PROJECT PAPER

for a

CREDIT GUARANTY SYSTEM

in

COLOMBIA

under the

PRODUCTIVE CREDIT GUARANTY PROGRAM

I N D E X

Index - Continued

Attachments:

I - FAA Section 222A - Agricultural and Productive Credit and Self-Help Community Development Programs

II - Statutory Criteria

III - State Cable 207998 - DAEC Guidance

IV - Letter of 6/30/72, from Hugo Palacios Mejia, Ministro de Hacienda y Credito Publico Encargado to OPIC

V - Cables No. 12590 and 02637 of the Mission in Bogota transcribing letter of December 1976 from DNP[1/] to USAID, requesting the project, and confirming BOR counterpart support for the proposed program

VI - Director's Certification - Section 611(e) FAA

VII - Draft Guaranty Authorization

VIII - Logical Framework

IX - Environmental Assessment

1/ Departamento Nacional de Planeacion

I. Project Summary and Recommendations

A. Face Sheet

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT PAPER FACESHEET	1. TRANSACTION CODE: A ADD, C CHANGE, D DELETE	PP 2. DOCUMENT CODE 3

3. COUNTRY ENTITY	4. DOCUMENT REVISION NUMBER
Colombia/Banco de la Republica	

5. PROJECT NUMBER (7 digits)	6. BUREAU/OFFICE A. SYMBOL	B. CODE	7. PROJECT TITLE (Maximum 40 characters)
514-0214	LA	05	Productive Credit Guaranty Program

8. ESTIMATED FY OF PROJECT COMPLETION	9. ESTIMATED DATE OF OBLIGATION
FY 77	A. INITIAL FY 77; B. QUARTER 1 (Enter 1, 2, 3, or 4); C. FINAL FY 77

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 -)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. TOTAL	LIFE OF PROJECT E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT)	( )	( )	( )	( )	( )	(
(LOAN)	( )	( )	( )	( )	( )	(
OTHER U.S. 1. Guaranty	6,000		6,000	6,000		6,000
OTHER U.S. 2.						
HOST COUNTRY Guaranty		3,000	3,000		3,000	3,000
OTHER DONOR(S)						
TOTALS	6,000	3,000	9,000	6,000	3,000	9,000

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. Guaranty	D. LOAN	E. 1ST FY F. GRANT	G. LOAN	H. 2ND FY I. GRANT	J. LOAN	K. 3RD FY L. GRANT	M. LOAN
(1)	900	840							
(2)									
(3)									
(4)									
TOTALS									

A. APPROPRIATION	N. 4TH FY O. GRANT	P. LOAN	Q. 5TH FY R. GRANT	S. LOAN	LIFE OF PROJECT T. GRANT	U. LOAN	12. IN-DEPTH EVALUATION SCHEDULE
(1)							
(2)							MM YY 12 77
(3)							
(4)							
TOTALS							

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 — 1 = NO, 2 = YES

14. ORIGINATING OFFICE CLEARANCE		15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
SIGNATURE: James Tragellis		
TITLE: Director, USAID/Colombia	DATE SIGNED MM DD YY: DEC 17 76	MM DD YY: 1 12 77

AID 1330-4 (3-78)

B. Recommendations

It is recommended that A.I.D. enter into a Project Agreement with the Banco de la Republica of Colombia (Central Bank) for the development and implementation of a credit guaranty project under the Productive Credit Guaranty Program pursuant to the authority of Section 222A of the FAA of 1974 (see Attachment I).

The proposed credit guaranty system will have a capacity to guaranty a total portfolio of loans equal to $12 million equivalent. A.I.D. assistance to implement the program will consist of a guaranty of collection on eligible loans made and assistance to the Central Bank for staff training and installation of the program, as follows:

Guaranty	$6,000,000
Technical Assistance (AID/W funded)	10,000

C. Description of the Project

The proposed project involves the development of a self-sustaining credit guaranty system designed to stimulate the flow of private sector resources in support of economic activities in potentially productive underpriviledged socioeconomic sectors of Colombia. The proposed system would be self-sustaining in that inordinate subsidies would not be required to cover payments of claims covered by the guaranty of the fund beyond a reasonable period for start-up of operations.

The goal of the project is to introduce to the institutional credit system those individuals and groups who, although with technically and economically justified projects, cannot obtain funding from institutional lenders because of insufficient collateral.

The immediate purpose is to establish a guaranty mechanism to enable private lenders to make loans to small farmers and small business operators who have insufficient collateral to satisfy normal collateral requirements. The specific output will be a commercially viable credit guaranty mechanism.

The principal inputs will be provided by the Central Bank and A.I.D.. The Central Bank will be the Project Manager and Administrator of the Guaranty System.and will provide office space and equipment, professional staff, support services, budget support for Guaranty Fund administrative operational expenses until the system becomes self-sustaining, and a counterguaranty of the last 25 percent of the portfolio under the project.

A.I.D. technical assistance will cover the costs of a four-week training seminar in Bogota, or any other convenient city, for the three professionals who will manage the project. Training will be provided by the staff of LA/DR/DB. Subsequently, technical assistance will also be provided by AID/Washington through periodic visits when deemed necessary by USAID and/or Central Bank.

The project will be based on a system designed in 1973 with Colombian officials. No major revisions of that system will be required; however, all elements of the design will be reviewed for their appropriateness during the training sessions.

A guaranty fund at the Central Bank will be the primary element of the guaranty system. The fund will provide a guaranty of 75 percent of every eligible loan made by participating private lenders. It will have a capacity to guaranty a total of $12 million equivalent of outstanding loans. As the system is not expected to reach the point where guaranty commission revenues are equal to, or exceed, projected amounts to be paid out against guaranty claims before the second year of operation, contingent financial support provided by A.I.D. and the Central Bank through their respective guaranties is required. Should the fund be unable to cover its obligations with any of the participating lenders from guaranty commission revenues, A.I.D. will stand by to pay up to 50 percent of the portfolio of loans made during any year of the project. If A.I.D. payments ever reach the 50 percent level, and losses exceed that level, the Central Bank will cover the last 25 percent of the portfolios.

Thus, the risk in each lender's portfolio of loans from any one year will be shared as follows:

	Percent of Risk (in order of exposure)
1. Lender	25
2. A.I.D.	50
3. Central Bank	25
Total Risk Coverage	100

Payments by A.I.D. against guaranty claims will be required only when fund resources are depleted, which diminishes the probability and size of possible A.I.D. payments. The historical losses of potential participating lenders have been determined to be below one percent per year. Based on this fact, and allowing for a slightly higher loss rate factor owing to the nature of the projects and borrowers to be involved in this activity, initially the guaranty commission to be charged for each loan covered by the system will be three percent. That percentage is calculated to be adequate to generate sufficient revenues to cover expected claims and administrative costs of operating the fund. Sustained payments by the fund representing more than three percent of outstanding loans would indicate either a need for a higher guaranty commission charge or a failure of the administrative control procedures of the guaranty program system. This system has been designed to suspend lending before arrearages develop into undesirable losses

Only those projects found to be feasible by a qualified technician participating in the guaranty system will be eligible for the credit guaranty. Rediscounts will be available from existing lines at the Central Bank to provide liquidity to the eligible lenders participating in the program.

For a proposed loan to be eligible for the guaranty, the participating lender must demonstrate that the credit it represents was granted in accordance with current eligibility criteria (see below).

If the proposed project is approved, as noted earlier the final review of the system design will be carried out during the training seminar. Operating handbooks will be reviewed and approved for printing, the project administrative office will be organized, and lenders and technicians will be incorporated into the program and trained. It is expected that lending operations will start in April or May, 1977.

D. Summary Findings

In all aspects the project design appears adequate and the program is appropriate for the Colombian environment. There is adequate physical and intellectual infrastructure represented in the financial strength and liquidity of the private banks and the monetary system, and in the quality of the professional staffs of the private banks, Central Bank, and the technical assistance entities envisioned as independent consultants for the review or formulation of project and financial proposals.

The adequacy of existing physical and human resources and the compatibility of the guaranty system with the regular operations of participating institutions constitutes a significant feature in support of goal of self-sufficiency for the project.

The projected social and economic impact of the proposal is expected to be quite significant, particularly if viewed in relation to projects that require international transfer of resources. The strong support provided by the GOC for the program and the relative dynamism and variety of the Colombian economy are factors which strongly indicate the program can meet or exceed targeted objectives.

The need for a credit stimulating system such as proposed here, and the timeliness of its implementation, is emphasized by data showing that less than five percent of the economically active population has access to credit for production.

E. Project Issues

Project Committee resolution of the issues raised by the DAEC and transmitted to the Mission in cable 207998 is as follows:

1. Borrower and Project Eligibility - Borrower eligibility was narrowed to individuals or groups who are:

a) capable of managing a productive project but, because of lack of capital to expand their operations, are operating at or near subsistence levels and not growing economically;

b) whether employed or self-employed, earning total income of not more than $1,000 equivalent per month from salaries and/or profits from economic activities;

c) willing and able to contract debt and dedicate full time to the success of the project;

d) unable to obtain credit on reasonable terms for the project proposed because of insufficient collateral.

Eligible projects are defined as:

e) those found technically, financially and economically feasible by participating technical consultants;

f) involving agriculture and agriculture-related activities;

g) involving small industry/services, if necessary for or contributing substantially to community development;

h) activities located in rural areas or in market towns;

(Note: Market towns are defined as those communities where most of the economic activity is related to agriculture. Those towns are also defined as commercial and industrial centers where, through agroindustrial activities, agricultural commodities are assembled and processed for transportation to the capital cities of the country. There are the 22 capitals of departments and Bogota; many fall within the definition of market towns. The operating manuals will list those covered by the project.)

i) involving not more than $20,000 equivalent for projects sponsored by one individual;

j) involving not more than $50,000 equivalent for projects sponsored by groups; and

k) involving the financing of fixed and current assets, or refinancing of debt in cases justified technically and financially only if that debt was previously included under the guaranty.

All loans will be made at terms no longer than seven years and at the legal interest rate in effect at the time the loan was approved, and will include a one-time guaranty commission fee that shall not exceed five[1/] percent of the loan.

1/ Initially, the guaranty commission will be set at three percent. If necessary, the guaranty commission can be adjusted to meet the requirement of self-sufficiency. However, it is felt that it should not be higher than five percent of the credit, once. As stated on page three and shown in the Financial Projections, the guaranty commission will be three percent at the start of the project.

Any exceptions to these guidelines must be approved by the Central Bank and justified by the specific merits of the particular project.

The above criteria focus the project assistance on the potentially productive poor, who represent over 90 percent of the economically active population. These include small self-employed farmers, artisans, and business operators who generally obtain their working or investment capital from money lenders who usually buy the commodities the borrowers produce. The interest rates in these operations are typically four percent per month, and the prices of the commodities are established by the buyers themselves.

An appreciation of underemployment and income levels in Colombia can be obtained from the results of a recent survey1/ of 787,149 gainfully employed individuals. In this group only 26 percent worked 49 or more hours per month. Of the 74 percent, who worked 48 or less hours per month, some 83 percent indicated that they wished to work more. Of this underemployed 83 percent who wished to work more, 99.9 percent had no cash income or were earning less than $240 equivalent per month. Lastly, over 95 percent of the total sample of 787,149 individuals were earning below $240 equivalent per month. It is reasonable that, with the price of the "market basket" at some $200 equivalent per month, with the average of 4.5 persons per family and with an estimate of over 95 percent of the economically active population without access to credit for production, project benefits should be made available to all those capable workers currently unemployed, and to those others whose current earnings do not exceed $1,000 equivalent per month.

