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526-15-110-101

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PD-AAB-323-A1

Appendix 6A, Ch 6 12p
Page 4 (TM 3:1)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE ("X" appropriate box)
- [ ] Original
- [X] Change
- [ ] Add
- [ ] Delete

PP

DOCUMENT CODE
3

2. COUNTRY/ENTITY
PARAGUAY

3. DOCUMENT REVISION NUMBER
3

4. PROJECT NUMBER
526-15-110-101

5. BUREAU
a. Symbol: LA
b. Code: 3

6. ESTIMATED FY OF PROJECT COMPLETION
FY 7 8

7. PROJECT TITLE - SHORT (stay within brackets)
[CREDIT UNIONS]

8. ESTIMATED FY OF AUTHORIZATION/OBLIGATION
a. INITIAL (mo. yr.) 6 69 · b. FINAL FY 7 7

9. ESTIMATED TOTAL COST ($000 or equivalent, $1 =)

a. FUNDING SOURCE	FIRST YEAR FY 1976			ALL YEARS		
	b. FX	c. L/C	d. Total	e. FX	f. L/C	g. Total 1/
AID APPROPRIATED TOTAL	104	197	301	607	604	1,301
(Grant)	(104)	(197)	(301)	(607)	(604)	(1,301)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
HOST GOVERNMENT 1/		934			[illegible]	[illegible]
OTHER DONOR(S)		15			15	15
TOTALS	104	1,146	301	607	2,577	3,184

10. ESTIMATED COSTS/AID APPROPRIATED FUNDS ($000)

a. Appropriation (Alpha Code)	b. Primary Purpose Code	c. Primary Tech. Code	FY 76 d. Grant	FY 76 e. Loan	FY 77 f. Grant	FY 77 g. Loan	FY ___ h. Grant	FY ___ i. Loan	ALL YEARS j. Grant	ALL YEARS k. Loan
FN	249	031	301		320				1,301	
TOTALS			301		320				1,301	
11. ESTIMATED EXPENDITURES			290		300					

12. PROJECT PURPOSE(S) (stay within brackets) [ ] Check if different from PID/PRP

[To organize independent, profitable and broad based credit unions, primarily in rural areas, which are integrated into an independent, profitable central (CREDICOOP).

1/ Total for Host Government and Other Donors includes FYs 76 and 77 only.]

13. WERE CHANGES MADE IN BLOCKS 12, 13, 14, or 15 OF THE PID FACESHEET? IF YES, ATTACH CHANGED PID FACESHEET.
- [ ] Yes
- [X] No

14. ORIGINATING OFFICE CLEARANCE

Signature
Oliver L. Sause

Title
Director, USAID/Paraguay

Date Signed mo. day yr.

15. Date Received in AID/W, or For AID/W Documents, Date of Distribution
mo. day yr.

AID 1330-4 (7-75)

Department of State TELEGRAM

UNCLASSIFIED 6825

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ORIGIN AID-20

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DRAFTED BY LA/DR:SESMITH:RR
APPROVED BY AA/LA:PFMORRIS, ACTING
LA/DR:HAHASAN LA/DR:DMLION
LA/DR:MDBROWN LA/DR:CBWEINBERG
LA/DR:BBSCHOUTEN (DRAFT)
GC/LA:JMARQUEZ (DRAFT)
LA/ECA:NKOCKLER (DRAFT)
LA/DP:FWTATE (DRAFT)
LA/DP:BGOLDSTEIN (DRAFT)
LA/DP:RCLARKE (INFO)
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E.O. 11652: N/A

SUBJECT: PP SUPPLEMENT APPROVAL - CREDIT UNIONS GRANT (PROJECT NUMBER 526-15-110-101)

1. SUBJECT PP SUPPLEMENT IS HEREBY APPROVED. SUBJECT TO THE AVAILABILITY OF FUNDS, FUNDING APPROVAL IS GIVEN FOR UP TO A TOTAL OF 301,000 DOLS IN FY 1976 AND 320,000 DOLS IN FY 1977. USAID IS AUTHORIZED TO NEGOTIATE AN AMENDED PROJECT AGREEMENT CONSISTENT WITH THIS APPROVAL.

