And through its own policies and development strategies, COLAC has supported the transformation of the FEDECREDITO system into a viable financial enterprise.

In sum, we believe that the Costa Rican credit union system has been extremely well served by COLAC's support. We would agree with the USAID/Costa Rica cable stating that "COLAC's work in (FEDECREDITO's recuperation program) has been outstanding. Today less than four years since the project started, FEDECREDITO has become a viable financial institution,...We consider this to be one of our success stories, with most of the credit being attributed to COLAC."

b. Impact of FEDECREDITO Technical Assistance and Training Program

The federation's technical assistance and training programs are handled within one division, the Planning and Development Division. The division carries out a wide variety of extremely well-developed and well-attended programs. In visits to credit unions, for example, the evaluation team found that credit unions had participated in several different programs, and that several different people had attended. (See Tables 17 and 18 for a listing of technical assistance and training activities over the past five years.) The training and educational programs are well respected. The new programs being introduced are at a higher academic level, in response to the stated wishes of member credit unions.

The impact of FEDECREDITO's training and technical assistance activities at the credit union level was reported as varied. Though the programs get high marks for content, availability and personnel, the technical assistance itself received mixed reviews. Two kinds of comments seemed most common. First, several credit unions felt that the assistance did not arrive on a timely basis, or if it arrived it was too limited or narrow in scope. Second, several credit unions commented on the need for technical assistance of a more advanced or technical kind. Areas as diverse as computer systems and running a supermarket were mentioned.

Our own observations of technical assistance and training programs, in general, lead us to conclude that this program has been doing a good job of outreach, education and training. Comments such as the above are natural, since no program can serve everyone perfectly, and some credit unions will always be ahead of others. In particular, the Planning and Development Division has carried out diagnostic studies for many credit unions; those studies have received high marks in terms of the impact on participating credit unions.

There is one area of activity which we feel has not been covered appropriately. Desktop computers are becoming increasingly common among credit unions. The federation has no technical assistance available in this area. The federation made the decision to become competent technologically first, through the development of its own computer system base before offering technical services to credit unions.

Computer systems are, or become, the back-bone of the information system of any credit union or federation. Likewise, the ability of credit unions to share information and act as a system depends ultimately on the ability of their internal information systems to support system needs. To the extent that credit unions have begun to go their own ways, buying sometimes incompatible systems with different software, the risk is growing that the outcome will be inflexible information systems unable to generate meaningfully sharable data.

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Table 17

FEDECREDITO TECHNICAL ASSISTANCE PROGRAM
1981-1986

	Dec. 1981	Dec. 1982	Dec. 1983	Dec. 1984	Dec. 1985	June 1986	TOTALS
Number of Visits	125	89	121	198	92	75	700
Credit Unions Benefitted	20	26	36	39	44	46	35*
Assessments of Credit Unions	15	35	20	128	49	35	282
Number Benefitted	15	23	20	39	30	32	27*
Organizational Analyses Peformed	5	7	3	6	5	2	28
Organizational Analysis Seminars	5	7	3	4	7	2	28
Volunteers	5	3	0	6	5	0	19

* Averages

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Table 18

FEDECREDITO TRAINING PROGRAMS
1981-1986

	Dec. 1981	Dec. 1982	Dec. 1983	Dec. 1984	Dec. 1985	June 1986	TOTALS
Activities	7	21	24	25	29	10	116
Number of Participants	500	606	629	748	716	1,090	4,289
Credit Union Beneficiaries	83	30	91	139	60	267	670
National Courses	5	2	12	8	5	7	39
Credit Union Seminars	2	19	3	17	13	10	64
Affiliations	0	5	8	9	6	4	32

It is also true that the software of a system sets the limits and defines the capabilities of the system. There is an opportunity for the federation to have a marked influence on all credit unions through the development of a computer-based accounting system. At a minimum, standards for both input and output could be established. The opportunity is significant, and the window will not be open long. Probably 10% of all credit unions currently operate their own systems; probably another 10% are introducing systems now. These are the pacesetters who will determine the probable direction of the others for some time to come. Thus this represents a tremendous opportunity requiring both training and technical assistance.

c. Linkage of Technical Assistance with Movement Objectives

Technical assistance, by its nature, is linked to the goals and objectives of the receiving organization. The technical assistance program of FEDECREDITO has been able to assist in the achievement of federation objectives through its support of financial operations. For example, it is not uncommon for the planning and development staff to carry out a "preinvestment study." This effort assists the operations staff in evaluating a credit union for a loan, or in setting certain objectives or conditions for the credit union. As mentioned above, the division also carries out full-scale diagnostic studies on request. These assist both the federation and the credit union in targeting their own plans and activities.

The division also maintains a substantial data base of information on credit unions. In return for the quarterly reports requested of credit unions, the federation generates a statistical summary, showing comparisons to average or target figures, for credit union use. Getting credit unions to supply the information is difficult, but the division has a reasonable system for tracking those who are not supplying the data and getting the data upon a next visit.

The division appears to follow its own recommendations. Just as planning and training are thought to be important for the credit union, so also does the federation have a well-developed planning methodology. A significant by-product is that in setting an example they make as much of an impression as in simply teaching about it. This point was made both by FEDECREDITO staff and by some of the credit unions. Leading by example appears to be a powerful tool in Costa Rica.

d. Analysis of FEDECREDITO Training Programs

The curriculum of the federation's training programs includes a wide variety of topics. A rough measure of cost efficiency is shown by the following Table.

The Table is only a rough approximation of expenses per benefited person or credit union. It divides divisional expense in half and then divides by the number of participants or credit unions benefited.

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The Table shows that there was a general increase in costs per recipient from 1983 to 1985. For the first half of 1986 there was a reduction in those average costs. This lowering of costs is a deliberate response of the division to the needs of the credit unions. The division has a new policy of charging at least 92% of the costs of sessions (exclusive of overhead and certain salaries) to the participants. The credit unions have been quick to point out the need to reduce costs so that they could afford to continue attending. Fewer outside experts are being used, and more of the courses are being given in the training room of the federation instead of in hotels or in remote areas. It should be noted that in our credit union visits only one credit union complained about the courses being given primarily in San Jose.

Table 19

COSTS OF FEDECREDITO TRAINING PROGRAMS
1983-1986

Expenses per Participant and per Credit Union
Amounts in Colones

	1986	1985	1984	1983
Expense per Participant	1,249	2,130	1,639	1,348
Expense per Credit Union	17,458	20,698	15,714	15,136

The contents of the educational programs available are extremely varied. Federation staff is used in the programs as leaders and presenters, as are outside experts on many occasions. Topics covered vary from internal matters of risk control, accounting and mobilization of savings; to external matters such as the national economy. The professional-level training courses in conjunction with two different universities appear well documented and comprehensive. Outside experts are used where the internal resources are not adequate.

e. Compliance with Technical Assistance and Training Policies

Policies for the division were established in the five-year plan and are revised annually. The annual plans are listed in the annual planning document. Every three months general reports are made to management and the board. The technical committee reviews plans as often as weekly, as appropriate. The division is quite adept at maintaining records. For example, every session has a separate file in which all costs of the session are detailed, including summary statistics such as overall and average costs (these figures generally square with our rough estimates, above). All hand-out and didactic material is kept in these folders, as are the two kinds of feedback information, evaluation sheets from the credit union participants and a summary review by the session leader.

The general objective of the division is to provide education and training in credit union and business principles. The materials and course contents are well adjusted to this objective. There are sessions in general credit union principles, as well as in specific technical areas of importance to a credit union. There is a new plan starting this year to involve credit union leadership in an on-going process of participative planning, first at a regional level and then nationally. There has also been substantial attention paid to project planning. There is substantial follow-up through visits to credit unions, in an effort to evaluate the longer-term results of the education and training efforts. These are generally not separate visits, but part of the regular procedure of providing technical assistance to the credit union.

The division is in the process of developing a computer-based system of information management. This is certainly consistent with the idea of providing leadership to credit unions. The division is currently in the process of developing a university-level program in computer systems and principles. Because the management of information is so important within the credit union and because computer systems are a large expense for the credit union, we would recommend that the federation implement additional support programs in this area. Clearly the federation cannot offer its own staff as experts. Two things that can be done are to contract with a reliable outside expert to provide technical assistance in the planning and evaluation efforts that credit unions will have to go through, and to provide a systematic approach to the appropriate unification of credit union needs so that their accounting systems will be reasonably complete and compatible.

We also recommend that the federation study with their member credit unions the possibility of consolidating efforts into a single modular and flexible accounting system. Most of the credit unions already have compatible (IBM-type) equipment, and are having programs written for them in the same data-base language (dBase III). It would be extremely useful to bring these institutions together to maximize their system development efforts and perhaps to achieve a working group that can ultimately lead to a standard accounting package.

5. Institutional Development of FEDECREDITO

a. Administrative and Organizational Structure

The current organizational structure of FEDECREDITO largely reflects the structure suggested in the Five-Year Development Plan. Since its development in 1983, certain functions have moved from one division to another, and certain titles have changed, but the basic structure remains the same.

Currently, the federation's structure is as follows:

Management Staff (7)
- General Manager
- Assistant General Manager
- Manager/Division of Operations
- Manager/Division of Planning and Development
- Director/Resource Mobilization
- Director/Finance and Accounting
- Chief/Personnel and General Services

Technical Staff (9)
- Credit Analysts (3)
- Administrative Analyst
- Financial Analyst
- Education Specialist
- PCP Specialist
- Accountant
- Internal Controller

Administrative Staff (15)
- Secretaries (7)
- Deposits Assistant
- Accounting Assistants (2)
- Cash Receipts Clerk
- Collections Official
- Auditing Assistant
- Planning and Technical Assistance Assistant
- Receptionist

General Services Staff (8)
- Guards (4)
- Messengers (2)
- Miscellaneous (2)

The two major service divisions are Operations, and Planning and Development. The Operations Division carries out the functions of deposit mobilization, investment brokering, and credit analysis and supervision. Within this Division, the Directorate of Resource Mobilization manages the savings mobilization program, responsible both for the capturing of deposits, as well as the placement of these funds. About 25% of these funds are invested in the various government-backed securities, another 25% is loaned to private business, and the balance is loaned to member credit unions. It is interesting to note that the federation is carrying out a major credit activity outside of the Directorate for Credit. The latter manages externally funded programs, i.e., AID/PL 480, and BID/COLAC IV which must be used for specifically defined purposes.

