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A.I.D.  
Reference Center  
Room 1656 NS  
142

NONCAPITAL PROJECT PAPER (PROP)

Global Project

Project No. 921-13-950-002

Submission Date: June 29, 1970

Original Submission

Project Title: Credit Union Development  
Global Contract with CUNA International, Inc.

U.S. Obligation Span: FY 1963 through continuous

Physical Implementation Span: FY 1963 through continuous

Gross life-of-project financial requirements:

U.S. dollars: FY 1963 through FY 1969	
Cumulative obligation	\$492,275
<sup>1</sup> FY 1970 obligation (est.)	-120,000
FY 1971 obligation (est.)	<u>175,000</u>
Total	\$787,275

U.S. owned local currency: None

Cooperating country cash contributions: None

Other donors: <sup>1/</sup>	Contributions of CUNA International member associations FY 69	\$310,872
	Contributions of CUNA International member associations (est.) FY 70	326,800
	Contributions of CUNA International member associations (est.) FY 71	<u>344,000</u>
Total: Other donors		\$981,672

<sup>1/</sup> Exclusive of \$50-60,000 (est.) contributed annually through CUNA International Foundation or given direct to development projects by credit union leagues or other donors.

## A. Summary

Development assistance programs of A.I.D. and its predecessor agencies usually include programs for extending credit to agriculture, industry, trade and commerce and to development projects. The FAA of 1961 was the first enabling legislation, however, to provide for developing cooperative institutions on a people-to-people basis and train leadership for carrying these programs forward. Title IX legislation of the 1966 FAA further emphasized the importance of these programs and stressed their development.

Committees of ICA and A.I.D. responded quickly to the new policy, reviewed past activities and outlined a course of action which included wide use of U.S. cooperative and cooperative credit (credit union) technicians - to assist with overseas development programs.

In 1962 A.I.D. entered into a global contract with Credit Union National Association (CUNA)\* - a service confederation of leagues - to provide technicians for developing systems of credit unions in DCs based on the American plan. CUNA agreed to provide technicians experienced in all phases of credit union and league or federation development, and also help mobilize financial support and seed capital for these new systems started in DCs.

The A.I.D./CUNA Basic Agreement provided a small central or home office staff to plan and coordinate development efforts with AID/W, Missions, host governments, and with other U.S. government agencies and international organizations like the United Nations.

During CY 1969 CUNA coordinated the development of 13 country programs in Latin America and Africa Regions with six additional programs proposed and waiting implementation in Latin America, Africa, NESAs, and East Asia.

This project is primarily designed to develop, administer and supervise Regional and Mission projects and programs. It does not in itself have easily definable targets, results and outputs. Basically, it provides a supporting service for each of the Regional and Mission projects which in themselves have defined targets, results and outputs. The nature and volume of these projects vary from year to year and is dependent upon Regions and Missions expanding existing programs or starting new projects for which they seek the services of CUNA.

This project is centrally funded on an annual basis and is supervised by a project manager in the Office for Private Overseas Programs. Central office staff services are made available to the

\* In 1967 CUNA became CUNA International, Inc., and since that date A.I.D. has contracted with the latter.

Regions and Missions as requested. Regions and Missions enter directly into Task Order agreements with CUNA International to provide specific services to Regional and Country projects.

SECTION A  
Table 1

NON-CAPITAL PROJECT FUNDING  
(Obligations in \$000)

Project Title: Credit Union Development Contract with CUNA

PROP Date June 29, 1970  
Original X  
Revision \_\_\_\_\_  
Project No. 921-13-950-002

	AP	L/G	Total	Cont <u>1/</u>	AID	PASA	Cont
Prior through Act. FY 69 <u>2/</u>	TC	G	492	492			492
Operation FY 70	TC	G	120	120			120
Budget FY 71	TC	G	175	175			175
Total Life	TC	G	787	787			787

1/ Memorandum (non-add) column

2/ CUNA International, Inc.

Table 2  
Global Activity

NON-CAPITAL PROJECT FUNDING  
(Estimated Annual Expenditures)

Project Title: Credit Union Development - Contract with  
CUNA International, Inc.