2. ADVICE OF ALLOTMENT FOLLOWS SEPTEL. ROBINSON

UNCLASSIFIED

CREDIT UNIONS PROJECT # 526-15-110-101

B. Recommendations

That this grant project be funded at the following levels, as presented in the FY 1977 Congressional Presentation:

	FY 1976	FY 1977	TOTAL
FY 1977 CP Figures	301	320	621
Figures in Approved PROP	238	149	387
Increases Requested	63	171	234

C. Description of the Project

1. The purpose of this project is to organize independent, profitable and broad-based credit unions, primarily in rural areas, which are integrated into an independent, profitable central (CREDICOOP) which will provide these credit unions with effective technical and financial services. The project is complementary to an AID Small Farmer Development Loan (526-T-027) of $3 million which was signed in June 1975 but which has not yet started disbursement.

2. The credit union central, CREDICOOP, provides (1) advice and assistance to rural communities to create credit cooperatives which become members of the credit union central's system; and (2) training and technical assistance in management of several activities, including making cooperative subloans to small farmers; marketing of small farmer products and recuperation of subloans; assisting with provision of agricultural extension services to small farmers, and assisting member cooperatives to obtain and manage loan funds from the National Development Bank.

3. AID funded inputs include two full time contract consultants from the Credit Union National Association (CUNA) and such short term technical assistance as may be required; short term participant training in credit cooperative management in third countries; small amounts of office supplies and equipment; support to CREDICOOP to fund a major part of its staff, in-country training, and in-country travel and per diem; and monies to finance marketing activities and positive incentives to improve subloan recuperation. Counterpart contributions are in the form of GOP staff time from the Ministry of Agriculture and the National Development Bank (NDB); the time of volunteers who serve member cooperatives as staff and board members; loan monies on concessional terms

from the NDB, and the savings and cash shares of credit cooperative members. The GOP also gives exemptions from import and export taxes which provide substantial support to the system as a whole and increases small farmer incomes. From these inputs come the project's outputs which, in summary, are yearly increases in the following principal targets: chartered member credit unions and individual memberships; share capital; loans made; loans recuperated; number of small farmer borrowers; hectares financed, and marketing assistance.

4. At the end of the project, we expect that the following conditions will indicate that the purpose has been achieved:

a. 38 rural and 18 urban credit unions will be chartered and operating, with approximately 9,000 borrowing farmers and membership of 19,000 rural and 10,000 urban members.

b. A financially self-sufficient CREDICOOP with 56 affiliated credit unions.

c. A trained corps of competent administrators and managers in CREDICOOP (with a staff of 23 professional personnel) and in the member credit unions (168 managers and administrative personnel).

In addition the goal of increasing small farmer income over 1974 levels will have been met.

D. Summary Findings

Three principal factors bear on the project's need for increased funding in FY's 1976 and 1977. The first two relate to the collapse of the related Marketing/Services Cooperatives Project #526-15-110-102. This companion project was to provide marketing and agricultural input assistance to CREDICOOP's member cooperatives, and was to share in the Small Farmer Development Loan. Because of weak and corrupt management, the marketing central organization has become insolvent, and its activities which were to support CREDICOOP must now be assumed by the credit cooperative system.

In view of the trauma attached to the decline and fall of the Marketing/Services Cooperatives Project, CREDICOOP must be given high marks for the response and flexibility the organization has demonstrated. Although it had no prior experience in marketing, in CY 1975 CREDICOOP assisted its members to market 2,472 tons of commodities valued at $534,930. While expenses related to marketing have been paid out of CREDICOOP's own income derived from small commissions charged on transactions, a shortage of working capital has limited its ability to provide farmers with partial payment cash advances before they deliver their crops and to make full payment when crops are delivered. Moreover, partial payment advances are an important part of the marketing process and are critical to achievement of adequate recuperation of loans made for crop production. As a trial measure, in anticipation of submission of this revision, the Mission allowed CREDICOOP to use $35,000 from other cost funds previously earmarked for staff salaries in the latter half of CY 1976 to use as working capital to finance its marketing operations. This comparatively small sum has allowed CREDICOOP to double its marketing operations (approximately $1 million to date) in the first six months of CY 1976 compared to all of CY 1975. Based on the above, CREDICOOP and the Mission have determined that $70,000 in grant funds is needed to capitalize a working capital fund.

