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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

CHILE - INSTITUTO DE FINANCIAMIENTO COOPERATIVO - IFICOOP
(Chile Rural Savings Project)

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-344
June 18, 1965

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Chile - Instituto de Financiamiento Cooperativo - IFICOOP (Cooperative Development Bank)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $3,650,000 to Instituto de Financiamiento Cooperativo to assist in financing (1) loans by the Borrower to cooperatives in Chile, (2) the organization of regional offices of the Borrower, and (3) technical assistance to the Borrower and to cooperatives in Chile.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at its meeting on June 23, 1965.

Helen E. Nelson
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
Annexes I-VII

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CHILE - INSTITUTO DE FINANCIAMIENTO COOPERATIVO - IFICOOP (COOPERATIVE DEVELOPMENT BANK)

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AID-DLC/P-344
June 18, 1965

CHILE - INSTITUTO DE FINANCIAMIENTO COOPERATIVO - IFICOOP (COOPERATIVE DEVELOPMENT BANK)

SUMMARY AND RECOMMENDATIONS

1. Borrower: Instituto de Fianciamiento Cooperativo (IFICOOP), a private development bank. The loan will be guaranteed by the Government of Chile and the Central Bank will be a party to the Agreement.

2. Purpose: The immediate objective of this proposed loan is to provide seed capital for the creation and initial financing of a Cooperative Development Bank to provide credit facilities and technical and managerial services to Chilean cooperatives. The long-run effect of such a project, in addition to providing credit for individuals otherwise unable to obtain financing, will be to unify and strengthen the cooperative movement in Chile and therefore bring about a more rational distribution of resources between the urban and rural areas and greater returns for all of the people.

3. Amount: Not to exceed $3,650,000

4. Total Cost of Project: The proposed capitalization of IFICOOP is as follows: (E° 3.26 = $ 1).

AID Loan	$ 3,650,000 1/	
Member Cooperatives	77,000	(250,000 escudos)
Banco de Estado	307,000	1,000,000 escudos)

1/ At least 20% of the AID loan (in addition to $70,000 for a U.S. expert) will be utilized for U.S. procurement.

The AID loan is broken down as follows:

Cooperative relending	$3,300,000
Regional Offices	100,000
Technical Assistance	180,000
U.S. Expert	70,000
	$3,650,000

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A 6 year, 200,000 escudo loan for initial administrative costs is being extended by CORFO (See Section IV-C-2).

5. BACKGROUND: The formation of this bank has been promoted primarily by Mr. Walter Sommerhoff who has been most active in the Chilean cooperative movement. In addition to being General Manager of Sodimac, a highly successful construction financing cooperative with a capitalization exceeding $2,000,000, Sommerhoff has been instrumen in the development of UNICOOP (a chain of cooperative supermarkets) and INVICA and TECNICOOP (both supplying technical assistance in the formation and management of housing cooperatives).

In early 1964, with the help of Enrique Aguayo, a lawyer and former Loan Officer with the IDB, Sommerhoff began drafting the Statutes and By-Laws of IFICOOP. On October 28, 1964, Supreme Decree No. 1282 was issued which officially authorized the institution and approved its statutes.

On October 6, 1964, the USAID requested a short-term advisor under and AID regional contract with the Fund for International Cooperative Development to assist in the technical organization of the Cooperativ Bank. Mr. Willis McAnelly, former President of the Farm Credit Bank of Houston, Texas, arrived in mid-December. Mr. McAnelly died suddenly in Santiago on February 22. However, due to his ability to motivate action and work productively with the small staff of Chileans, considerable progress had been made in establishing the Bank's organizational structure, policies and loan criteria. Mr. McAnelly did issue a summary report before he died and the informatio contained therein serves as the principal basis for the loan application.

6. Description of the Project

Principal Functions of IFICOOP

i) To extend loans for periods not to exceed 10 years to cooperatives in a position to meet requirements of adequate management and financial capacity.

ii) To promote and finance capitalization of cooperatives and to promote savings by cooperatives subject to the General Law of Cooperatives.

iii) To promote and finance plans for technical assistance and management assistance and training for cooperatives.

iv) To accept mandates or powers of attorney to conduct financial negotiations, to administer trust funds, or to represent national, foreign or international financial institutions and agencies for the purpose of channeling resources, property or services to cooperative institutions.

IFICOOP will be administered by a Board of Directors composed of 13 members. These representatives will be elected by direct mail vote according to a functional grouping of cooperatives (See Section II-B-2).

Basic loan policies, terms, procedures and regulations have been formulated (See Section II-C, IV-B and V).

