

PD AAB-533-A1

NONCAPITAL PROJECT PAPER  
LATIN AMERICAN COOPERATION OF CREDIT UNIONS

APRIL 1973

SOCIAL AND CIVIC DEVELOPMENT OFFICE  
LATIN AMERICA BUREAU  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
ALLIANCE FOR PROGRESS  
WASHINGTON, D. C. 20523

LA/MRSD

Meeting of the  
DEVELOPMENT ASSISTANCE EXECUTIVE COMMITTEE (DAEC)

Thursday, February 22, 1973 - 2:30 P.M.  
Room 3921 NS

LA REGIONAL: Latin American Confederation of Credit Unions (COLAC)

Project Number: 598-13-990-116

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LA/MRSD/SCD:2/20/73

March 27, 1973

ACTION MEMORANDUM TO THE DEPUTY U.S. COORDINATOR

FROM: LA/MRSD, Donor M. Lion *X*.

SUBJECT: COLAC PROP (Project No. 598-13-990-116)

Problem: To approve subject PROP.

Discussion: The PROP for the Latin American Federation of Credit Unions (COLAC) Project was reviewed by the DAEC on February 22. The DAEC recognized the priority of the principal aim of the project, to assist small farmers, and the difficulties and uncertainties inherent in such an effort. The questions discussed in the DAEC meeting related to the relative probability of the project achieving its aims and doing so on a self-sustaining basis by FY 76.

The consensus of the DAEC was that the PROP should be approved for one year funding at the proposed level subject to provision of an addendum supplying additional information and analysis in connection with these points:

1. Demand for credit COLAC proposes to provide;
2. Demand for proposed assistance among LA credit union federations and their support for COLAC;
3. COLAC ability to render proposed assistance and place itself on a self-sustaining basis by FY 1976.
4. Consistency of proposed project with ATAC and Co-op Task Force reports;
5. Sufficiency of one year to provide time for obtaining answers to questions which will permit a more reliable assessment of the future of the project; and
6. Funding level.

The addendum has been reviewed and accepted by the participants in the DAEC meeting.

Recommendation: That you approve the attached PROP by signing in the space provided for your signature.

Attachments: (1) PROP (2) Addendum

Clearance: LA/DP, John Lovaas (Draft)  
LA/DP, Herman Myers (Draft)  
LA/OPNS, Cecil Uyehara (Draft)  
LA/DR, Richard Crisler (Draft)  
PPC/PDA, Arthur Silver (Draft)  
PHA/PVA, Jack Dublin (Draft)

cc: PHA/PVA, G. Roth  
LA/MRSD/SCD, G. Cloney  
LA/MRSD/SCD, J. Heard

I. PROJECT IDENTIFICATION

<p>1. PROJECT TITLE                  LATIN AMERICAN CONFEDERATION OF SAVINGS AND LOAN COOPERATIVES (COLAC), (Formerly CUNA, TO 7)                  ANNEX A - Logical Framework</p>		<p>APPENDIX ATTACHED  <input type="checkbox"/> YES    <input type="checkbox"/> NO</p>
<p>3. RECIPIENT (specify)  <input type="checkbox"/> COUNTRY _____  <input checked="" type="checkbox"/> REGIONAL <u>LA</u>    <input type="checkbox"/> INTERREGIONAL _____</p>		<p>2. PROJECT NO. (M.O. 1095.2)                  598-13-990-116</p>
<p>4. LIFE OF PROJECT                  BEGINS FY <u>73</u>                  ENDS FY <u>76</u></p>		<p>5. SUBMISSION <u>2/20/73</u>  <input checked="" type="checkbox"/> ORIGINAL _____ DATE  <input type="checkbox"/> REV. NO. _____ DATE                  CONTR./PASA NO. _____</p>

II. FUNDING (\$000) AND MAN MONTHS (MM) REQUIREMENTS

A. FUNDING BY FISCAL YEAR	B. TOTAL \$	C. PERSONNEL		D. PARTICIPANTS		E. COMMODITIES \$	F. OTHER COSTS \$	G. PASA/CONTR.		H. LOCAL EXCHANGE CURRENCY RATE: \$ US _____ (U.S. OWNED)		
		(1) \$	(2) MM	(1) \$	(2) MM			(1) \$	(2) MM	(1) U.S. GRANT LOAN	(2) COOP COUNTRY	
										(A) JOINT	(B) BUDGET	
1. PRIOR THRU ACTUAL FY	2,450	1,757				783						
2. OPRN FY <u>73</u>	432	348	144			84						
3. BUDGET FY <u>74</u>	400	340	144			60						
4. BUDGET +1 FY <u>75</u>	325	300	32			25						
5. BUDGET +2 FY <u>76</u>	225	225	08									
6. BUDGET +3 FY												
7. ALL SUBQ. FY												
8. GRAND TOTAL												

9. OTHER DONOR CONTRIBUTIONS

(A) NAME OF DONOR	(B) KIND OF GOODS/SERVICES	(C) AMOUNT

III. ORIGINATING OFFICE CLEARANCE

1. DRAFTER LA/MRSD/SCD: <u>J. Heard, R. Greene</u>	TITLE Project Manager & Chief, SCD	DATE 2/20/73
2. CLEARANCE OFFICER LA/MRSD: Donor <u>M. Lion</u>	TITLE Director, LA/MRSD	DATE 2/20/73

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

\* Approval for OPRN FY only is requested at this time. (See Introduction page 2.)

2. CLEARANCES

BUR/OFF.	SIGNATURE	DATE	BUR/OFF.	SIGNATURE	DATE

3. APPROVAL AA's OR OFFICE DIRECTORS SIGNATURE <u>Herman Heine</u> TITLE Assistant Admin. for LA	4. APPROVAL A/AID (See M.O. 1025.1 VI.C) SIGNATURE _____ DATE _____ ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT
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*ADDENDUM, (3/26/73)*

COLAC LATIN AMERICAN CONFEDERATION OF SAVINGS AND LOAN  
COOPERATIVES (CREDIT UNIONS)

A. INTRODUCTION

In January 1965, AID established a regional project with the Credit Union National Association (CUNA) for the development and strengthening of the Credit Union Movement in Latin America. The regional contract which implemented the CUNA project (Basic Contract No. AID/csd-236) was amended in 1966 to provide for the establishment in Panama of the Latin American Regional Office of CUNA (CUNA/LARO); and in 1967, this agreement was replaced by Basic Contract AID/csd-1526 Task Order #7, the objectives of which were:

1. To continue the services provided under the established CUNA/AID program to provide technical guidance and assistance to local leadership efforts in developing credit unions in Latin America.
2. To assist prevailing Mission programs in the fields of credit union organization, training, and publications in order to expand and strengthen the credit union system in Latin America.
3. To assist in the development of the credit union system in Latin America to the point where it would be self-sustaining on a dues paying basis.

During the five year period (1965-1970) CUNA/LARO activities were primarily focused on organizational aspects of building a base for the credit union movement, specifically the establishment of new rural credit unions, increasing membership, increasing capital assets and - perhaps most important - the establishment, organization, and structuring of national credit union federations in each country, including the development of legal foundations for credit union operations throughout Latin America. Beginning with 9 in 1964, by the end of 1968 there were national federations in all 15 of the countries in which CUNA/LARO was involved. (For a detailed description of activities and accomplishments see: PROP for Project No. 598-13-990-116, Revision No. 1 dated May 1, 1970, which established the basis for the continuation of the CUNA/AID project through FY 75).

In August 1970, representatives from national credit union federations at their annual CUNA/LARO sponsored meeting in Panama, established the Latin American Confederation of Credit

Unions (COLAC) to represent the region at the international level. COLAC received its charter from the Government of Panama as a non-profit cooperative organization on April 23, 1971 and on May 31, 1972 signed an agreement with CUNA in order to transfer the operation of CUNA/LARO to COLAC management but continuing utilization of the same AID funded CUNA/LARO personnel and facilities through March 1973. At that time CUNA will step out of the Latin American area, at least in a project management sense, and COLAC will assume all responsibility for implementing the ongoing regional program. Task Order #7 had been previously modified to extend financing to March 31, 1973 when technicians, and professional materials and facilities now utilized by CUNA/LARO will be transferred to COLAC.

This PROP then, is designed to establish the basis for continuing AID regional support to the project through the new entity, COLAC, and with special stress on the Agency's current priority for the development of the small farm sub-sector. (See Project Purpose, P. 17 ).

Although the Program described below is for a period just under four years, April 1973-December 1976, only a one-year approval is sought, since the feasibility of certain components which are critical to the long-run success of the project at its projected level of operations (most importantly in the area of capital resources) should become clear during 1973.

B. RATIONALE AND PROJECT DESCRIPTION

1. History and Status of the Project.

a) The Setting.

Traditionally Latin America has suffered from:

- i) the unavailability to lower socio-economic groups, especially the small farmer, of both credit and services necessary for increased production and self-improvement.
- ii) an overcentralization of the development process and public services in national governments and a corresponding lack of local and regional organizational competence in virtually all areas (especially rural) of both the public and private sectors, and,
- iii) the absence of practical mechanisms and channels to facilitate and motivate the productive economic and social involvement of lower income groups in the process of their own growth and development.

Of all low income groups, the small, and often landless, farmer has suffered most from the prevalence of the above factors. Restrictive patterns of land tenure, the absence of organized marketing and food distribution services, and the lack of access to technical assistance, credit, and other services have insured a static socio-economic condition for this group and have frustrated the majority of rural development efforts which have not treated the above factors in an integrated fashion. In recognition of the nature of the problem and in accordance with the directives of Title IX, over the course of the past decade AID has gradually increased its support (both loan and grant) for multifaceted programs designed to: i) provide essential technical assistance and credit resources to local and regional entities of various types (cooperatives, credit unions, local units of government, community development associations, etc.), and, ii) combat the lack of popular participation and local organizational infrastructure; in order to make possible the realization of more concrete projects to the real economic and social benefit of the individual, the community and especially the small farm sub-sector.

b) AID's Role in Latin American Credit Union Development:

Based on successful experiences in the US, Canada and Europe, in 1958 AID began to undertake limited support of credit union development on a bilateral basis in Peru. It was soon realized, however, that the critical shortage of credit institutions transcended national boundaries. Accordingly, it was concluded that the problem could best be approached on a regional level, and in 1966 the Latin American Regional Office (LARO) of CUNA International was established in Panama to coordinate and in part execute AID's strategy for credit union development in Latin America.