The Planning and Development Division is responsible for the the provision of development services to affiliated credit unions. These include technical assistance and planning, particularly the development of long-term plans through the comprehensive institutional analysis approach and education and training. It is also responsible for supervising the implementation of the administrative credit program.

The Directorate of Finance and Accounting provides accounting, payroll and related services. Interestingly, it also contains the collections function which would seem to be more appropriately placed in the credit area.

The federation recently engaged a full-time internal auditor to assure that its financial operations are carried out in a manner consistent with the best interests of its member-owners, the affiliated credit unions. The controller ensures that federation actions follow applicable laws and established policies, and reviews accounting practice for consistency with established norms.

The Department of Personnel and General Services assumes responsibility for personnel functions as well as the maintenance and security of the federation's building, vehicles, office equipment and other physical assets.

In addition, the organization has established a number of internal working committees such as the Technical Committee, to provide a structure by which staff may discuss and take action on issues of significance to the organization.

As noted, the current structure was developed to respond to the challenges faced when the federation was trying to recover from its own economic crisis. With the modifications that have been introduced, it seems to have worked with a considerable degree of effectiveness and efficiency. Yet the challenges of the future may demand somewhat different structure if effectiveness and efficiency are to be maintained.

The federation is exploring new business possibilities, including the establishment of a subsidiary banking entity to gain access to capital markets currently not available. It is recommended that an overall systems analysis be undertaken to analyze the organizational structure that would be most appropriate to enable the federation to undertake these new activities while maintaining its current operations.

b. Human and Physical Resources

The federation has registered a notable improvement in the quantity and quality of its management and technical resources over the past four years. At the beginning of 1982, FEDECREDITO had the following personnel characteristics:

Table 20

FEDECREDITO PRE-PROJECT PERSONNEL STRUCTURE AND SALARIES

	Number	Average Monthly Salary
Management Staff	1	c 7,800
Technical Staff	8	4,000
Operating Staff	10	2,500
Total	19	3,411

In terms of formal educational background, the federation had only one individual with university training and another nine with technical training. In contrast, FEDECREDITO now exhibits the following personnel characteristics:

Table 21

FEDECREDITO POST-PROJECT PERSONNEL STRUCTURE AND SALARIES

	Number	Average Monthly Salary
Management Staff	7	c 52,000
Technical Staff	12	30,000
Operating Staff	21	15,000
Total	40	25,975

Educational background has also increased, with 14 staff having university training and 12 having technical training.

Within the past one and one-half years, the size of FEDECREDITO's staff has grown considerably, from 27 at the end 1984, to 39 at the end of 1985, to the present 40. Although the size of the staff appears to be justified based on the increase in the volume of work handled, the federation needs to rigorously control staff expansion, particularly in administrative areas, as opposed to service areas that generate income. It must also be cautious that staff expansion is not based on projected growth, which may fail to materialize if the economy slows noticeably.

The federation has experienced large turnover in the past four years, although it appears to have stabilized within the past year. Since 1982, the federation has hired 66 individuals; during that same period, 21 resigned and 18 were dismissed. However, since 1983, only 12 people have left the organization indicating a much more stable work force. For professional staff, the turnover has been greatly reduced, with only four individuals leaving since 1983, out of a current total of 14 professionals.

The federation has established an effective personnel function which has assisted considerably in upgrading staff quality. To fill new positions, an intensive recruitment/selection process is used. Job requirements are fully defined, care is taken to ensure that it does not exceed budget constraints, and both management and technical staff must give their approval. Initially, the federation attempts to fill by promotion from within; failing that, it advertises in the media, particularly among the universities. Following a review of written credentials, interviews with at least three candidates are conducted prior to selection. Upon hiring, the employee is given a three-month probationary period, in which following initial orientation, the employee's performance is assessed. Beyond that period, personnel evaluations are conducted annually.

Within the past two years, the federation has greatly expanded its staff development program. In 1985, the federation sponsored 25 staff development activities, involving various courses, seminars, and related events, involving 64 staff members at a total cost of c 387,000. With the introduction of the computer system in FEDECREDITO, the organization has provided training to nearly all of its managerial, technical and clerical staff. As a result, there is an evident willingness to utilize the computer system to the maximum extent possible.

The organization has also implemented an employee motivation program designed to establish a working environment conducive to high productivity. In addition to expanding the benefits to employees, a number of social, cultural, and sporting activities have been organized. It would appear that this program has been effective in boosting employee morale and in creating a pleasant work setting.

The federation's physical resources primarily consist of the present building, office equipment, and vehicles. The building currently occupied is considered too small and inconvenient. After examining the possibility of renovation, the federation decided to purchase a lot on which to construct a new building. Financing for this project is anticipated to come in two equal parts, the sale of the present building, and a 24%, five-year loan from FEDECREDITO's member credit unions. It is expected that construction will begin early next year, with completion scheduled for approximately one year thereafter.

It is suggested that the federation be cautious in tying up capital funds in non-producing assets. A frequently used indicator of the appropriate level of investment in non-earning assets in credit union institutions is the level of equity. FEDECREDITO currrently has equity equivalent to about 3.8% of total assets. On the other side of the balance sheet, the federation has some 9.1% of its assets in the non-earning category, about 2.4 times its equity. Thus there appears to be no financial "room" to increase investments in fixed assets at the present time unless, for example, a special issue of non-earning shares were to be placed among affiliated credit unions ready, willing and able to accept reduced income in order to enable the federation to improve its facilities. Another alternative, of course, is for FEDECREDITO to continue to build its equity through retained earnings, perhaps even more aggressively. In either case, the federation may wish to utilize a modular approach in the construction of its new building. A comparatively smaller building could be constructed initially, but containing the possibility of convenient expansion if and when that becomes necessary.

In terms of equipment, the federation has recently acquired a computer system which, when fully installed, will consist of 6 microcomputers and 7 printers, including one in color. It has contracted with Peat, Marwick & Co. for the design of systems to handle accounting, loan management, deposit management, budgeting and other areas essential to FEDECREDITO's development. FEDECREDITO will retain proprietary rights to these systems. Thus these could serve as a potential revenue source in the future.

At its present location, the federation has a small room to accommodate approximately 30 individuals for training programs and seminars. For events of greater scope, facilities at local hotels and similar accommodations must be rented. Presumably, the proposed new office building will include adequate meeting/training space to alleviate this problem.

c. FEDECREDITO Systems and Procedures

One aspect that the federation appears to have understood quite well is the need for adequate systems and procedures. The federation has developed a large number of documents to guide the provision of various services and programs. These include policies and guidelines applicable for the mobilization of deposits, investment policies, credit policies for each type of lending program, collections procedures, policies for the administrative credit program, guidelines for the various training and technical assistance programs, and others. In effect, for every service or program offered by the federation, there is an appropriate document providing guidance to staff. This is a most valuable tool to ensure that staff follow proper procedures and that there is some consistency in the provision of these services to the public.

The federation has been equally conscientious in developing documentation for internal systems and procedures. Policies have been prepared that clearly define requirements with respect to recruitment and selection, orientation, staff development, personnel evaluation, and other areas in the personnel area. Vehicle use and maintenance policies have also been defined. Internal communications flows have been documented to ensure that information is provided to the appropriate individual in a timely fashion. In the accounting area, as noted, the federation is changing to a computer-based system; full documentation has been provided by the consultant for the management of this system. The organizational planning and budgeting area also has been well defined, which includes the preparation of reports on a regular basis to monitor actual against projected performance in work plans and budgets. Standardized procedures for activities from cash receipts and disbursements to building security, have also been developed.

In summary, there exists a great deal of common understanding among staff about the way things are supposed to be done. This lack of confusion has contributed to the increasing staff efficiency noted earlier and has enhanced the federation's image as a well-run organization.

d. Capacity to Absorb New Funds

As observed in the section on the financial status of the federation, the federation still has some financial ability to absorb new funds, as measured according to the 10:1 debt-to-capital ratio currently required by policy. Nevertheless, FEDECREDITO is somewhat constrained by its debt-to-equity ratio when credit union shares are excluded from the equity base. This exclusion is based on the nature of these shares, which, like preferred stock, are refundable to credit unions at par value and thus represent potential fixed claims of the affiliates on the federation's assets. This adjusted debt-to-equity ratio is currently about 25:1, which is quite high, though not yet excessive.

FEDECREDITO can absorb additional funds, based on its traditional debt to capital ratio, but it will need to exercise great caution in on-lending these funds if risk to the affiliates' subscribed share capital base is to be kept within reasonable bounds. This will require continued improvements in loan-making capabilities at both the federation and credit union levels. Particular care will need to be exercised at the credit union level to assure that adequate equity capital (excluding share savings from the equity base calculation) is available to meet potential loan default and/or other losses. It will be equally important to assure that adequate loan underwriting standards are applied by the borrowing credit unions to minimize potential delinquency. Assuming that these conditions are met and that FEDECREDITO can continue to increase its equity capital accounts, the federation's financial capacity for additional liability absorption is conservatively estimated at up to 200 million colones.