The target group will, therefore, be composed of employed, self-employed, or unemployed individuals or groups who, unable to accumulate savings or savings in a sufficient amount and for lack of access to credit, cannot start a business of their own or operate efficiently a going business to improve their socioeconomic status.

2. Mission Management of the PCGP - Once the system becomes operational, the Mission's role will involve normal project monitoring functions. Accordingly, the Mission's projected manpower levels will be sufficient to carry out the necessary visits, study the Central Bank's quarterly reports, receive and process payments from and to the Central Bank, and report to AID/W on project status. Regular (probably once each three to four months) visits by the AID/W officer backstopping the guaranty program will also assist the monitoring effort.

After the Mission withdraws from Colombia, the quarterly visits planned by AID/W will be sufficient to maintain monitoring and provide the necessary technical assistance.

3. Amount of Guaranty Requested - A closer look at the potential number of participating lenders, their relative dynamism, and the availability of technicians for project and financial proposal formulation

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1/ Published by Departamento Administrativo Nacional de Estadistica (DANE) revealed that the preliminary credit projections in the PRP were conservative. Revised financial projections for the guaranty fund, reflecting the possible stimulative effect of the project on the credit operations of the private lenders, are presented below under the heading, "Financial Analysis." The amount of guaranty requested now is $6,000,000 equivalent.

4. Technical Assistance from A.I.D. - The PRP estimate of the need for A.I.D. to provide 36 person/months of assistance to the Central Bank in guaranty fund operations was determined to be excessive upon closer review of the ability of the Central Bank to administer the project. Accordingly, the assistance to be provided by A.I.D. will be limited to the initial system review and training of personnel who will administer the project, described above under the "Project Description" section. Limited assistance may also be provided by A.I.D. subsequently by the AID/W backstop officer on the planned, regular visits once each calendar quarter.

5. Adequacy of Guaranty System - As explained in the section on "Technical Analysis," the proposed system is meant to neutralize the risk of the lender in making loans to the target group for a one-time fee of three percent of the credit granted, payable by the borrower. If the lender continues to make use of existing rediscount lines, where he makes an average of three percent on rediscounted loans before losses, the guaranty system will increase his net profit because the losses will be minimal or nil. There may be an increase in the cost of processing these new, relatively small loans, but it is expected to be less than, or equal to, the short-run increase in profits made possible by the neutralization of the risk produced by the guaranty. Only actual operating experience will indicate if other actions to enhance the economic incentives to the lenders to participate in the program are necessary. (Such actions might include, for example, increasing the rediscountable portion of eligible loans.)

The long-run view, however, shows that the lender will be able to obtain significant benefits by increasing the number of its customers without incurring the normal costs of market expansion necessary in the absence of a guaranty system. It is at best difficult to predict a priori what the exact benefit will be to the lender from the proposed system. However, all necessary financial elements to assure lender participation have been incorporated in the system design. Adjustments to increase the attractiveness of participation will be made, if necessary.

6. Total Costs to Borrowers - The system will produce significant benefits for the borrowers also in terms of a lower cost of credit for projects. In an environment where there is no access to institutional credit and the cost of credit from nonbanking-system sources is 40 percent and above, the possibility of PCGP credit at 20 percent plus the guaranty commission of three percent, and preinvestment technical assistance of up to five percent, represents a significant relief. In a loan amortized in more than one year, this translates into an effective rate of interest of 21.7 percent which, in the case of a small loan of $3,000, compares favorably with the typical alternative at 40 percent where, additionally, there is no

benefit from the technical preinvestment assistance required to assure project soundness as is required under the PCGP. The following table presents a comparison of two such loans:

Total Cost of a PCGP Loan Compared with the Cost of a Loan From Noninstitutional Sources

	Amount	Term	Interest	Assistance	Guaranty Fee	Total Cost
PCGP	$3,000	2 Yrs.	20%	5%	3%	$ 651
Noninstitutional	$3,000	2 Yrs.	40%	-	-	$1,200

7. Expiration of Authority - The PRP noted that rapid development and initiation of project operations were essential to securing GOC support for the program since the Agency's authority for PCGP projects expires on December 31, 1977. Extensive discussions on this issue with GOC officials revealed the government's desire to proceed with installation of the small loan guaranty program, regardless of the rapidly approaching expiration date and the possibility (although not a probability) that that authority might not be extended. The GOC officials consulted stated categorically that, while they hope U.S. support for the program continues, they want to have a small loan guaranty program operational, regardless of whether they share or must assume full responsibility for the possible liabilities of the program. The GOC view, therefore, placed high value on immediate U.S. (A.I.D.) assistance and support in installing and commencing operations under the program.

II. Project Background and Detailed Description

A. Background

The idea of developing a loan guaranty system for Colombia dates back to 1970, when OPIC, then trying to implement the authority of Section 240 of the FAA of 1969 (the "Moss Amendment"), tried unsuccessfully to interest private lenders in the experimental small loan guaranty program called the Community Credit Guaranty Program (CCGP). Potential participating lenders believed the CCGP guaranty system inadequate for the Colombian environment, a factor which caused OPIC to suspend all CCGP activities in Colombia.

However, OPIC was able to experiment with the CCGP in Brazil, Honduras, Guatemala, and Panama, and by 1972, the concept for a new system, which represented a refinement of certain CCGP elements, had been developed. Visiting Colombian Government officials learned about this new system in Washington, and by June 1972, the Minister of "Hacienda y Credito Publico" requested that Colombia be considered for participation in the program.[1/] OPIC responded affirmatively and, after clearing the new concept with the A.I.D. Mission, began to study the possibilities for implementation of the system in the country. By August, 1973, OPIC decided that the program

1/ See Attachment IV.

should be implemented with the support of and through the Banco de la Republica.

After some delay, by July of 1974, the system design for the country had been completed. By that date, however, OPIC was looking for a transfer of the "Moss Amendment" authority to A.I.D., thought to be better equipped to conduct an experimental development program of the nature of the PCGP. Among the merits cited for the transfer were A.I.D.'s better perception and knowledge of the problems of credit and production at the "grass-roots" levels of Latin American societies. Another strength underlined was the Agency's continuous presence in L.A. countries (a feature not found in OPIC, which still conducts all operations from Washington). Congressional resistance to an OPIC proposal for establishing field offices to carry out the program, and receptivity to the suggested alternative of transferring the authority, resulted in enactment of Section 222A of the FAA of 1974, which gives A.I.D. sole responsibility for developing experimental guaranty programs in up to five Latin American countries (see Attachment I).

Consideration of the proposed project represents the culmination of over five years of effort to institute the small loan guaranty program approach in Colombia. The need for an effective low-cost loan guaranty system to stimulate credit expansion for productive activities of the poor has been long recognized by Colombian officials. The enthusiasm of the GOC and, in particular, of the Banco de la Republica, both amply documented in the PRP for this project presented by the Mission in June of this year, reflects firm and continuing awareness of the problem and the attractiveness of the proposed solution. The GOC reiterated its request for the loan guaranty project under the PCGP in December of 1976[1/].

The proposed guaranty system is expected to demonstrate significant utility as a mechanism the GOC can use to stimulate access to institutional credit for production to individuals beyond the five percent of the economically active population which currently has access to it.

B. Description

The sector goal of the project is to enable productive individuals to have access to the Colombian institutional credit system. Currently, because of insufficient collateral, most Colombians are unable even to consider undertaking productive ventures which require limited capital investment because of this collateral constraint, remaining as a consequence at precarious subsistence levels. Individuals engaged in productive activities with need for credit, but unable to obtain credit from institutional lenders, in most instances are forced to use credit from sources at a cost that impedes any possibilities for capitalization and economic growth.

The intention of the legislators, who provided the guaranty authority under Section 222A of the FAA, is to develop commercially viable mechanisms that

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1/ See Attachment V.

will provide an incentive to private institutional lenders to begin to operate with individuals in projects considered to be exceedingly risky. Therefore, the purpose of the project is to create a credit guaranty mechanism that will neutralize the real or imagined risk of the operations proposed by potentially productive individuals normally outside of the credit system. These individuals constitute an invaluable asset for socioeconomic development at the "grass-roots" level of society. They are small farmers, small business operators engaged in food production and commercialization, and generally small businesses in the production, manufacture or service industries having a direct impact on the community.

The output of the project will be a proven credit guaranty system with a record that could justify the subsequent strengthening and expansion of its capacity by the Government of Colombia. In a second development phase, guaranty system operations could be extended by the GOC to all the privately oriented Colombian financial institutions that, because of their mixed capitalization, cannot currently participate in this project (Section 222A limits the guaranty coverage to private financial institutions).

In preparation for implementing this program, the Board of the Banco de la Republica has approved the creation of a guaranty fund, and the utilization of $851,063[1] equivalent to start providing guaranties to public institutions for loans made for eligible agricultural projects. A special control system will be established to separate these loans from those supported by the fund under the PCGP guaranty. Operations with the public institutions will not affect in any way the fund's operations under the PCGP guidelines. The Government of Colombia will provide appropriate additional financial support to the proposed PCGP program (up to $3.0 million equivalent in guaranty coverage).

A.I.D.'s input to the program will be a guaranty of collection to the participating private lenders through the guaranty fund to be administered by the Banco de la Republica. This guaranty will cover up to 75 percent of the outstanding amounts of principal and interest of each loan in continuous default for 150 days, for an aggregate amount no larger than 50 percent of the guarantied portfolio of loans. To supplement the A.I.D. input, the Banco de la Republica will provide a guaranty of collection for the remaining 25 percent of the portfolio.

The proposed fund will guaranty 75 percent of each loan made by a participating lender. If the fund's income from guaranty commissions is not sufficient to pay claims under the guaranty, A.I.D. will pay up to 75 percent of each loan, but these payments, in total, cannot exceed half of the total outstanding capital in loans made during any year of the project's operations. The Banco de la Republica will make such payments against claims as necessary after A.I.D. liability exposure has reached its limit.

In addition to the guaranty, A.I.D. will provide a four-week training seminar

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1/ Col. $30,000,000

in Bogota or another convenient city for the professional staff assigned by Banco de la Republica to administer the credit guaranty system. A.I.D. will also stand ready to assist the Banco de la Republica if necessary during the first two years of operations, through Mission or AID/W personnel assistance. Normal monitoring efforts are expected to require no more than one-fourth of a person-year.

Under the contracts for participation in the guaranty system, private lenders will continue efforts to recover delinquent loans for which claims were paid by the fund under the guaranty and, in the event of recovery, will pay back to the fund 75 percent of the amount recovered, after deducting recuperation expenses.

In the event the GOC decides to terminate the project, the capital in the guaranty fund at the time of the decision will be distributed among all those borrowers who obtained guarantied loans and contributed to the capitalization of the fund through payments of guaranties.

Implementation of the project involves organization and adaptation of certain existing institutions or individuals into components or subsystems of the operational system, without requiring a significant increase of their physical, installed capacity.