PROP Date June 29, 1970  
Original X  
Revision No. \_\_\_\_\_  
Project No. 921-13-950-002

Task Order	Location Description	Prior to CY 1968	CY 1968		CY 1969		CY 1970		CY 1971	
			Man/Mos.	Est. Cost	Man/Mos.	Est. Cost	Man/Mos.	Est. Cost	Man/Mos.	Est. Cost
2	Honduras <u>1/</u>		12	\$1,225	6	\$2,030	12	\$2,300		
3	Costa Rica		60	867	60	909				
4	El Salvador		12	1,645	24	1,529	12	2,300		
5	Guatemala		60	602	60	626	24	1,905		
6	Ecuador <u>2/</u>		168	345	42	465				
7	Latin America									
	Regional		101	2,938	96	3,591	180	450,000	216	\$525,000*
8	Bolivia		48	774	60	692				
9	Ecuador <u>3/</u>		52	435	30	491			24	75,000*
10	Tanzania		6	3,402	24	2,574	24	63,900	12	30,000*
11	Korea		5	2,149	8	2,179				
12	Nicaragua		9	1,370	4	482	18	1,845		30,000*
13	Ecuador		76	427	216	549			12	30,000*
14	Liberia				3	3,228	12	2,500*	12	30,000*
?	Paraguay								12	35,000*
?	Pakistan									
?	Africa Regional (ACOSCA)									
	(Subtotals)		(609)	(16,179)	(633)	(19,345)	(282)	(524,750)	(300)	(755,000)
			<u>48</u>	<u>2,262</u>	<u>48</u>	<u>2,559</u>	<u>54</u>	<u>102,530</u>	<u>63</u>	<u>102,200</u>
1	Global									
	Totals		657	\$18,441	681	\$21,904	336	\$627,280	363	\$857,200

- 1/ Completed 6/69
- 2/ Completed 8/68
- 3/ Completed 4/69

Proposed programs pending implementation

## B. Setting

### 1. Background

a. Legislative and Administrative Support. Assistance has been provided for lending programs in developing countries for many years - especially governmental lending for industry and agriculture. The Foreign Assistance Act (FAA) of 1961, however, made it agency policy for the first time to encourage and assist with the establishment of cooperative institutions, owned and operated by the low income people themselves and operated for their own benefit. Section 601 (a) of the Act stated that: ".....it is declared to be the policy of the United States.....to encourage the development and use of cooperative, credit unions, and savings and loan associations....." Credit unions were included in the FAA along with agriculture, rural electric, housing, and other cooperatives, since they are basic finance cooperatives and are capable of contributing to A.I.D. development programs.

In 1966 the FAA was amended to include Title IX legislation to further emphasize development of these democratic institutions and assure use of them by middle and lower income people. Section 281 (a) of Title IX states that ".....emphasis shall be placed on assuring maximum participation in the task of economic development on the part of the people of developing countries....." The intent of Congress with reference to the development and use of cooperatives, credit unions, savings and loan associations, voluntary organizations, and community action groups was clearly set forth in both the 1961 and 1966 FAAs and stressed people-to-people type of institutional development.

b. ICA and A.I.D. Response. The Director of ICA announced on June 23, 1961, that greater emphasis on development and assistance to cooperatives in DCs would become one of the major objectives of the agency and initiated a worldwide survey of all ICA assistance being given to cooperatives (ICATO CIRC 37). The survey was also designed to evaluate ICA assistance and develop a policy statement for Mission guidance on cooperative development. A new office was set up in A.I.D./W to direct and coordinate the new program, and a special advisory committee on cooperatives was created with 13 members representing major nongovernment organizations interested in overseas development. These organizations working with nine U.S. Government agencies initiated a new public - private partnership program for developing cooperatives and related self-help type programs. Encouraged by this new found interest and relationship, U.S. cooperatives pledged to expand their concern for and activities in support of overseas development. Credit union support has been consistent with this pledge.

Both the ICA Review Committee and the A.I.D. Cooperative Advisory Committee recommended that assistance be given to overseas development programs, by providing technical assistance, financial assistance, and by coordinating Mission, Regional and host government

interests in development programs. Technical assistance included feasibility surveys, evaluations of existing programs, pilot development programs, and consultative and advisory service to host governments and their cooperative ministries. Financial assistance included loans and grants by A.I.D. and other U.S. and multilateral agencies, and private investors or donors utilizing local currencies. Full mobilizations of local capital was encouraged for use in agricultural and other local development purposes.

Subsequent policy guidelines on credit union and cooperative development programs were set forth in Manual Orders 1621.1 and 1626.11.

## 2. Need

The need for additional credit and better credit systems is one of the major needs of most developing countries. Credit needs, especially for the lower and middle income people, rank with the need for better land distribution, for better education and training, and for better health and population control measures. Without better credit systems in DCs more and more of the estimated two billion cultivators who are trying to eke out an existence from the land are doomed to further deprivation. The lack of adequate credit alone may well defeat the battle for food production in many countries. The gravity of this problem is recognized by some responsible officials. The Vice President of the Agricultural Bank of Pakistan said in 1964 that small farmers of the Lahore Region were receiving only 10% of the agricultural credit they needed and could properly utilize from his government's lending institutions. Many cultivators were forced to wait on credit until it was too late to plant their crops while others turned to the high rate lenders as a last resort, and thus paid exorbitant interest rates.