The primary function of the CUNA/LARO program was to give competent technical support to a number of USAID programs in credit union development and, where no such bilateral programs existed, to give direct technical assistance to local credit unions and national credit union foundations. As a result of increasing pressure from rural affiliates, the principal focus of the program, as it has evolved over the past six years, has come to rest on production credit in the small farm sub-sector. Growing out of this emphasis is what is known as the Integrated Production Credit Program which utilizes national federations and hundreds of affiliated rural credit unions as coordinating agencies for bringing credit, technical assistance, agricultural supplies and marketing assistance to small farmer, "compesino", credit union members. It is this program and priority focus which AID proposes to support over the coming four-year period utilizing the new institutional arrangement with COLAC, the evolution of which is described below.

c) Formation and Evolution of COLAC:

In 1968 a CUNA/LARO coordinating committee was formed, composed of representatives from each of the participating national federations. Two years later, at the request of the Third Coordinating Committee, the CUNA/LARO office designed a regional financing organization whose purpose was to gather funds from international sources for subsequent lending to federations. At approximately the same time, and as a result of the restructuring of CUNA International into the World Council of Credit Unions, the Coordinating Committee member federations began to develop the concept of a regional confederation. This was also in recognition of the fact that the CUNA/LARO-AID arrangement could not last indefinitely and that eventually technical assistance would have to be coordinated and channeled through an organizational mechanism of their own creation. In August 1970, combining the ideas of international representation, financing, and technical assistance, representatives to the fourth annual Coordinating Committee meeting officially founded the Latin American Confederation of Credit Unions (COLAC).

The member federations (14 at present) are also owners of COLAC through share acquisition. At annual meetings of the Confederation, representatives set operational guidelines and elect a board of directors. While the federations abide by resolutions passed by a General Assembly, in every other respect each member retains complete autonomy.

Once formalized, COLAC began collaborating much more actively with the CUNA/LARO operation. Integration proceeded successfully to the point where an agreement was signed between COLAC and CUNA in May 1972 providing for COLAC's assumption of the bulk of administrative and operational responsibility for the regional program. Just prior to this (February 1972) AID also agreed with CUNA, in a modification of Task Order No. 7, to channel future regional assistance directly to and through COLAC to affiliated federations. The Task Order was also extended to continue funding of technical assistance until March 31, 1973, which is the termination date of the CUNA/COLAC agreement. At that time COLAC will retain complete responsibility for the program, although CUNA may continue to provide certain advisory backstopping, or liaison services through its global contract with AID (Task Order #1.).

Organizationally, COLAC is presently structured into one administrative and three service departments; technical assistance, finance, and publications. The technical and administrative staff, identical for the moment with the CUNA/LARO operation, consists of the general manager of COLAC plus specialists in credit, finance, promotion, management and other

pertinent areas. These personnel are all funded by Task Order #7. In addition, a staff of approximately 15 local employees is retained, primarily in the areas of administration and publications. In the future, as foreign and US professional personnel leave and new technicians are hired, COLAC plans to draw from member federations, related cooperative organizations, government agencies, foundations, credit unions and private companies in order to gradually entirely replace the remaining US specialists with qualified Latin American experts. (See Annex A, "Logical Framework" for the timing of this transition).

d) The COLAC Program:

The COLAC credit union development program, as inherited and modified from the CUNA/LARO operation, consists of the following principal elements:

- i) Technical Assistance: COLAC's technical assistance strategy is implemented through what has been termed the "Integrated Production Credit Program," which is an outgrowth of the Directed Agricultural Production Credit (DAPC) program originally initiated in Ecuador. It includes;
  - a) special training for credit union managers in loan analysis, financial planning, counseling and data gathering,
  - b) provision of agricultural extension services through arrangements with university, governmental or other sources,
  - c) marketing assistance through agreements with agricultural cooperatives, exporters, food processors, and other public and private sector buyers,
  - d) farm supply assistance in such areas as volume purchasing, discounts, delivery service and fertilizers,
  - e) development of credit policies which insure that credit is in fact provided for and based on actual production costs and that the credit unions are automatically capitalized through a mandatory share acquisition feature included in all loans,
  - f) assistance in obtaining external financing, and,
  - g) coordination with the national development plan within the sector.

In addition to the above production oriented assistance, other areas of credit union development which will receive special attention during the next four years are: promotion, visual aids, publications, insurance, statistics, evaluation, education of membership and organizational development. It should be noted that all technical assistance is channeled through the national federations and is provided only indirectly to individual credit unions.

Finally COLAC has developed comprehensive criteria for the measurement of stages of development of credit unions and federations in terms of the standards and goals of the program. These are detailed and explained in Annex C.

- ii) Regional Financing: This is a new area, contemplated but never implemented by the CUNA/IARO operation, and still remains somewhat problematical depending on COLAC's ability to obtain lending capital from international organizations and other sources during the coming year. The COLAC five-year plan calls for the provision of supplementary capital loans to affiliated federations in order to stimulate and finance production oriented projects and develop complementary cooperative agricultural extension, and marketing services for credit union members. COLAC projects an outstanding loan portfolio of approximately \$12 million by the end of 1976 which is based on the assumption of raising a total of over \$13. million during the coming four-year period from international agencies, foundations and equity participation of member federations.

COLAC considers the regional financing component of its program to be of primordial importance for not only the economic viability and eventual self-sufficiency of the organization, but also as an essential instrument of incentive to be utilized along with the technical assistance component to assist federations to focus priority attention on production credit in rural areas. In addition, there is a great need for increased credit resources throughout the movement in Latin America, approximately \$20 million over the next four years according to a recent COLAC survey.

- iii) Publications: The COLAC Publication Department serves two principle purposes, a) production and distribution of a variety of reports, manuals, newsletters and journals which promote

the movement and provide technical guidance and information to hundreds of Credit Unions on a periodic basis, and b) training of federation and credit union technicians in editing and publication skills necessary for national and local promotional efforts. The publication program also is expected to serve as an important source of income for COLAC's administrative and technical assistance budgets in the future. Beginning in 1974, anticipated net annual income is estimated at approximately \$50,000.

e) Quantified Indicators of Program Accomplishments thus far.

The following table and data serves to illustrate the accomplishments of the Latin American Credit union movement as a whole during the past decade. Exactly how much of this progress can be directly attributed to the regional program which began in 1965 is almost impossible to determine. A great deal of the credit must be given to individual USAID and national efforts as well as a variety of other international assistance projects. Nevertheless, the relative merit of the CUNA/LARO contribution has been confirmed by the confidence displayed by member federations as well as the considerable sum which they have pledged to COLAC already in equity participation. (\$250,000 by the end of CY 74) Also COLAC has a standing backlog of requests for technical assistance attesting to the acceptance and high estimation on the part of member federations of value of previous services rendered.

Credit Union Movement Accomplishments

	<u>1962 - 1972</u>		
	<u>1962</u>	<u>1965</u>	<u>1972</u>
		(initiation of CUNA/LARO Program)	
National Credit Union federations	6	9	14
Member Credit Unions	605	1,300	3,087
Individual Members.	160,000	404,000	1,200,000
Capital Accumulated	\$5 Million	\$17 Million	\$153 Million
Loans Outstanding	\$6 Million	\$18 Million	\$154 Million
Savings per member	\$44	\$50	\$92

During the past 7 years accomplishments more easily related to CUNA/LARO assistance include the following:

- Approximately 300 field professionals have been trained by federations in addition to 1,000 credit union managers and roughly 60,000 committee members.

- The centralization of funds program (See CUNA PROP Revision dated 5/1/70, pp. 22-32) has been implemented in 10 countries as the financial mechanism by which national credit union movements build capital through centralization and short-term utilization of individual union funds.

- The Agricultural Production Credit Program has been successfully introduced in 7 countries.

- Publications and supply departments were established in all 14 national federations and in-house printing facilities in 5 of these.

- Life Insurance on member savings is now available in all but two countries with federations.

- A management contract program is now functioning in 8 countries, under which federations provide loans to credit unions for employment of trained managers to be repaid from increased loan volume proceeds accruing from improved credit administration.

- Federations in 10 countries have been instrumental in obtaining legislation more favorable to the cooperative movement.

- Five federations have established audit departments.

f) Credit Union Federation Needs for Future Assistance and the Role of COLAC.

The federations continue to feel a justifiable need for assistance in three areas: obtaining international financing, general organizational and managerial improvement, and the effective redirection of their programs toward the small and medium farm sub-sector.

Until recently the federations tended, though by no means exclusively, to concentrate their efforts on those groups which could be organized most rapidly and efficiently and on giving them the type of credit desired. The benefits of the program to a considerable extent have accrued to middle class, urban groups and substantial amounts of credit have been used for consumption purposes (including imports). The national credit union federations have gradually come to be particularly concerned over the credit and technical assistance needs of the small farmer and have expressed their desire for

assistance to reorient their programs accordingly.

In addition, such a reorientation may elicit a somewhat negative response among those more conservative and urban middle class members, who would not stand to gain from a priority emphasis on production in the small farm sub-sector as opposed to consumer and other types of credit. In seeking to change this emphasis, the motivational reinforcement that can be provided by COLAC along with its technical assistance will be valuable. Such reinforcement will be based on more than mere exhortation and moral support if COLAC can obtain the international financing contemplated. A major percentage of COLAC lending can profitably be tied to small farm production, for example, and arrangements for adequate agricultural extension and marketing services can be required or at least forcefully promoted.

The general conviction of federations that they need help in the international money market is borne out by experience. The largest single source of lending capital for federations thus far (outside of member savings and equity participation) has been AID through USAIDs which have lent some \$7,600,000 over the past decade. Capital from other external sources during the entire history of the movement has not yet equalled this sum.