The institutions and entities to be involved in the PCGP are:

1. Banco de la Republica - will implement the guaranty system, coordinate the activities of the other three subsystems and administer the guaranty fund. The bank will also provide liquidity for lending under the guaranty through existing rediscount lines. There are at present four rediscount funds at the Bank to support practically every conceivable productive activity in the country.

2. Agency for International Development - will provide the necessary technical assistance for the implementation and operation of the system and will guaranty up to 50 percent of the eligible portfolio of loans made under the program. A.I.D.'s obligation will be up to 75 percent of each eligible loan in the portfolio for an aggregate amount not to exceed 50 percent of the outstanding loans made in each year of the project.

3. Participating Credit Institutions - will screen potential borrowers and projects, and grant credit consistent with the recommendations of the participating technicians (see below) as well as all other policies and procedures established by Banco de la Republica for the program. Loans thus generated will be eligible for rediscount in accordance with the applicable criteria of the pertinent rediscount fund. To participate in the system, the lender must be a private financial institution with a record of success in no less than three years of operations.

4. Participating Technicians - will be a group of qualified technicians listed in the Operations Handbook for the guaranty program

to be used by each lender. This group will constitute a pool of technical assistance that will work as independent consultants in accordance with policy and procedures issued by the Banco de la Republica. They will assist in the review and/or development of project and financial proposals from eligible borrowers, and the cost of their inputs will be included as part of each project's cost. The technician's recommendation on each project proposal will relate to project merits in terms of technical, economic and financial viability.

C. Administration

The Banco de la Republica will create an administrative unit to manage the Guaranty Fund within the existing organizational structure of credit operations. The unit will be staffed with a director, one economic analyst, one financial/administrative analyst, a junior professional with training in finance and economics, and a secretary.

Administration of the guaranty program will involve discharging four principal responsibilities comprising individual activities as follows:

1. Research and Planning

a) Periodic analyses to determine:

i) priorities for satisfaction of credit needs;
ii) availability of physical and human resources;
iii) legal framework for utilization of resources:
iv) applicability of current monetary policy and/or needs for modifications;
v) availability, or need for creation or modification of systems to mobilize financial resources.

b) Periodic review of project objectives and achievements and definition of measurable criteria for:

i) total volume of loans by lending institution;
ii) distribution of credit through rural and urban areas;
iii) geographic distribution of project coverage;
iv) number and capacity of participating lending institutions;
v) resource mobilization goals through rediscounts, etc.;
vi) levels of capitalization for guaranty fund;
vii) number and capacity of available sources of technical assistance;
viii) operations plan for the guaranty system;
ix) operating budget for the guaranty system;
x) pricing policy and guaranty commissions;
xi) technical assistance fee.

c) Studies of special systems features and recommendations to improve their effectiveness and efficiency with emphasis in:

i) policy
ii) organizational structures;
iii) methods and procedures;
iv) combinations of i) through iv).

2. Design and Implementation

a) Development and updating of:

i) communications and information systems;
ii) administrative and financial models;
iii) handbooks with operating policy and procedures approved by Central Bank and AID.

b) Selection, incorporation and training, and coordination of:

i) technical assistance entities;
ii) financial institutions;
iii) support subsystems within and without the Banco de la República.

3. Operations and Control

a) Maintenance of the central register of:

i) loans granted and borrowers;
ii) technical assistance operations;
iii) arrearages, delinquency periods and defaults;
iv) doubtful recuperations;
v) audits;
vi) payments of guaranties and of technical assistance;
vii) other borrowers' assets encumbered;
viii) participating institutions;
ix) accounting and administrative data.

b) Execution and preparation of:

i) payments;
ii) collections;
iii) inspections;
iv) audits;
v) corrective actions;
vi) financial statements of the fund;
vii) operations reports.

c) Monitoring of:

i) trends in approvals and disbursements;
ii) utilization of guarantied loans resources;
iii) actual subprojects' performance per their initial projections;
iv) loan amortizations and delinquencies;
v) management of assets received after payment of guaranties;
vi) lender's operations and portfolio status.

4. Evaluation and Information

a) Compiling and updating statistical analyses of:

i) credit volumes;
ii) productivity of borrowers;
iii) profitability of borrowers, lenders, technicians, and other participants in the system;
iv) benefits to the national government;
v) borrowers' incomes;
vi) living standards;
vii) any other identifiable effect of the guaranty system.

b) Editing and dissemination of information through:

i) publication of special studies, and
ii) publication of the Annual Report on PCGP activities.

D. System Operations

Loan guaranty system operations can be synthesized in three major functions.

1. Credit and Technical Assistance - The system will support credit for small scale productive activities in agriculture and agribusiness and small industry and commercial activities deemed necessary to provide economic opportunities and needed services for community development. Hence, the thrust of the project will be to stimulate production principally in rural areas and to foster community development. All the projects proposed for financing under the guaranty must be of a self-help nature involving the direct participation of the project owner(s)/sponsor(s) in the production process.

Projects based in urban areas must be in "market towns," defined as areas where the majority of the town's economic activity is related to the agricultural activities in the immediate rural surrounding areas and where agricultural commodities are likely to be marketed or processed and assembled for transportation to other areas. A listing of centers classified as "market towns" will be developed for inclusion in the Operating Handbook.

Within the range of activities supported by the project, availability of the guaranty will be limited to those that are technically, economically, legally, and financially feasible and only in instances where credit on reasonable terms is not available from other sources and there is insufficient collateral to secure funding from institutional lenders. It is important to note that though lack of collateral is an essential factor in the eligibility of a project, its viability in technical, economic and financial terms is no less important. Moreover, the project analysis will focus on the individual borrower's motivation and potential as a productive new credit user within the institutional credit system.

The provision of, or for, appropriate pre-investment technical assistance for project and financial proposal formulation is an essential element of the system. To secure the availability of qualified technicians, the Banco de la Republica has developed a directory of 256 consulting firms in the country. While these firms are located principally in the eleven largest cities, complete rural and "market town" country coverage will result as the consultants will be able to service the needs of participating lenders of surrounding rural areas without difficulty. Fees schedules will be negotiated by the Central Bank and will be paid by the borrower through the Central Bank, after collection of the fee through the lender.

In accordance with the experience of the Central Bank with a similar system for technical assistance to small and medium size agricultural projects, the cost of this type of pre-investment assistance averages 3 percent of the total project cost. As the projects contemplated under the PCCP will be of a more difficult nature because of their greater variety, small size and more distant locations, the cost of the assistance is estimated to average 5 percent. This, as was explained earlier, does not constitute a significant burden to such projects, which are expected to yield investment returns above 30 percent.

The lenders' Operations Handbook will list all the active technicians by specialization, physical location, and fees per man-day, man-week, and man-month. This directory will be expanded as the project develops. Payments for technicians' involvement in studies in which the subproject was found ineligible for financial assistance will be made out of accumulated differences between the fees charged for technical assistance services to the projects and the fees paid by the Central Bank to the technicians for those services.[1/] It is expected that a "markup" of 10 percent will suffice to cover these costs.

The technical and economic analyses of each project will determine the minimum capitalization required for the activity to be viable.

2. Guarantied Loan Amortization and Borrowers' Performance Information - The granting of a guarantied loan by any participating lender will immediately be reported to the Banco de la Republica. The bank will open a file on each loan and will receive thereafter monthly information about delinquent payments only. In this way the bank will have recent information about the total portfolio under the guaranty and about the magnitude of the balances in arrears. This will also facilitate the monitoring of the lender's operations, the determination of loan eligibility for the guaranty, the needs for project and/or portfolio audits, and the lender's eligibility for payment of any guarantied loan.

1/ See explanation of account 12 of financial projections, page 28

The information system will enable the Central Bank to assure the proper functioning of the program. Inordinate increases of arrearages must be promptly identified to slow or suspend the lending operations of those lenders likely to show losses approaching 3 percent (the amount of guaranty commission).

In addition to the lender's reports, the Central Bank will also receive technicians' reports on technical assistance provided to approved projects. A lender's deviation from the program's procedural guidelines in granting any loan (e.g. when the recommendation of a consultant technician was negative) will render the guaranty invalid and the obligation of the fund terminated.

The Bank of the Republic will submit to USAID a quarterly report with information about the operations of the project, the financial situation of the fund, total A.I.D. exposure under the guaranty and lenders' and borrowers' performance as reflected in the portfolio status at the end of the quarter.

3. Guaranty Payments and Other Payments - The initial 25 percent of risk is borne by the lender, with the first guaranty obligation assigned to the fund which agrees to pay 75 percent of the outstanding balance of a loan in default made by a participating lender in accordance with the guidelines[1/] given to the lender by the Banco de la Republica. Payment by the fund will take place after 150 days of delinquency, if the lender has initiated legal action against the delinquent borrower. However, in the event the fund's resources are not sufficient to pay any or all claims, A.I.D. will pay up to 75 percent of each eligible loan, but the sum of A.I.D.'s payments shall not be more than 50 percent of the outstanding balance of guarantied loans made in each year of the program.

Therefore, to supplement the A.I.D. obligation, the Banco de la Republica will make payments for up to the remaining 25 percent of the portfolio guarantied by the fund. If the guaranty commission is priced in accordance with a realistic assessment of the risk, the fund will have sufficient liquidity to cover its obligations. If the technical assistance subsystem is properly administered and the lenders continue to exercise prudence in their operations, delinquencies are not expected to exceed five percent of any year's portfolio. Nevertheless, in the event of unexpected losses, A.I.D. may have to cover part of the fund's obligations. The expected effectiveness of the control system to stop lending before losses reach 3 percent, and the A.I.D. coverage of up to 50 percent of the portfolio, make guaranty payments by the Banco de la Republica a remote probability.

A feature that will enhance the liquidity of the fund (i.e., minimize the likelihood of fund payments) is that assets of the project will be pledged as additional guaranty, and in accordance with Colombian financial

1/ To be contained in the Operations Handbook defining those procedures each lender will use in the program.

practices, the borrower waives the right to protest any legal action by the lender in the event of defaults. The borrower also transfers the ownership of those assets to the lender until the loan is fully amortized. Thus, lengthy legal proceedings to recuperate the defaulted loan are not required, and prompt recuperation is insured and the liquidity of the fund protected. Moreover, the lender is obligated to pay back to the fund 75 percent of any amount recuperated from a defaulted loan for which a claim was paid under the guaranty.

To comply with Section 223 of the FAA, a one-time guaranty fee (distinct from the guaranty commission) has been set at 0.25 percent of the credit guarantied by the fund, payable quarterly in local currency at the time of the quarterly report of the Banco de la Republica to USAID.

As stated, the Banco de la Republica will be solely responsible for the administration of the guaranty system. A.I.D. will develop and provide the initial training of the three professionals assigned by the bank to the guaranty fund administrative unit. This training will take place in Bogota, or in another convenient place, for four consecutive weeks. The training will cover the basic technical principles of guaranty mechanisms and their design, organization, and operations. The output of the training session will be the final draft of operations handbooks ready for approval by Banco de la Republica and A.I.D.