Operationally we believe that FEDECREDITO staff is capable of handling such an increase without problem. In addition to the experience they now have in receiving and processing their liabilities, they have also learned much with respect to the placing of those funds in productive assets. Credit policies and lending and collection systems are all well developed, and both staff and credit unions are experienced in their operation.

We conclude therefore that the federation has the installed capacity to absorb more funds. However, the federation must take care to maintain its spread. This implies the need to have policies which permit continued investment in higher return investments. It also implies the need for maintaining or increasing the amount of productive credit loans to the federation. Finally, FEDECREDITO will need to exercise great care to minimize its fixed operating expenses. If financial expansion is to be successful, economies of scale will need to be achieved so that increased net interest revenues are translated into higher net income and thus increases in FEDECREDITO's equity base.

e. System Integration

The federation has enrolled as members approximately forty percent of all credit unions in the country, representing about two-thirds of all the members in credit unions. The federation continues to have contact with non-members, primarily through management contact in efforts to induce them to enroll and through training and education programs.

Our interviews and other conversations with credit union boards and managers lead us to believe that there is substantial feeling of confidence in the federation. Although the infamous "crisis" continues in their minds as a significant historical fact, the recent success of the federation has overcome much of the earlier bad feelings. It is also true that most of the management of the member credit unions assumed their positions since that difficult time. They have little or no first-hand experience with it and much prefer to concentrate on their current needs.

This sense of common purpose extends to recent decisions by the collective group of members at their annual meeting. The credit unions agreed to deposit in the federation an amount equal to at least 10% of their own deposits and to deposit an additional 10% either in the federation or some other financial institution. This decision took more than a year of debate and was certainly not universally popular. Yet current indications are that they are complying. We judge this to be a strong indicator of the growing sense of system integration.

Additionally we have commented on the planning method being used for the development of the next five-year plan. This includes the formation of working groups of credit union leaders on a regional basis. There is high participation in this effort so far, and this represents both an indication of the system capability already implanted and a new way of further strengthening that system.

f. Sustainable Institutional Capabilities

The federation has made enormous strides during the course of the project. This is due to both internal and external factors. The confidence and support demonstrated by COLAC, USAID and other external assistance agencies has been critical to the federation's resurgence, providing it with both financial and technical resources at a time when the system's very survival was at stake. Similarly, the commitment of a core of affiliated credit unions and the capabilities of the federation staff they hired made the turn-around possible. This strategy was translated into successful market performance,

enabling the movement to grow and develop at both the credit union and federation levels.

FEDERECREDITO's capabilities have been developed by the project, institutionalized in practice and established in the marketplace. These sustainable capabilities are briefly summarized below:

(1) Deposit Mobilization

The federation has achieved a significant presence in the national financial market, and credit unions have captured a meaningful share of total private sector savings and time deposits. The movement's 4.5% share of this market (estimated using IMF data for December, 1985) compares favorably with, for example, the U.S. credit union movement's 5.5% share of consumer savings.

(2) Capitalization

FEDECREDITO's total capital has increased from 5.4% total assets in December, 1982 to 11.4% in June, 1986. The portion of members' share savings at the local level invested by the credit unions in FEDECREDITO's share accounts has risen from 1.6% in 1982 to 6.3% in 1985.

(3) Equity Growth

FEDECREDITO's equity has grown from 2.3% of total assets in 1982 to 5% at December, 1985. While it has fallen slightly to 3.8% during the first half of 1986, this may understate post-closing additions to reserves and retained earnings to be achieved by year-end. The federation's financial capabilities have been significantly strengthened during the period by its growth in equity of 29 million colones. FEDECREDITO now has a substantial financial cushion to meet probable and possible future losses.

(4) Financial Self-Sufficiency

The federation has achieved a slight positive surplus from its overall operations in June, 1980. While cost constainment and increasing income from non-financial services need to become key priorities, achievment of operational break-even is a critical strength which can reasonably be sustained.

(5) Delinquency Reduction

FEDECREDITO has been remarkably strengthened by its reduction of delinquency to less than 2%, which is excellent even by U.S. credit union standards.

(6) Human Resources

The federation has a capable, highly motivated professional staff who will be able to continue leading the movement's development in the years ahead. FEDECREDITO will need to continue improving staff productivity so that future income gains from growth can be translated, in part, into improved remuneration and working conditions. The crisis has now been largely overcome and FEDECREDITO needs to consolidate its gains to prevent staff "burn-out" or loss of key employees to competitors offering more advantageous employment packages.

(7) System Development

FEDECREDITO has well designed and documented operating policies, systems and procedures. These are fully institutionalized and will continue to serve the movement well after AID funding ends. Successful computerization of several of these systems will be the federation's major challenge in this area during the coming years.

g. Sustainable Benefits

We believe that the project goals have been achieved and that the benefits are sustainable. The COLAC assistance has accomplished a "technology transfer" which has made the federation able to continue the work originally introduced or promoted by COLAC. Just as FEDECREDITO's development has resulted in strong and sustainable institutional capabilities, so are benefits at the credit union and community-level economy largely sustainable by the movement after AID funding ends. These sustainable benefits are discussed below:

(1) Credit Union Management

The administrative credit component has enabled many credit unions to upgrade their managerial staff. These staff are now in place, they have overseen tremendous growth in the movement and are gaining the experience required to lead the movement successfully for a generation to come. Good managers are the single most important element in credit union success. The managerial teams put together with project assistance will enable the affiliated credit unions to continue their own development, providing services in the marketplace that the membership and their communities need and are able to support financially.

(2) Expanded Financial Operations

The savings mobilization program has created a huge deposit base and pool of lendable funds which will continue to grow and serve members' needs for the foreseeable future. While rationalization of financial versus non-financial services, products and prices, and financial structure and capitalization are issues which must be addressed, the human, technical and financial capabilities are in place now to assure that the movement continues meeting members' needs.

(3) Central Liquidity Facility (CLF)

The project has developed the CLF to regulate and rationalize liquidity management in the movement. This is a key element of

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the national credit union financial system and will, over time, reduce required levels of system liquidity and thereby enhance credit union earnings. It will also help to stabilize the system by creating a pool of liquid assets available to meet short-term liquidity needs. The increased stability and earnings will enable credit unions to continue improving and expanding their services and markets The CLF can also become the vehicle for accessing Central Bank resources when the credit union movement gains participation in the formal financial system.

(4) Development Finance Facility (DFF)

The project has helped reestablish FEDECREDITO as a creditworthy financial intermediary. It can now borrow once again from COLAC and other sources. This will enable the movement to increase total resources available to serve members, particularly in the area of medium- and long-term credit which currently cannot be supplied from short-term credit union deposits.

The federation should now be able to borrow from the Cooperative Housing Foundation (CHF) program and other sources of longer term funds to meet members' needs in this area. FEDECREDITO will also be able to develop longer term, variable rate savings instruments to support the system's lending activities in the years to come.

B. CREDIT UNION LEVEL

This section briefly discusses developments at the credit union level of the FEDECREDITO system. The credit union survey confirms the evaluation's findings at the federation level of a dramatic turn-around in the movement's performance, management and public confidence. With the support of USAID and COLAC, an effectively integrated national credit union financial system is emerging which is increasingly capable of developing and distributing the savings and credit services required by an ever-widening membership.

1. Financial and Social Growth Trends

a. Management

Since 1981 there has been a substantial change among the credit unions. Thirty-six out of the 49 member credit unions have managers who were hired after 1981. These managers are generally young and aggressive. We have probably met the managers of half of the credit unions, all of them fitting this description. Much of the elected leadership in the federation is also new, both to credit unions and to the federation. Their work effort is high as is their interest. They also bring a high level of training and education to their efforts, coming from the business and financial fields as well as traditional credit union backgrounds. These changes in the human resources of credit union movement leadership in Costa Rica are highly

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significant. The federation has begun to involve the leadership at a new level through the planning process for its new five-year plan.

b. Finance

On the financial side the credit unions have shown continued growth throughout the period. Our data are limited however to information through the end of 1984, with only projections for 1985. The federation is improving its data collection, but we would recommend that more be done. Balance sheets and income and expense statements should be gathered for year-end information back through 1981, and then kept up to date at least annually. In this way the federation will be able to monitor significant trends and measure probable changes in the short and medium term. Such data would also help in targeting assistance to credit unions needing it.

The trends show that there has been a steady growth of about 70% per year in assets and liabilities, except for 1982-1983 when the growth was about 125% in assets and 160% in liabilities. Capital growth has not kept pace, so that the ratio of liabilities to capital has increased from 1:1 to 2.6:1. This trend is further complicated by the existence of many credit unions in this group which are of the multi-service type. It is difficult to know how the financial or credit union side of their business is developing. As part of the record keeping of the federation, we recommend that the data base of credit union information be divided into credit union versus other kinds of business. Most credit unions do keep separate records at this time. It is unclear how easy it would be to obtain consistent formats for balance sheets and income and expense statements.

The 39 credit unions in our sample had 3.2 billion colones in total assets at year-end 1985, up from 290 million in 1981. In liabilities they had 1.5 billion in deposits from their members. This amounts to approximately 4.5% of the savings and time deposits in the country. In membership the credit unions had about 94,000 members (March, 1986), serving approximately 16% of the population of Costa Rica, assuming one member per family, a family size of 4.5 persons and total population of 2.6 million. These figures represent a substantial increase in the amount of penetration of the savings market.

2. Analysis of Principal Indicators

The performance of the affiliated credit union system during the 1981-1985 period will be analyzed using key operating ratios, calculated from aggregate financial data reported by credit unions to FEDECREDITO. This evaluation will be approximate at best, due to the mixing of financial and non-financial books of business in the reporting credit unions. The analysis focuses on the following key results areas of credit union financial performance: capital adequacy, asset quality, earnings, liquidity, financial structure, system support and growth. The values of the indicators measured reflect movement-wide averages; individual credit unions will certainly vary from the averages.