A second important factor which has increased the project's need for increased grant funding is the continued delay in implementation of the AID loan. As originally drafted, the loan provided $3 million to CREDICOOP for Production Credit activities and $1.7 million to UNIPACO for Marketing/Services activities, for a total of $4.7 million. When the seriousness of the latter project's financial and managerial problems began to surface, the loan was withdrawn from consideration by the Paraguayan Congress, and almost a year has been spent in modification and amendment of the loan so that it is acceptable to all parties. It now appears that all issues have been resolved and the loan will be resubmitted to the Congress for ratification. However, it is premature to estimate how soon disbursement may start. CREDICOOP is some months away from receiving income from commissions and interest spreads on subloans to member cooperatives, although once disbursement starts we assume that it will follow the "Allen" projections* and future needs for grant funds will decrease accordingly. Technical assistance for the implementation phase of the loan project will be provided through a new grant project, FY's 78-80, a time frame beyond the limits of the revision proposed in this paper.

The immediate issue bearing on this revision is that previous estimates suggested that CREDICOOP would gain a total of $35,000 in CY 1976 and $70,000 in CY 1977 in gross income through loan financed activities. Continued delay now means that the loan will miss the next planting season which begins in September, so that the first major loan returns will not be received until 1978 from crops financed for planting in September of 1977. CREDICOOP therefore needs additional budget support in FY's 1976 and 1977 to make up for this shortfall.

The last major reason for requesting an increase in funding is based on recommendations of AID/W funded TDY technicians who performed an

* projections prepared by the AID/W funded team which performed an in-depth evaluation of CREDICOOP in December 1975.

in-depth evaluation of CREDICOOP in December 1975, and the Spring Review of Small Farmer Credit. CREDICOOP now plans to offer positive incentives for loan recuperation to its member cooperatives, and is presently engaged in a study to develop this program. CREDICOOP will also expand its training program to improve technical and managerial capabilities, both at the central and member cooperative levels, as recommended by AID/W. A short term consultant will also be contracted to perform an in-depth study of CREDICOOP's present training program and to make recommendations for improvement. In addition, instead of being able to phase out one long term technician in CY 1977 as originally planned, the technician's services will be continued to focus on training and related tasks.

II. Detailed Description

A. CREDICOOP's Marketing Operation

1. Background and Rationale - CREDICOOP, in conjunction with its credit unions, began marketing crops for its farmer members in 1975. The leadership of CREDICOOP made this decision for two reasons: they believed that farmers could thus obtain higher prices for their crops; and that it would assist credit unions to collect outstanding loans of farmer borrowers.

Most farmer members of credit unions obtain loans at the beginning of each crop season to purchase fertilizer, seeds, labor and other farm inputs. These loans are to be paid off when the crop is marketed. Many times, however, farmers sell their harvest, use the money to pay off non-credit union debts or for other expenses, and do not have enough left to pay off their loans. In contrast, when farmers market through the credit unions, the farmer receives a check in the amount of the proceeds from his crop minus the value of his outstanding loans with the credit union. When the credit union markets the crop of a borrower, payment of the credit union loan takes first priority.

In summary, marketing is an important loan collection device for the credit unions. It helps increase the farmers income, which increases his ability to pay off his loan, and it gives the credit union direct control of the collateral which backs up the loan.

2. Description of Marketing Program

Participants and their Responsibilities - There are four participants in the marketing program: CREDICOOP, the credit union, the farmer and the buyer. Each must carry out certain responsibilities well in order to enhance the benefits generated by the program.

COSTING OF PROJECT OUTPUTS/INPUTS

($000)

PP Revision 3

Project # 526-15-110-101

Title: CREDIT UNIONS

Project Inputs		Project Outputs # 1	# 2	# 3	# 4	Totals 1/
AID Appropriated						
U.S. Technicians	198	200	251	100	70	621
Participants	20					
Commodities	31					
Other Costs	372					
	621					
Host Country						
Member Capital	700	15	1,720	15	118	1,868
GOP Loan Funds	1,000					
Interest Reimb	20					
Salaries	30					
Tax Ecempt	118					
	1,868					
Other Donors						
Private Organization			15			15
		215	1,986	115	188	2,[illegible]4

Outputs:
- #1 Rural and urban membership and number of cooperatives
- #2 Agricultural loans
- #3 Farmer borrowers
- #4 Value of crops marketed through CREDICCOP

1/ Includes FY 76 and 77 only.

(a) CREDICOOP is responsible for negotiating the sales terms with each buyer. After preliminary agreement has been reached, the terms are presented to the credit union members. After the credit union leaders and farmers agree to the terms, the manager of CREDICOOP finalizes the sales contract with the buyer.

CREDICOOP also provides credit unions with funds to make partial payments to farmers for crops when they are delivered and its technicians provide technical assistance to credit unions with respect to inspecting delivered commodities, weighing commodities and marking commodities so owners can be identified.