The normal monitoring of the project by USAID/Bogota will be carried out under the direction of the Project Committee formed by:

James Suma	CRDO
Neil Billig	CRDO
Jerry Martin	Controller
George McCloskey	Program Officer
Phillip Smith	ARDO

To assist in this monitoring, and to provide technical support to the Banco de la Republica, AID/W will provide TDY assistance as needed. It is expected that up to a one-week visit per quarter will be sufficient for as long as A.I.D. is involved in the project. After the Mission's phase-out program is complete, the proposed quarterly TDY visits will be sufficient to monitor program activities and any continuing A.I.D. responsibilities.

III. Project Analyses

A. Technical Analysis and Environmental Assessment

The proposed guaranty system is intended to neutralize the risk inherent in the operations of the participating lenders with respect to loans made to members of the target group. The need for this system arises from the typical lender's belief that the proper interest charge, or price, for loans made to individuals outside the credit system cannot be ascertained because of the uncertainty associated with the risk. In other words, the high degree of uncertainty typically encountered makes the risk infinite. To illustrate, the following equation represents the factors to be considered by the lender:

Cost + Risk = Price

> COST is the opportunity cost, the administrative cost and the price the lender must pay either to the Central Bank or to his depositors.
>
> RISK is the probability of the loan being defaulted and lost. With the general tendency of the commercial banker to cover <u>100 percent</u> of the risk through the requirement of collateral in operations with new borrowers, the lack of sufficient mortgageable assets on the part of the credit applicant makes the operation impossible.

Therefore, the role of the guaranty system is to assume the "infinite" risk of the lender and provide through existing concessional rediscount rates the incentives to lend at institutional interest rates. This is intended to allow the lender a net return equal to his cost of opportunity. The self-sufficiency of the guaranty fund, an objective of this project, will depend principally on the accuracy with which the potential risk is quantified to adequately price the guaranty, and on the reliability of the technical assistance subsystem in the development and selection of viable projects. For example, assuming no overhead costs for the moment, the fund will be self-sufficient if losses turn out to be below the accumulated revenues from the three percent guaranty commission planned. Examination of the probable participating lenders' past performance indicates that they have sustained losses below one percent of their portfolios. Since the new lending will take place with different types of borrower and projects, a guaranty commission of 3 percent should safely cover losses and administrative expenses. The effectiveness of the feedback and control mechanism and management competence in maintaining the balance of the financial equation explained in the next section will be crucial to the achievement of self-sufficiency.

The project proposes the application of known risk management principles in a loan guaranty mechanism to stimulate credit expansion in a specific direction and to specific classes of individuals. The competence and capacity to develop the system already exists in Colombia as is evident in the dynamism of the economy and in the strength and record of success of existing private credit institutions.

On the one hand there are now over 20 private banks with more than 840 offices serving no less than 400 municipalities throughout the nation. In addition to these banks, there are 14 private finance corporations (corporaciones financieras) and over 1,480 cooperatives with a membership of over 1,100,000*. The private banks alone have maintained a portfolio growth of over 26 percent over the last four years. In the same period, the portfolios of the private "financieras" and the cooperatives grew at 24 percent. On the other hand, the motivation and dedication of the people and increasing economic activity are reflected in the rate of growth of the GNP of 6.8 percent between 1970 and 1974, the fourth highest in Latin America.

In terms of cost effectiveness, it is difficult to imagine a project that could have as much impact at the lowest levels of society when compared with the costs of the proposed inputs. A.I.D. will provide a guaranty, which does not require a capital transfer to initiate the fund, that is adequate (an equivalent of $6 million) to support a portfolio of up to $12 million equivalent. If the guaranty commission is based on an accurate assessment of the risk, as is suggested, the financial projections of the fund indicate that A.I.D. may never have to pay any losses.

Costs of technical assistance and project monitoring to be provided by A.I.D., and the subsidy of Banco de la Republica of $30,000 (to cover administrative expenses before the fund breaks even), are relatively small inputs compared with the cost of other development projects with similar lending capacity and socioeconomic impact.

The positive interest and disposition of the bankers contacted and of the Government of Colombia[1/] and the GOC's commitment to the program as noted in its Economic Development Plan constitute a clear indication of adequate support for the program.

B. Financial Analysis

Control of the variables in the following financial equation for the guaranty fund by the Banco de la Republica is necessary for financial success:

$$\text{Losses} + \text{Administration} + \text{Capitalization} = \text{Commission} \times \frac{\text{Possible Lending}}{\text{Absorptive Capacity}}$$

Where,

Losses = The aggregate of all the guaranty payments on defaulted loans.

Administration = The cost of salaries, overhead and support services.

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* Source: Rural Cooperatives Development CAP, Table VIII, 1975. Of the total co-ops, approximately 300 are rural, with more than 200,000 membership. Of the urban co-ops, those involved with artisan activities, as well as those dedicated to savings and loan and/or multi-function activities, are expected to become participating lenders under the program, providing guarantied credits to eligible borrowers for eligible projects.

1/ See Attachments IV and V.

Capitalization	= Any annual operating surpluses (i.e., revenues remaining after losses and administrative costs).
Commission	= The fee paid by the borrower which is established in accordance with expected rates of default and administrative costs.
Possible Lending	= The total lending volumes permitted by the available liquidity and installed capacity of the lenders.
Absorptive Capacity	= A restrictive factor determined by the relative availability of projects (principally determined by the availability of adequate numbers of participating technicians).

For an estimate of the possible effect of the guaranty system and its probable financial success, a forecast is possible using available information on the growth of private lenders' portfolios over the last five years. Table B-1 shows that their portfolios of short, medium and long-term credit grew from $301.86 million equivalent in 1971 to $365.39 million equivalent in 1975. Measuring from 1972, the yearly average compound rate of growth is 26.3 percent. This relatively stable trend is extrapolated to 1980 which shows that the portfolio of those lenders may grow from $461.2 million to over $1 billion equivalent.

For the quantification of the effect of the availability of loan guaranties, the expected new yearly credit granted by the private lenders without the system serves as a base to estimate the stimulative effect of the newly available guaranty system. The relative magnitude of this effect depends on the degree of "market penetration" of the system. Assuming that the eligible system, for purposes of this project, is comprised of the 840 existing bank offices and approximately one-third of the existing cooperatives (or 540), the total lending under the program may reach significant levels. Assuming aggressive promotion and strong response by lenders, it is possible that by 1980 the system would be stimulating new credit for an aggregate amount of nearly $49 million equivalent. This estimate is derived from the assumptions that: a) average project size is $15,000[1/]; b) bank branch offices make an average of two loans per office; and c) participating cooperatives make an average of three loans per cooperative. This would result in a stimulative effect of 20 percent of the normal credit forecast without the project. As this effect cannot be expected to be as strong in the first year, it is estimated at one percent for 1977. Assuming that the average loan will be for 24 months, the total portfolio guarantied by the fund could approach $76 million equivalent--a little over six percent of the estimated portfolio of loans of $1.2 billion equivalent not under the guaranty fund. See Tables B-1 and B-2. Tables B-3 and B-4 represent other less optimistic assumptions. Obviously, whether the program reaches the levels indicated in Tables B-1 and B-2 depends upon both program promotion and lender response. However, the firm GOC commitment to and support for the program suggests that promotion is likely to be strongly emphasized. Lender response should also be strong based on discussions held with potential participating lenders.

1/ It is expected that the average group project will require financial assistance or some $30,000 equivalent. The $15,000 represents our best estimate of a mix of group projects and individuals' projects.

If the credit expansion projected in Table B-1 takes place and administrative expenses and losses are held constant, the effect on the capitalization of the fund will be as shown in Table B-2. Obviously, there is an infinite variety of possibilities of levels both of credit expansion and administrative expenses but, for the purpose of this analysis, the presentations in Tables B-2 and B-4 will suffice.

Although recognizing absolute conclusions cannot be drawn from the above financial projections, the project appears quite viable. In Table B-2, with stabilization of losses at 3 percent, with the established national credit system growth, and with stable project administrative expenses, at the end of the second year the break-even point would be reached.

It is stressed, however, that A.I.D. guaranty coverage for new lending in the proposed program beyond December 31, 1977, will not be forthcoming unless the U.S. Congress extends the authority (see Attachment I) beyond that date.

Under very optimistic assumptions the portfolio is not expected to grow higher than $1.2 million equivalent in the first year, which will require only $0.6 million of A.I.D. exposure. See lines 17 and 19 of Table B-2 on page 24.

TABLE B-1

HISTORICAL PRIVATE BANKS' PORTFOLIO OF SHORT, MEDIUM, AND LONG-TERM CREDIT FROM 1971 to 1975; FORECAST TO 1980, AND EXPECTED STIMULATION BY THE PCGP - ALTERNATIVE I (Optimistic)

(in millions of dollars[1])

Year	Portfolio	New Credit	PCGP Stimulation[2]	PCGP Portfolio[3]
1971	301.86			
1972	181.26	-120.6		
1973	226.98	45.7		
1974	279.43	52.5		
1975	365.39	86.0		
	(Growth) (26.3%)			
1976	461.22	95.8		
1977	582.53	121.3	1.2	1.2
1978	735.74	153.2	10.7	11.9
1979	929.23	193.5	27.1	37.8
1980	1,173.62	244.4	48.9	76.0
		808.2	87.9	

1/ US $1 = COL $35.25

2/ Stimulation of one percent in the first year to 20 percent in the fourth year.

3/ Expected average loan is 24 months.

Source: Statistics were provided by Banco de la República.

TABLE B-2

PRODUCTIVE CREDIT GUARANTY FUND
ESTIMATE OF INCOME AND EXPENSES AND FINANCIAL STRENGTH 1/
1977-1988

(in thousands of dollars)

		1977	1978	1979	1980
1.	Credit 2/	1,213	10,724	27,090	48,880
A.	INCOME				
2.	Guaranty Commission (.03x#1)	36	322	813	1,466
3.	Sale and Rediscount Commission (.C05x#1)	6	53	135	244
4.	Interests (24%)	5	52	197	463
5.	Recuperations (.25x#13+1Yr)	-	-	9	81
6.	Pre-Investment Assistance (.05x#1)	60	536	1,354	2,444
7.	Guaranty Payments by AID	-	-	-	-
8.	Subsidy by Bank of the Republic	26	-	-	-
	TOTAL	133	963	2,508	4,698
B.	EXPENSES				
9.	Salaries	25	25	25	25
10.	"Cesantías" Generated	1	1	1	1
11.	Pre-Investment Assistance (.9x#6)	54	482	1.219	2,200
12.	" " " (.1x#6)	6	54	135	244
13.	Payments of Guaranties (.03x#1-1yr.)	-	36	322	813
14.	Administrative Expenses	15	15	15	15
15.	Guaranty Fee to AID (.0025x#1)	3	27	68	122
	TOTAL	104	640	1,785	3,420
A - B -	To Capitalize the Fund	29	323	723	1,278
16.	Fund	29	352	1,075	2,353
17.	AID Exposure	606	[5,968]	[18,907]	[37,985]
18.	Banco de la República Exposure	303	2,984	9,453	18,992
19.	Portfolio	1,213	11,937	37,814	75,970

1/ Accounts are explained in next page.
2/ From Table B-1

TABLE B-3

CREDIT FORECAST TO 1980 AND POSSIBLE STIMULATION BY THE PCGP - ALTERNATIVE II (Conservative)

(in millions of dollars[1/])

Year	New Credit	PCGP Stimulation[2/]	PCGP Portfolio[3/]
1976	95.8	-	-
1977	121.3	.6	.6
1978	153.2	5.4	6.0
1979	193.5	13.5	18.9
1980	244.4	24.5	38.0
	808.2	44.0	

1/ U.S. $1 = Col. $35.25

2/ Stimulation one-half percent in the first year to ten percent in the fourth year.