The cost of credit can sometimes mean the difference between success and failure - in agriculture as in other production activities. Farmers of the U.S., for example, were never considered successful producers until they had the advantage, and assistance of a credit system adapted to agricultural production.

Farmers in Japan and Taiwan have developed cooperative credit systems in recent years that are very successful. More recently, small farmers in Ecuador, Bolivia, Peru, Honduras, and other Latin American countries are relying more and more on the Directed Agriculture Production Credit (DAPC) program of their credit unions for agricultural production credit. The DAPC program is a form of supervised lending that extends credit to the farmers for agriculture production - purchase of livestock, plant food, insecticides, etc., and gives them necessary training in improved agriculture practices.

Small shopkeepers and craftsmen are also using their local credit unions for starting and operating their new business. Many of them operate on a small scale line-of-credit basis. Credit unions in Latin America are being developed and adapted to effectively meet the production and consumer credit needs of their low income members. Given trained leaders this cooperative credit system can be developed and operated successfully in most, if not all, developing countries.

A recent study, "Some Credit Requirements for Family-Sized Farms in the Andean Countries of Latin America" <sup>1/</sup>, points up special credit requirements of low income people that are often overlooked by commercial lending institutions - as they are presently operated. The findings of this study are cited here because they illustrate the significant role small farmers can play in increasing food production, providing local employment and increasing rural income generally when they have credit adapted to their special needs. Credit is the major ingredient they must have to become and remain self-sustaining. Credit unions and related cooperative credit systems are usually adapted to local needs as they are developed and, in a way, have an advantage over large scale government or commercial credit programs that are designed for other types of lending operations.

The study showed that:

1. Credit (loans) must be extended to meet both agricultural production and the traditional home and family credit needs.
2. Credit terms must permit the farmers time to harvest their crops and sell them at optimum prices.
3. Credit must be given over a sufficient period of time (years) to enable the farmer to improve his financial position.
4. Interest costs must be low enough to allow for economic gain from the use of credit.
5. The procedure for obtaining credit must be kept simple in order for the farmer to fully understand the borrowing process.
6. Once applied for, credit must be provided without undue delay.
7. Security required must be based on the farmer's repayment capacity rather than mortgage collateral such as land or other tangible materials - that the farmer may not possess.

<sup>1/</sup> Masters thesis (unpublished) by Gary Gabriel, 1968, University of Pittsburgh.

8. Credit must be accompanied by technical assistance, and
9. Adequate supply and marketing facilities should also be available for purchasing supplies and marketing crops or sale of products if other than agriculture.

This check list closely resembles many of the policies and practices that credit unions have adapted through the years of serving low income rural and urban people.

To be useful and successful credit programs must be adapted to the special or peculiar needs of the people whom it is designed to serve.

Certainly some of the credit needs of some of the people of DCs can be met by credit unions. The number served will always depend upon the scope and reach of credit union development in a given country.

### C. Strategy

#### 1. General

Prior to 1962 only limited assistance had been given to developing cooperative credit programs in Latin America. Multi-purpose cooperatives and the British type thrift and credit societies were used in some colonial countries for channelling agricultural loans to farmers. So far as we know, however, no effort was made to carry out large scale development programs in specific countries for creating cooperative institutions owned and operated by the investor - member. The strategy of 1961 foreign assistance legislation and the ICA survey was threefold: (1) to identify those Missions and Regions where cooperative finance institutional development fitted overall development plans, (2) to identify areas where additional credit could be properly used to increase productivity and living standards generally, and (3) to identify and secure the services of U.S. credit union technicians required to plan and implement specific development programs.

#### 2. Use of Technical Assistance in Credit Unions

ICA's Cooperative Review Committee and the special A.I.D. Advisory Committee on Cooperatives determined that credit union type of cooperative development was needed in all DCs for low income people and that the U.S.-type organization, adapted as necessary to meet local conditions, should be developed.

Technical assistance is a prerequisite for starting efficient credit union systems in developing countries or for upgrading existing cooperative credit organizations. Under provisions of A.I.D.'s contract programs for credit union development, qualified experienced technicians are used in interested countries or Regions and given responsibility for making surveys, starting new programs, training leaders, and directing the new organizations during initial operations. The U.S.-type credit union system has been developed over a period of some forty years of successful growth. The "system" can and will be further adapted to meet local conditions.

