

PROJECT EVALUATION SUMMARY (PES) - PART I

526-0122
526012200/501
Report Symbol U-447

1. PROJECT TITLE CREDIT UNION STABILIZATION PROJECT			2. PROJECT NUMBER 526-0122 (OPG 5/78)	3. MISSION/AID/W OFFICE USAID/Paraguay
5. KEY PROJECT IMPLEMENTATION DATES			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <u>31/1</u>	
A. First PRO-AG or Equivalent FY <u>78</u>	B. Final Obligation Expected FY <u>79</u>	C. Final Input Delivery FY <u>81</u>	6. ESTIMATED PROJECT FUNDING A. Total \$ <u>417,900</u> B. U.S. \$ <u>281,300</u>	
			7. PERIOD COVERED BY EVALUATION From (month/yr.) <u>8/31/78</u> To (month/yr.) <u>12/31/80</u>	
			Date of Evaluation Review <u>April 1981</u>	

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

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. CREDICOOP should appoint a member of its staff to monitor project activities.	Cooper Peralta	Immediately
2. AID should write a letter to CREDICOOP asking for the adoption of strong measures to force the cooperatives to remit their collections for deposit to the Stabilization Fund.	Cooper	Immediately
3. CREDICOOP should analyze the specific training needs in each cooperative and carry out the courses committed in Attachment A C.2 of the Grant Agreement.	Cooper Peralta	Dec. 31, 81
4. CREDICOOP should prepare and implement a new incentive/salary maintenance program to incorporate the elements outlined in the grant agreement.	Cooper Peralta	June 30, 81
5. CREDICOOP should establish criteria for Stabilization Fund operations.	Cooper Peralta	June 30, 81
6. CREDICOOP should comply with the established progress reporting requirements.	Peralta	Open

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	
<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

A. Continue Project Without Change

B. Change Project Design and/or Change Implementation Plan

C. Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Name and Title)

W
G. William Oglesby
Program Officer

12. Mission/AID/W Office Director Approval

Signature Paul A. Montavon

Typed Name Paul A. Montavon

Date June 4, 1981

13. Summary

The project was undertaken to establish a permanent stabilization fund within CREDICOOP to enable nine insolvent credit unions to become financially sound and operational. The AID and CUNA funds contributed to the project were loaned to the nine cooperatives for the purpose of repaying National Development Bank (NDB) loans in default. The NDB contribution has been to waive interest and fees.

This evaluation found that most inputs were delivered as planned and that the amounts were adequate for project needs. All output targets relating to the resuming of operations by the nine cooperatives were exceeded. Shortfalls were disclosed, however, in the collection by the cooperatives of the old debts and repayment to the Stabilization Fund in CREDICOOP. It was found that the cooperatives have failed to adopt recommended administrative improvements and to establish effective collection efforts. In addition CREDICOOP has not fully implemented the incentive/salary maintenance program.

A review of the financial position of the nine cooperatives performed as part of this evaluation revealed that barring unforeseen factors, all the cooperatives, with the exception of one or perhaps two, are likely to consolidate themselves as financially sound entities.

As a result of these shortfalls, some purpose and goal targets related to the establishment of a Stabilization Fund within CREDICOOP will not be reached.

14. Evaluation Method

This evaluation was performed in accordance with the Mission's Annual Evaluation Schedule and was carried out in conjunction with the grantee CREDICOOP. It encompassed an overall review of project progress towards planned targets including a financial review of the status of the nine cooperatives on the basis of financial statements and reports filed by CREDICOOP. A two-day field visit was made to examine in detail the operations of four of the cooperatives and to record progress toward specific project targets. A series of meetings were held with CREDICOOP officials to discuss the issues and to agree upon recommendations to be included in the report.

15. External Factors

Obviously, the success of any cooperative federation depends to a large extent on factors outside the control of the movement. Fortunately, the socio-economic conditions having a significant bearing on the success or failure of the system such as climatic conditions, world market prices, government actions, etc. have been relatively favorable

and have not changed during the life of this project. Most of the assumptions made have proven to be valid and continue to hold. There have been, however, three assumptions that have not held or where progress could not be verified. It was assumed that the cooperatives would adopt administrative changes recommended by CREDICOOP and that the cooperatives would mount an effective collection effort. This has not happened. It was also assumed that writeoffs of new loans will not exceed 3%. While none of the cooperatives have yet written off their bad debts, we were not able to perform an analysis of the portfolio because the cooperatives have not yet fully implemented one of the recommended accounting improvements in their member records specifically the separation of the old loans covered by the Stabilization Fund from the new loans granted afterwards.