(b) The credit union manager must explain the terms of the sales contract and make sure that the farmers understand them. He must also emphasize that the buyer is paying a premium for quality products, and that the products should be dry and clean. He must convince members that it is in their interest to be paid on the basis of quality. Many farmers are not accustomed to grading and believe they can put in a few rocks and some water with their product. The manager must also stress to members the importance of selling all their product through the credit union so that the volume goals can be met.

The credit union must provide facilities to store the crops, inspect the crops, mark the products, make partial payment to farmers when they deliver their crops (half the crop value), pay off the borrower's outstanding credit union loan with proceeds from crop sales, and pay the farmer. It must insure that farmers have marketing inputs, such as bags, and arrange for the buyer to pick up the commodities stored at the credit union.

(c) The farmer harvests and cares for his harvested crop in accordance with the advice given by his credit union. He delivers a quality crop--all of it--to the credit union.

(d) The buyer picks up the commodity, weighs and grades it and pays in accordance with the conditions of the sales contract.

3. Working Capital Requirements - In Paraguay the highest prices are paid for 1,000 metric ton quantities of farm products. Therefore, CREDICOOP has developed its marketing program around 1,000 ton volumes.

The marketing season begins with farmers delivering their harvest to the credit unions. Each farmer delivers at most a few thousand kilograms. When there is a truckload of product accumulated, the credit union requests the buyer to send out a truck to pick it up.

The commodity is picked up and taken to the buyer's facility where it is weighed and graded. The buyer records the quantity and quality of the product, but does not process payment. This procedure continues until 1,000 metric tons have been received by the buyer.

When 1,000 metric tons have been received, the buyer begins to process a payment to CREDICOOP for the product received. Meanwhile, truckloads of product continue to be picked up by the buyer, as stated in the paragraph above, until another 1,000 tons have been received. At that time, the buyer begins to process a second payment to CREDICOOP for 1,000 metric tons of product. About this time CREDICOOP receives payment for the preceding 1,000 metric tons delivered. This process continues throughout the marketing season.

The significant elements pertaining to working capital are:

(a) that CREDICOOP is making money available to the credit unions to make partial payments of 50 percent of the value of the crop farmers delivered; and

(b) that CREDICOOP receives payments from the buyer for 1,000 metric tons of product when the credit unions have delivered 2,000 metric tons. This means that CREDICOOP needs enough operating capital to cover the costs of purchasing 2,000 metric tons of product.

The average price of the product, in general, is $.25 per kilogram and, as mentioned, farmers receive 50 percent of the value of their crop when it is delivered, and the rest after the buyer pays for the crop. Therefore, CREDICOOP, to finance delivery of 2,000 fons of product, requires $.25/2 X 1,000 (the kilograms in a metric ton) X 2,000 or $250,000.

CREDICOOP cannot use the AID loan to finance the marketing operation, and therefore, must look to the domestic financial community for these funds. The financial community is unwilling to lend the required amount to CREDICOOP because CREDICOOP lacks sufficient collateral. However, with an additional $70,000 in liquid assets CREDICOOP could borrow $180,000 from the financial community. It has, therefore, requested AID to increase its grant by $70,000 for this purpose.

The Mission has considered CREDICOOP's proposal carefully. In the process it has recalled the questions raised by the Paraguayan Congressional committee which was charged with examining the AID loan proposed for CREDICOOP. Most of those questions dealt with the small capital base of CREDICOOP. The legislators were told that one could not expect a new institution to have much capital. However, the Mission over the past few months has noted that CREDICOOP's operations are quite restricted because it lacks operating capital.

As mentioned above, CREDICOOP needs working capital for marketing. In addition to this, however, CREDICOOP could enhance its operations vis-a-vis the rural credit unions by using this capital for other purposes outside the marketing season. For example, CREDICOOP now acts as a broker between credit unions and suppliers of agriculture inputs. It locates suppliers and then must get them together with credit unions before purchases can be made. Because credit unions are located in rural areas, and the suppliers are located in Asuncion as is CREDICOOP, communication is often difficult. CREDICOOP could facilitate such transactions by purchasing the inputs. Then, at a more convenient time, the credit union could pay CREDICOOP for the inputs and pick them up from the supplier.

Giving CREDICOOP the additional $70,000 requested would enable it to satisfy its peak operating capital needs. In the non-marketing season CREDICOOP would be able to assist the credit unions in obtaining agriculture inputs.