3/ Expected average term is 24 months.

Source: Table B-1

For the financial projections in Table B-4, a more conservative stimulative effect of the PCGP was assumed under four possible scenarios:

1. that in the first year credit expansion of only one-half percent above the normal trend will be caused by the PCGP ($600,000 equivalent), and that by 1980, half of the private banks' offices (840) and cooperatives (790) existing today will be regular participants in the program. Each will be then assumed to be funding two subprojects per year at an average of $15,000 equivalent for a total of $24.5 million equivalent, or

2. that the same one-half percent above the normal trend will be possible and that by 1980 all the banks' offices and cooperatives (1630) will be funding not two, but one, subproject for an average of $15,000 equivalent, or

3. that one-half percent above the normal trend will be possible and that by 1980 all 1630 offices and cooperatives will be funding two subprojects each for an average of $7,500 equivalent, or

4. that one-half percent above the normal trend will be possible and that by 1980, half of the 1630 offices and cooperatives will be funding one subproject for an average of $30,000 equivalent.

TABLE B-4

PRODUCTIVE CREDIT GUARANTY FUND
ESTIMATE OF INCOME AND EXPENSES AND FINANCIAL STRENGTH[1]
1977-1978

(in thousands of dollars)

	1977	1978	1979	1980
1. Credit[2]	600	5,400	13,500	24,500
A. REVENUES				
2. Guaranty Commission (.03 x #1)	18	162	405	735
3. Sale and Rediscount Commission (.055 x #1)	3	27	67	123
4. Interest (24%)	2	21	84	201
5. Recuperations (.25 x #13 + 1 Yr)	-	-	5	45
6. Pre-Investment Assistance (.05 x #1)	30	27	675	1,225
7. Guaranty payments by A.I.D.	-	-	-	-
8. Subsidy by Bank of the Republic	26	-	-	-
TOTAL	79	237	1,236	2,329
B. EXPENDITURES				
9. Salaries	25	25	25	25
10. "Cesantias" Generated	1	1	1	1
11. Pre-investment Assistance (.9 x #6)	27	24	608	1,103
12. Pre-investment Assistance (.1 x #6)	3	3	67	122
13. Payments of Guaranties (.03 x #1 - 1 Yr)	-	18	162	405
14. Administrative Expenses	15	15	15	15
15. Guaranty Fee to A.I.D. (.0025 x #1)	1	13	34	61
TOTAL	72	99	912	1,732
A - B = Operating Surplus(es) Available to Capitalize the Fund	7	138	324	597
TOTAL ASSETS (real and contingent)				
16. Fund	7.0	145.0	469.0	1,066.0
17. A.I.D. Guaranty Exposure	0.3	3.0	(9.5)	(19.0)
18. Banco de la Republica Guaranty Exposure	0.2	1.5	4.8	9.5
PORTFOLIO UNDER GUARANTY				
19. Portfolio	0.6	6.0	18.9	38.0

1/ See explanation of accounts on page
2/ From Table B-3

Explanation of Items on Tables B-2 and B-4

1. Credit - Based on credit projections on Table B-1.

2. Guaranty Commission - As described earlier, a commission of 3 percent is assumed to be appropriate for initiation of operations. With the control mechanism effectively stabilizing losses below 3 percent, the fund could safely support a portfolio equal to ten times its capital. However, since the capitalization of the fund (represented by the difference between revenues and claims paid plus administrative expenses) may not reach significant levels for some time, the counter guaranty of A.I.D. and Banco de la Republica is nonetheless necessary for the foreseeable future.

3. Sale and Rediscount Commission - This represents a charge by the Banco de la Republica of one-half percent and is estimated to cover the administrative cost of rediscounting the paper generated by the program from participating lenders. As with the charge for the guaranty commission, it may need to be adjusted as the project develops.

4. Interest - Half of the year's income from commissions, and the accumulated surpluses (if any) will yield 24 percent per year, if invested in prime GOC investment instruments like UPACs or similarly secure alternatives.

5. Recuperations - This represents an estimate that about one-fourth of the guaranty payments made the previous year will be recuperated by the fund.

6. Preinvestment Assistance - Up to 5 percent of the credit granted by participating lenders will go for payment of technical assistance to Bank of the Republic. The bank will in turn pay the technicians as explained in Nos. 12 and 13, below.

7. Guaranty Payments by A.I.D. - The payments made by A.I.D. under its obligation to pay 75 percent of each loan, up to 50 percent of the portfolio, in the event the fund's resources are exhausted. No figures are entered because of the assumption that the guaranty commissions will be adequate to cover expected losses.

8. Subsidy by Banco de la Republica - Before the fund generates sufficient revenues to become self-sustaining, the Bank will pay for the salaries and fringe benefits of the personnel assigned to administer the project as follows:

Monthly Salaries:

Project Director	$ 580.00	It is estimated that an amount equal to 60%% of the salaries will be paid to cover bonuses, family support subsidy, social security, medical services, contribution to Sena, vacations, seniority bonus, etc.	$ 783.00
2 Senior Analysts	435.00		
1 Analyst	145.00		
1 Secretary	145.00		
	$1,305.00		

Summary:

Total Monthly Salaries	$ 1,305.00
Total Fringe Benefits	783.00
Cesantias Generated	108.75
Total Monthly Salaries and Fringes	$ 2,196.75
Yearly subsidy by Bank of the Republic	$26,361.00

9. Salaries and Fringe Benefits - The yearly expenditure of salaries and fringe benefits as computed under No. 8, above.

10. "Cesantias" Generated - The contribution to a fund that will either pay one month's salary for every year of service, if the employee leaves the institution, or will make the payments under a pension plan after the employee retires.

11. Preinvestment Assistance - Payments to participating technicians for the elaboration of feasibility studies and financial proposals, in accordance with fee schedules negotiated with Banco de la Republica before the technician's incorporation in the guaranty system. It is estimated that 90 percent of projects studied will be found viable and funded. (The cost of this assistance is charged to the project.)

12. Lost Preinvestment Assistance - Payments to the participating technicians for project studies that resulted in negative recommendations for funding.

13. Payments of Guaranty Claims - It is estimated that each year the fund will have to pay claims guaranties of the order of 3 percent of the credit guarantied the year before.

14. Administrative Expenses - This is the payment for overhead and Banco de la Republica's support services to implement, promote and operate the project.

15. Guaranty Fee to A.I.D. - In accordance with the policy established by A.I.D. to comply with Section 223 of the FAA, the Banco de la Republica will pay to A.I.D. quarterly in Colombian pesos an amount equal to 0.25 percent of the total credit granted each year under the guaranty.

16. Fund - The accumulated yearly surplus.

17. A.I.D. Guaranty Exposure - Fifty percent of the outstanding credit. The fund will be able to support the burden of guaranty claims with expected income but the support of A.I.D. will continue to be necessary for the success of the project. Because of the A.I.D. limits of $6.0 million equivalent, and December 31, 1977,1/ the GOC/Central Bank will have to provide the necessary support above and beyond these limits.

18. Central Bank Guaranty Exposure - Twenty-five percent of the portfolio. As with the A.I.D. guaranty, the bank's support will be necessary beyond the second year.

19. Portfolio - Total portfolio under the guaranty.

1/ See page 22

C. Socioeconomic Analysis

As stated in the technical analysis section, the project will make maximum use of existing resources. No significant departures from customary banking procedures will be required of participating lenders. Accordingly, resistance to participation in the program is not expected.

The proposed project constitutes a solution to the long-felt problem of the inadequate flow and availability of credit to those individuals who are not in the normal credit system and who have productive potential -- that sector of the economically active population producing at subsistence levels because of lack of capital, or those potentially productive but unemployed for the same reason. It has been amply documented not only in Colombia, but throughout Latin America, that the lack of financial assistance at "grass roots" levels is one of the most significant constraints to socioeconomic development.

Assuming, on the basis of observation, the readiness of the population to engage in rewarding economic endeavors, an increasing spread effect of the project at the level of the borrowers will take place as potentially eligible borrowers become aware of the success of others and of the potential to increase their productivity and income through proper use of financial leverage. They will seek financial leverage for whatever accumulated capital they may have or, in the case of the dispossessed, to their input of labor.

The bulk of the initial lending will probably be used to solve problems of undercapitalization of small agricultural producers, artisans, small shop operators and small food processors and distributors. Demand from those individuals for credit will be stimulated through the advertising of credit availability by the participating lenders.

In addition to those 256 firms of associated consultants already identified by Banco de la Republica, additional technical talent to expand the list of approved consultants is expected to come from the numerous and well qualified professionals and technicians working in the public or private sector who do outside consultant work, a common practice in Latin countries. Such individuals who are qualified will be encouraged to join the program.

A spread effect will also take place at the level of the lender. As shown in the projections, it is not expected that the project will have a high stimulative effect in normal credit growth in the beginning. However, with time the system is expected to succeed in demonstrating to some lenders the benefits of its financial incentives thereby justifying to the lender the involvement with new credit users; the probability is high that other lenders will try to enter the system, and new offices will be opened to capture new previously ignored markets.

A further spread effect, involving recognition of the benefits of the project itself as a developmental tool, is already taking place. Because of the work already done with Banco de la Republica during the conceptualization of the project, the Corporacion Financiera Popular has requested and received assistance from AID/W to develop a credit guaranty system to stimulate lending for medium and small industry. The development of this system is well advanced and is expected to start operations in the first quarter of 1977, perhaps before the PCGP becomes operational. The Colombian setting appears particularly favorable for future replication of such guaranty systems. Therefore, the experience gained in Colombia will be extremely valuable in the other five countries where similar projects are also being implemented and sponsored by A.I.D.

The social impact or distribution of benefits from the project will be felt by all those involved in the operations of the guaranty system, particularly by those men and women who, for the first time, found access to economic opportunity, or those who were able to climb above subsistence levels because of financial assistance made available for their project under this program. By the fourth year of operations the program may have generated some 30,000 projects of an average cost of \$15,000 equivalent, benefiting an estimated 90,000 or more individuals within the target group. New economic opportunity, new income, upward social mobility, and better and stronger communities are typical of the benefits expected.

Although women have traditionally played important roles in the government, industry, politics, and business activities in the country, the project management will pay particular attention to assure that women will not be excluded from playing a role in the management, will participate as consultants, and will benefit from credit under the guaranty. No problems with this policy are anticipated.

D. Economic Analysis

From a macroeconomic point of view, the economic benefits of the program can be measured in terms of employment, income generation by the new credit stimulated by the guaranty system, new production of goods and services, new tax revenues, social and community development, and integration of previously neglected productive sectors of the economy.