In summary form, the analysis shows that: capital may be inadequate to support the current volume of financial and non-financial assets; asset quality is undefined and needs further study; earnings rates are declining; and growth is extremely high. These findings suggest that greater operating efficiencies, loan growth, improvements in earnings from non-financial services and increased capitalization of non-financial services are needed to assure continued strength in local credit union operations.

a. Capital Adequacy

These ratios measure the extent to which credit union equity (reserves and undivided earnings primarily) is sufficient to protect members' and creditors' claims on assets in the event of probable and possible losses or other financial difficulty. Equity is the "financial cushion" of zero-cost funds which may absorb losses.

The credit unions have maintained, by financial industry standards, an excellent capital ratio (total equity to total assets) of 10%. Similarly the reserves to loans ratio is above average and rises during the period from 12% to 18%. However, it is not possible to determine whether or not this level is adequate to protect the credit union members and creditors against loan losses, because aggregate delinquency data are not available. For the same reason it is not possible to estimate solvency, the net asset value of total savings (shares and deposits). If delinquency is zero, then the solvency estimator has risen from 114% to 116% of the par or book value of shares and deposits. Each percentage point of delinquency reduces the solvency estimator by 0.6%, so the movement could have, on average, up to 25% delinquency before technical insolvency would be reached.

The multi-service nature of many of the credit unions may, however, negate what otherwise is an excellent capital position. This is because the equity needs of non-financial services are generally substantially greater than for financial services. In fact it appears that capital in the system is far below what is truly needed to support the current level of non-financial assets and operations. This finding is based on the following analysis of the 1985 balance sheet data presented in Table 22. The analysis assumes that fixed and "other" assets (ie., non-financial assets) are entirely dedicated to non-financial services and that "other" liabilities (ie., excluding savings deposits and notes payable) are used entirely to finance these non-financial assets.

	Millions of Colones
Fixed and other non-financial assets:	1,293.6
Less other liabilities:	424.0
Less total equity:	314.6
Equals financing from notes payable, savings deposits and shares:	555.0

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Table 22

CONSOLIDATED BALANCE SHEET OF 39 MEMBER CREDIT UNIONS
1981-1985

In millions of colones

Balance Sheet in Absolute Figures

ASSETS	1981	1982	1983	1984	1985*
Cash and Banks	7,8	21,1	40,7	49,5	105,4
Investments	16,8	81,6	167,0	275,5	475,8
Loans to Members	170,3	207,5	423,9	863,4	1.275,3
Fixed Assets	39,8	74,5	228,5	311,4	607,2
Other Assets	56,1	127,0	283,8	350,8	686,4
TOTAL ASSETS	290,8	511,7	1.143,9	1.850,6	3.150,1
LIABILITIES					
Passbook Savings	55,2	120,1	181,2	265,6	321,9
Fixed Deposits	34,7	98,7	351,7	664,6	1.140,9
Notes Payable	24,4	38,8	136,3	203,2	392,2
Other Liabilities	31,2	50,1	132,3	206,1	424,0
TOTAL LIABILITIES	145,5	307,7	901,5	1.339,5	2.279,0
CAPITAL					
Share Savings	117,1	143,2	213,1	330,1	556,5
Loan Loss Allowance	1,6	2,2	5,0	13,7	29,8
Statutory Reserve	2,7	6,1	7,2	6,8	12,2
Education Fund	1,4	3,0	3,8	5,8	10,1
Other Reserves	13,8	31,5	79,7	103,6	185,4
Donations	1,8	3,0	11,1	21,1	37,0
Undivided Earnings	7,0	15,2	22,5	27,9	40,1
TOTAL CAPITAL	145,4	204,2	342,4	511,0	871,1

* Preliminary data

This analysis shows that the fixed and other assets absorb all credit union equity plus other liabilities and still require 555 million colones from notes payable, savings deposits and shares. In effect, this means that there are no equity funds available to cover potential losses in the financial services area. It also means that some of the interest and dividend payments on the notes, savings and shares must be derived from net income of the non-financial services. As we will see later, it appears that these services are on average losing money rather than adding to net income and thus are a drag on both equity and earnings.

b. Asset Quality

These ratios measure the earning power of the credit unions' assets. Unfortunately, it is not possible to measure the most critical of these ratios, the delinquency rate, due to lack of data. FEDECREDITO urgently needs to update its reporting system to include credit union delinquency.

A second critical measure of asset quality is the share of non-earning (ie., non-interest producing) assets as a percent of total assets. In general this percent should not exceed the percent of equity to total assets in a financial services oriented credit union. FEDECREDITO's affiliates have, however, far exceeded this guideline: non-earning assets rose from 33% to 41% of total assets during the period while equity was constant at 10%.

c. Earnings

Earnings are the primary source of additions to equity and funding for interest and dividend payments to members and creditors. Earnings performance is generally measured by a "spread" or margin analysis which converts the absolute amounts of income and expenses to percent rates on total assets. Table 23 shows a spread analysis for the credit unions for 1981 and 1984 (earnings data are not available for 1985). The income and expense items are based on the data shown in Appendix 6. Percent rates are calculated on ending total assets for each year.

Yield on assets increased during the period from 9.60% to 16.62%, while the cost of funds rose from 4.28% to 10.83%, resulting in a slight increase in the gross interest spread from 5.32% to 5.80%. This growth was subsequently lost to increases in net operating cost. Operating costs were more than offset by commission income in 1981, resulting in a net addition to the gross spread of 6.82%; however by 1985, operating costs had risen while the percent rate of commission income had fallen, producing net operating costs of 2.02%. As a result, the financial operating spread fell dramatically from 12.14% to 3.78%. While this still represents sound performance by credit union industry standards, the trend is ominous.

Assuming that all "other" income and expense items shown by FEDECREDITO for the credit unions represent non-financial services related items, the spread analysis shows that these improved their

Table 23

CONSOLIDATED CREDIT UNION SPREAD ANALYSIS
1981 and 1984

Amounts in Millions of Colones, Percent Rates on Ending Total Assets

	1981		1984	
	Amount	Percent	Amount	Percent
Interest Income/ Yield on Assets	27,782	9.60	222,674	16.62
Interest Expense/ Cost of Funds	(12,380)	-4.28	(145,035)	-10.83
Interest Margin/ Gross Spread	15,402	5.32	77,639	5.80
Financial Services:				
Operating Costs	(22,244)	-7.69	(149,242)	-11.14
Commission Income	41,980	14.51	122,251	9.13
Net Financial Operating Cost	19,736	6.82	27,001	-2.02
Financial Operating Margin/Spread	35,138	12.14	50,638	3.78
Non-Financial Services:				
"Other" Expenses/Cost	(87,954)	-30.40	(621,627)	-46.40
"Other" Income/Yield	63,338	21.89	601,349	44.89
Net Non-Financial Operating Cost	(24,616)	- 8.51	20,278	-1.51
Net Margin/Net Spread	10,522	3.64	30,360	2.27

Notes: (1) Source: FEDECREDITO
(2) Details may not sum to totals due to rounding

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performance during the period but were still money losers. The yield on non-financial assets rose from 21.89% to 44.89% but this was nearly balanced by the rise in non-financial expenses from 30.40% to 46.40%; the net non-financial operating cost ratio fell substantially from 8.51% to only 1.51% but still represented a net subtraction from the financial operating ratio. As a result, the net spread fell from 3.64% of total assets in 1981 to 2.27% in 1984.

In sum, it appears that credit unions are facing reduced financial operating margins as they grow and that non-financial services, while improving, are still not able to generate net additions to equity. The movement, ideally with USAID assistance, needs to examine in detail both its financial and non-financial services if it is to continue to prosper in the face of ever-increasing competition.

d. Liquidity

Liquidity ratios measure the relationship of liquid assets to members' and creditors' claims and the degree of dependency on external funds. The latter is also a measure of leverage, or the relationship of fixed interest and principal repayment obligations to members' shares.

The traditional measure of liquidity, the loans to savings (deposits and shares) ratio, decreased during the period from 82% in 1981 to 63% in 1985. This reflects both increases in cash and investments due to the movement's aggressive savings mobilization program and increased investment in non-financial assets. Since loans are the principal earning assets of the credit unions, the decline in this ratio parallels the decline in the financial operating ratio analyzed above.

A second measure of liquidity is the liquid reserve ratio, which measures liquid assets as a percent of the principal claims of members and creditors (deposits, notes payable and shares). This ratio more than doubled during the period, rising from 11% to 24%. The actual liquidity available to meet these claims may, however, be somewhat less than the ratio indicates, because the non-financial services may require substantial cash balances. Even so, it appears that the system currently has sufficient liquidity and could well examine alternatives to expand and lengthen the loan portfolio. This can be expected to increase earnings as well as improve financial services to members, as long as delinquency can be adequately controlled.

The impact of the deposit mobilization program and expanded FEDECREDITO lending to credit unions is seen in the leverage ratio. This measures the percent relation of the sum of deposit savings plus notes payable to members' share savings. The higher the value of this ratio, the greater the reliance on fixed interest sources of funds and the greater the risk of variability in earnings available to pay dividends on shares and add to reserves and undivided earnings. This leverage ratio increased by over 200% during the period, rising from 98% to 333%. This implies a need for constant improvement in asset/liability management techniques to assure adequate earnings and liquidity to meet potential withdrawal and amortization requirements.

It also magnifies the potential impact of delinquency on solvency and earnings. The credit union movement will probably need continued external assistance to develop appropriate financial management policies and techniques to minimize the risks inherent in this leveraging.

e. Financial Structure

The strength and competitive position of the credit union depends on the quality and strength of its earning assets in relation to its funds bearing cost. The higher this ratio, the easier it is for the credit union to accumulate undivided earnings while offering members top savings interest rates and charging minimum loan interest rates. The ratio utilized to measure financial structure is the percent relationship between earning assets (cash and investments plus loans to members) and funds bearing cost (deposit savings, notes payable and share savings).