### 3. U.S. Resources

Some 23,000 credit unions are operating in the United States, with 22 million members and resources of approximately \$16 billion. Each credit union is an independent, autonomous corporation with its own directors, committeemen, manager, and member-owner-patrons. Each state has a federation of credit unions (or league) designed to serve local credit unions and these, in turn, have a confederation known as CUNA International, Inc. While credit union systems have been developed in Canada and other countries, the United States program is by far the largest and most successful. The United States credit union movement has, in fact, operated its own overseas program since 1952 with financing provided by credit unions and credit union members. Thus, the U.S. movement has both experience and expertise in overseas program development. CUNA International can rely upon anyone or all of its member associations for providing technicians as needed for overseas development. When CUNA International became interested in coordinating A.I.D.'s overseas credit union development program in 1962, the CUNA Board of Directors approved a contract with A.I.D. for this purpose.

A global open-end contract was signed between A.I.D. and CUNA providing for a small central staff to coordinate overseas development programs in interested Missions and Regions and for using U.S. technicians to direct local credit union development programs. The first nationwide program was started in Latin America in August 1962.

### 4. Central Office Services

The contractor's professional staff provides a planning and coordinating type of service for area development programs. It is supported by Task Order No. 1, to the global contract (AID/csd-1526). It has a Director and Assistant Director who:

- a. Coordinate development programs: a regional program in Latin America - with 12 country programs operating with three additional country programs proposed and pending; in NESAs - with one country program proposed and pending; in East Asia - with one country program proposed and pending; and in Africa - with one country program operating and one regional proposed and pending.
- b. Recruit and supervise technicians for all regional and country programs. Make surveys when requested by Regions and Missions.
- c. Maintain liaison with officials in A.I.D./W, Missions, other government, and international agencies.
- d. Advise field technicians on new program development or upgrading existing programs, and
- e. Make field and program evaluations, make and coordinate field reports to A.I.D./W and to Missions, and provide backstopping assistance, as necessary, to the overall program.

D. Planned Targets, Results and Outputs

1. Planned Targets

The purpose of the A.I.D./CUNA program is to assist low income people in developing their own self-sustaining and self-perpetuating cooperative finance systems. The central or home office staff, advises, plans, implements, and coordinates development programs and hopefully makes them more effective. Overall targets, goals and achievements vary from project to project as summarized below and listed in Table 2, attached.

2. Progress to Date

This project was started in 1962. Table 2 lists programs in progress, programs completed and those pending approval. While this PROP is concerned only with programs in operation and those pending approval, the table indicates the overall responsibilities and scope of the central office staff.

The first development programs were started in Latin America in August 1962. There were 430 credit unions scattered throughout Latin America with 123,919 members, with \$4.2 million in member savings mobilized, and with \$4.0 million in loans outstanding to these members. As of October 31, 1969, this program had 27,000 credit unions

in 12 Latin American countries with 768,800 members, \$60.9 million in member savings, and loans outstanding of \$64.3 million. Accumulated loans to date, exceed \$222 million. Interest cost savings in CY 1968 was estimated to be over \$10 million. Additionally, some 60,000 leaders and employees have been given special training in organization, management, and finance. The by-products of a program like this one is invaluable to the entire Region. The saving-lending-learning process of its three-quarter million members is a continuous process of inestimable socio-economic value to low income people.

### 3. Future Projection

Table 2 projects ongoing programs into CY 1970 and 1971. Only those programs for which feasibility surveys have been made and are fairly well committed are included. Table 2 does not provide for possible early termination of services, extension, or expansion of services for existing programs. This is highly speculative. However, the trend of discussions and considerations being given to this basic type of development program is encouraging. It will probably continue at an even higher level of operations as its achievements become better known.

#### E. Course of Action

##### 1. Contract System

a. Basic Agreement. The project operates under a basic agreement between A.I.D. and the contractor. The original basic agreement, AID/csd-236, was executed on January 7, 1963. The new basic agreement, AID/csd-1526, was executed on May 14, 1967, and terminates on May 13, 1972. This agreement provides the basic framework and regulations under which specific country or Regional contracts (Task Orders) can be executed and operated.

b. Task Order No. 1, executed with CUNA International on December 10, 1968, provides for a central office and staff that administers and coordinates all services to A.I.D. through Regional and Mission contracts (Task Orders). Task Order No. 1 is centrally funded and managed by the Office for Private Overseas Programs. Contract negotiations and agreements are handled by the Contract Services Division, Office of Procurement.

c. Regional and Mission Task Orders are executed between A.I.D. and the contractor to provide specific services in connection with and in support of specific activities in interested countries. These are executed, funded and managed by the respective Regions and Missions. Contract negotiation and agreement are handled by each Regional Contract Office.