While as stated earlier, the bulk of the benefits from the project will flow to over 90,000 individuals, there also will be substantial potential benefits to the participating lenders in the guaranty system. In addition to the individual who receives a salary and/or net profit from his/her efforts, the lender can count on tangible financial returns made possible by the guaranty mechanism, as explained in the technical analysis. As a result, not only will the yield of small loans to the target group be comparable with the yield of other possible investments, but involvement with such new clients may develop substantial future sources of credit demand, able to function in the traditional credit system. Using the first four-year credit forecast prepared for the financial analysis, assuming an average net yield of 3 percent from the credit of $88 million equivalent granted by the participating lenders, and without a need to increase installed capacity, there may be a total profit realized of $2.6 million equivalent.

With respect to the individual borrower, assuming that benefits to the borrower will not only be in terms of the net return from his/her project but also in terms of the savings from a lower cost of borrowed funds, those savings will amount to the difference between the "loan shark" rate of at least 4 percent per month and the 20 percent per year (the current average institutional charge), a difference of roughly 24 percent. This translates into some $21.1 million equivalent, if the $88 million equivalent forecast is loaned at an average term of two years.

Lastly, with an average cost of 5 percent of the credit for preinvestment technical assistance, the participating technicians will be able to earn fees for some $4.3 million equivalent.

It will be difficult to quantify the benefits from new direct and indirect employment created, new taxes to the local and national governments (from credit users, lenders and technicians), and strengthening of the communities of the beneficiaries. It can be stated, however, that if the project is implemented and the forecast realized, a modest 50 percent average gross return from the $88 million forecast will add $44 million to the economy, and the guaranty fund will have accumulated a surplus of some $2.4 million equivalent. At that time the fund will have sufficient financial strength to continue guaranty operations without the counterguaranties of A.I.D. and Banco de la Republica.

IV. Implementation Arrangements

The process of eligible lenders and technicians is expected to be lengthy, but relatively easy. The most critical task, because of the need for thoroughness, will be the training of the administrative staff and organization of the administrative unit at the Banco de la Republica.

A. Administrative Arrangements

1. Recipient - The Banco de la Republica as administrator of the guaranty system will be the administrator of the A.I.D. guaranty that shall flow through the guaranty fund to the participating lenders. The technical strength of the bank and its authority in monetary matters make it the most capable institution in the country to implement and operate the project.

The administrative unit will be staffed initially in accordance with the perceived medium term needs of the project by three full-time professionals, who will receive from A.I.D. the necessary training and assistance in the development, implementation and operation of the guaranty system.

2. Lenders - The eligible lenders will be invited to participate. Those interested will receive training on how to operate in accordance with project policies and procedures, and portfolio quotas will be assigned in accordance with their relative strength, before they are authorized to start lending operations under the system.

3. Technicians - All the technicians in the directory developed by the Banco de la Republica will be invited to participate. Fees will be negotiated with those interested on the basis of reasonable salaries and direct and indirect expenses. Training sessions will also be held to familiarize them with the contents of the operating handbooks before they are authorized to start operations under the system.

4. A.I.D. - The officer assigned by the Project Committee to maintain contact with Banco de la Republica will be thoroughly familiar with project objectives, operating policies and procedures.

B. Implementation Plan

The following calendar of events applies to the implementation of the project as agreed with the Central Bank:

1 - Resolution of Board of Directors of Central Bank approving the creation of the guaranty fund with initial strength of $851,000 equivalent.[1]	November 1976
2 - Submission Project Paper to DAEC.	January
3 - Guaranty Authorization. See Attachment VII.	January 1977
4 - Negotiation of Project Agreement.	January/February
5 - Presentation of Project and Negotiated Agreement to CONPES[2] by Central Bank and Consejo Nacional de Planeacion (CNP)	February

1/ Acta No. 353 of November 25, 1976
2/ Consejo Nactional de Politica Economica y Social

6 - Approval of Project by President and Signature of Agreement.1/	February
7 - Training of Central Bank Staff and Completion of Handbooks.	February
8 - Analysis and Classification of Lenders.	March
9 - Evaluation and Classification of Technicians.	March
10 -System Promotion with Lenders and Technicians.	March
11 -Training of Lenders and Technicians.	April
12 -Start of Operations.	April

C. Evaluation Arrangements

The flow of information from the Banco de la Republica to USAID will permit a quarterly review of the project's operations. Reports will cover operational statistics on borrowers, projects, geographic coverage, economic activities supported, technical assistance services, credit volumes, lenders' activities, portfolio status, delinquencies, financial condition of the fund, etc.

This information will facilitate A.I.D.'s monitoring of operations and verifications of compliance with project operating plans to achieve mutually defined project objectives. A.I.D. will carry out periodic visits to the Banco de la Republica and will maintain constant communication to facilitate exchange of information.

Under existing regulatory provisions, the Superintendent of Banks will maintain the supervision of the lenders' utilization of rediscount resources. Moreover, in accordance with the project's operating procedures, the staff of the administrative unit will also carry out audits and inspections every time the monthly report of the lenders to the Banco de la Republica indicate that such actions are necessary.

Lastly, the Banco de la Republica will publish yearly a PCGP report with results and evaluation of the year's operations.

1/ It is expected that after presentation to and approval by CONPES, approval by the President and signature of the negotiated agreement will follow. The exact approval procedure preferred by the GOC for this type of economic assistance agreement cannot be accurately predicted at this time, and the timing for the signature may slip.

ATTACHMENT I

Section 222A - Agricultural and Productive Credit and Self-Help Community Development Programs

(a) It is the sense of the Congress that in order to stimulate the participation of the private sector in the economic development of less-developed countries in Latin America, the authority conferred by this section should be used to establish pilot programs in not more than five Latin American countries to encourage private banks, credit institutions, similar private lending organizations, cooperatives, and private nonprofit development organizations to make loans on reasonable terms to organized groups and individuals residing in a community for the purpose of enabling such groups and individuals to carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms. Agricultural credit and assistance for self-help community development projects should include, but not be limited to, material and such projects as wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, food industry development, nutrition projects, improved breeding stock for farm animals, sanitation facilities, and looms and other handicraft aids.

(b) To carry out the purposes of Subsection (a), the agency primarily responsible for administering Part I is authorized to issue guaranties, on such terms and conditions as it shall determine,to private lending institutions, cooperatives, and private nonprofit development organizations in not more than five Latin American countries assuring against loss of not to exceed 50 percent of the portfolio of such loans made by any lender to organized groups or individuals residing in a community to enable such groups or individuals carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms. In no event shall the liability of the United States exceed 75 percent of any one loan.

(c) The total face amount of guaranties issued under this section outstanding at any one time shall not exceed $15,000,000. Not more than ten percent of such sum shall be provided for any one institution, cooperative, or organization.

(d) The Inter-American Foundation shall be consulted in developing criteria for making loans eligible for guaranty coverage in Latin America under this section.

(e) Not to exceed $3,000,000 of the guaranty reserve established under Section 223(b) shall be available to make such payment as may be necessary to discharge liabilities under guaranties issued under this section or any guaranties previously issued under Section 240 of this Act.

(f) Funds held by the Overseas Private Investment Corporation pursuant to Section 236 may be available for meeting necessary administrative and operating expenses for carrying out the provisions of this section through June 30, 1976.

(g) The Overseas Private Investment Corporation shall, upon enactment of this subsection, transfer to the agency primarily responsible for administering Part I all obligations, assets and related rights and responsibilities arising out of, or related to, the predecessor program provided for in Section 240 of this Act.

(h) The authority of this section shall continue until December 31, 1977.

(i) Notwithstanding the limitations in Subsection (c) of this section, foreign currencies owned by the United States and determined by the Secretary of the Treasury to be excess to the needs of the United States may be utilized to carry out the purposes of this section, including the discharge of liabilities under this subsection. The authority conferred by this subsection shall be in addition to authority conferred by any other provision of law to implement guaranty programs utilizing excess local currency.

(j) The President shall, on or before January 15, 1976, make a detailed report to the Congress on the results of the program established under this section, together with such recommendations as he may deem appropriate.

Section 223 - General Provisions

(a) A fee shall be charged for each guaranty issued under Section 221, 222, or 222A in an amount to be determined by the President. In the event the fee to be charged for such type guaranty is reduced, fees to be paid under existing contracts for the same type of guaranty may be similarly reduced.

ATTACHMENT II

PROJECT CHECKLIST
for
PRODUCTIVE CREDIT GUARANTY PROJECT

1. Section 222A(a): Will the project encourage private banks, credit institutions, similar private lending organizations, cooperatives or private nonprofit development organizations to make loans for agricultural credit and self-help community development projects?

Yes. The project is specifically designed to achieve this objective. See statements of goal and purpose for the project.

2. Section 222A(a): Will the project loans be made on reasonable terms to organized groups or individuals residing in a community to enable them to carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms?

Yes. Project loans will be made only to such individuals and groups, and only for their agricultural and self-help community development projects for which they are unable to obtain credit on reasonable terms. Loan terms will be those prevailing in the financial market for all traditional credit customers of the participating financial institutions, plus a charge for the loan guaranty.

3. Section 222A(a): Will the agricultural credit and self-help community development projects include such projects as wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, food industry development, nutrition projects, improved breeding stock for farm animals, sanitation facilities and looms and other handicraft aids?

Yes. All such projects will be eligible for credit under this program.

4. Section 222A(c): Will the total face amount of guaranties, including the one for this project, exceed $15,000,000?

No. If this project is approved at the level of guaranty requested ($6.0 m), a total face amount of $9.0 m in guaranties will have been approved. (In CY 1976, a $3.0 m guaranty program for Honduras was approved.)

5. Section 222A(b): Will the total number of Latin American countries receiving guaranties under Section 222A, including the one for this project, exceed five?

No. With approval of this project, only Honduras and Colombia will have received this guaranty program.

6. Section 222A(b): Will the guaranty assure against the loss of more than 50 percent of the portfolio of eligible loans made by any lender:

No. the guaranty agreement shall so state.

7. Section 222A(b): Will the liability of the United States exceed 75 percent of any one loan?

No. The guaranty agreement shall so state.

8. Section 222A(c): Will more than $1,500,000 in face amount of guaranties be provided for any one institution, cooperative or organization?

No. The guaranty agreement shall so state.

9. Section 222A(d): Has the Inter-American Foundation been consulted in developing criteria for making loans eligible for guaranty coverage?

Yes. The official guidelines for borrower and project eligibility established by AID/W for Section 222A programs were developed in consultation with the Inter-American Foundation. Those guidelines will be incorporated into the official operating manual for this program.

10. Section 222A(b): Do the participating institutions understand that A.I.D. cannot issue any guaranties after December 31, 1977?

Discussions on this topic have been carried on exclusively with the Colombian Central Bank, the co-guarantor and in-country administrator for the project. After the guaranty agreement is signed, eligible participating institutions will be incorporated into the program and informed of this fact as well as all other operating regulations.

11. Section 223(a): Will a fee be charged for each guaranty issued under Section 222A in an amount to be determined by the President?

Yes. A guaranty fee of 0.0025 (one-fourth of one percent) for each loan has been established by AID/W for all programs approved under Section 222A. This fee will be paid to A.I.D. for the guaranty.

12. Section 223(h): Will appropriate steps be taken to assure that no payment will be made under the guaranty for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?

Yes. The guaranty agreement will so state.

Colombia - Aug 20/76.