COLAC's plan calls for the mobilization of \$13,000,000 of lending capital over the coming 4 years from the following sources:

Equity capital from the Latin American credit union movement	\$900,000
Loans from international development agencies (AID, IDB, World Bank, Canadian Agency for External Aid).	8,000,000
Grants from U.S., Canadian, and European Foundations	1,500,000
Credit and investments from US, Canadian and European credit unions and other cooperative organizations	2,600,000
	<hr/>
	\$13,000,000

Based on the assumption that it is indeed possible to raise the above total, COLAC's projections indicate that the break-even point for their credit program can be reached by the end of 1974 at which time \$6.5 million will have been raised with approximately \$7.1 million in outstanding loans to

federations. Finally, assuming a 2% margin over cost of funds, the finance department is expected to show earnings of \$110,000 in 1975 and \$210,000 in 1976, which will help to defer technical assistance and administrative costs.

g) Summary Rationale for Continuing AID Regional Grant Assistance.

i) General: As described above, the considerable support provided by AID over the past decade has been instrumental in the creation of a strong and growing credit union movement in Latin America. The movement, however, is still a few years from a self-sustaining stage of development and continuing technical assistance on a regional basis is needed for the medium term future in such areas as managerial reforms, improved access to external sources of financing, and the development of national and local competence in a number of the more technical aspects of credit administration. It is also of great importance to increase the relevance of credit union activities to priority development needs by substantially increasing directed agricultural production credit, particularly to the small farmer. Furthermore, as the credit union movement in Latin America as a whole represents a sizeable pool of able human talent, a reasonably well developed institutional base, and significant financial resources, the current and growing determination to assist the small farmer offers an excellent opportunity for AID to pursue one of its most important program goals.

ii) COLAC as a Vehicle for Regional Assistance

COLAC, as an indigenous creation of the national credit union federations throughout Latin America has a mandate from the credit union movement to function as its international agent for, among other things, securing and administering essential external technical and financial assistance. There are a number of compelling reasons why COLAC should be utilized as a vehicle for ongoing AID assistance for the credit union movement in Latin America, at least on a trial basis (approval for only the first program year is requested here) until COLAC's viability and effectiveness as a long-term proposition can be properly evaluated. These reasons are listed below:

- 1) On March 31, 1973 when CUNA formally withdraws from a direct involvement in Latin American credit union development and CUNA/LARO as a legal entity is dissolved, COLAC will be the only organization dedicated exclusively to the needs of the movement on a regional basis. Also, since COLAC is a very new organization and is not yet viable, reduction of AID assistance now would result in abrupt discontinuation of important ongoing services which the CUNA/LARO staff has been providing to the credit union movement and the failure of some important new initiatives relating to the effective establishment of integrated production programs and the securing of new external sources of credit. This would seem particularly unwise at a moment when AID concern for the small farmer and the means of conveying credit to him enjoys greater priority than ever before.
- 2) Although COLAC as an institution is not financially viable at present without AID's continuing grant funded inputs, as a supplier and channel of technical and financial assistance, it could become so at its present level of operations by the end of CY 1976. Lending and publication operations are scheduled to reach break-even points by the end of CY 1974 but the technical assistance program will require both external support and inputs from other departments until the end of the project. COLAC therefore, will not survive to reach viability unless AID provides substantial support for the technical assistance program as well as professional staff costs at least over the next two years.
- 3) There are currently bilateral USAID credit union programs in only 3 of the 14 countries in which COLAC operates. In the others COLAC's continuation of programs initiated by CUNA/LARO is the only present form of ongoing external technical assistance. Furthermore, some 7.6 million in USAID loans made directly to national credit union federations or indirectly to them through government development agencies will be exposed to significantly greater risks if technical assistance is not

continued by or through COLAC. This is especially true in over half of the national federations which require substantial additional assistance for the effective realization of agricultural production credit and centralization of funds programs. Also CUNA/LARO has initiated a variety of other assistance efforts in the majority of the countries in such areas as credit union consolidation and expansion, evaluation, insurance, data gathering and statistical and informational systems, and organizational development.

- 4) On the credit side, what may turn out to be the most valuable service to be performed by COLAC, that of obtaining and channeling externally generated funds to member federations for sub-lending for production purposes, will be impossible to establish permanently without AID's continuing support. It remains to be seen, of course, whether or not COLAC is in fact capable of securing and affectively administering the funds required. For this reason, again, only a one-year authorization for this PROP is requested. The fact remains that COLAC is now and in the foreseeable future the only Latin American organization competent to attempt to raise the necessary international capital, and it appears to be the most promising instrumentality for utilizing financial incentives, and leverage for promoting small farm priority lending on a regional basis.
- 5) The program as proposed here provides a logical transition to the establishment of an institutionalized, Latin American pool of scarce technical and managerial competence in the area of credit union development. (See Logical Framework, Annex A, p. 27, for timing of phase-out of US personnel currently on the COLAC professional staff.)
- 6) Finally, COLAC's role as a clearing house and mechanism for insuring the integration and coordination of complementary efforts among different member countries is of great importance for the future of the movement and at present can not be filled by any other entity. The publications program alone is probably sufficient to justify



tance, land titling and registry services, credit, transportation, and public utilities.

- e) Development of understanding, through practical experience, of the value and utilization of democratic processes and mechanisms in a segment of the population normally inactive in this area.
- f) Stimulation of private savings and investment by low income farmers and workers.

### 3. Future of the Project

Establishment of COLAC and its overall program on a self-sustaining basis is anticipated to occur late in CY 76 and diminishing grant assistance for their technical assistance program will be needed until that time. As explained earlier, however, due to the uncertainties regarding the role of COLAC as a funding agent and its capacity to obtain international capital, only a one year approval of the PROP is sought at present (April 1, 1973 - March 31, 1974.) Subsequent year spending approval will depend on an analysis during the coming year of the viability and potential of COLAC's lending program as well as other factors, particularly the effectiveness of its technical assistance effort in the development of small farm sub-sector activities.

### 4. Issues

There are two basic questions of priority concern for AID which will be carefully treated during the life of the project but especially during the first year.

- a) Will COLAC be able to secure lending capital of sufficient magnitude to insure the financial viability of its credit program specifically and of the institution at its current level of operations? If not, what support, if any, should AID continue to provide?
- b) Does COLAC in fact have the capacity to make a meaningful impact on the quantity and quality of credit services made available to the small farmer? In this connection, do COLAC and its member federations have the capacity to develop practical mechanisms for the integration and coordination of the agricultural production credit program with other extension production, supply and marketing programs, particularly those of agricultural co-ops,

### C. Project Goal

#### 1. Statement of Goal

Increased real income and production among lower income groups participating in the credit union movement in Latin America, especially in the small farm sub-sector. It should be noted that in addition to the primary goal "spin off" benefits are expected in such areas as education, housing, community organization, health and family planning services, land tenure, and the quality of life in general of the target population.

#### 2. Measures of Goal Achievement

Measures of goal achievement for this project include, among others:

- a) Increases in real income of small farm and other groups participating in the credit union movement.
- b) Percentage increases in production per family within the small farm sub-sector.
- c) With regard to "spin off" benefits noted above, a variety of less concrete measures would have to be considered such as size of land holdings, consumption patterns, literacy and manpower development, improved health and sanitation, size of family, increased mobility, improved local government, social legislation, etc. These will not be systematically measured. However, available data will be collated and analyzed.

(Note: Although the goal is not limited to income increases among small farmers, success among this group will be a satisfactory measure of goal achievement in the time frame of this project as it is the major group to be benefitted and as it would be inordinately time consuming and expensive to accurately measure the impact among other groups on a region wide basis. Moreover, though AID support will be focused on helping the small farmer, to do this the credit union movement needs to be strengthened in ways which will benefit other groups. "Small farmer" will need to be defined on a country by country basis by income, size of land holding or other criteria, but it is intended to concentrate on those farmers whose present income does not permit them to meet basic needs in health-care, nutrition, education and housing).

#### 3. Basic Assumptions for Goal Achievement

1. The credit union movement as a whole will increasingly support COLAC's priority emphasis on the small farm sub-sector.
2. The credit union movement will continue to grow significantly in both membership and capital, (Sec. B, l. c. for growth figures over the past decade)

3. There will exist generally stable social, economic and natural conditions such as prices, land tenure and weather which will permit real increases in income from improved and increased production.

D. PROJECT PURPOSE

1. Statement of Purpose

The purpose of this project is to promote the establishment of an effective, viable, and efficient Latin American regional confederation of credit unions responsive to the priority development needs of the credit union movement, especially in relation to the small farm sub-sector.

2. Conditions Expected at the End of the Project

The success of the confederation as a regional organization serving the needs of the credit union movement through the national federations must be measured basically in terms of those same needs, the most important of which are improved directed credit management and additional capital at all levels from the individual member through the National Federation with particular emphasis on the requirements of the small farmer. With this premise in mind the conditions expected at the end of the project, December 1976, are as follows: (For more detailed quantified progress indicators, see Annex A and attachments thereto.)

- a) Effective: By the end of the project time frame COLAC will have accomplished the following through their technical assistance program in addition to utilizing leverage through relending. (Approximately 80% of all loan funds will be for production credit)
  - i) Six national federation finance departments will be functioning in a fully operational capacity and the other eight will be performing satisfactorily. (See pp 1-5, Annex C) for definition and criteria for "fully operational" and "satisfactory."
  - ii) The Integrated Production Credit Program will be operating satisfactorily in eight countries and successfully initiated in all others except Mexico and Brazil due to legal and labor barriers. (For definition and criteria for a "satisfactory" Production Credit Program see pp 1-5, Annex D).
  - iii) Bonding Service Programs will have been instituted in 12 countries.
  - iv) Well-developed statistical gathering systems will have been established in 11 federations.
  - v) Self Evaluation systems will have been established in all 14 federations.

- vi) Detailed medium range (5-year) plans will have been approved in all 14 federations.
- vii) Rural small farmer savings will increase by 75%.
- viii) The number of credit union members in rural areas will double during the life of the project.
- ix) The number of farmer members in credit unions with production credit programs will triple over the life of the project.
- x) The amount and number of loans given by rural credit unions having production credit programs will increase four times over during the period.
- xi) Percentage penetration of rural population by credit union membership will approximately double.

b) Viable: By the end of the project time frame the financial viability of COLAC will be firmly established from the following sources and in the amounts indicated.

- i) Over \$13 million in lending capital will have been secured by COLAC from international development and cooperative organizations in addition to increased equity participation by member federations.
- ii) COLAC's annual operating budget (including technical assistance) will be deferred entirely from the following sources.