## 2. Contract Organization

Task Order No. 1 provides for the support of a central office staff, as follows:

Project Director  
Assistant Project Director  
Secretary-Translator  
Accountant Supervisor  
Accountant Clerk (part time)

## 3. Annual Review of Operation

Each year prior to the extension of Task Order No. 1 the overall operations of the contract organization are reviewed. Adjustments, as needed, are made in staffing, budgets, services, etc., to maintain a reasonable cost ratio to the overall work load handled by Task Order No. 1 staff.

## 4. Contract Services

a. Management. The contractor's services and operations are supervised by a project manager in the Cooperative Development Service of the Office for Private Overseas Programs. He is the channel through which the services are coordinated and made available to staff offices, Regions and Missions. He monitors the contractor's operations, services, performance, reports, travel, and program and budget planning.

b. Services to Regions and Missions. The project manager works directly with the appropriate Regional Technical Office and Desk. Upon request and approval, the contractor's services are made available to the Regions and Missions. Generally, these services provide advice and assistance to them, make preliminary studies and investigations, assist in project planning and drafting of Task Orders, and identify and recruit specialized technicians when needed. In addition, the contractor's central office is responsible for the staffing, administration, support, reporting and backstopping for all Regional and Mission task order programs.

PROJECT AUTHORIZATION

1. PROJECT NUMBER 921-13-950-002	3. COUNTRY Interregional PRR/TCD	4. AUTHORIZATION NUMBER 0013
2. PROJECT TITLE Credit Union Development - Global Contract with CUNA International, Inc.		5. AUTHORIZATION DATE 7/23/70
		6. PROP DATED 6/29/70

7. LIFE OF PROJECT  
 a. Number of Years of Funding: continuing      b. Estimated Duration of Physical Work  
 Starting FY 19   ; Terminal FY 19 continuing      After Last Year of Funding (in Months): continuing

FUNDING BY FISCAL YEAR (in U.S. \$ or \$ equivalent)	DOLLARS (thousands)		P.L. 480 CCC + FREIGHT	LOCAL CURRENCY Exchange Rate: \$1 =			
	GRANT	LOAN		U.S. OWNED		HOST COUNTRY	
				GRANT	LOAN	JOINTLY PROGRAMMED	OTHER
Prior through Actual FY 1969	493						
Operational FY -70	117						
Budget FY -71	175						
B + 1 FY -72	175						
B + 2 FY							
B + 3 FY							
All Subsequent FY's							
<b>TOTAL</b>							

9. DESCRIBE SPECIAL FUNDING CONDITIONS OR RECOMMENDATIONS FOR IMPLEMENTATION, AND LIST KINDS AND QUANTITIES OF ANY P.L. 480 COMMODITIES

PRI and predecessors have funded this project through FY 1969 together with contributions from CUNA Int'l member associations of \$310,872 in cash during FY-69. Estimated contributions for FY-70 and FY-71 \$670,800 in cash.

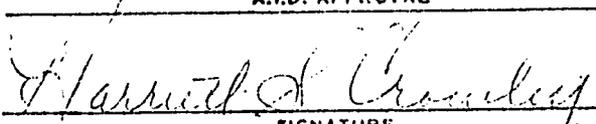
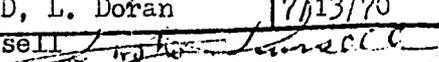
10. CONDITIONS OF APPROVAL OF PROJECT

(Use continuation sheet if necessary)

11. Approved in substance for the life of the project as described in the PROP, subject to the conditions cited in Block 10 above, and the availability of funds. Detailed planning with cooperating country and drafting of implementation documents is authorized.

This authorization is contingent upon timely completion of the self-help and other conditions listed in the PROP or attached thereto.

This authorization will be reviewed at such time as the objectives, scope and nature of the project and/or the magnitudes and scheduling of any inputs or outputs deviate so significantly from the project as originally authorized as to warrant submission of a new or revised PROP.

A.I.D. APPROVAL	CLEARANCES	DATE
 SIGNATURE	L/ AFR/TAC, A. Howard	7/22/70
	L/ NCSA/SA, J.L. Buckley	7/9/70
	L/ A-LA/PCD, R. Bernhart	7/9/70
	L/ C/BUD, H. Bower	7/10/70
	L/ EA/TECH, D. Davis	7/13/70
	L/ A-CONT 1/ VN/ND, L. Doran	7/13/70
** Director, PRI TITLE	PRI/CDS, A. Pursell 	

1/ Signed clearances on file in PRI/PCS