The affiliated credit unions suffered a weakening in their financial structure during the period as earning assets declined from 84% to only 77% of funds bearing cost. This was due principally to the rise in non-earning assets and a consequent fall in earning assets from 67% to 59% of total assets which exceeded the decline in funds bearing cost from 80% of assets to 77%.

f. System Support

System support measures the degree to which credit unions are investing in the federation's shares, thereby providing capital for its central liquidity and development finance facilities. The ratio utilized is the sum of federation shares expressed as a percent of total credit union assets. This ratio rises during the period from 0.46% in 1981 to 1.12% in 1985. As noted previously, however, this does not provide an accurate measure of each credit union's investment in the permanent share capital of FEDECREDITO. Many credit unions have extremely small investments in the federation while others, principally the major borrowers, have relatively high share investments. A proportional capitalization system would permit a rationalization of the investment burden among credit unions, requiring each one to invest a similar percentage of its total assets (or other common base) in federation shares. Such a program must be balanced, of course, by effective management of the federation to assure that investing credit unions receive adequate yields on their funds and that delinquency is controlled.

g. Growth

Growth has been the hallmark of the affiliated credit unions during the last four years. Total assets grew by 983% from 1981 to 1985 while liabilities increased by 1,466% and capital by 499%. Total investment in the system increased by 2,859.3 million colones. Funds bearing cost financed 76.2% of this growth and earning assets absorbed 58.1% of total funding. These data are summarized on an account by account basis in Table 24.

Table 24

GROWTH IN CREDIT UNION SOURCES AND USES OF FUNDS 1981-1985

Amounts in Millions of Colones, Percent of Total Asset Growth

	Growth	
Source of Funds	Amount	Percent
Deposit Savings	1,372.9	48.0
Notes Payable	367.8	12.9
Other Liabilites	392.9	13.7
Share Savings	439.4	15.4
Equity	286.3	10.0
Total Liabilities and Capital	2,859.3	100.0
Uses of Funds		
Cash, Banks and Investments	556.6	19.5
Loans to Members	1,105.0	38.6
Other Assets	1,197.7	41.9
Total Assets	2,859.3	100.0

Source: FEDECREDITO

Deposits financed 48% of growth, while notes payable contributed 12.9% and shares 15.4%. Equity and other liabilities contributed 10% and 13.7%, respectively. On the assets side of the balance sheet, non-earning assets were the major funds user, absorbing 41.9% of total growth, while loans claimed 38.6% and cash and investments accounted for 19.5%.

Savings deposits and shares accounted for 63.4% of total growth, another measure of the success of the savings mobilization program.

The major area of concern is the high concentration in non-earning assets, which absorbed 41.9% of total asset growth, as compared to the contribution of non-costing funds (equity and "other" liabilities) which provided only 23.7% of funds growth. Slight declines in the profitability of these non-financial operations or the market value of these non-earning assets, combined with increases in delinquency, could lead to serious financial difficulties in these ever more highly leveraged credit unions. Both FEDECREDITO and the credit unions will need to monitor carefully theirperformance in these areas, improve their equity capitalization and develop appropriate management techniques to prevent possible problems should economic conditions change for the worse.

3. Major Strengths and Weaknesses

Clearly the member credit unions have grown substantially. Their growth is faster than the overall financial growth in the country. They have been successful in capturing a substantial share of the savings market. Many have improved their physical appearance and their convenience. The enthusiasm shown by staff and management in the credit unions we visited was substantial. The human resources of the movement are possibly the greatest source of strength.

The current weaknesses lie in the following areas:

a. The credit union portion of the business may be undercapitalized. In the credit unions we visited it was not uncommon for capitalization of the non-credit union functions to be at a level per member of 10 times the credit union portion. Of course there was not necessarily a 100% overlap in participation in the different functions. Nonetheless we cannot determine the degree to which the purely financial functions are adequately capitalized. Further, this capitalization has been worsening relative to the total indebtedness.

b. The deposit base may be volatile. The Costa Rican economy has been able to recover some of its strength during the past several years, and in particular there is a substantial amount of liquidity currently in the financial system, due to favorable but possibly short-term conditions. It is difficult to measure the likely impact on this deposit base should these favorable conditions change.

c. The non-financial services may be drawing off surpluses from the purely financial business. In most of the credit unions we visited with multiple services the credit union portion of the business was the most profitable. Often the other businesses were losing money. This subsidization may be weakening the ability of the credit unions to survive future reversals.

d. The credit unions are moving fairly rapidly into advanced operational methods, such as desk-top computers. Most are acquiring IBM-compatible equipment and hiring programmers. Most programs are being written in dBase III. Most credit unions expect to have network systems operating soon. Though their intentions are admirable and their needs clear, we believe that they have exposed themselves to several risks which will ultimately convert themselves into costs for the credit unions. The first risk is that the credit unions are developing their systems separately and are therefore likely to develop somewhat incompatible procedures and reports. The second is that by developing their systems separately they wind up paying full cost several times over for work which is often identical. The third is that their reach has exceeded their grasp. That is, they intend to have networks when in fact neither their software nor their hardware is adequate for such networking. To complete their efforts they will need to invest substantial additional funds, and possibly even totally rewrite their software. The fourth is that it will become increasingly costly to maintain their individual systems at the appropriate competitive level. As their competition introduces new services and new ways of attracting accounts, the credit unions may find themselves unable to adjust due to inflexibilities in their systems.

e. The human resources of the credit unions still lack some of the training and education which would make them fully capable of operating at the highest levels of technical expertise required by the movement's continued accelerated growth.

4. Impact of the Federation Programs

As detailed throughout this report, there have been several results which we believe can be attributed directly to the federation. In this section we shall summarize those results.

a. Development of Human Resources.

Through its education and training programs the federation has succeeded in promulgating general principles and specific technical capabilities through a wide base of individuals and their credit unions.

b. Organizational Development

One of the major aids to credit unions which they reported to us was FEDECREDITO's organizational development study process and the supporting technical assistance which came with it.

c. Expansion of Productive Credit

The development of a substantial portfolio of productive loans was a success of the federation, as was the ability of FEDECREDITO to provide technical assistance and training in how to manage these loans successfully to avoid delinquency and help the member.

d. Expansion of the Savings and Deposit Services of the Credit Unions

The federation was able to encourage a substantial increase in the marketing efforts of member credit unions. The idea of capturing the savings of members and placing those savings in productive loans and investments has taken hold. The credit unions have recognized the importance of being a major source of financial services for their members.

e. Expansion and Strengthening of the Idea of a Financial System

The credit unions have agreed to place 10% of their own deposit base as deposits in the federation. This is a substantial recognition of their own need for liquidity as well as the value of utilizing the federation as a central liquidity facility. The federation has also been able to exert leadership among the credit unions to resolve such issues as overlapping membership. The principle of a financial system has also been extended to the lending services of the federation to the member credit unions.

f. Implantation of the Idea of Systematic Planning and Information Processing

The credit unions have received training in these areas, and have seen the leadership of the federation in improving itself through these activities. In addition the federation provides feedback in both areas to participating credit unions.

g. Strengthening of Credit Union Management

Directly through the training, education and technical assistance programs and indirectly through the administrative credit program, the federation has been active in strengthening credit union management.

h. Resource Coordination

The federation has been able to play a valuable role in distributing certain resources. We have already mentioned the work in preparing credit unions for productive credit. Another example is the training and assignment of Peace Corps Volunteers.

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Appendix 1

List of Contacts and Surveyed Credit Unions

LIST OF PRINCIPAL CONTACTS

FEDECREDITO

Manuel Araya B.	General Manager
Carlos Mora V.	Assistant General Manager
Mario Vargas A.	Manager/Division of Operation
Pablo Cruz M.	Director/Resource Mobilization
Marco Vinicio Garro M.	Director/Finance and Accounting
Evaristo Alfaro C.	Internal Auditor
Liliana Vargas V.	Chief/Personnel and General Services
Abel Salas M.	Manager/Division of Planning and Development

COLAC

Raúl Sanchez	Resident Advisor
Raúl Vaca	Advisor/Production Credit Program

USAID

Rafael Rosario	Project Officer
Beverly Latham	Assistant Project Officer
Vincenz Schmack	Private Sector Development Officer

List of Surveyed Credit Unions

Coopetierrablanca R.L.
Coopealianza R.L.
Coopesanmarcos R.L.
Coopeorotina R.L.
Cootilaran R.L.
Coopesparta R.L.
Coopesago R.L.
Coopeguadalupe R.L.
Coopenae R.L.
Coopedent R.L.