ATTACHMENT III

BEST AVAILABLE DOCUMENT

Department of State TELEGRAM

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APPROVED BY AA/LA:DONOR LION
LA/GC:TLEVY (DRAFT)
LA/DP:KABRAHAMS (DRAFT)
LA/OPNS:CUYEHARA (DRAFT)
LA/NC:MKRANZ (DRAFT)
LA/DR:BSCHOUTEN (DRAFT)
LA/DR:MBROWN (DRAFT)
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AMEMBASSY SANTIAGO

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AIDAC

E.O. 11652: N/A

SUBJECT: PCGP - USAID/COLOMBIA PRP

REF: A) AIDTO - CIRC A-393

SUBJECT PRP WAS INFORMALLY REVIEWED AND APPROVED BY THE DAEC. PP SHOULD BE DEVELOPED IN ACCORDANCE WITH THE FOLLOWING GUIDANCE:

1. BORROWER AND PROJECT ELIGIBILITY - ELIGIBILITY CRITERIA MUST BE DEVELOPED CONSISTENT WITH GUIDANCE TRANSMITTED IN REF (A). MISSION SHOULD EXAMINE THE IMPLICATIONS OF GC DEFINITION PARTICULARLY AS IT AFFECTS IN COLOMBIA THE AP-

PLICATION OF RISK-MANAGEMENT TECHNIQUES IN WHICH RISK DIVERSIFICATION IS PRIME OBJECTIVE. THE PP SHOULD CONTAIN A SOCIOECONOMIC PROFILE OF EXPECTED BENEFICIARIES TO ESTABLISH POTENTIAL IMPACT ON A.I.D.'S TARGET GROUP.

2. MISSION MANAGEMENT OF PCGP - PP SHOULD EXPLAIN HOW MISSION WILL MANAGE THE PROJECT THROUGH DEVELOPMENT, IMPLEMENTATION AND OPERATION STAGES WITHOUT IMPEDING ABILITY TO CARRY OUT OTHER ACTIVITIES. PP SHOULD ALSO EXPLAIN RELATIONSHIP OF PCGP TO PHASE-OUT PLAN AND PROVISIONS FOR GOC-AID SUPPORT OF THE PROJECT AS MISSION WITHDRAWS FROM COLOMBIA.

3. TECHNICAL ASSISTANCE BY A.I.D. - PRP INDICATES THE NECESSITY OF 36 MAN-MONTHS OF LOCALLY PROCURED TECHNICAL ASSISTANCE TO THE CENTRAL BANK. MISSION SHOULD ESTABLISH IN PP THE NATURE AND SCOPE OF SUCH ASSISTANCE, AND THE RATIONALE FOR A.I.D. FUNDING OF LOCALLY PROCURED T.A.

4. AMOUNT OF GUARANTY REQUESTED - PRELIMINARY CREDIT PROJECTIONS APPEAR CONSERVATIVE IN LIGHT OF COLOMBIA'S ECONOMIC ACTIVITY AND CREDIT SYSTEM CAPACITY. FINAL ESTIMATE OF POTENTIAL PROJECT CREDIT STIMULATION SHOULD BE CALCULATED TAKING INTO ACCOUNT POSSIBLE NUMBER OF PARTICIPATING LENDING INSTITUTIONS; AVAILABILITY OF TECHNICIANS FOR PROJECT AND FINANCIAL PROPOSAL FORMULATIONS AND ASSISTANCE IN IMPLEMENTATION; AND AVAILABILITY OF FUNDS FOR LENDING.

5. ADEQUACY OF GUARANTY SYSTEM - PP SHOULD EXPLAIN CURRENT BANKING POLICIES REGARDING AMOUNTS AND TYPES OF COLLATERAL GENERALLY REQUESTED FOR TYPICAL LINES OF CREDIT TO INDIVIDUALS AND GROUPS; GENERAL PROFITABILITY OF REGULAR LENDING OPERATIONS AND POTENTIAL PROFITABILITY OF PCGP LENDING OPERATIONS; AND SPECIAL REDISCOUNT TERMS IF NECESSARY TO COMPENSATE ANY ADDITIONAL COSTS OF RELATIVELY SMALL AND MORE DIFFICULT LOANS UNDER THE PCGP PROJECT.

6. TOTAL COSTS TO BORROWER - SINCE THE PURPOSE OF THE GUARANTY SYSTEM IS TO PROVIDE ACCESS TO INSTITUTIONAL CREDIT AT REASONABLE COST TO DISADVANTAGED INDIVIDUALS WITHOUT SUFFICIENT COLLATERAL, PROJECT DESIGN SHOULD PROVIDE AN ALTERNATIVE LESS EXPENSIVE THAN CURRENT NONINSTI-

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TUTIONAL SOURCES.

7. MAXIMUM LOAN AMOUNT - MAXIMUM LOAN AMOUNTS SHOULD BE ESTABLISHED FOR INDIVIDUALS AND FOR GROUPS. AMOUNTS RECOMMENDED SHOULD REFLECT THE PREDOMINANT EMPHASIS OF THE AUTHORIZING LEGISLATION ON SMALL-SIZE PROJECTS.

EARLY SUBMISSION OF PP (VIZ., LATE OCTOBER - EARLY NOVEMBER) IS DESIRABLE AND WOULD APPEAR FEASIBLE GIVEN COLOMBIAN INTEREST IN AND FAMILIARITY WITH PCGP CONCEPTS. PLEA[illegible] ADVISE MISSION TARGET SUBMISSION DATE, AND IF TDY ASSIS[illegible] TANCE TO SUPPLEMENT MISSION-GOC PROJECT DEVELOPMENT EFFO[illegible] IS REQUIRED. KISSINGER

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ATTACHMENT IV

MINISTERIO DE HACIENDA Y CREDITO PUBLICO

DEPENDENCIA:

NUMERO:

Bogotá, D.E. junio 30 de 1972

Mr. KENNETH W. DAVIDSON
Director
Community Credit Guaranty Program
Washington, D.C. 20527, U.S.A.

Dear Mr. Davidson :

Mr. Claudio Fernández has informed the Government of Colombia on the Community Credit Guaranty Program, which we find very interesting.

We would like you to consider the possibility of entering Colombia as a participating nation. Once you define such possibility the Colombian authorities would be glad to work out with your representatives the required legal arrangements in order to start off the program.

Sincerely,

HUGO PALACIOS MEJIA
Ministro de Hacienda y Crédito Público
Encargado.

Department of State

D/R

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AIDAC

E.O. 11652: N/A
TAGS: N/A
SUBJECT: PRODUCTIVE CREDIT GUARANTY (PCGP) PROJECT PAPER

1. USAID RECEIVED GOC LETTER 12/22/76 WHICH CONSTITUTES GOVERNMENT FORMAL REQUEST FOR PCGP PROGRAM. TEXT QUOTED PARA 3 BELOW, TO BE INCORPORATED IN SUBJECT PP AS ATTACHMENT V.

2. WITH RECEPT OF LETTER, MISSION CONCURS TO DDAEC PROJECT PRESENTATION ON FOLLOWING BASIS. THAT IS LA/DR STAFF WILL MAKE MODIFICATIONS TO PP TO INCORPORATE THOSE THREE KEY ISSUES DISCUSSED DURING LEJOWSKI, VELASQUEZ & SUMA 12/22/76 TELECON AND, TO THE EXTENT POSSIBLE, THE OTHER POINTS IDENTIFIED.

3. QUOTE:

"DEAR MR. MEGELLAS:

SUBJECT: PRODUCTIVE CREDIT GUARANTY PROGECT

"IN REFERENCE WITH YOUR LETTER DATED DEC. 1, 1976, I WOULD LIKE TO REITERATE TO YOU THE INTERST OF THE NATIONAL GOVERNMENT IN ORGANIZING THE PRODUCTIVE CREDIT GUARANTY FUND (PCGP) AS WELL AS THE WISH OF THE DNP (NATIONAL PLANNING DEPARTMENT) IN ADVANCING THOSE STEPS NECESSARY WITH AID TO OBTAIN ECONOMIC

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ASSISTANCE IN ORDER TO CREATE THE PCGP.

"THE BANCO DE LA REPUBLICA (BOR) HAS THE RESPONSIBILITY TO PUT INTO OPERATION THE GUARANTY PROGRAM AND, THEREFORE, THE BOR WILL BE THE COLUMBIAN ENTITY THAT WILL PARTICIPATE DIRECTLY WITH YOU. I WOULD LIKE TO MENTION THAT THE BOR HAS CREATED WITH NATIONAL RESOUCES, WITHIN ITS OWN STRUCTURE, A GUARANTY FUND FOR THE AGRICULTURE AND LIVE STOCK SECTOR THAT CONSTITUTES THE COUNTERPART FUNDS THAT THE GOC WOULD FULLFILL ITS COMMITMENT WITH AID.

"PENDING ACTIONS TO ACHIEVE THIS PROPOSAL CAN BE SUMMARIZED:

A. NEGOTIATION OF THE PROJECT AGREEMENT THAT WOULD BE SIGNED BETWEEN AID AND THE COLOMBIAN GOVERNMENT.

B. PRESENTATION AND APPROVAL OF THE OPERATION BY THE COLUMBIAN NATIONAL COUNCIL OF ECONOMIC AND SOCIAL POLICY.

C. APPROVAL OF THE GUARANTY BY AID.

D. SIGNING OF THE AGREEMTN.

SINCERELY YOURS,

JOHN NARANJO DOUSDEBES
DEPUTY DIRECTOR
DEPARTAMENTO NACIONAL DE PLANEACION
DATE DECEMBER 12, 1976"

4. ADVISE.
SANCHEZ

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Department of State TELEGRAM

Velasquez

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ACTION COPY

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TO SECSTATE WASHDC 8999

UNCLAS BOGOTA 02637

AIDAC

E.O. 11652: N/A
SUBJECT: PCGP
REF: GOC LETTER OF REQUEST FOR AID ASSISTED PCGP DATED 12/20/76

PASS LIJEWSKI & VELASQUEZ, LA/DR

1. IN RESPOSE TO QUESTION RAISED IN LIJEWSKI, VELASQUEZ & SUNA 12/23/76 TELECON, MET WITH GABRIEL GOMEZ, BOR PCGP COUNTERPART, SAME DAY.

2. DURING CONVERSATION AT WHICH TIME COPY OF HONDURAN PCGP SIGNED AGREEMENT WAS GIVEN TO GOMEZ, HE ASSURED ME THAT BOR IS PREPARED AND READY TO PROVIDE COUNTERPART NECESSARY TO IMPLEMENT AID - GOC PCGP PROGRAM.
SANCHEZ

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ATTACHMENT VI

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE FOREIGN ASSISTANCE ACT

I, James Megellas, the principal officer of the Agency for International Development in Colombia, having taken into account among other factors the maintenance and utilization of projects in Colombia previously financed or assisted by the United States, do hereby certify that in my judgment Colombia has the technical capability and physical and human resources to develop and maintain the administrative system required to utilize the proposed $6,000,000 of loan guaranty authority under the Productive Credit Guaranty Program. Section 222A, FAA of 1974.

