

1. PROJECT NO. 513-T-065	2. PAR FOR PERIOD 4/28/75 TO 3/17/76	3. COUNTRY CHILE	4. PAR SERIAL NO. T.C.I
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5. PROJECT TITLE

Agriculture Cooperative Development Loan

6. PROJECT DURATION: Began FY 75 Ends FY 79	7. DATE LATEST PROP -	8. DATE LATEST PIP -	9. DATE PRIOR PAR -
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10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: \$ 15 million	b. Current FY Estimated Budget: \$ -	c. Estimated Budget to completion After Current FY: \$ -
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11. KEY ACTION AGENTS (Contractor, Participating Agency or Voluntary Agency)

a. NAME	b. CONTRACT, PASA OR VOL. AG. NO.

I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION (X)			B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
USAID	AID-W	HOST		
		X	1. IFICOOP will report on the role and functions of the individuals in the information and internal audit suggested positions and on the assignment of responsibilities for overall financial management and control, i.e., how well these aspects of IFICOOP's operations are functioning.	Next semi-annual review
		X	2. IFICOOP will report on arrangements with AUDICOOP for providing financial management assistance to IFICOOP's clients.	"
		X	3. IFICOOP will clarify its plans for using technical assistance Loan funds and will report on staffing of the Technical Assistance Unit.	"
		X	4. Loan evaluations should note favorable or unfavorable impacts of the sub-projects on the role of women.	Constant
		X	5. A.I.D. will be given a copy of IFICOOP's internal appraisals and recommendations (concerning sub-projects) as prepared for the Credit Committee.	Constant
X			6. A.I.D. will consider whether the present \$ 250,000 level for subloans requiring its prior approval can be increased.	Next semi-annual review

(See continuation sheet)

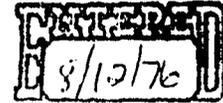
D. REPLANNING REQUIREMENTS						E. DATE OF MISSION REVIEW	
REVISOR OR NEW:	<input type="checkbox"/> PROP	<input type="checkbox"/> PIP	<input type="checkbox"/> PRO AG	<input type="checkbox"/> PIO/I	<input type="checkbox"/> PIO/C	<input type="checkbox"/> PIO/P	17 March 1976
PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE				MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE			
James Unti 13 July 1976				James L. Roush 15 July 1976			

* See page 10

IFICCCP-USAID Joint Review No. 1

March 15, 16, 17, 1976

San Antonio No. 220
Santiago, Chile



A. BACKGROUND AND INTRODUCTION.

A \$15,000,000 Agricultural Cooperative Development Loan, No. 513-T-065, was signed on April 30, 1975, between A. I. D. and IFICCCP with the GCC as guarantor. All the conditions precedent to disbursement were met by October 29, 1975, and first disbursement was made on December 2, 1975.

As reflected in Implementation Letter No. One, page 7, A. I. D. and IFICCCP agreed to have semi-annual joint reviews of loan implementation in lieu of formal progress reports. The first such review was held March 15, 16, 17, in IFICCCP offices in Santiago. The agenda covered during the review together with specially prepared explanatory and reference material and loan status information presented at the review are attached as Annex I. The sections that follow below discuss briefly the salient points of each agenda item covered at the review.

The joint review was also used to fulfill the consultation requirement of section 5.05 of the Loan Agreement which states:

"Annual Review. Borrower agrees that no later than one year from the date of this Agreement it will confer with A. I. D. for the purpose of establishing a long-range policy concerning the ratio of Borrower's debt to its capital and reserves."

To facilitate consideration of IFICCCP's financial position a special appraisal was prepared and is included as part of Annex I. The agenda of the meeting covered the points that now follow.

B. IFICOOP ORGANIZATION (March 15, 1970, morning)

The General Manager of IFICOP, Mr. Kurt Ullrich, made an in-depth presentation of IFICOP's current organization structure and why it was adopted. It was recognized that the new organization differs from the one projected in the Capital Assistance Paper and the condition precedent documentation presented pursuant to Section 3 of the Loan Agreement. The essential operational differences are: (a) the new organization does away with the division between the loan development work and the loan implementation responsibilities; and (b) three separate management units are established for each of IFICOP's main areas of lending activity: (i) rural development; (ii) industrial; and (iii) services, consumer and housing. One of the reasons for adopting the new organization was to be able to cope with the expansion in cooperative activities in all sectors of the Chilean economy in a way that would permit IFICOP to specialize in its dealing with particular groups.