B. Positive Incentives

One element of CREDICOOP's improvement program for managers is an incentive system. Under this program a manager would receive incentive payments for specific goals achieved. For instance, he would receive a cash payment for reducing the amount of delinquent loans in the credit union portfolio. He would receive a cash payment for each percentage point such amount was reduced from the historical average. A statement of goals and formulas for making incentive payments under this program is currently being prepared and will be presented as a condition precedent to disbursing the AID loan to CREDICOOP within the next month.

It is expected that the $6,000 requested herein will be sufficient to operate the program for two years. At the end of two years the program will be evaluated. If it is effective and credit unions desire to continue it, they will take over the financing of future incentive payments.

C. Training

An overall evaluation of CREDICOOP was performed in December 1975 by an AID/W funded team composed of two consultants and USDA/RSSA employee. One of the team's recommendations was that CREDICOOP's training program be expanded. In response to this, CREDICOOP will carry out additional courses for credit union managers, credit committees and credit union directors over the next two years. The total cost to conduct these additional courses is estimated at $10,000 per year for 1976 and 1977.

One of the conditions precedent to disbursing the Small Farmer Development loan is that AID approve CREDICOOP's training program. The document describing this program for 1976 has been submitted and is now being reviewed by USAID/Paraguay. Modifications will be made as required to achieve the training goals. To insure the development of a sound expanded training program, the Mission will finance an in-depth study of the CREDICOOP's existing program.

III. Financial Analysis and Plan

76 Grant Funded Costs

	PROP	CP FY-77	Change
Contract	$102,000	$ 88,000	-14,000
Participants	12,000	-0-	-12,000
Commodities	24,000	16,000	- 8,000
Operating Costs	100,000	197,000	+97,000
Total Costs	$238,000	$301,000	+$63,000

Changes in Grant Funded Costs

1. Contract Costs: $14,000 of pipeline carryover was used to finance these costs.

2. Participant Costs: $8,000 of these costs will be moved to FY 77. This category was reduced by $4,000 by training some participants locally.

3. Commodity Costs: $3,000 of these costs were moved to FY 77 and there was a reduction in expenditures of $5,000.

4. Operating Costs: Excluding the shortfall of anticipated loan-generated revenues for CREDICOOP, there was a net increase in this cost category of $62,000. This results from increases of: $70,000 for operating capital to enable CREDICOOP to improve its farm input supply operation and to borrow sufficient funds to finance its peak marketing season operating capital requirements; $10,000 to expand its training program; and $3,000 to finance an incentive program for credit union managers.

Costs of salaries and field operations will be about $21,000 less for 1976 than was estimated when the original PROP was written. Subtracting this decrease from the increases mentioned above leaves a net increase of $62,000 ($70,000 + 10,000 + 3,000 - $21,000).

Loan generated revenues of $35,000 were to have been used to cover operating costs. This expectation will not be realized. Therefore, grant funding for this cost category must be augmented by the amount of the net increase in costs - $62,000 - plus the shortfall in loan generations - $35,000 - a total increase of $97,000.

77 Grant Funded Costs

	PROP	CP FY-77	Change
Contract	$ 65,000	$110,000	+ 45,000
Participants	12,000	20,000	+ 8,000
Commodities	12,000	15,000	+ 3,000
Operating Costs	60,000	175,000	+115,000
Total Costs	$149,000	$320,000	+171,000

Changes in Grant Funded Costs

1. Contract Costs: these costs will increase by $45,000 because one position which was to have been phased out will be continued for two more years, due to the delay in implementing the AID loan to CREDICOOP.

2. Participants Costs: these costs increased by $8,000 because participants to have been trained in FY 76 will not be trained until FY 77.

3. Operating Costs: these costs will increase by approximately $45,000. Of that increase $3,000 will finance a positive incentive program for credit union managers; $10,000 will finance costs of additional courses which will be added to the CREDICOOP training program as a result of an AID/W sponsored evaluation; and $32,000 represent unforseen cost increases due to inflation. In addition when the PROP was written it was assumed that $70,000 of loan generated revenues would be applied to operating costs. The loan is not yet ready to disburse and now we do not expect to apply any loan generated revenues to operating costs until 1978. Therefore, grant funding of operating costs must be increased by $70,000.

4. Commodity Costs: these costs will increase by $3,000 because commodities to have been purchased in FY 76 will be purchased in FY 77.