16. Inputs

	<u>Total Inputs</u> <u>Planned 12/31/81</u>	<u>Planned as of</u> <u>12/31/80</u>	<u>Actual Contr.</u> <u>12/31/80</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
a. <u>AID</u>			
Stabilization Fund	230,000	230,000	215,134.22
Incentives/Salary Maint. Program	<u>51,300</u>	<u>36,100</u>	<u>7,185.53</u>
b. <u>CREDICOOP and Member Coop.</u>			
Stabilization Fund	16,200	11,600	9,671.78
Technical Assistance	17,100	11,400	2,781.-
c. <u>CUNA Loan</u>			
Stabilization Fund	35,000	35,000	35,000
d. <u>GOP (NDB)</u>			
Cancellation of Interest and Fees	<u>68,300</u>	<u>68,300</u>	<u>68,300.-</u>
Total	<u>\$417,900</u>	<u>\$392,400</u>	<u>\$338,072.53</u>

There have been no problems with the delivery of inputs on the part of AID, CUNA and BNF, who have provided their contributions in the quantity and time frame originally scheduled. Likewise, the amounts planned were found to be adequate. The only shortfalls have been the contribution of the member cooperatives into the Stabilization Fund the amount of which was slightly less than planned and the technical assistance provided by CREDICOOP to the member cooperatives where the number of formal courses has also been less than planned.

17. Outputs

Major outputs are the repayments to the Stabilization Fund, the resuming of normal lending operations by the cooperatives, and the marketing and other services provided by the cooperatives.

Planned output targets and achievements were as follows:

	Planned as of December 31, 80 \$	Achieved as of December 31, 80 \$
1) Repayment by coop. to the Stabilization Fund	78,900	62,019
2) Additional contribution by coop. to the Fund	11,600	9,672
3) New loans made by the cooperatives	306,390	1,106,733 <u>*/</u>
4) Value of crops marketed by the nine cooperatives	318,000	824,877

*/ This amount represents loans made by CREDICOOP to the cooperatives.

As can be seen above, repayments by cooperatives to the Stabilization Fund have not reached the planned levels. Collections by cooperatives, however, were approximately \$10,000 higher. Only one cooperative is remitting all its collections to CREDICOOP for deposit to the Stabilization Fund; the rest keep part of the funds for relending to their members. Due to inadequate records the exact amount withheld by the cooperatives could not be ascertained during this evaluation. This withholding of collections is due to the fact that the cooperatives find the relending very advantageous due to the interest spread resulting from the low fee charged by CREDICOOP on the Stabilization loans. CREDICOOP is continuously demanding that the cooperatives deposit all collections in the Stabilization Fund, but has not succeeded in its efforts. CREDICOOP should take more drastic actions such as withholding the disbursement of new loans to those cooperatives not fully depositing with CREDICOOP the amounts collected.

An output target that has been exceeded is new lending by the cooperatives. The total amount of new loans made by CREDICOOP to the cooperatives is approximately 3.6 times the amount originally projected. However, an area of concern has been the fact that in the case of three cooperatives the proportion of lending to share capital far exceeded the safe ratio of 2:1 recommended in the project proposal. CREDICOOP has considered appropriate

guidelines for exceeding the credit limits for those cooperatives that have shown significant improvements in their administration. It is too early yet to determine the risk represented by this excess lending, and CREDICOOP should monitor the portfolios of the cooperatives very closely.

Qualitative Outputs

1. Establishment of sound loan recuperation procedures at the cooperatives

Despite the constant efforts of CREDICOOP's advisor, some of the cooperatives have not yet implemented all the recommended administrative and accounting improvements required to monitor loan collections. It is recommended, therefore, that CREDICOOP assign someone to monitor loan recuperation procedures until the cooperatives have reached an acceptable level of improvement in the administration of the stabilization program.

The OPG provides for an incentive program whereby employees of individual cooperatives will be rewarded upon attainment of certain targets such as loan collections, promotion of share capital, up-to-date accounting system, etc. This evaluation disclosed that CREDICOOP has not fully implemented the incentive plan in conformity with the spirit of the agreement in that current procedures do not include elements other than a fixed percentage on collections. Therefore, it has not achieved its purpose of stimulating coop staff to improve their performance.