Each unit is so structured that personnel can be readily added if needed to meet increased workload. This was considered important particularly in the case of the rural development department (the unit responsible for A.I.D. loan implementation) since current indications are that the total number of A.I.D. financed subloans may run as much as 50% over the level estimated in the Capital Assistance Paper due to lower average subloan size. IFICOP's management did not think the expected increase in subloan number would present a problem for the new organizational structure.

There was considerable discussion about the role and functions of the individuals in the information and internal audit suggested positions (shown at "level 2" on IFICOP's new organization). The assignment of responsibilities for overall financial management and control was also discussed. A.I.D. suggested that the next semi annual review report on how well these aspects of IFICOP's operations are functioning. Nevertheless, it was agreed that the new organization as described at the review and in Annex I constitutes an acceptable modification to the plan previously presented.

IFICOOP's plans to complete the staffing of its rural development department during 1976 by adding personnel for providing technical assistance to its borrowers were discussed. Similarly, IFICCCP described its interest in developing working arrangements with AUDICOP for providing financial management assistance to IFICOOP's clients. It is expected that the arrangements for collaboration would be completed before the next semi-annual review.

At various times during the three day review the question of technical assistance to IFICOOP was considered. IFICCCP explained that it believed the A.I.D. loan funds for this purpose would be best used for short term specialists in various matters rather than a single long-term advisor. A.I.D. agreed. Some of the possible subject areas for short term advisors identified at the review were: project evaluation technique (i. e., means of measuring the impact of the A.I.D. Loan on the farmer, the client cooperative and IFICCCP); feasibility study and market survey preparation; and selection and use of automatic data processing equipment for financial resource management, accounting and controls, and project appraisal. A.I.D. requested that IFICCCP clarify its plans for using technical assistance Loan funds before the next semi-annual review.

C. PROJECT DEVELOPMENT AND IDENTIFICATION (March 15 - afternoon)

The Manager of the Rural Development Department, Dr. Claudio Barriga, described the procedures used by IFICCCP in identifying and processing potential subloans. Information on the rate of new sub-project development was presented and is included in Annex I together with details of five sub-projects in various stages including those which had received written A.I.D. approval because their amounts exceeded the \$250,000 level prescribed by Section 5.02 of the Loan Agreement, which states: "Section 5.02. Sublending Limitation. Except as A.I.D. may otherwise agree in writing, Borrower shall present for the prior review and concurrence of A.I.D. all proposals for sublending to any individual subborrower when the face value of the proposed subborrower exceeds the equivalent of two hundred and fifty thousand United States dollars (US\$ 250,000)".

A. I. D. expressed interest in the impact of the subprojects on women and their role in the subprojects. IFICCCP informed that generally plant labor in agro-industrial projects was provided by women as in the case of the Choapa fruit processing plant where 70% of the labor force was women. In the Qvalle tomato project packing will be done mainly by women. In addition to this IFICCCP is analyzing two projects in Chiloé and Lanco where credit would be given to artisan activities of women.

General agreement was reached that the Loan evaluation should attempt to note favorable or unfavorable impacts of the subprojects on the role of women.

One of the proposed subprojects which will require USAID approval is a possible subloan for approximately \$3,000,000 to finance a potato flour plant in the South. IFICCCP has kept A. I. D. advised of this subproject since it first received some A. I. D. financed technical assistance in early 1975 to help review the technical feasibility of the subproject. It now plans to present the project formally to A. I. D. by June 1976. A. I. D. indicated that the subproject appeared to respond to the spirit of the A. I. D. loan and looked forward to being able to approve it. A. I. D. was pleased also to note the coordination between IFICCCP and CCNPAN on development of this subproject which integrates nutritional policies and interests of the GCC with the development of an important agro-industry which will meet the objectives of the Loan.