Appendix 2

Central Liquidity Facility Financial Statements

ALLOCATED ANNUAL BALANCE SHEETS OF CENTRAL LIQUIDITY FACILITY
1982 - 1985

CENT. LIQ. FACILITY BALANCE SHEET (in colones)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Assets:				
Cash and checking	7,333,866	1,731,682	0	0
Investments	76,124,568	12,153,252	19,081,366	20,261,290
Loans, short term	217,821,912	127,861,727	32,790,108	5,834,429
Loans, long term	34,312,977	10,760,666	5,834,429	335,457
Other assets	38,905,800	34,256,073	36,548,363	26,765,459
TOTAL ASSETS	374,499,123	186,763,401	94,254,266	53,196,635
Liabilities:				
Passbook savings dep.	13,310,757	8,710,016	3,080,562	2,179,111
Notes payable, s.t.	0	0	0	0
Fixed deposits, s.t.	280,300,588	139,997,998	62,354,633	28,410,314
Fixed deposits, l.t.	1,325,000	1,992,000	0	0
Notes payable, l.t.	0	1,000,000	3,000,000	4,000,000
Other liabilities	23,423,190	12,223,616	7,296,265	4,296,570
TOTAL LIABILITIES	318,359,535	163,923,630	75,731,460	38,885,995
Capital:				
Credit union shares	28,144,581	7,297,092	2,013,837	458,377
Other capital accounts	10,735,058	4,755,252	2,223,096	43,096
Statutory reserves	1,437,955	705,283	290,925	144,982
Undivided earnings	1,617,864	898,156	75,287	75,251
Loan loss allowance	6,343,058	4,006,783	1,425,996	72,810
TOTAL CAPITAL	48,278,516	17,662,566	6,029,140	794,516
liabilities/cap. (FED)	7.4	11.7	16.1	53.8
liabilities/cap. (WOC)	6.6	9.3	12.6	48.9

BALANCE SHEET ACCOUNTS OF CENTRAL LIQUIDITY FACILITY AS PERCENT OF TOTAL ASSETS 1982 - 1985

CENT. LIQ. FACILITY BALANCE SHEET (% distribution, asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Assets:				
Cash and checking	2.0%	0.9%	0.0%	0.0%
Investments	20.3%	6.5%	20.2%	38.1%
Loans, short term	58.2%	68.5%	34.8%	11.0%
Loans, long term	9.2%	5.8%	6.2%	0.6%
Other assets	10.4%	18.3%	38.8%	50.3%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%
Liabilities:				
Passbook savings dep.	3.6%	4.7%	3.3%	4.1%
Notes payable, s.t.	0.0%	0.0%	0.0%	0.0%
Fixed deposits, s.t.	74.8%	75.0%	66.2%	53.4%
Fixed deposits, l.t.	0.4%	1.1%	0.0%	0.0%
Notes payable, l.t.	0.0%	0.5%	3.2%	7.5%
Other liabilities	6.3%	6.5%	7.7%	8.1%
TOTAL LIABILITIES	85.0%	87.8%	80.3%	73.1%
Capital:				
Credit union shares	7.5%	3.9%	2.1%	0.9%
Other capital accounts	2.9%	2.5%	2.4%	0.1%
Statutory reserves	0.4%	0.4%	0.3%	0.3%
Undivided earnings	0.4%	0.5%	0.1%	0.1%
Loan loss allowance	1.7%	2.1%	1.5%	0.1%
TOTAL CAPITAL	12.9%	9.5%	6.4%	1.5%
Capital, % liabilities	15.2%	10.8%	8.0%	2.0%

ALLOCATED ANNUAL INCOME AND EXPENSE OF CENTRAL LIQUIDITY FACILITY
1982 - 1985

CENT. LIQ. FACILITY OPERATING STATEMENT (in colones)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Loan interest inc.	48,153,203	28,732,104	10,833,685	1,734,505
Investment interest inc	16,424,914	2,425,060	4,699,925	2,711,013
Commissions	3,863,306	916,837	434,398	0
Other income	320,968	53,774	970,005	410,091
TOTAL INCOME	68,762,391	32,127,775	16,938,013	4,855,609
Cost of funds	56,602,641	27,522,722	15,331,942	2,859,544
GROSS MARGIN	12,159,750	4,605,053	1,606,071	1,996,065
Personnel cost	2,130,950	851,912	528,318	125,071
Operating expenses	1,318,511	743,102	706,963	306,997
Other expense	538,464	0	0	0
DIRECT EXPENSES	3,987,925	1,595,014	1,235,281	432,068
Loan loss provision	1,769,257	2,036,976	1,295,852	64,792
ADJUSTED MARGIN	6,402,568	973,063	(925,062)	1,499,206
Indirect costs	4,122,547	1,829,160	1,583,289	1,174,881
NET OPERATING MARGIN	2,280,021	(856,097)	(2,508,351)	324,325
Donations and other short term sources of funds:				
Donations	406,213	536,650	578,339	34,383
LS/LP program	2,165,798	1,050,877	400,417	97,323
Exchange loss reimburse	1,203,021	294,919	3,726,279	388,410
GAINS OR (LOSSES)	6,055,052	1,026,349	2,196,684	844,441
TOTAL INCOME	72,537,422	34,010,221	21,643,048	5,375,726
TOTAL EXPENSES	66,482,370	32,983,872	19,446,364	4,531,285

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INCOME AND EXPENSE RATES OF CENTRAL LIQUIDITY FACILITY AS A PERCENT OF AVERAGE TOTAL ASSETS 1982 - 1985

CENT. LIQ. FACILITY OPERATING STATEMENT (% distribution, average asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Loan interest inc.	17.2%	20.4%	14.7%	NA
Investment interest inc	5.9%	1.7%	6.4%	NA
Commissions	1.4%	0.7%	0.6%	NA
Other income	0.1%	0.0%	1.3%	NA
TOTAL INCOME	24.5%	22.9%	23.0%	NA
Cost of funds	20.2%	19.6%	20.8%	NA
GROSS MARGIN	4.3%	3.3%	2.2%	NA
Personnel cost	0.8%	0.5%	0.7%	NA
Operating expenses	0.5%	0.5%	1.0%	NA
Other expense	0.2%	0.0%	0.0%	NA
DIRECT EXPENSES	1.4%	1.1%	1.7%	NA
Loan loss provision	0.6%	1.4%	1.8%	NA
ADJUSTED MARGIN	2.3%	0.7%	-1.3%	NA
Indirect costs	1.5%	1.3%	2.1%	NA
NET OPERATING MARGIN	0.8%	-0.6%	-3.4%	NA
Donations and other short term sources of funds:				
Donations	0.1%	0.4%	0.8%	NA
LS/LP program	0.8%	0.7%	0.5%	NA
Exchange loss reimburse	0.4%	0.2%	5.1%	NA
GAINS OR (LOSSES)	2.2%	0.7%	3.0%	NA

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SPREAD ANALYSIS AND FINANCIAL RATIOS OF CENTRAL LIQUIDITY FACILITY
1982 - 1985

CENT. LIQ. FACILITY FINANCIAL RATIOS (asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Interest income	23.0%	22.2%	21.1%	NA
Cost of funds	20.2%	19.6%	20.8%	NA
INTEREST MARGIN	2.8%	2.6%	0.3%	NA
Dir. oper. expenses	1.4%	1.1%	1.7%	NA
Ind. oper. expenses	1.5%	1.3%	2.1%	NA
Less non-int. income	-1.5%	-0.7%	-1.9%	NA
NET OPERATING COSTS	1.4%	1.7%	1.9%	NA
OPERATING MARGIN	1.4%	0.8%	-1.6%	NA
Loan loss provision	0.6%	1.4%	1.8%	NA
NET MARGIN	0.8%	-0.6%	-3.4%	NA
Unearned income	1.3%	1.3%	6.4%	NA
ADJUSTED NET MARGIN	2.2%	0.7%	3.0%	NA
Earning assets/liabilit	103.1%	92.0%	76.2%	68.0%
Loan yield	24.6%	32.4%	48.4%	NA
Investment yield	37.2%	15.5%	23.9%	NA
Commisions/loans	2.0%	1.0%	1.9%	NA
Cost of funds	23.5%	23.0%	26.8%	NA
Expenses/income	91.7%	97.0%	89.9%	84.3%
Ind. costs/income	5.7%	5.4%	7.3%	21.9%
Loan loss prov./income	2.4%	6.0%	6.0%	1.2%
Personnel costs/income	2.9%	2.5%	2.4%	2.3%
Expenses/fin. income	97.1%	102.8%	121.8%	101.9%
Ind. costs/fin. income	6.0%	5.7%	9.9%	26.4%
Loan loss prov./fin. in	2.6%	6.4%	8.1%	1.5%
Pers. costs/fin. inc.	3.1%	2.7%	3.3%	2.8%
Income/average assets	25.8%	24.2%	29.4%	NA
Earning assets/assets	87.7%	80.7%	61.2%	49.7%
Ind. costs/avg. assets	1.5%	1.3%	2.1%	NA
Adj. net margin/avg. as	2.2%	0.7%	3.0%	NA
Donations/avg. assets	0.1%	0.4%	0.8%	NA
Pers. costs/Dir. costs	61.8%	53.4%	42.8%	28.9%

Appendix 3

Development Finance Facility Financial Statements

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ALLOCATED ANNUAL BALANCE SHEETS OF DEVELOPMENT FINANCE FACILITY
1982 - 1985

DEV. FINANCE FACILITY BALANCE SHEET (in colones)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Assets:				
Cash and checking	2,682,242	957,405	8,593,361	1,300,034
Investments	0	5,199,097	0	5,092,639
Loans, short term	26,730,300	14,656,223	4,204,929	2,630,246
Loans, long term	71,303,811	56,905,165	2,630,246	2,492,106
Other assets	19,500,889	16,797,188	8,455,956	10,641,241
TOTAL ASSETS	120,217,242	94,515,077	23,884,492	22,156,266
Liabilities:				
Passbook savings dep.	0	0	0	0
Notes payable, s.t.	24,577,273	7,326,403	6,605,016	5,109,241
Fixed deposits, s.t.	0	0	0	0
Fixed deposits, l.t.	363,660	218,305	88,908	0
Notes payable, l.t.	91,493,898	83,084,639	29,977,164	27,320,204
Other liabilities	0	0	0	0
TOTAL LIABILITIES	116,434,831	90,629,347	36,671,088	32,429,445
Capital:				
Credit union shares	6,787,718	3,744,250	1,224,877	1,870,940
Other capital accounts	2,589,008	2,439,993	1,352,156	175,904
Statutory reserves	346,796	361,892	176,949	591,769
Undivided earnings	390,185	460,858	45,792	307,148
Loan loss allowance	1,529,776	2,055,942	867,334	297,184
TOTAL CAPITAL	11,643,483	9,062,935	3,667,109	3,242,945
liabilities/cap. (FED)	11.4	12.6	12.8	10.9
liabilities/cap. (WOC)	10.0	10.0	10.0	10.0