Membership dues and contributions	\$ 39,000/yr
Profit from the department of publications	50,000/yr
Profit from interest on loans to federations	210,000/yr
Partial payments from federations for technical services rendered	50% of cost per year by end of project

In addition, the viability of federations will be assured through:

- iii) A major increase in revenues from credit union membership service fees, dues and contributions.
- iv) A 70% increase in capitalization of federations through equity participation of member unions and the centralization of funds program.

d) Efficient: By the end of the project time fram COLAC will be effectively covering all requests for technical assistance and training from member federations as well as adequately meeting their own program goals with a highly trained, permanently established, all Latin American staff of eight technicians and one administrator.

This represents a professional personnel reduction of 25%. In addition 50% of member federations will have highly qualified managers and technicians, not requiring further basic program training by COLAC, and financed from internal federation sources.

### 3. Basic Assumptions for Achievement of the Project Purpose

#### a) Effective:

- i) Member federations will support the priority for small farm, rural credit union development.
- ii) That Government and private agricultural extension and marketing services will be available in sufficient quantity and quality and favorably disposed to cooperate with the Agricultural Production Credit program.
- iii) That prices of agricultural products will remain sufficiently stable and conditions of land tenure exist or will be brought about which will allow small farmers to derive from significantly increased income from increased availability of credit and technical assistance provided by both individual unions and national federations.

#### b) Viable:

- i) COLAC will be able to secure adequate lending capital as previously described.
- ii) Member Federations will continue to be favorably disposed to contribute equity capital to COLAC as well as pay dues on a timely basis.
- iii) Member federations will be favorably disposed to assume an increasing share of the cost burden of technical assistance services rendered by COLAC as resources permit.

#### c) Efficient:

- i) It will be possible to reduce the professional staff of COLAC by 25% by the end of the time frame as well as identify and train Latin American technicians sufficiently to replace all U.S. personnel.

- ii) The federations and credit unions will be able to retain managers and technicians trained by the program.

## E. OUTPUTS

### 1. Statement and Magnitude of Outputs

In order to achieve the conditions expected at the end of the project, a variety of coordinated simultaneous technical assistance and lending activities will have to be conducted throughout the four-year period. In certain areas, especially publications and credit, quantified outputs can be projected with reasonable accuracy. This is also true for formal training sessions. At present, however, in the vast majority of technical assistance and federation training activity outputs can only be identified with respect to and within the context of the overall system to be established in each country, although COLAC's clear priority area is rural production credit and the majority of all assistance efforts will be focused in one way or another on that priority. (Refer to B.,1.,d. "The COLAC Program" and G "Course of Action" for explanations of COLAC's basic approach and estimated timing).

Estimated outputs at present include the following (quantified where possible):

#### a) Technical Assistance and Training

##### i) Technical Assistance to Federations

Extensive technical assistance will be conducted in all fields (see section B,1,d,i, "Technical Assistance," p. 6) in 5 countries in particular which have a determined potential for the establishment of model, effective, viable, overall rural production-oriented credit union systems. These are: Guatemala, Ecuador, Costa Rica, Paraguay, and Honduras. The models established will hopefully serve as true system demonstrations for other countries of the region. In the meantime more limited technical assistance in another 7 countries will focus specifically on establishing operational production credit programs (excluding Brazil and Mexico) and new methods for building savings and equity participation. All technical assistance is, of course, subject to the approval, plans, and needs of the federations.

It should also be noted here that technical assistance is almost impossible to separate from non-formal training. The COLAC approach is to train federation staffs in the management and improvement of priority components of the credit union development program at the same time that these components are determined, planned and implemented. Federation professionals are also trained to train officials

at the individual credit union level in these same disciplines and techniques, modified appropriately for the local situation. All COLAC assistance is at the federation level in order to achieve a maximum multiplier effect.

b) Formal Training

During the time frame of the project, COLAC will conduct the following seminars and courses. The seminars are regional while courses are aimed at and conducted in individual countries.

Seminars

Audit and Risk Management	2
Production Credit Management	3
Management	2
Statistics	1
Institution Development	1
Educational Systems, Programming & Promotion	3
<b>Total</b>	<b>12</b>

In-Country Courses

Production Credit	33
Finance	20
Institution Development	39
Management Improvement	20
Promotion	9
<b>Total</b>	<b>121</b>

c) Credit

The two major components of Colac's credit program are obviously borrowing and relending. (See course of action for steps involved in implementation of the program).

Thus far COLAC has secured a \$200,000 line of credit from the CUNA Mutual Insurance Society, plus an additional \$50,000 investment in

savings certificates. Based on this and some equity capital, COLAC has already made loans to three different federations in Guatemala, Honduras, and Ecuador, which is allowing COLAC to test its systems approach to production lending and establish a "track record" prior to formally approaching major international lenders for large sums of capital.

Equity capital is now also beginning to build in COLAC. At the second annual assembly of COLAC, affiliated federations resolved to provide \$253,300 during the two-year period beginning January 1, 1973. Of the above sum \$85,000 has been formally subscribed and \$28,000 in paid in capital has been received. A net worth of roughly 52,000 has been achieved thus far including equity reserves from last year of 24,000.

In a recent preliminary survey which COLAC carried out among member federations in order to determine the needs for supplementary capital for production oriented projects, estimated requirements came to approximately \$20 million over the coming five-year period. COLAC's goal is to meet at least 50% of the need from sources listed on p. 10. As mentioned earlier they plan to secure approximately \$13 million in lending capital by the end of 1976 with an outstanding loan balance of around \$12.6 million. They expect to arrive at their break-even point after two years assuming an outstanding loan balance of \$7.1 million based on approximately \$6.5 million of borrowed funds for relending. During the first year COLAC plans to mobilize and lend approximately \$2.5 million.

Approximately 80% of all loan funds will be production oriented. Of this about 70% is expected to be utilized for agricultural production credit with the remainder going for small industry, complimentary services such as marketing and farm supply, and management improvement.

#### d) Printing and Publications

COLAC plans to publish the following on a regular, periodic basis: bimonthly newsletter, manuals, quarterly and annual reports, a semi-annual technical journal, plus a variety of forms. In addition they expect to obtain contracts for the printing of a number of federation publications as well as cooperative and other literature from organizations in Panama and neighboring countries. Estimated paper requirements are one million printed sheets per year. COLAC anticipates that its break-even point will arrive in mid-1974. Net earnings for 1974, '75, and '76 are expected to reach \$45,000, \$53,000 and \$54,000 respectively.

## 2. Basic Assumptions for Output Achievement.

a) COLAC will secure sufficient lending capital during the first year of the project to adequately meet projected credit needs and effectively reinforce the technical assistance and training program. This should demonstrate potential viability of the organization as well as its overall utility for the development of the Latin American credit union movement, especially vis-a-vis the small farm sub-sector.

b) Based on a), AID will continue technical assistance support in diminishing quantities throughout the life of the project.

#### F. INPUTS

##### 1. Statement and magnitude of Inputs:

During the first full project year AID will provide \$431,250 in technical assistance costs which basically will fund the 12 man professional staff of COLAC plus field, travel, and training costs. The operational budget for the first year is attached as Annex B. For subsequent project years COLAC is requesting \$425,000, \$325,000 and \$225,000 in technical assistance support. (For other inputs; revenues, contributions, and loans, please see input section of Logical Framework matrix.

##### 2. Assumptions for Inputs

1. That grant and loan support will be attained for the life of project as stated under "Output" assumptions.
2. That COLAC will be able to negotiate a number of printing contracts beyond its own requirements for publications.

#### G. COURSE OF ACTION

##### 1. General

The course of action for this project basically consists of "a fairly constant and simultaneous execution of a full range of technical assistance, training, credit, and promotional activity during the life of the project. Activities will vary and fluctuate in accordance with national priorities and diagnosed country needs, resources and conditions. Individual country plans do not, by and large, spell out specific services required of COLAC and the timing of inputs at the national level. Also, in many cases, plans need to be revised to reflect the new emphasis on agricultural credit.

In general during the life of the project COLAC's plan is to concentrate on establishing model production credit systems in five or possibly six countries where federations have the potential for becoming "fully operational" (See Annex C for definition.) These countries are Ecuador, Paraguay, Costa Rica, Honduras, Guatemala and possibly Panama. In these countries a concentrated technical assistance and credit effort will be made with the entire range of possible services utilized. In the other countries of the region, special assistance and lending will be directed at establishing basic prerequisites for the later realization of fully operational programs. Specifically, assistance will focus on establishing and refining integrated production credit programs with complementary agricultural and marketing services (often to be obtained from other government and cooperative organizations) in addition to setting up improved systems for building equity and better overall financial management.

COLAC estimates that in the long term it will evolve into a highly specialized supplier of technical expertise on a paying basis for very specific and complex problem or innovative areas. Eventually the staff can be substantially reduced as federations grow in competence and resources.

## 2. Immediate and Short-range plan

Initially, COLAC will focus on two principle efforts: 1.) Of greatest importance for its future, the securing of sufficient lending capital to insure its potential viability and adequately reinforce its technical assistance program; and, 2.) Accomplishment or diagnostic surveys in each of the involved countries in order to properly program and allocate priority services and funds.

### a) Lending Capital and the Credit Program

COLAC has already established its basic credit policy and is now concentrating on refining lending criteria, terms, and procedures. In support of this a management consulting firm was contracted last year by CUNA and International Credit Union Services (ICUS) to analyze existing needs, resources and priorities and develop a model credit implementation and monitoring system for COLAC. The results of this study should be available in June 1973.

In the meantime COLAC will attempt to establish a "track record" with the three loans currently outstanding and several more to be obligated during the coming semester (outstanding loan requests now total over \$3.5 million) with funds hopefully forthcoming from ICUS with an OPIC guarantee, and the Inter-American Foundation, now considering a grant request of \$1 million. Then, with some results in hand, COLAC plans to hold an international conference in Washington sometime in the fall of 1973 to present its program formally to US and International development agencies and foundations. Enough ground work will be done with the agencies concerned so that it may be possible to secure tentative commitments at that meeting. The ideal would be some sort of integrated credit package from several different lenders. Also, prior to the conference COLAC hopes to obtain an AID loan commitment of modest proportions.

Finally, as mentioned under outputs, COLAC will strive to build equity capital as rapidly as possible. The federations have committed themselves to a \$253,300 investment in COLAC over the next two year and approximately 28,000 in paid-in capital has been received thus far with \$85,000 in legally certified subscriptions.