A. I. D.'s role in subproject approval was discussed at the review. The information required by A. I. D. to make its review is described on page 9 of Implementation Letter No. 1. However, A. I. D. indicated it expects to receive a copy of IFICCCP's internal appraisal and recommendations to the credit committee. Further the subproject file maintained by IFICCCP should clearly identify the economic technical decisions in determining subproject design, if this information is not readily apparent in IFICCCP's internal appraisal. Finally, an analysis of the cooperative financial statements should be included in IFICCCP's subproject appraisal.

It was mentioned at the review that the wording of sections 5.02 of the Loan Agreement appears to require A.I.D. approval of every subloan when the amount to be financed by the A.I.D. loan together with the outstanding balance of any IFICOOP loan to the same subborrower exceed \$250,000. IFICOOP said it plans to request A.I.D. to clarify the application of this clause to IFICOP subloans from the A.I.D. loan. No objection was raised at the review to this interpretation and A.I.D. responded it looked forward to being able to respond favorably to the forthcoming request from IFICOOP. This point has special relevance due to the expedition IFICOOP needs to process, approve and implement subloans where seasonal variations make timing a key factor for success.

Another aspect of this point was the proposition presented by IFICOOP of channelling funds to weak or newly created cooperatives through efficiently managed and consolidated ones which would receive the subloans for specific projects that would be worked jointly by the two institutions. The proposition was discussed and approved as a viable alternative. An example was the two subloans to CAPROSEM for honey marketing, one of which was channelled to CCOAPI in its formation process.

A.I.D. noted that there had yet not been enough experience to permit a decision to increase the \$250,000 level for subloans requiring its prior approval. Several of the pending subloans included in the list of subprojects in IFICOOP's pipeline would be over this amount.

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Accordingly, it might be appropriate to consider at the next semi annual review whether or not the prior approval level can be increased.

D. DISBURSEMENT MECHANISMS (March 16, morning)

Annex I contains a description of the Unidad de Fomento accounting device used by the banking system for readjusting the outstanding balance of its loans. This accounting device and the various disbursement mechanisms were discussed at the review. A.I.D. indicated that IFICCCP's future requests for direct disbursements will contain more accurate estimate of subborrowers drawdowns. IFICCOF explained the reasons for the lack of accuracy in the initial use of this disbursement method.

IFICCOF was urged to prepare a request to open a Letter of Commitment for dollar cost financing under the Loan. The Letter of Commitment could cover the expected import of telephone equipment for IFICCCP's offices as well as estimated items and amounts that will be imported by subborrowers over the next 12 months. It was pointed out that under current A.I.D. rulings, IFICCCP would have to arrange to pay 10% of all ocean freight with non-A.I.D. funds. Appropriate arrangements will have to be made with the Letter of Commitment bank to bill IFICCCP directly. IFICCCP explained that it intends to provide assistance to its clients in arranging the necessary import permits and clearing goods through customs, and will assign additional staff as may be needed for this purpose.

It was agreed that IFICCCP would incorporate in its current requests for disbursements a system for informing A.I.D. when last disbursement against a subloan had been made. Similarly, IFICCCP must take greater care to advise A.I.D. when increases are made to subloans previously approved.

E. FINANCIAL ANALYSIS OF IFICCCP (March 16, afternoon)

This part of the joint review concentrated on the consultations of the long term policy of the ratio of debt to capital and reserves. A. I. D. emphasized IFICCCP's need to expedite its capital generation if IFICCOOP expected to be able to continue to obtain new sources of financing. The mechanism by which \$5,000,000 of the A. I. D. loan amount is being treated as capital was discussed. A. I. D. suggested that IFICCOOP's future financial statements distinguish between the GCC and the cooperative contributed capital. A. I. D. requested that in the future it be informed in the event a significant change takes place in the capital amount, such as when the Banco del Estado withdrew its earlier capital contribution to IFICCCP.

Possible ways of expediting IFICCCP's accumulation of capital were discussed at the review. Although the A. I. D. Loan 513-T-065 provisions for capitalization will allow IFICCCP to stay within Chilean banking regulations for debt-equity relation, increased capitalization must take place in order to allow institutional growth in a balanced way which will serve the needs of all the cooperative sectors.

Presently, the capitalization system amounts to a 1.5% yearly surcharge on the outstanding balance of all loans operated by the Institute, thus complying with a legal requirement established in the law that created IFICCCP. This mechanism, however, has the shortcoming of taking place during the pay back period of the Loan which makes capitalization slow and subject to risk because it can be affected by delinquency possibilities.