BALANCE SHEET ACCOUNTS OF DEVELOPMENT FINANCE FACILITY AS PERCENT OF TOTAL ASSETS 1982 - 1985

DEV. FINANCE FACILITY BALANCE SHEET (% distribution, asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Assets:				
Cash and checking	2.2%	1.0%	36.0%	5.9%
Investments	0.0%	5.5%	0.0%	23.0%
Loans, short term	22.2%	15.5%	17.6%	11.9%
Loans, long term	59.3%	60.2%	11.0%	11.2%
Other assets	16.2%	17.8%	35.4%	48.0%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%
Liabilities:				
Passbook savings dep.	0.0%	0.0%	0.0%	0.0%
Notes payable, s.t.	20.4%	7.8%	27.7%	23.1%
Fixed deposits, s.t.	0.0%	0.0%	0.0%	0.0%
Fixed deposits, l.t.	0.3%	0.2%	0.4%	0.0%
Notes payable, l.t.	76.1%	87.9%	125.5%	123.3%
Other liabilities	0.0%	0.0%	0.0%	0.0%
TOTAL LIABILITIES	96.9%	95.9%	153.5%	146.4%
Capital:				
Credit union shares	5.6%	4.0%	5.1%	8.4%
Other capital accounts	2.2%	2.6%	5.7%	0.8%
Statutory reserves	0.3%	0.4%	0.7%	2.7%
Undivided earnings	0.3%	0.5%	0.2%	1.4%
Loan loss allowance	1.3%	2.2%	3.6%	1.3%
TOTAL CAPITAL	9.7%	9.6%	15.4%	14.6%
Capital, % liabilities	10.0%	10.0%	10.0%	10.0%

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ALLOCATED ANNUAL INCOME AND EXPENSE OF DEVELOPMENT FINANCE FACILITY
1982 - 1985

DEV. FINANCE FACILITY OPERATING STATEMENT (in colones)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Loan interest inc.	12,008,615	5,019,713	762,603	1,141,196
Investment interest inc	0	1,037,428	0	681,408
Commissions	2,727,033	2,342,408	202,730	131,419
Other income	117,389	29,730	469,701	342,001
TOTAL INCOME	14,853,037	8,429,279	1,435,034	2,296,024
Cost of funds	8,524,973	5,384,497	2,955,422	2,538,794
GROSS MARGIN	6,328,064	3,044,782	(1,520,388)	(242,770)
Personnel cost	2,841,267	1,703,825	1,056,637	375,213
Operating expenses	1,758,014	1,486,203	1,413,925	920,990
Other expense	520,853	431,031	261,364	0
DIRECT EXPENSES	5,120,134	3,621,059	2,731,926	1,296,203
Loan loss provision	647,077	1,126,194	627,484	54,034
ADJUSTED MARGIN	560,853	(1,702,471)	(4,879,798)	(1,593,008)
Indirect costs	1,507,755	1,011,298	766,669	979,806
NET OPERATING MARGIN	(946,902)	(2,713,769)	(5,646,467)	(2,572,814)
Donations and other short term sources of funds:				
Donations	541,617	1,073,299	1,156,677	103,149
LS/LP program	792,105	581,004	193,892	81,164
Exchange loss reimburse	439,985	163,054	1,804,359	323,920
GAINS OR (LOSSES)	826,806	(896,411)	(2,491,539)	(2,064,581)
TOTAL INCOME	16,626,745	10,246,636	4,589,962	2,804,256
TOTAL EXPENSES	15,799,939	11,143,048	7,081,501	4,868,837

INCOME AND EXPENSE RATES OF DEVELOPMENT FINANCE FACILITY AS A PERCENT OF AVERAGE TOTAL ASSETS 1982 - 1985

DEV. FINANCE FACILITY OPERATING STATEMENT (% distribution, average asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Loan interest inc.	11.2%	8.5%	3.3%	NA
Investment interest inc	0.0%	1.8%	0.0%	NA
Commissions	2.5%	4.0%	0.9%	NA
Other income	0.1%	0.1%	2.0%	NA
TOTAL INCOME	13.8%	14.2%	6.2%	NA
Cost of funds	7.9%	9.1%	12.8%	NA
GROSS MARGIN	5.9%	5.1%	-6.6%	NA
Personnel cost	2.6%	2.9%	4.6%	NA
Operating expenses	1.6%	2.5%	6.1%	NA
Other expense	0.5%	0.7%	1.1%	NA
DIRECT EXPENSES	4.8%	6.1%	11.9%	NA
Loan loss provision	0.6%	1.9%	2.7%	NA
ADJUSTED MARGIN	0.5%	-2.9%	-21.2%	NA
Indirect costs	1.4%	1.7%	3.3%	NA
NET OPERATING MARGIN	-0.9%	-4.6%	-24.5%	NA

Donations and other short term sources of funds:

Donations	0.5%	1.8%	5.0%	NA
LS/LP program	0.7%	1.0%	0.8%	NA
Exchange loss reimburse	0.4%	0.3%	7.8%	NA
GAINS OR (LOSSES)	0.8%	-1.5%	-10.8%	NA

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SPREAD ANALYSIS AND FINANCIAL RATIOS OF DEVELOPMENT FINANCE FACILITY
1982 - 1985

DEV. FINANCE FACILITY FINANCIAL RATIOS (asset base)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Interest income	11.2%	10.2%	3.3%	NA
Cost of funds	7.9%	9.1%	12.8%	NA
INTEREST MARGIN	3.2%	1.1%	-9.5%	NA
Dir. oper. expenses	4.8%	6.1%	11.9%	NA
Ind. oper. expenses	1.4%	1.7%	3.3%	NA
Less non-int. income	-2.6%	-4.0%	-2.9%	NA
NET OPERATING COSTS	3.5%	3.8%	12.3%	NA
OPERATING MARGIN	-0.3%	-2.7%	-21.8%	NA
Loan loss provision	0.6%	1.9%	2.7%	NA
NET MARGIN	-0.9%	-4.6%	-24.5%	NA
Unearned income	1.7%	3.1%	13.7%	NA
ADJUSTED NET MARGIN	0.8%	-1.5%	-10.8%	NA
Earning assets/liabilit	84.2%	84.7%	18.6%	31.5%
Loan yield	14.2%	12.8%	12.8%	NA
Investment yield	0.0%	39.9%	0.0%	NA
Commisions/loans	3.2%	6.0%	3.4%	NA
Cost of funds	8.2%	8.5%	8.6%	NA
Expenses/income	95.0%	108.7%	154.3%	173.6%
Ind. costs/income	9.1%	9.9%	16.7%	34.9%
Loan loss prov./income	3.9%	11.0%	13.7%	1.9%
Personnel costs/income	17.1%	16.6%	23.0%	13.4%
Expenses/fin. income	107.2%	132.7%	733.6%	249.2%
Ind. costs/fin. income	10.2%	12.0%	79.4%	50.1%
Loan loss prov./fin. in	4.4%	13.4%	65.0%	2.8%
Pers. costs/fin. inc.	19.3%	20.3%	109.5%	19.2%
Income/average assets	15.5%	17.3%	19.9%	NA
Earning assets/assets	81.5%	81.2%	28.6%	46.1%
Ind. costs/avg. assets	1.4%	1.7%	3.3%	NA
Adj. net margin/avg. as	0.8%	-1.5%	-10.8%	NA
Donations/avg. assets	0.5%	1.8%	5.0%	NA
Pers. costs/Dir. costs	61.8%	53.4%	42.8%	28.9%

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Appendix 4

Human Resources Division Financial Statements

ALLOCATED ANNUAL INCOME AND EXPENSE OF HUMAN RESOURCES DIVISION
1982 - 1985

HUMAN RES. DEV. OPERATING STATEMENT (in colones)	31-Dec-85	31-Dec-84	31-Dec-83	31-Dec-82
Loan interest inc.	0	0	0	0
Investment interest inc	0	0	0	0
Commissions	0	0	0	0
Other income	1,878,185	1,489,796	834,632	2,419,252
TOTAL INCOME	1,878,185	1,489,796	834,632	2,419,252
Cost of funds	0	0	0	0
GROSS MARGIN	1,878,185	1,489,796	834,632	2,419,252
Personnel cost	2,644,915	1,684,251	1,184,796	0
Operating expenses	909,829	767,134	510,471	0
Other expense	0	0	0	928,077
DIRECT EXPENSES	3,554,744	2,451,385	1,695,267	928,077
Loan loss provision	0	0	0	0
ADJUSTED MARGIN	(1,676,559)	(961,589)	(860,635)	1,491,175
Indirect costs	2,412,987	1,217,339	1,007,125	0
NET OPERATING MARGIN	(4,089,546)	(2,178,928)	(1,867,760)	1,491,175
Donations and other short term sources of funds:				
Donations	669,216	1,371,978	2,215,240	0
LS/LP program	0	0	0	0
Exchange loss reimburse	0	0	0	0
GAINS OR (LOSSES)	(3,420,330)	(806,950)	347,480	1,491,175
TOTAL INCOME	2,547,401	2,861,774	3,049,872	2,419,252
TOTAL EXPENSES	5,967,731	3,668,724	2,702,392	928,077

Appendix 5

Administrative Credit Program Analysis Tables

FEDECREDITO EVALUATION
ADMINISTRATIVE CREDIT PROGRAM
PERSONNEL RESOURCES ATTRIBUTABLE

Coops Participating in
Admin. Credit Prog.