IFICOOP has already initiated a review of member cooperative loan applications. The result of this review and a listing of those cooperatives which will most likely participate in the initial loan portfolio are presented in Exhibits 1, 2 and 3 of Annex V.

7. Eximbank Clearances: The Export-Import Bank indicated no interest in the project.

8. Views of Country Team: The Country Team urges favorable action on this proposal which it considers an important pre-requisite to achievement of AID objectives with respect to promoting private sector growth, particularly in the depressed agricultural areas, through the creation of new institutions.

9. Inter-American Institute of Cooperative Financing (IIFCOOP) Recommendation: The IIFCOOP committee, which met and reviewed the project in Santiago on May 27 and 28, recommended approval of the loan application (See Section VI).

10. Statutory Criteria: All applicable statutory criteria have been met.

11. Special Problems

a) Use of Program Loan and PL 480 Funds

Briefly, the USAID has not applied Program or PL 480 funds to this project for the following reasons (See Section IV A-2):

i) The GOC budget was reviewed and approved by AID in November, 1964 when the $80 million program loan was confirmed. PL 480 escudos were also calculated in the approved budget levels. At that time, the USAID was reasonably sure that the Cooperative Development Bank would not be able to disburse very much during CY 1965.

ii) The degree of control which AID must affect over this project requires a direct development loan approach.

iii) A principal AID objective in Chile is to promote project financing and reduce, over the next 4 years, the need to rely heavily on the program loan approach. This objective is particularly significant with respect to the private sector and the cooperative movement which AID should be identifying with directly.

iv) It is not believed advisable to induce the GOC to expand capital expenditures for projects which must clearly operate in a private sector environment. This cooperative bank must eventually be capable of obtaining financial assistance from other international lending institutions as well as the local and foreign commercial banking communities. A dependence on fiscal support could delay the Bank's progress. A good example is the Central Savings and Loan Bank (Caja Central) which, until AID had induced action under its second development loan, had done little to develop a secondary market or engage in an active savings promotion campaign. The Caja Central receives E° 10,000,000 annually from the GOC.

It should be noted, however, that in the consideration of future program loans to Chile, AID will include in its analysis of balance of payments requirements the dollar flows anticipated under the proposed loan.

b) Debt/Equity Ratio

The debt/equity ratio of the proposed financial plan is 9.6:1. Although AID/W recommended a maximum $3 million loan as a result of the IRR, the USAID believes the additional funds are justified for the following principal reasons: (details in Section IV C-2).

i) The sub-borrowers will be paying on additional $1\frac{1}{2}\%$ - $2\frac{1}{2}\%$ on each sub-loan for capitalization purposes. In addition, each sub-borrower will have to invest a minimum of 20% in the total sub-project cost.

Notwithstanding the above, AID is including a condition precedent to disbursement over $1,200,000, requiring the Borrower to double the capital provided by its cooperative members (excluding funds obtained through the $1\frac{1}{2}$ - $2\frac{1}{2}\%$ charge).

ii) The application of $3 million (less about $350,000 for technical assistance) would not permit an adequate degree of loan diversification.

iii) The proposed AID loan (25 year terms including 10 years grace) should not be treated as long term debt in the true sense of the term. It seems unrealistic, therefore, to apply a hard and fast debt/equity ruling.

iv) During the May 27 and 28 meeting of the Inter-American Institute for Cooperative Financing, the U.S. representatives pointed out that it was not unusual for U.S. Cooperative Banks to initiate operations with a 10:1 debt/equity relationship. It was further stressed that no real guideline exists for this type of institution.

12. Recommendation: Authorization of a loan to the Instituto de Financiamiento Cooperativo (IFICOOP) in an amount not to exceed $3,650,000.

i) Terms - To the Borrower 25 years including a grace period for repayment of principal of 10 years; to the Government via the two-step procedure, up to 40 years with a 10 year grace period.

ii) Interest - 1% per annum for the first 10 years and 2½% per annum thereafter for Borrower and Government.

iii) Equipment, materials and services (except shipping and marine insurance which shall be procured from the United States), financed under the loan for the project shall be procured from the United States of America or Chile.

iv) United States dollars utilized under the loan to finance local currency shall be made available to the Borrower or its designee through appropriate procedures and shall be used for procurement in the United States.

v) The Bank will contract for U. S. advisory services satisfactory to AID.

vi) Any other terms and conditions which AID may deem advisable.