Immediate needs of IFICCCP suggested that capitalization charges could be made initially with loan disbursements, as a way to accelerate the capitalization process.

With respect to capitalization rates, it was agreed that they should be flexible, and greater than the minimum yearly legal requirement, when subprojects financed had adequate profitability. A relation to the pay back period of loans should, however, be maintained.

Another alternative discussed was the establishment, as a possible requirement, of a ratio between cooperatives' paid capital in IFICOOP and their subloans outstanding with the Institute.

The way in which capitalization could be improved was left open for IFICOOP to study and decide with later information to A. I. D. of mechanisms approved and implemented.

In connection with its concern for improving the long range outlook for capital generation, A. I. D. recommended that IFICCCP no longer apply a differential interest rate policy. The difficulty of determining which cooperative or which subproject qualifies for a lower interest rate did not seem to justify the small amount of real benefits that can be passed on to a weaker cooperative member through an interest rate one or two points less than IFICOOP's regular charge. A meaningful subsidy would be in the ability of IFICCCP to provide a weak cooperative with an important input of technical assistance at a subsidized cost.

Reflecting the consultations during the review, IFICOOP's management developed the following proposed policy statement regarding the long term outlook for capital generation:

"The expansion of IFICCCP's lending and development activities to provide more and better services to Chilean cooperatives make it necessary for the Institute to improve the capital generation mechanisms it has used in the past. The Board of Directors, fully conscious of the importance of this point, has asked the Institute's administration to analyze different policy alternatives which after Board discussion and approval can be rapidly implemented."

IFICOOP's management is preparing a detailed analysis and report that will cover this policy, which will be submitted to A. I. D. in due time.

F. IFICCOOP AND MEMBER COOPERATIVES CONTRIBUTION
(March 17, morning)

IFICCOOP's own contribution to subloans is fairly well reported through the disbursement documentation that is being generated. However, there was much discussion during the review on how to quantify and monitor the contributions of the subborrowing cooperatives. IFICCOOP gave several examples of where the cooperatives own contribution could be quite substantial depending on what could be appropriately considered. It was finally agreed that for control purposes, A. I. D. would accept a standard 20% contribution by cooperatives against subproject costs since it is IFICCOOP's policy to require such a contribution on all of its operations. IFICCOOP's records should show how the 20% contribution is expected to be made and each time a site inspection is made by IFICCOOP comments on the status of the subborrowers' contribution should be made part of IFICCOOP's subproject file. In the event a contribution of more than 20% is clearly being made by a particular subborrower, the amount may be included as contributions, provided the records is clear. Ways of calculating and confirming contributions other than those related directly to subprojects were also discussed at the review.

IFICCOOP agreed it would report at each semi annual review the contributions it had recorded at the IFICCOOP and the cooperative levels. Any questionable items or accounting procedures would be reviewed. The amount agreed as allowable would be made part of the permanent record of the review. IFICCOOP had prepared some draft forms for controlling and recording the contributions. These were discussed and modifications recommended. The revised forms will be used for the next semi-annual review together with the first accounting of the subborrower's contribution.

With respect to IFICCOOP's contribution to project administration costs, IFICCOOP agreed that it would provide A. I. D. within 60 days with a full financial statement of the expenditures it has made for the project.

G. LOAN EVALUATION (March 17, morning)

The Logical Framework contained in the Capital Assistance Paper was reviewed up to, but not including the goal level. The assumption at the input level of the "availability of sufficient production credit in the agricultural sector" was thought to be doubtful by IFICCCP, particularly given the delays in putting the new A. I. D. Agricultural Production Credit Loan into operation. At the output level, there was some question regarding the usefulness of ICECCOP's support in project execution because the training and course work available from ICECCOP tends to emphasize the theory for cooperative organization rather than provide practical management training. Also at the output level, now apparent is that something more than 97 subprojects will be required to utilize the project funds. For the time being, the new estimate for the objectively verifiable indicators is revised upwards to 150 subprojects, based partly on actual experience and on the pipeline of future projects. At the project purpose level, there was discussion of the meaning of an improved capacity for designing projects as stated in the end of project status description. It was agreed that such capacity can be achieved through ability to negotiate and administer feasibility studies for project design as well as through an in-house IFICCCP capacity.