James Megellas

James Megellas
USAID Mission Director

GUARANTY AUTHORIZATION

Provided From: FAA Section 222A

Colombia: Productive Credit Guaranty Program

Pursuant to the authority vested in me as Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended ("the Act"), and the delegations of authority issued thereunder, I hereby authorize the issuance of a guarantee to eligible private lenders in the Republic of Colombia ("eligible lenders") pursuant to Section 222A of the Act and in furtherance of the Alliance for Progress for an aggregate amount not to exceed six million United States dollars ($6,000,000) ("Guaranty"). The Banco de la República of Colombia ("Administrator") shall establish a Productive Credit Guaranty Fund ("Fund") pursuant to the Productive Credit Guaranty Program "PCGP") for the purpose of repaying eligible loans ("loans") made by any eligible lender on which a default has occurred. The guaranty shall be subject to the following terms and conditions:

I. Period of Eligibility

The guaranty provided herein shall be applicable to loans made by any eligible lender subsequent to the date on which the Agency for International Development ("A.I.D.") notifies the Administrator that all applicable conditions precedent have been satisfied with respect to the fund ("commencement date"), but shall not be applicable to loans made after December 31, 1977.

II. Amount of Guaranty

Upon a showing by the Administrator that the resources of the Fund have been totally depleted, A.I.D. shall pay to each eligible lender pursuant to the guaranty, an amount equal to seventy-five percent (75%) of the outstanding principal balance of each loan on which a default has occurred; provided, however, that in no event shall A.I.D. pay to any eligible lender an amount which represents more than fifty percent (50%) of the outstanding balance of principal of loans made by the lenders in any discrete calendar year; provided further, that the aggregate A.I.D. liability under this guaranty shall in no event exceed six million United States dollars ($6,000,000).

III. Commission and Fees

Each borrower shall pay to the eligible lender a guaranty commission in an amount that shall not exceed five percent (5%) of the amount of each loan made by such eligible lender under the PCGP ("guaranty commission"), which guaranty commission shall be paid immediately into the Fund by such eligible lender. The Administrator shall pay to A. I. D. in Colombian pesos on a quarterly basis a guaranty fee in an amount equal to .25 percent (1/4%) of the amount of each loan guaranteed during such period ("guaranty fee").

IV. Conditions Precedent

A. Prior to the issuance of the first guaranty under the PCGP, the Administrator shall submit to A. I. D. in form and substance satisfactory to A. I. D.:

(1) a time-phased implementation plan for the PCGP;

(2) a roster of the Administrator's personnel responsible for the implementation of the PCGP;

(3) a standard guaranty agreement form to be executed by and between the Administrator and each eligible lender;

(4) an agreement between the Administrator and the entities which shall provide technical assistance pursuant to the PCGP;

(5) a sample of the PCGP operating handbooks which shall be distributed to each eligible lender, and each eligible participating technician; and

(6) Evidence that programs for training personnel of the Administrator and of eligible lenders have been established.

B. Prior to the commencement date for each eligible lender, the Administrator shall submit to A. I. D., in form and substance satisfactory to A. I. D.:

(1) a copy of the guaranty agreement between the Administrator and such eligible lender; and

(2) evidence that such eligible lender has completed the required training pursuant to the PCGP.

V. Covenants

The Administrator shall covenant and agree to:

A. pay to the eligible lender an amount equal to seventy-five percent (75%) of the outstanding principal balance of each defaulted loan less the aggregate amounts paid to such eligible lender by the fund or by A. I. D. pursuant to the guaranty;

B. pay the administrative expenses of the guaranty system until such time as A. I. D. may determine that PCGP is self-sufficient;

C. negotiate agreements with the lenders for the purpose of rediscounting loans made by such lenders under the PCGP;

D. obtain A. I. D. approval prior to effecting any change in plans, procedures, policies and handbooks previously approved by the administrator and A.I.D.

VI. Other Conditions

This guaranty shall be subject to such other terms and conditions as A. I. D. and the administrator deem advisable.

PROJECT TITLE: PRODUCTIVE CREDIT GUARANTY PROJECT

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: To introduce marginal borrowers into the Colombian institutional credit system	Measures of Goal Achievement: Total Credits Approved($000): 1977 600; 1978 5,400; 1979 13,500; 1980 24,500 #'s Borrowers Introduced to Credit System ($15,000 Av.Proj.size): 1977 40; 1978 360; 1979 900; 1980 1,630	Central Bank Guaranty Reports	Assumptions for achieving goal targets: Effective demand for credit among target group can be generated through this program with its particularly unique method of providing and controlling technical assistance for project investment analysis and implementation.
Project Purpose: Test a self-sufficient guaranty mechanism which will make institutional credit available to small farmers and business operators who have insufficient collateral to borrow under normal circumstances	Conditions that will indicate purpose has been achieved: End of project status. Net fund capital from guaranty fees exceeds claims on Fund due to defaults and salaries of Fund staff, and GOC adopts system and capitalizes Fund for increased operations beyond limits of forecast.	Central Bank Data	Assumptions for achieving purpose: that loan default rates will not grossly exceed expected levels (viz., no more than 3 percent of portfolio).
Outputs: Viable, self-supporting credit guaranty system	Magnitude of Outputs: Net Capitalization of Fund ($000): 1977 7; 1978 145; 1979 469; 1980 1,066	Central Bank Data	Assumptions for providing outputs: Private institution and Central Bank support for program continues at least at present high level.
Inputs: A.I.D. (1st Co-Guarantor) Est. $10,000 in technical assistance, plus a guaranty for the program in the amount of $6 million Central Bank (2nd Co-Guarantor) $27,000 budget support for guaranty fund, plus a guaranty for the program in the amount of $3 million	Inputs (continued) A.I.D. T.A. - for training Central Bank Staff (4 week program) Central Bank Support - for staff and expenses of first year of guaranty Fund operation	A.I.D. Records Guaranty Agreement	Assumptions for providing inputs: Congressional Extension of Section 222A authority.

Environmental Assessment

Project Location:	Colombia
Project Title:	Productive Credit Guaranty Program
Funding:	$6.0 million guaranty
Life of Project:	Guaranties may be issued under current authority until December 31, 1977. Guaranties will cover loans of varying terms; issued guaranties will run for the life of each loan.
Prepared by:	Edward Lijewski, Capital Projects Development Officer
Date:	January 10, 1977
Environmental Action Recommended:	Negative Determination
Concurrence:	______________________________ Charles B. Weinberg Director Office of Development Resources
Date:	January , 1977
Assistant Administrator's Decision:	Approved ______________________
	Disapproved ____________________
	______________________ Date: ________ signature

INITIAL ENVIRONMENTAL EXAMINATION

I. Examination of Nature, Scope and Magnitude of Environmental Impacts

A. Description of Project

The proposed project will enable loans to be made to small borrowers (individuals and groups) without access to traditional sources of credit because they lack sufficient collateral for agricultural credit and self-help community development projects. Examples of activities to be financed include wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, food industry development, nutrition projects, improved breeding stock for farm animals, sanitation facilities and looms and other handicraft aids. Loans will be made by eligible private financial intermediaries with a guaranty of collection of up to 75 percent of each loan offered to each lender as an incentive to participate in the program.

B. Identification and Evaluation of Environmental Impacts

The proposed project will establish a guaranty fund which will issue guaranties to encourage private banks, credit institutions, similar private lending organizations, cooperatives or private nonprofit development organizations to make loans for agricultural credit and self-help community development projects. The project loans will be made on reasonable terms to organized groups or individuals residing in a community to enable them to carry out agricultural credit and self-help community development projects for which they are unable to obtain financial assistance on reasonable terms. Eligible loans made may be rediscounted through the Central Bank. In this and other respects, the proposed project is similar to an intermediate credit operation.

It is impossible to identify precisely the specific subloans which will be made under the project. Investments in artisan activities, one type of loan expected to be made, will include small-scale weaving, knitting, carpentry, metal crafts, etc. It is expected that no significant environmental impact will derive from these activities. Small rural enterprises, including commercial and service activities, are also likely projects for the program. The environmental impact of these activities would also be negligible, with the possible exception of small industries which in some cases might have environmental effects depending on the type of industry. Agribusiness activities, also likely under the program, are expected to include small-scale services or industries established for the assembly, processing, marketing and distribution of small farmer-produced agricultural products, or for the production and distribution of factor inputs. As in the small industry category, some of the industries established in this category may have some environmental implications. However, at the present time, it is impossible to predict what these implications might be.

The majority of projects are expected to be small-scale agricultural credit activities involving more intensive cultivation of existing lands, expansion of land areas being cultivated, or the undertaking of new agricultural or livestock activities.

The above activities fall into the general class of activities which will not normally require the filing of an Environmental Impact Statement or the preparation of an Environmental Assessment, according to Section 216.2(f) of Appendix 5C of Handbook 3, entitled, Environmental Procedures, since project funds are not for the purpose of carrying out a specifically identifiable project.

In addition, the essentially intermediate-credit-institution nature of the project would appear to qualify it to the third category for which a Negative Declaration is recommended by the IEE Guidelines. In this regard, the proposed activities represent a programmatic approach which includes a variety of activities, and which have been, and will continue to be, applied by the Agency on a national basis in Latin American countries under the experimental program of small loan guaranties authorized by Section 222A of the FAA of 1974.

II. Recommendation for Environmental Action

A Negative Determination is recommended.

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-areas 1/	Impact Identification and Evaluation 2/
A. LAND USE	
1. Changing the character of the land through:	
a. Increasing the population	N
b. Extracting natural resources	N
c. Land clearing	L
d. Changing soil character	N
2. Altering natural defenses	L
3. Foreclosing important uses	N
4. Jeopardizing man or his works	N
5. Other factors	
__________	______
__________	______
B. WATER QUALITY	
1. Physical state of water	N
2. Chemical and biological states	N
3. Ecological balance	N
4. Other factors	
__________	______
__________	______

1/ See Explanatory Notes for this form.

2/ Use the following symbols:
- N - No environmental impact
- L - Little environmental impact
- M - Moderate environmental impact
- H - High environmental impact
- U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM

C. ATMOSPHERIC

1. Air additives -- N
2. Air pollution -- N
3. Noise pollution -- N
4. Other factors

______________________________ ________

______________________________ ________

D. NATURAL RESOURCES

1. Diversion, altered use of water ---------------- N
2. Irreversible, inefficient commitments ----------- N
3. Other factors

______________________________ ________

______________________________ ________

E. CULTURAL

1. Altering physical symbols ---------------------- N
2. Dilution of cultural traditions ----------------- N
3. Other factors

______________________________ ________

______________________________ ________

F. SOCIOECONOMIC

1. Changes in economic/employment patterns --------- N
2. Changes in population ---------------------------- N
3. Changes in cultural patterns ------------------- N
4. Other factors

______________________________ ________

______________________________ ________

IMPACT IDENTIFICATION AND EVALUATION FORM

G. HEALTH

1. Changing a natural environment ---------- N
2. Eliminating an ecosystem element ---------- N
3. Other factors

______________________ ______

______________________ ______

H. GENERAL

1. International impacts ---------- N
2. Controversial impacts ---------- N
3. Larger program impacts ---------- N
4. Other factors

______________________ ______

______________________ ______

I. OTHER POSSIBLE IMPACTS (not listed above)

______________________ ______

______________________ ______

______________________ ______

See attached <u>Discussion of Impacts</u>.