During 1973 COLAC expects to process 5 to 7 new loan requests from federations ranging from \$300,000 to \$1 million each in order to obtain an outstanding loan portfolio or at least \$2.5 million by the end of the year.

b) Technical Assistance

As early as possible in 1973 in addition to pursuing their normal program of assistance and training, COLAC's technical staff plans to complete studies of each country's needs for supplementary capital. Their studies will cover demands for capital, the number and stage of development of credit union and cooperative associations affiliated to federations, the proposed utilization of funds, possible sources of financing within each country, terms and conditions required, and other related items. At the same time the finance department will provide help to federations in developing loan proposals to be submitted to COLAC in accordance with the established guidelines and credit policies.

ANNEX A

PROJECT LOGICAL FRAMEWORK

Project Title: COLAC Latin American Confederation of Savings and Loan Cooperatives (Credit Union)

I GOAL

<p><u>Narrative Summary</u></p> <p><u>Project Goal</u></p> <p>Increased real income and production among lower income groups participating in the credit union movement in Latin America, especially in the small farm sub-sector.</p>	<p><u>Objectively, Verifiable Indicators</u></p> <p><u>Measures of Goal Achievement</u></p> <ol style="list-style-type: none"> <li>1. Increases in real income of small farm and other groups participating in the credit union movement.</li> <li>2. Increases in production per family within the small farm subsector.</li> <li>3. "Spinoff" benefits in education, health, land tenure and other areas.</li> </ol>
<p><u>Means of Verification</u></p> <ol style="list-style-type: none"> <li>1. Government and private surveys.</li> <li>2. Agricultural Statistics.</li> <li>3. Observation and Analysis.</li> <li>4. Market, consumption, economic and social studies.</li> </ol>	<p><u>Important Assumptions</u></p> <ol style="list-style-type: none"> <li>1. The credit union (CU) movement as a whole will increasingly support COLAC's priority emphasis on the small farm subsector.</li> <li>2. The CU movement will continue to grow at least at the current rate of expansion.</li> <li>3. Generally stable social, economic and climatic conditions will permit real increases in income from improved and increased production.</li> </ol>

II PURPOSE

## Narrative Summary

## Conditions Expected at End of Project

## Quantified Indicators

Narrative Summary	Conditions Expected at End of Project	Quantified Indicators			
		1973	1974	1975	1976
Promote establishment of an effective, viable, and efficient, Latin American Regional Confederation of credit unions responsive to priority development needs of the credit union movement, especially in relation to the small farm subsector	<b>1. Effective vis a vis National Federations</b>				
	a) Finance Departments in national federations in "fully operational"	0	2	5	6
	"Satisfactory"	3	6	7	8
	b) Integrated Production Credit programs operating satisfactorily.	1	3	4	8
	Percent of Program operational	36%	48%	62%	72%
	c) Bonding Service Programs established	2	6	9	12
	d) Well developed statistical gathering systems established	2	6	9	11
	e) Self Evaluation systems established	0	4	9	14
	f) Detailed 5-year plans approved	0	3	9	14
	g) Percentage increase small farmer savings over 1973	0	20	50	75
	h) No. of Farmer members in rural credit unions	187,000	236,000	309,000	376,000
	i) No. of farmer members in CUs with production credit programs	31,000	46,000	67,000	100,000
	j) No. of loans given by rural credit unions with production credit programs.	18,000	35,000	53,000	70,000
	k) Amount of loans by rural CUs	5,400,000	10,450,000	15,540,000	21,000,000
	l) Percentage penetration of rural population by CU members.	28%	35%	44%	52%
	<b>2. Viable</b>				
a) Over 13 Million in lending capital secured by COLAC.	2.5	6.5	9.5	13 Million	
b) COLAC's operation budget differed entirely from:					
Membership dues & contributions				539,000/Yr	
Profit-Dept. of Publications		44,000	53,000	54,000	
Increasing profit from interest on loans to federations			\$110,000	\$210,000	
Percentage payment by federations for costs of technical assistance.			25%	50%	
	<b>3. Efficient</b>				
a) Professional Staff	12	12	11	9	
b) Reduction of US Personnel	4	3	2	1	
c) Percentage of federations with highly qualified managers not requiring further basic program training from COLAC.					

PURPOSE (Continued)

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Means of Verification

COLAC Annual financial statements and reporting,

External Audits

Statistical Information gathered from federations

National and OAS census reports

Important Assumptions

1. Effective

- a) Member federations will continue to place priority on small farm oriented CU development.
- b) Government and private agency extension and marketing services will be available in sufficient quantity and quality and favorably disposed to cooperate with the integrated production credit program.
- c) Prices for agricultural produce will remain sufficiently stable and conditions of land tenure will exist which will allow farmers to take advantage of increased availability of credit and T.A.

PURPOSE (Continued)

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2. Viable

- a) COLAC will be able to secure lending capital as described previously.
- b) Member federations will gradually assume an increasing share of the burden of TA costs.

3. Efficient

- a) It will be possible to gradually phase out US advisors and reduce staff over life of project without harming program.
- b) Federations will be able to retain COLAC trained managers and technicians.

III ; OUTPUTSNarrative SummaryMagnitude of Outputs

- |  |  |
|--|--|
| 1. T.A. and training   | 1.   |
| a) Intensive TA to federations in all fields in 5 countries.   | a) Establish model, effective viable overall rural production-oriented credit union systems: Guatemala, Ecuador, Costa Rica, Paraguay, and Honduras. |
| b) Limited technical assistance in other countries (all others except Brazil and Mexico) to establish operational production credit programs and methods for building savings and capitalization | b) Satisfactory production credit programs in 6 countries. Increased savings and membership in all countries.  |
| c) Formal Training   | c) 14 regional seminars, 121 country courses (See Annex )  |
| 2. Credit Program  | 2.   |
| a) Equity Participation in COLAC by member federation.   | a) 1974 - \$250,000<br>1976 - \$900,000  |
| b) Lending capital obtained  | b) 1973 - 2.3 million<br>1974 - 6.5 million (cum)<br>1975 - 9.5 million<br>1976 - 13 million   |

OUTPUTS (Continued)

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c) Loans outstanding

1973 - 2.5 million

1974 - 7.1 million (break even point.)

1975 - 9.5 million

1976 - 12.6 million - over 50% of total needs of region (member feds)

3. Printing and Publications  
Publish regular periodic newsletters, manuals, quarterly and annual reports, technical journal, forms, and variety of contract work on a profit making basis.

3. Increased communication coordination and transfer of technical experience between countries and federations.

Net earnings: 1974 - \$44,000  
1975 - \$53,500  
1976 - \$54,000

Means of Verification

COLAC, USAID, and Federation reports and records.

Assumptions

1. COLAC will secure sufficient lending capital as described previously.
2. Based on 1) and other factors AID will continue to provide gradually diminishing TA support for life of project.

IV INPUTS

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<u>Narrative</u>	<u>Input Schedule (000)</u>			
	1973	1974	1975	1976
AID TA Support	431	400	325	225
COLAC operational budget (See Annex B)	578	741	771	748
Lending Capital obtained	2,500	6,500	9,500	13,000

Assumptions for Inputs

1. That Grant and loan support will be forthcoming as stated above.
2. That COLAC will be able to negotiate a sufficient number of external printing contracts to establish printing department on a "going concern" basis.

Means of verification -

AID/W and COLAC records.



CONFEDERACION LATINOAMERICANA DE COOPERATIVAS DE AHORRO Y CREDITO

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APPLICATION OF PROJECTED INCOME AND EXPENSES BUDGET  
ACCORDING TO SOURCES OF INCOME

12 Months Period - April 1, 1973 to March 31, 1974  
(Figures in U. S. Dollars)

<u>SOURCES OF INCOME:</u>	<u>AID</u>	<u>COLAC</u>	<u>TOTAL</u>
Annual Dues	---	29,750	29,750
Sales - Print Shop	---	103,125	103,125
Interest on Loans	---	171,811	171,811
AID Budget Support	431,250	---	431,250
Other Income	---	4,975	4,975
T. O. #7	---	---	---
<b>TOTAL</b>	<b>431,250</b>	<b>309,661</b>	<b>740,911</b>
Less: Cost of Funds	---	112,722	112,722
Less: Cost of Printing Materials	---	24,277	24,277
<b>NET INCOME BEFORE OPERATING EXPENSES</b>	<b>431,250</b>	<b>172,662</b>	<b>603,912</b>
<u>LESS OPERATING EXPENSES:</u>			
Salaries	196,601	74,858	271,459
Fringe Benefits	20,007	10,462	30,469
Housing Allowances	50,027	6,458	56,485
Education Allowances	9,608	1,223	10,831
Program Travel	71,436	9,197	80,633
Home Leave and Relocation - Technicians	5,919	731	6,650
Office Supplies	5,825	---	5,825
Education and Reference Materials	1,528	597	2,125
Office Rent	8,390	9,385	17,775
Electricity, Telephone and Cables	12,368	4,882	17,250
Consultant Fees	---	4,250	4,250
External Audit Fee	---	1,250	1,250
Office Repairs and Alterations	1,534	1,716	3,250
Technician Furniture Repairs	844	331	1,175
Rental Fees, IBM, Xerox, etc.	11,049	6,076	17,125
Office Equipment and Maintenance	1,160	1,465	2,625
Postage - Correspondence	1,575	---	1,575
Postage and Freight - Publications	4,525	---	4,525
Bank Charges and Commissions	---	925	925
Miscellaneous Expenses	6,100	---	6,100
Seminars and Workshop	---	5,250	5,250
Insurance	---	925	925
Sales Commissions (Print Shop)	---	3,843	3,843
Provisions for Bad Loans	---	17,751	17,751
Depreciation of Equipment	---	10,537	10,537
Publications	9,912	1,288	11,200
COLAC Meetings	12,842	2,783	15,625
Dues to World Council of C.U's.	---	8,000	8,000
<b>TOTAL OPERATING EXPENSES</b>	<b>431,250</b>	<b>184,183</b>	<b>615,433</b>
<b>NET INCOME (DEFICIT)</b>	<b>---</b>	<b>(11,521)</b>	<b>(11,521)</b>