Once satisfied that the Logical Framework remained basically valid, IFICCCP's project evaluation plan was reviewed (see Annex I). Generally agreed was that IFICCCP should attempt to identify more specifically the measures it will use to evaluate performance at the IFICCCP, cooperative, and farmer levels. Some suggestions were made on how to limit the factors to be measured to a reasonable number of indicators for which information can be fairly readily gathered. A. I. D. suggested that the next semi annual review consider the results of IFICCCP's evaluation in more detail. By then there will be more time and subprojects with measureable results than is currently available. Also suggested was that IFICCCP consider using some of the technical assistance loan funds to help streamline and sharpen the evaluation system.

H. MISCELLANECUS ITEMS (March 17, afternoon)

A number of miscellaneous items connected with loan implementation were covered during this part of the review. One of the more significant topics was IFICCOOP's efforts to provide adequate publicity to the A. I. D. loan and the project. IFICCOOP's public relations officer presented a folder containing the examples of the general publicity IFICCOOP has arranged since the loan was signed. This folder is available in the USAID bulk files for the project.

The public relations officer also described the different types of signs that are being developed to identify subproject activities. A discussion of when and where such signs are to be required followed. It was agreed that for the time being A. I. D. would rely on IFICCOOP's judgement in placing the signs and that IFICCOOP would take into account the following factors:

1. The size of the subplan and its relative importance to the cooperative.
2. The attitude and willingness of the cooperative and cooperative members to display and maintain a sign.
3. The degree to which the location of the sign is exposed to the general public.

SUMMARY AND CONCLUSIONS (March 17, afternoon)

The review was considered a useful management tool by both A. I. D. and IFICCOOP. Future semi annual reviews, however, should not have to cover as many topics. For example, the review was not found to be appropriate necessary for resolving operational problems that can be best resolved during the normal contact between USAID and IFICCOOP. Inclusion of such topics in the review agenda tended to extend the discussion unnecessarily. Nevertheless, it was recognized that the first review had to be fairly thorough to bring everyone up to date since the time the Project was designed.

Topics suggested for the next semi annual review are:

1. Follow-up on IFICOOP's experience with its new organizational approach, specifically covering such concerns as:

(a) How well is the concept of the "level 2" activities of internal audit and information working;

(b) Has the organization provided a satisfactory approach to overall financial management and planning;

(c) What has been the progress on completing the staffing of the technical assistance unit in the development department; and

(d) What has been IFICCCP's experience in using the technical assistance funds under the loan and what are its future plans.

2. IFICCCP's experience in putting its capitalization policy into practice and its current outlook for increasing the rate of capitalization.

3. The overall contribution levels and IFICCCP's experience in evaluating the impact of the projects financed with A. I. D. funds.

It is expected that such agenda topics will help assure monitoring the degree of participation of high level IFICCCP and A. I. D. officers that is essential for the review mechanism to remain useful and meaningful.

host	B. List of Actions	C. Proposed action completion date
X	7. IFICCOOP will prepare a request to open a Letter of Commitment for dollar cost financing under the Loan.	ASAP
X	8. IFICCOOP will incorporate into its requests for disbursements a system for informing A.I.D. when the last disbursement against a subloan has been made.	Constant
X	9. IFICCOOP will take care to advise A.I.D. when increases are made to subloans previously approved.	Constant
X	10. A.I.D. is to be informed by IFICCOOP when there is a significant change in IFICCOOP's capital.	Constant
X	11. IFICCOOP's management will prepare a detailed analysis and report on the problem of capitalization and capital generation, to be submitted to A.I.D.	Next semi-annual review.
X	12. IFICCOOP will report on overall contribution levels to projects and its experience in evaluating the impact of the projects financed with A.I.D. funds.	Next semi-annual review.
X	13. IFICCOOP will provide A.I.D. with a full financial statement of the expenditures it has made toward the project's administration costs.	NLT 31 August 1976
X	14. With reference to the Logical Framework, IFICCOOP will attempt to identify more specifically the measures that it will use to evaluate performance at the IFICCOOP, cooperative and farm levels.	Next semi-annual review

(Attachment - IFICCOOP-USAID Joint Review N°1)