	COOPERATIVE	# PERSONNELL	
1	COOPACA	3	MANAGER, ACCOUNTANT,MARKETING REP.
2	COOPEALIANZA	3	MANAGER, ACCOUNTANT,MARKETING REP.
3	COOPEBELEMITA	3	MANAGER, ACCOUNTANT,MARKETING REP.
4	COOPECAFE	3	MANAGER, ACCOUNTANT,MARKETING REP.
5	COOPECOMUN	4	MANAGER, ACCOUNTANT,2 MARKETING REP..
6	COOPECORRALES	2	MANAGER, ACCOUNTANT.
7	COOPEDENT*	3	MANAGER, ACCOUNTANT,MARKETING REP.
8	COOPEGRECIA	4	MANAGER, ACCOUNTANT,MARKETING REP., SAVINGS AND CREDIT MANAGER
9	COOPEISIDRENA	3	MANAGER, ACCOUNTANT,MARKETING REP.
10	COOPEJUDICIAL	3	MANAGER, ASSISTANT ACCOUNTANT,MARKETING REP.
11	COOPENAE**	3	MANAGER, ACCOUNTANT,MARKETING REP.
12	COOPENARANJO	3	MANAGER, ACCOUNTANT, AGRONOMIST
13	COOPEOROTINA	3	MANAGER, ACCOUNTANT,MARKETING REP.
14	COOPESANMARCOS	3	MANAGER, ACCOUNTANT,MARKETING REP.
15	COOPESANRAMON*	3	MANAGER, ACCOUNTANT,MARKETING REP.
16	COOPESANTACATALINA*	3	MANAGER, ACCOUNTANT,MARKETING REP.
17	COOPESANTARROSA	6	MARKETING REP., MARKETING MANAGER, 2 CREDIT OFFICIALS, CREDIT MANAGER, ADMISTRATIVE MANAG
18	COOPESANTI	3	MANAGER, ACCOUNTANT,MARKETING REP.
19	COOPESARCHI	3	MANAGER, ACCOUNTANT,MARKETING REP.
20	COOPESPARTA	2	MANAGER, ACCOUNTANT.
21	COOTILARAN*	3	MANAGER, ACCOUNTANT,MARKETING REP.
22	CREDICOOP*	3	MANAGER, ACCOUNTANT,SAVINGS & CREDIT MANAGER
23	LA FAMILIA	3	MANAGER, ACCOUNTANT,MARKETING REP.
	Subtotal	72	
24	COOPECARM	3	MANAGER, ACCOUNTANT,MARKETING REP.
25	COOPEHATI	3	MANAGER, ACCOUNTANT,MARKETING REP.
	Total	78	

USE OF ADMINISTRATIVE CREDIT FUNDS BY COOPERATIVE 1983 to JULY 1986

	COOPERATIVA	AMOUNT APPROVED	1983	1984	1985	1986	DISBURSEMENT AS OF 6/30/86	DISBURSEMENT JULY 1986
1	COOPACA R.L.	500,000.00	125,000.00	375,000.00	0.00	0.00	500,000.00	0.00
2	COOPEALIANZA R.L.	500,000.00	0.00	125,000.00	125,000.00	0.00	250,000.00	0.00
3	COOPEBELEMITA R.L.	487,490.55	243,745.30	243,745.25	0.00	0.00	487,490.55	0.00
4	COOPECAFE R.L.	465,303.00	0.00	127,672.00	337,631.00	0.00	465,303.00	0.00
6	COOPECOMUN R.L.	500,000.00	125,000.00	375,000.00	0.00	0.00	500,000.00	0.00
7	COOPECORRALES R.L.	500,000.00	0.00	375,000.00	125,000.00	0.00	500,000.00	0.00
8	COOPEDENT R.L.	500,000.00	0.00	375,000.00	125,000.00	0.00	500,000.00	0.00
9	COOPEGRECIA R.L.	1,000,000.00	0.00	250,000.00	250,000.00	125,000.00	625,000.00	0.00
11	COOPEISIDRENA R.L.	1,000,000.00	0.00	0.00	1,000,000.00	0.00	1,000,000.00	0.00
12	COOPEJUDICIAL R.L.	451,896.00	0.00	225,948.00	225,948.00	0.00	451,896.00	0.00
13	COOPENAE R.L.	1,000,000.00	0.00	0.00	250,000.00	500,000.00	750,000.00	250,000 00
14	COOPENARANJO R.L.	486,771.60	486,771.60	0.00	0.00	0.00	486,771.60	0.00
15	COOPEOROTINA R.L.	1,000,000.00	500,000.00	0.00	500,000.00	0.00	1,000,000.00	0.00
16	COOPESANMARCOS R.L.	979,804.00	107,451.00	322,353.00	137,500.00	0.00	567,304.00	412,500.00
17	COOPESANRAMON R.L.	593,800.00	0.00	0.00	0.00	0.00	0.00	148,450.00
18	COOPESANTACATALINA R.L.	500,000.00	0.00	125,000.00	375,000.00	0.00	500,000.00	0.00
19	COOPESANTARROSA R.L.	1,000,000.00	0.00	0.00	250,000.00	0.00	250,000.00	750,000.00
20	COOPESANTI R.L.	304,560.00	152,280.00	0.00	0.00	0.00	152,280.00	0.00
21	COOPESARCHI R.L.	500,000.00	0.00	125,000.00	125,000.00	0.00	250,000.00	0.00
22	COOPESPARTE R.L.	364,000.00	0.00	273,000.00	91,000.00	0.00	364,000.00	0.00
23	COOTILARAN R.L.	500,000.00	0.00	125,000.00	375,000.00	0.00	500,000.00	0.00
24	CREDICOOP R.L.	236,000.00	0.00	0.00	59,000.00	118,000.00	177,000.00	59,000.00
25	LA FAMILIA	500,000.00	0.00	500,000.00	0.00	0.00	500,000.00	0.00
	TOTAL	13,869,625.15	1,740,247.90	3,942,718.25	4,351,079.00	743,000.00	10,777,045.15	1,619,950.00
5	COOPECARMEN R.L.	246,120.00	246,120.00	0.00	0.00	0.00	246,120.00	0.00
10	COOPEHATILLO R.L.	33,000.00	33,000.00	0.00	0.00	0.00	33,000.00	0.00

Appendix 6

Aggregate Credit Union Financial Statements

Affiliated Credit Unions, 1981-1985

FEDERACIONA NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO - FEDECREDITO R.L.
CONSOLIDADO DE LA EVALUACION DEL DESARROLLO DEL SISTEMA FEDERADO (1981 - 1984)
ESTADO DE RESULTADOS - TOTAL DE COOPERATIVAS -

FECHA: 07/01/85

	1981	1982	1983	1984
INGRESOS				
INTERESES PRESTAMOS.	26.508.904	37.001.872	93.028.781	192.920.046
INTERESES S/INVERS.	1.272.556	6.551.646	18.884.049	29.754.333
COMISIONES	41.979.839	103.186.380	216.071.858	122.251.426
OTROS INGRESOS	63.337.906	125.053.211	372.254.740	601.348.588
TOTAL INGRESOS..........	133.099.205	271.793.109	700.239.428	946.274.393
GASTOS				
GASTOS DE PERSONAL	18.932.991	32.159.684	74.179.678	121.574.857
GASTOS OPERATIVOS	3.311.122	5.636.084	15.836.310	27.677.276
GASTOS FINANCIEROS	12.379.976	24.319.229	74.338.388	145.035.465
OTROS EGRESOS	87.953.741	187.323.852	514.242.473	621.627.472
TOTAL DE GASTOS..........	122.577.830	249.438.849	678.596.849	915.915.070
UTILIDAD O PERDIDA........	10.521.375	22.354.260	21.642.579	30.359.323

FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO - FEDECREDITO R.L.

CONSOLIDADO DEL DESARROLLO DEL SISTEMA FEDERADO (1981-1985)

BALANCE DE SITUACION - TOTAL DE COOPERATIVAS

	1981	1982	1983	1984	1985 1/
1.1 ACTIVOS					
Caja y Bancos	7.825.037	21.138.090	40.702.146	49.482.894	105.356.890
Inversiones	16.842.985	81.610.638	166.995.154	275.514.534	475.767.572
Préstamos	170.335.716	207.494.801	423.919.430	863.371.487	1.275.304.774
Prov. Prest. Incob.	-1.587.699	-2.150.811	-5.028.921	-13.677.756	-29.760.207
Activos Fijos	39.806.061	74.517.091	228.503.211	311.395.597	607.202.500
Otros Activos	56.101.307	127.044.250	283.823.706	350.813.962	686.447.031
TOTAL ACTIVOS	289.323.407	509.654.059	1.138.914.726	1.836.900.718	3.120.318.560
1.2 PASIVOS					
Depósitos a la vista	55.245.466	120.148.104	181.199.719	265.645.474	321.930.474
Depósitos a plazo	34.660.379	98.670.919	351.688.432	664.619.636	1.140.867.232
Créditos Externos	24.386.504	38.774.676	136.332.013	203.210.162	392.230.820
Otros Pasivos	31.196.674	50.115.604	132.308.545	206.145.900	424.017.357
TOTAL PASIVOS	145.489.023	307.709.303	801.528.709	1.339.621.172	2.279.045.883
1.3 PATRIMONIO					
Capital Social	117.119.732	143.213.936	213.119.836	330.100.796	556.531.049
Reserva Legal	2.719.902	6.118.344	7.158.070	8.763.061	12.174.205
Fondo Educación	1.436.149	2.955.348	3.797.165	5.821.295	10.110.183
Otras Reservas	13.757.253	31.493.108	79.703.458	103.586.362	185.367.352
Donaciones	1.838.254	2.997.295	11.092.459	21.113.967	36.995.054
Excedentes no dist.	6.963.071	15.166.704	22.515.011	27.894.037	40.094.834
TOTAL PATRIMONIO	143.834.361	201.944.735	337.385.999	497.279.518	841.272.677

1/ Preliminar.