SOURCES OF INCOME AND ANALYSIS OF CONTRIBUTION TO COLAC'S PROJECTED INCOME BUDGET

FOR ANNUAL PERIODS ending Dec. 31, 1973, 1974, 1975, and 1976  
(Figures in U.S. Dollars)

DESCRIPTION	1973	1974	1975	1976
<u>SOURCES OF INCOME:</u>				
Annual Supporting Dues	\$ 29,000	\$ 32,000	\$ 36,000	\$ 39,000
Net Sales	60,582	133,650	145,800	153,090
Net Interest on Loans	30,069	145,848	258,212	324,717
Other Income	4,800	5,500	6,000	6,500
AID Grant Support	449,413	425,000	325,000	225,000
<b>TOTAL INCOME</b>	<u>\$573,864</u>	<u>\$741,998</u>	<u>\$771,012</u>	<u>\$748,307</u>
<u>PERCENTAGE CONTRIBUTION TOTAL INCOME:</u>				
Annual Supporting Dues	5.1%	4.3%	4.7%	5.2%
Net Sales	10.6%	18.0%	18.9%	20.5%
Net Interest on Loans	5.2%	19.6%	33.5%	43.4%
Other Income	.8%	.8%	.7%	.9%
AID Grant Support	78.3%	57.3%	42.2%	30.0%
	100 %	100 %	100 %	100 %

HUMAN RESOURCES

AID    COLAC    TOTAL

Specialists

1 - Manager of COLAC	1	-	1
4 - Production Credit Specialists	4	-	4
2 - Cooperative Finance Specialists	2	-	2
1 - Management Improvement Specialist and Chief of Department	1	-	1
1 - Finance Specialist and Chief of Department	1	-	1
1 - Publications and Promotion Specialist and Chief of Department	1	-	1
1 - Statistic, Insurance and Evaluation Specialist	1	-	1
1 - Institution Development Training Specialist	1	-	1

Local Employees

1 - Administrator/Accountant	1	-	1
1 - Administrative & Personnel Officer	1	-	1
1 - Accounting Assistant	1	-	1
1 - Statistical Assistant	-	1	1
1 - Finance Assistant	-	1	1
7 - Secretaries	1	6	7
3 - Maintenance & Messenger Service	-	3	3
1 - Press Operator	-	1	1
2 - IBM Operators	-	2	2
1 - Graphic Art Specialist	-	1	1
1 - Photomechanic	-	1	1
1 - Salesman	-	1	1
2 - Book Binder & Helper	-	2	2
1 - Print Shop Helper	-	1	1
1 - Paste-up Specialist	-	1	1
	<u>16</u>	<u>21</u>	<u>37</u>

A) GENERAL CRITERIA FOR MEASURING EFFECTIVENESS OF A FEDERATION'S CREDIT DEPARTMENT

1. A federation credit department will be considered fully operational and technically self-sufficient when it meets 100% the ten criteria listed below, but
2. Given the complex and demanding nature of the work involved in fully meeting these ten criteria, a federation credit department will be considered to be operating satisfactorily when it reaches an efficiency level of 85%. However, in addition to having a score of 85%, it must have a minimum of seven points in each one of the ten areas being measured.

B) SPECIFIC CRITERIA FOR MEASURING THE OPERATING EFFICIENCY OF FEDERATION CREDIT DEPARTMENTS

To measure the operating capacity and technical self-sufficiency of a federation's credit department, the following criteria will be used:

1. Financial self-sufficiency.

A credit department will be considered to be financially self-sufficient when the income generated from its credit operations can meet its own operating expenses and set aside adequate reserves for bad loans. Financial self-sufficiency of the credit department will be measured from the view-point of a specialized service unit and not the overall operations of the federation.

2. Minimum amount of \$1,000,000 in loan funds for lending operations mobilized from internal and external sources.

A federation's credit department must have at least \$1,000,000 in loan funds mobilized in the form of equity capital and/or external funds for its lending operations to be considered to be providing a minimally acceptable level of loan service to credit unions.

3. Adequately trained personnel

This criterion relates to the number of personnel in the credit department as well as to their technical competence. With regards to the number of personnel, the credit department should have the number of employees that will allow it to carry out effectively its designated functions.

The goal is to develop at least two employees that can assume the full responsibility of directing the department's operations. This criterion was established to assure that there is sufficient depth in the credit department's personnel, thus avoiding serious problems in the event that the department head leaves the federation at any given moment.

With respect to the technical quality of the credit department personnel, each of the employees in the department must fully understand his duties and responsibilities. They must be able to carry these out efficiently and in a coordinated manner with the rest of the personnel working in the department.

4. Well defined credit policies and procedures for processing loans.

This criterion relates to the federation's lending policies and rules. A federation will be considered to have well defined credit policies and rules when these indicate clearly and specifically the borrowing conditions as related to: (a) the maximum amount that can be borrowed, (b) interest rates on loans, (c) types of guarantees to be accepted for each kind of loan, (d) special credit norms for agriculture, livestock, artisan and small industry loans, and (e) minimum administrative conditions that must be met precedent to disbursement of loan funds.

In addition to the above, the basic loan agreements or contracts and other legal documents that can prove the existence of loans made to borrowers must be clearly defined. Federations must also have well-defined loan processing procedures that clearly specify the steps involved in making a loan from the time that the loan request is received through the ultimate recuperation of loan.

As a guideline to measure efficiency, it is considered that no more than 15 days should transpire under normal circumstances for the approval or rejection of any loan request that is received.

5. Capacity to make loan analysis and to carry out loan supervision.

This criterion will be considered to be met when the credit department personnel have the ability to make analyses of loan requests that clearly establish the future growth trend of the borrowing credit union, its financial condition, and its projected financial position during the period in which the loan being requested is to be outstanding. The credit analyst of a loan request must produce a concise and clear report indicating his conclusions and recommendations as to whether the loan in question should be approved or rejected. The loan analyst must also be capable of developing pro-forma financial statements of the requesting credit union to determine its future

debt capacity. The credit department personnel responsible for the supervision of loans made must be capable of verifying the utilization of loan funds at cooperative and member levels and must be able to estimate the level of possible loan delinquency and determine ways to prevent or correct the situation.

If loans funds are disbursed in the form of a line-of-credit, the credit department's personnel must have the capacity to judge whether the project being financed is progressing in accordance with the financial plan agreed to with the credit union before they approve any further disbursements. If there is evidence that adequate progress is not being made, the credit department's personnel must have the authority to suspend future disbursements. It will then be his responsibility to draw up a plan of action that will bring the project back up to an acceptable level so that the remaining disbursements can be made.

6. Have an adequate capitalization system.

The federation will be considered to have an adequate system of capitalization when; (1) the requirements for such a system are spelled out in the bylaws or in other special rules; and (2) the affiliated credit unions must meet their obligations on a regular basis and must provide the federation with sufficient equity capital to allow the federation to mobilize or obtain external funds in amounts that will enable it to provide an adequate credit service to its affiliates.

7. Adequate accounting system.

A federation will be considered to have an adequate accounting system when the following minimum conditions are met:

- a) When a trial balance can be produced on a daily basis.
- b) When reconciliation of bank statements are made promptly at the end of each month.
- c) When information on loan due dates and loan amortizations is kept up to date and when there is in operation a loan delinquency control system that can provide at any given moment information concerning:
  - i) names of delinquent credit unions,
  - ii) total amount delinquent of loans outstanding, and
  - iii) classification of loan delinquency by length of time.

d) When financial statements that accurately reflect the financial position of the federation can be produced at any given time.

8. Adequate statistical data collection system on credit operations.

A federation will be considered to have an adequate system of collecting statistical data when it is capable of producing the following minimum information concerning loans outstanding as well as loans already collected:

- a) type of loans made and amounts.
- b) term of loans.
- c) types of guarantees.
- d) number of sub-loans made by credit unions to their individual members.
- e) the loan delinquency in credit unions that have federation loans classified by the length of time delinquent.
- f) the number of loans made and the amount of monthly recuperations.

9. Adequate reserves for bad debts.

A federation will be considered to have adequate reserves for bad debts when it has, established by the by-laws or other special resolution, an amount in the bad debt reserve account equal to 2% of outstanding loans. This bad debt reserve is in addition to the legal reserve provisions found in most of the cooperative laws of Latin America.

When a federation has obtained external loans in hard currency it must also have established an adequate reserve against possible monetary devaluation.

10. Medium range financial planning.

A federation will be considered to be meeting this criterion when it is able to determine the probable future demands for credit of its affiliated credit unions using surveys or other methods. These "future demands" should be able to be presented in such a way as to include loan amounts, types, disbursement dates, recuperations, and projected outstanding quarterly balances. Also included in the presentation should be projected cash-flow statements.

An additional requirement is that the finance department personnel be able to prepare pro-forma statements for at least a five year period.

PROJECTED IMPROVEMENT OF FEDERATION CREDIT DEPARTMENTS DURING THE PERIOD OF 1973-1976.

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
a) Assigned value (maximum 1500 for the 15 countries).	550	673	970	1034 1131	1134 1314
b) Assigned value expressed as a percent.	36,6%	44,8%	64,6%	68,9% 75,4%	75,6% 87,6%
c) N° of satisfactorily operating Finance Departments (ie. 85%-99% efficient) (non-cumulative)	0	3	2	1 2	1 2
d) N° of self-sufficient Finance Departments (ie. 100% efficient) (cumulative).			2	5 3	6 4

NUMBER OF PRODUCTION CREDIT PROGRAMS

The following 10 criteria were used to determine the stage of development of each federation's production credit program. Each of the criterion is worth from 0 - 10 points depending on how advanced that aspect of the program is. With 10 criteria, each having a possible value of 10 points, and taking into account the fifteen countries in which COLAC operates, a perfect score (that is, when all the federations have the program completely developed) would be 1500 points.

A Federation will be considered to have a production credit program satisfactorily operational when it is fulfilling, with at least 75% efficiency, the following conditions:

(1) Number of Credit Unions in the Production Credit Program

Objective: That the production credit program is established and functioning in at least 10 affiliated credit unions.\*

Value: 1 point per credit union.

(2) Loans from the Federation for Productive Loans

Objective: That the federation have a loan portfolio of production oriented loans in an amount of at least US\$700,000, either from local or externally generated funds.

Value: 1 point for each US\$70,000.