2. Management of Cooperatives

The managerial performance in some of the cooperatives has been less than adequate because of the lack of trained personnel and too few scheduled hours of work. The project attempted to alleviate the problem by incorporating a technical assistance plan and a salary maintenance program for cooperatives requiring such assistance. Although some improvement has been achieved through theoretical courses and on-the-job training by CREDICOOP and BNF personnel, there are still cooperatives where the managerial capability is rather weak. This situation was to have been addressed with the salary maintenance program whereby the cooperatives were to receive a financial support to permit them to contract adequate personnel. So far there are only two cooperatives participating in the program, and only one has achieved progress in administration.

18. Purpose

The purpose of the project is to enable nine of CREDICOOP's member cooperatives facing bankruptcy to become financially viable entities. In spite of all the problems at the output level, the project is making

some progress towards achievement of its purpose. All nine cooperatives have resumed normal lending and marketing operations and, with perhaps one or two exceptions, appear to have improved their financial position to the extent that their survival as viable entities is no longer threatened.

Progress toward the planned End of Project Status indicators was found to be as follows:

EOPS No. 1: "The nine cooperatives will have share capital accumulated in the following amounts":

<u>12/79</u>	<u>12/80</u>	<u>12/81</u>
\$118,000	\$149,000	\$187,000

Share capital in the nine cooperatives as of November 1980 amounts to the equivalent of \$416,400. This has been mainly achieved through the forced purchase of shares by members, equivalent to 10% of the loans received.

EOPS No. 2: "Net income of the cooperatives will reach the following levels":

<u>12/79</u>	<u>12/80</u>	<u>12/81</u>
\$7,640	\$14,700	\$6,740

The net result from operations of the nine cooperatives for the year ending December 1980 shows a net loss of \$22,400. However, since the cooperatives close their records on dates different from December 1980, we could not obtain an adjusted end-of-year figure comparable with the target. Probably if the above figure is adjusted for net accruals the result would be a smaller loss. It is also worth noting that other financial indicators suggest that should the present favorable operational trend continue most of the cooperatives are likely to overcome their financial problems and become viable self-sufficient entities.

EOPS No. 3: "The nine cooperatives will be receiving new loans from CREDICOOP at a ratio of not to exceed 2 (new loans) to 1 (share capital)".

CREDICOOP resumed full lending services to the cooperatives and lending levels far exceeded all planned estimates. In the case of four cooperatives the lending exceeded the figured limit of 2:1 and reached levels as high as 5 to 1.

EOPS No. 4: "The cooperatives will repay at least 30% of the old loans by 1981, 50% by 1985, and 100% by 1987." (50% of total old ₡.35 mill. portfolio).

As of the date of this evaluation, the cooperatives have repaid a total of ₡.8,248,487 (\$62,019) representing 19.9% of the total amount disbursed by CREDICOOP to the cooperatives from the Stabilization Fund. Part of the repayments was utilized by CREDICOOP to make a stabilization loan to a tenth cooperative, Carmeña Ltda., which was considered by CREDICOOP as being in a critical financial situation and requiring (or deserving) a stabilization loan. This evaluation raised some concern about how the Stabilization Fund will operate in the future, i.e. what requirements should be placed on those cooperatives for receiving a stabilization loan. It is therefore recommended that CREDICOOP elaborate written criteria to that effect.

19. Goal

The goal of the project is to strengthen the CREDICOOP cooperative federation. Measures of goal achievement are (1) a self-sustaining stabilization program institutionalized within CREDICOOP, and (2) CREDICOOP resuming full range of services to the nine affected cooperatives and thereby serving 1,683 farm members.

This evaluation showed that the project has contributed to the planned goal by saving nine rural credit cooperatives from bankruptcy and legal takeover by the National Development Bank, thus preserving the image and strength of CREDICOOP's cooperative system. All the nine cooperatives originally included in the stabilization plan, plus another one added later, have resumed normal lending operations and other services to their 1,870 farmer members. All of these cooperatives, with one exception, are likely to survive as viable financial entities.

The project will, however, fail in achieving the establishment of a permanent Stabilization Fund in the amounts originally planned. This is probably due partly to overly optimistic planning and because the cooperatives have not yet mounted an effective collection as originally expected.

20. Beneficiaries

The beneficiaries of this project are the farmer members of the nine CREDICOOP cooperatives included in the program. These farmers, typically cultivate 1.5 or two hectares of subsistence crops (cassava roots, corn, beans) and cultivate a few additional hectares of traditional cash crops, mainly cotton, for which the cooperative credits are utilized.

21. Unplanned Effects

This evaluation has not disclosed any unexpected effects.

22. Lessons Learned

Lessons learned from this project will be recorded in the final PES to be prepared in early 1982.