(3) Training of Federation Personnel

Objective: That there be a well trained program head plus sufficient well-trained fieldmen, all of whom have the material resources to carry out their functions.

Value: 4 points for a well-trained program head.

4 points for the required number of well-trained fieldmen necessary to carry out the program, and  
2 points for the means of transportation that will allow the fieldmen to carry out their respective functions.

(4) Credit Union Managers

Objective: That a paid, specially trained, full time manager be employed in every credit union that wishes to be included in the program.

Value: Up to 6 points when the federation has the training courses available for managers and has management contracts available.  
Up to 4 points based on the level of the training of the managers presently employed in production credit union.

(5) Plans to Expand the Production Credit Program

Objective: That short or medium term plans exist to expand the program that take into account the national development plans.

Value: Up to 6 points for having a plan, the exact number of points depending on its quality.  
Up to 4 points will be given depending how closely the plan follows the national development plan for the area.

(6) Agricultural Technical Assistance

Objective: That adequate and effective agricultural technical assistance is available for each credit union in the program, either directly from the federation, or coordinated by it.

Value: 1 point for each credit union that has this service.

(7) Provision of Agricultural Supplies

Objective: That agricultural supplies, in the quality and quantity necessary,

and at the lowest price possible, be available to the credit union members in the program. These supplies may come directly from the federation or may come from other organizations such as agricultural cooperatives and simply be coordinated by the federation.

Value: 1 point for each credit union that is receiving discounted agricultural supplies either from the federation or third parties.

(8) Marketing

Objective: That each credit union in the program receive an orientation from the federation concerning which crops offer the least growing and market risks as well as receiving assistance in arranging contracts with buyers. If the local situation requires it, the federation should also be prepared to carry out one or more steps of the marketing process.

Value: Up to 5 points will be based on the quality of the federations crop and market orientation.  
Up to 5 additional points will be based on the arrangements or contracts that the federation can make for the sale of the produce of the members of affiliates that represent improvement over the previous market conditions.

(9) Data Gathering System

Objective: That a system for gathering, storing and interpreting statistical data relevant to the program be developed and carried out by the federation.

Value: 2 points will be given when the federation names an adequately trained person to be in charge of the statistics program and gives him the resources he needs to carry out his task.  
1 point will be given for each of the following datum when the federation has it available from each affiliate in the program:

- 4 -

- (1) total membership
- (2) total savings,
- (3) delinquency
- (4) number of farmers/members
- (5) amount of agricultural supplies sold to members in the previous year.
- (6) number of persons who received production credit loans in the last year and the amount of those loans.
- (7) on a sample basis - the effect of the program on the net income of participants.
- (8) type, quantity, and dollar value of products sold by members in the program.

**(10) Follow-up and Evaluation**

**Objective:** That the federation have a program of follow-up and evaluation for the credit unions in the production credit program. The minimum that will be acceptable will be one evaluation per credit union per year.

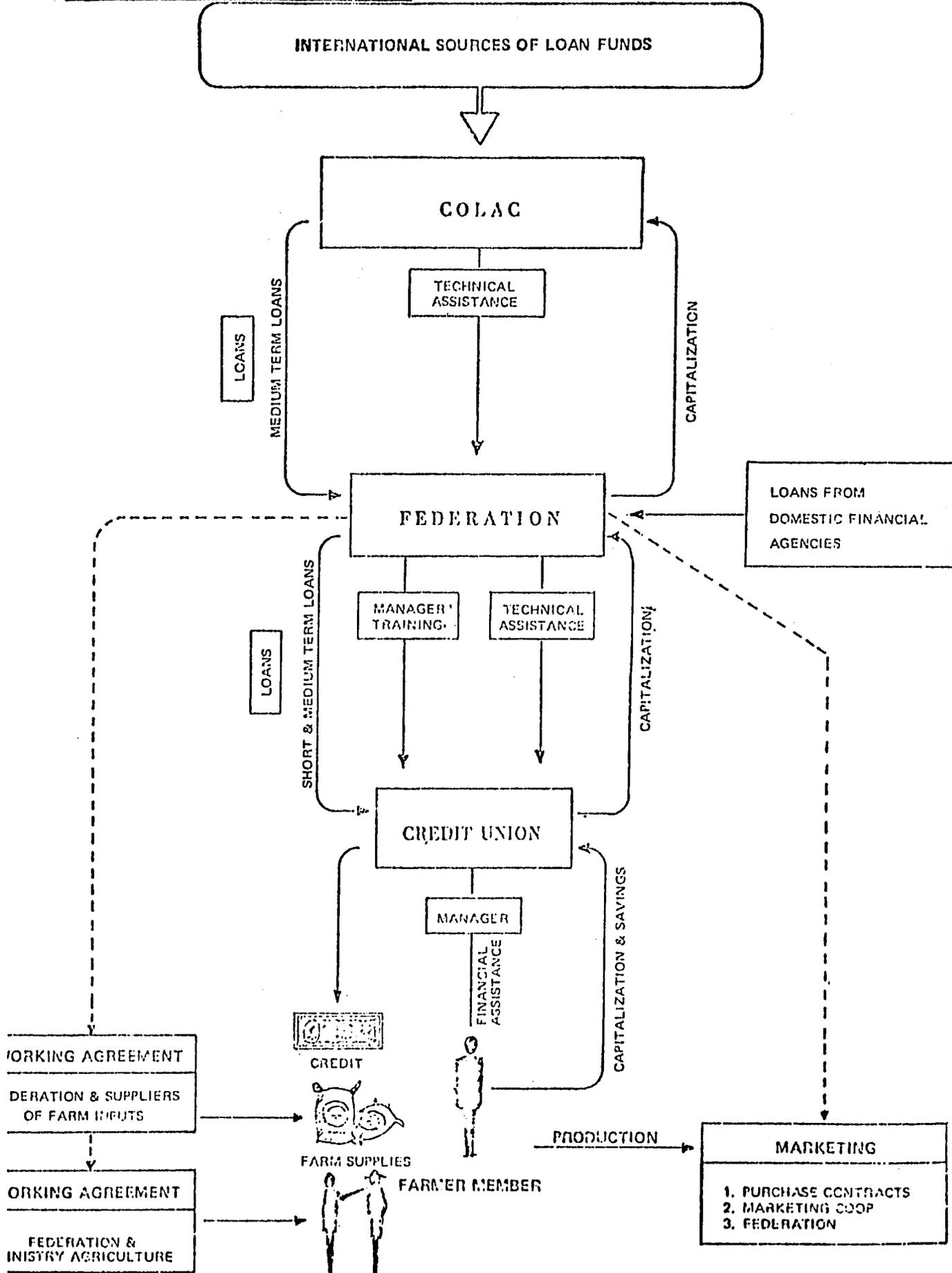
**Value:** Up to 6 points will be awarded based on the existence and effectiveness of follow-up and evaluation plans.  
4 points will be awarded for the execution and results of the annual evaluation.

PROJECTED PROGRESS OF THE PRODUCTION CREDIT PROGRAM  
IN THE 15 COUNTRIES SERVED BY COLAC, 1972-1976

PRODUCTION CREDIT PROGRAM					
Expected improvement during period 1973-1976	1972	1973	1974	1975	1976
Total points assigned for the 15 countries (Maximum 1500)	386	546	734	792 930	869 1079
Point value expressed as percent	25%	36%	48%	53% 62%	58% 72%
Number of programs operating satisfactorily (75% - 99% efficient)	0	1	5	2 6	1 8
Number of programs operating at 100% efficiency	0	0	0	0	0

- 6 -

SOURCES OF FUNDS FOR THE PRODUCTION CREDIT PROGRAM				
1973 - 1976				
	1973	1974	1975	1976
Loan funds coming from COLAC	\$1,700,000	\$4,500,000	725,000 \$6,950,000	750,000 \$8,000,000
Loan funds coming from the federations	\$2,200,000	\$2,950,000	\$4,000,000 ✓	\$5,000,000 ✓
Funds generated by the cooperatives themselves	\$1,500,000	\$3,000,000	3,502,650 \$5,000,000	5,675,250 \$8,000,000
<b>TOTAL</b>	\$5,400,000	\$10,450,000	\$15,950,000 8,227,650	\$21,000,000 11,252,250



Addendum to PROP for Latin American Federation of Credit Unions

Project No. 598-13-990-116

In the DAEC review of subject PROP on February 22, 1973, it was agreed that an addendum to the PROP should be provided recording responses to certain questions raised in the meeting. Basically, there are six questions which elicited information or explanations additional to those contained in the PROP. These are discussed in this addendum.

First, however, it should be noted that as the PROP indicated there are very basic questions about the project's chances of success, that we do not have sufficient information to answer these questions now and that this information must be developed over the next year. It should be noted that this is not a new project and that we are decreasing rather than increasing our funding (\$431,000 for FY 73 versus \$594,000 prorated on a 12 month basis for FY 72 and \$500,000 programmed for this year). It is a modification of a continuing project to formalize a shift in emphasis (although the same personnel will initially be involved).

The question, then, is not really whether we should launch a new program in the face of great uncertainties but whether we should cut-off or further reduce one that is seeking to respond to important new challenges before we can obtain data necessary to evaluate its chances of success. Because success involves meeting high priority goals in an effective manner and on a self-sustaining basis, the DAEC recommended the project be continued for another year to determine its ability to meet these criteria.

1. Is there a demand for the volume of credit COLAC proposes?

In connection with this question it was stated that the LA Missions were queried almost two years ago about a \$25 million AID loan requested by COLAC and that the responses were not encouraging. However, the responses to the AID/Washington airgram (which asked for an "evaluation of the quality and capability" of the credit unions and federations in their countries) indicated that 10 out of 18 responding Missions felt the credit unions could effectively use loan money from COLAC.

LA/DR decided not to go ahead with the proposed loan because COLAC was a newly-created and untested organization and because they felt that the request was not backed up by an acceptable analysis of credit demand. During the last three years (1971, 2 and 3), loans outstanding by LA credit unions have grown, however, from \$78.2 million to \$154 million, a growth of 97%. The responsible office at OPIC now supports OPIC guarantees and AID lending to COLAC. There are of course new questions as well as new answers, though the readily observable indi-

cations are that there is a need for and capability of using credit which far exceeds COLAC's request. Responses to COLAC queries to its member federations, indicate a demand for production credit alone (as distinguished from consumer credit) of approximately twice the amount of loan funds COLAC is currently seeking.

2. Is COLAC capable of rendering the assistance called for in the PROP?

The answer to this question is basically contained in the general remarks which preface the answer to question 1 and in the PROP attachments. The project is not really new, nor is the organization which is carrying it out. One of the three major elements of the project, general technical assistance to credit unions, is obviously a continuing one. A second, the loan funds for the Latin American co-op movement, as indicated in connection with question 1, has been underway for two years. The effort to give increasing emphasis to services to the small farmer has been underway for over two years. The COLAC staff has four agricultural production credit specialists and three finance specialists who will be working on the major "new" activities. The people who will be working for COLAC after March 31 are the same who have been working for CUNA. Only one of them has been newly hired in the last year. COLAC's efforts so far have been impressive as noted on pp. 8 and 9 of the PROP and evidenced in the very detailed and well thought out planning documents annexed to the PROP.

A great deal of advance planning and groundwork, the better part of the past year's work of COLAC's finance department, has gone into the preparation of the proposed credit program (80% of which will be devoted exclusively to production credit and 70% for agricultural production focusing on the small farmer). The strategy for securing sufficient capital revolves around a conference to be hosted by COLAC in the fall of this year entitled "Capital Mobilization for the Latin American Credit Union System". COLAC will bring to this conference approximately one year of lending experience from loans now in progress to three federations and new credits to be obligated as soon as resources permit. There are good prospects of credit from an OPIC guaranteed ICUS loan (ICUS is an international credit union organization providing investment services to the credit unions) of up to \$1 million plus additional equity capital and of an increased line of credit from the CUNA Mutual Insurance Society. During the same period COLAC will develop detailed credit policies and procedures, a thorough analysis of credit needs regionally and on a country by country basis, and a report from a management consulting firm, SYSTAN, funded by CUNA/ICUS, to develop a systems model for the proposed ICUS/OPIC line of credit, which should be applicable to other sources of credit as well. COLAC will also attempt to arrange for an integrated approach to the provision of lending capital through mutually reinforcing inputs from a variety of public and private sources. COLAC is well aware of the interest rate discrepancies inherent in the approach and plans to calculate a compromise rate which will balance concessional terms from

such sources as AID and Canadian agencies against harder loans from ICUS and private sources. For several months prior to the conference COLAC will carry out an education campaign with conference participants in order to come to grips immediately in the conference with the primary purpose of the meeting, that of financial support.

3. Do the national credit union federations really need and want the technical assistance COLAC proposes to give them and are they prepared to support the Confederation?

Increased technical services available through rural credit unions, particularly relating to improvement of farm input production techniques and marketing, can reasonably be expected to increase borrowing capacity and reduce risk for the small farmer and unions alike thus generating a further increase in demand. With vastly increased pressure from rural credit union affiliates and new attention directed to small farm development as a result of AID's priority focus on the subsector and an increased awareness of national agencies of the growing demand and strength of rural areas, national federations have been called upon to respond with services and credit assistance to thousands of new credit unions increasingly composed of small farmers and other low income groups. Moreover, awareness of the type of technical assistance and complementary services needed has greatly expanded over the last 7 years primarily in such areas as farm supply and marketing.

The increased pressure primarily from rural areas has caused a growing concern at the national federation level concerning the lack of capacity to deal with the needs of the many new rural affiliates lacking trained management, complementary services and financial resources. At the September 1971 meeting of member federations of COLAC, various resolutions were passed proposing to channel an increasing proportion of the movement's resources toward production loans and the development of an integrated strategy to expand the credit union role in the rural areas to include, in addition to relatively inexpensive credit, the coordination and supplying of assistance necessary to increase production, and to provide small farmers with practical low cost sources of farm supplies and reliable mechanisms for the marketing of their products.

In general, in spite of the impressive growth figures shown on p. 8 of the PROP, the Latin American national federations, with a few exceptions, are not yet self-sufficient - that is, able from internal resources of the movement to provide all member credit unions with a minimal level of services below which many would disaffiliate or simply dissolve due to lack of capital, trained manpower, and technical services. As the 1970 CUNA PROP pointed out "it took the credit union movement in the U.S. over 30 years to become self-sufficient, and then only after a relatively massive infusion of public and private subsidies. To expect Latin American federations to be self-supporting in the space of only 8 years with much fewer personal, institutional and financial resources, is unrealistic".

What is most needed at this point, in addition to vastly increased capital resources, is the establishment of really effective mechanisms for the greater accumulation and more productive utilization of equity capital in rural areas. It is precisely this orientation which the COLAC program has adopted as its main strategy for the channeling of both technical assistance and credit.

COLAC was formed and is governed by policies established by its member federations. It is a genuine regional confederation and must abide by the decisions of its members and respond to their needs. It was formed by federations in recognition of their need not only for representation at the international level but also, as explained on p. 5 of the PROP, because of the awareness that the AID/CUNA/LARO arrangement could not last indefinitely and that long term needs for capital and technical assistance would have to be met through an organizational mechanism of their own creation.

The national federations have demonstrated their support and need for COLAC through an accumulation of requests for technical assistance and credit (some \$3 million at present) which testifies to their recognition of COLAC as a desirable, accessible and practical source of assistance required.

The federations have further evidenced support through the pledging of \$253,000 of equity capital. This is explained in part on p. 22 of the PROP. Overall, COLAC plans to raise on the order of \$900,000 in equity capital during the life of the project.

4. Does the PROP run contrary to the ATAC co-op evaluation and the Co-op Task Force report?

The ATAC report, based on research completed over 1½ years ago, recommended that AID "defer the development of a general program of supporting cooperative institution building at the Latin American regional level at least for the next few years". (Emphasis added) What is proposed here is not a general program of regional co-op institution building but a specific project limited to COLAC of which ATAC said "COLAC may be a unique case in view of the greater organizational progress of Latin American credit unions compared with other forms". Specifically, ATAC recommended "a more rapid phase-down of the CUNA/LARO program with savings brought forward to permit COLAC to continue a modest program at a level that can reach early self-sufficiency". At that time support for CUNA/LARO was expected to continue through 1975. Instead it is being terminated this year and support for COLAC at a lower level has been picked up. Thus, this project carries forward the recommendations of ATAC.

The Task Force Report accepted the ATAC recommendation with qualifications to the effect that there did not necessarily exist "a chronological imperative which would defer support of multinational organizations until strong national organizations are first 'supported'" and the "timetable for the development of multinational institutions should be for the Latin Americans to determine". As indicated in the PROP, this is very much the case with COLAC. The Report specifically recognized this as a possibility.

ATAC also recommended that we not lend to COLAC before its functions were defined and before it received considerable financial support from its membership. The question then arises whether we should further reduce grant funding to the extent these conditions have not been met. In this connection, COLAC's functions have been very well defined and the member federations have pledged some \$250,000 in financial support. One could argue about whether this is "considerable" support but a more cogent point is that COLAC cannot expect larger member contributions until it demonstrates its capacity to fulfill member needs and expectations, which is precisely what the grant funding is intended to make possible. Moreover, COLAC is not designed to be dependent on member contributions but to become largely self-supporting.

5. Is one year enough to determine whether the project can succeed in its present form?

As indicated in the DAEC meeting, one year may not be enough to get definitive answers to the basic questions concerning the project. However, it is likely that enough will be known during that time to determine whether the project should go on in its present form. A year deadline, rather than a more generous one, will encourage COLAC to move expeditiously. Moreover, we did not wish to seek approval for more than one year in view of the many uncertainties which might be resolved in that time. If the present timetable proves overly optimistic an extension could be arranged.

The following specific targets, which are primarily from the logical framework section of the PROP, will be the main measure of COLAC's progress during the first year:

- a) Finance departments will be operating "satisfactorily" in terms of COLAC's criteria in at least 3 national federations where there are none at present.
- b) 36% of the overall Integrated Production Credit Program will be "operational" again in terms of COLAC's criteria.
- c) Model Bonding service programs will be established in at least 2 national federations.
- d) Well developed statistical gathering systems will be established in at least 2 national federations.
- e) The number of farmer members in rural credit unions will increase from approximately 130,000 today to around 187,000 or a 43% increase. Likewise the number of members in CUs with production credit programs will increase to 31,000 from 21,500 today.

- f) Amount of loans by rural credit unions in the production credit program will increase from \$3,900,000 to approximately \$5,400,000.
- g) Percentage of CU members will increase by 25%.

In regard to the credit program, COLAC should be able to secure or be within reach of securing in the neighborhood of \$2.5 million.

Other key indicators to be watched during the course of the first year are:

- a) Comprehensive diagnostic studies of each of the 14 countries involved as to exactly what small farm production credit needs are in terms of lending capital, technical assistance, agricultural extension, marketing services, and other measures necessary for successful integrated production credit programs in given areas.
- b) The realization of an international conference in which COLAC will present its case to a wide range of international public and private development assistance and lending institutions. The degree of support generated by this means will be an important indicator in itself, especially if backed up by actual commitments of lending capital.

Before further loan or grant commitments are made, both USAIDs and National federations will be surveyed as comprehensively as possible, preferably through field visits, to determine:

- a) Real attitude of national federations toward helping small farmers, what they are prepared to do, and what governments in affected countries need to do and are willing to do.
- b) What amounts of credit can be realistically absorbed by the small farmer through national federations.
- c) What agricultural extension and marketing services and other measures need to be carried out to make the small farm credit program successful.
- d) Needs and resources for small farm credit from domestic financial institutions as opposed to external donors.

6. Should the project be funded at less than the proposed \$431,000 level?

This level represents a reduction of \$163,000 or 27% from last year's level (prorated to 12 months) and a reduction of \$69,000 (14% from the FY 1973 Congressional Presentation level for this year. We have satisfied ourselves by extensive inquiries to COLAC and analysis of the information it provided that the level of staffing and other cost elements it is proposing are reasonable in the light of project objectives which also seem, on the basis of our

analysis, to be well thought out and reasonable.

Given these circumstances, we do not think it wise to lessen the chances of success of COLAC's current important effort to obtain credit and assist the growth of directed agricultural production credit programs, or to undermine the necessary confidence of the member federations and potential lenders by further reductions in our support.

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