PROJECT COMMITTEE

LYaeger: Loan Officer
EAnderson: Chief of Development Planning
JHelsen: Economic Officer
LHorwitz: Program Officer

Drafted by: LYaeger

SECTION I - BACKGROUND

A. The Cooperative Movement in Chile and the AID Program

Chile's first law governing cooperatives was passed in 1932, following almost two decades of agitation for such legislation. This law proved inadequate to cope with the changing requirements of the cooperative movement, and in 1960 a new cooperative law was passed. This was revised somewhat by Decree No. 20 of 1963. The present legislation attempts to establish regulations covering all the major types of cooperatives (consumer, production, and service)except for credit cooperatives. These are subject to various other laws, including banking legislation. Under this legislation a large number of cooperatives and cooperative federations have been formed, to a great extent to take advantage of the tax exemptions and other economic benefits accruing to cooperatives under the law. The present legislative base is adequate in terms of the regulations covering the chartering and accounting procedures of cooperatives. However, previous administrations have done little to promote and assist the cooperative movement. The Frei administration is now considering proposals for legislative and administrative changes to encourage and expand public and private efforts in the development of cooperatives. The extent of effective cooperative action in the agricultural field is limited to the dairy and wine systems. Between them, these have approximately 85% of the total capital held by agricultural cooperatives in Chile. There are also livestock, chicken, and forestry products cooperatives, but in general they are poorly organized and undercapitalized. Most of the legally constituted agricultural cooperatives are no longer active; of the colonization cooperatives formed by the Agrarian Reform Corporation and its predecessors, less than 50% are functioning.

Consumer cooperatives have been growing fast. On the whole, they are effectively managed and have proved self-sufficient. However, the lack of capital financing, lack of volume, and lack of combined wholesale buying arrangements, have limited their ability to substantially lower retail prices to the consumer. Credit cooperatives have also grown quickly and are considered technically well organized. However, the credit cooperatives have been weak since they do not have readjustment provisions and have been unable to cope with the continuing inflation.

Other types of cooperatives now existing in Chile include rural electric (discussed below), housing, fishing, transportation, and insurance. In addition, there are federations of the housing, rural electric, consumer, and credit union cooperatives.

Although each type of cooperative and federation has its own particular problems, there are certain overall deficiencies which apply in varying degrees to the entire cooperative movement. These include lack of sound organization and management, technical skills, educational facilities, and financing. In an attempt to attack some of these problems, the Mission has supported selected programs and institutions with grant, loan, and local currency financing.

In FY 1963 the USAID made a $124,000 grant to develop a Cooperative Education Institute. This organization was formed in September 1963 to contribute to the overall effectiveness of cooperatives by providing practical training to managers and workers in (a) the general principles and practices of cooperative administration including cooperative legislation, office management, accounting, financing, and (b) specialized aspects of cooperative endeavor, such as planning, community development, and marketing.

Following the establishment of the Cooperative Education Institute, the USAID made three grants designed to foster the institutional growth of cooperatives and improve their operations through the provision of financial and technical assistance. In FY 1963, the USAID made a $100,000 grant to the Institute for Agricultural Development (INDAP) to equip 50 rural cooperative canneries and train their personnel. In FY 1964, the USAID made a $500,000 grant to the TECHO Promotional Institute for a revolving fund to finance the organization, construction, equipping and operation of fifteen small production cooperatives. Also in FY 1964, the USAID signed a $325,000 grant project with the Institute of Agrarian Promotion (IMPROA) to assist 10 - 15 rural cooperatives by making available extension and marketing services and production loans. Under each of the above grants, AID is providing technical assistance to the recipient agency in carrying out their programs.

Finally, in September 1964, AID extended a $ 3.3 million loan to CORFO for sub-loans for expansion of services to rural electric cooperatives. This was the first direct development loan in Chile for sub-lending to cooperatives. The loan reflects the progress made by the rural electrical cooperatives in their capacity to prepare and implement a development project. The loan includes approximately $100,000 for technical assistance to further strengthen the organizational structure and operations of the cooperatives. Since then, several cooperatives of comparatively high standards of professional competence have formulated new investment projects. However, medium term loans are difficult to obtain. Short term working capital credits are similarly scarce. (See Annex 5, Exhibit 6 for description of total U.S. and other agency and country assistance to Chilean cooperative movement.)

B. The Proposed Project

In view of the important need for a financial institution which would both serve cooperatives and enable them to exercise an increased influence upon the economy of the country, the Mission has for over three years urged Chilean cooperative leaders to organize a bank which would be eligible for AID financing. Serious discussions with respect to a Cooperative Development Bank began in early 1964.

From the beginning, Mr. Walter Sommerhoff has been the prime promoter of the Bank. Mr. Sommerhoff has been most active in the Chilean cooperative movement. He is the General Manager of SODIMAC, a highly successful construction materials cooperative with a capitalization of about $2,000,000. He has been instrumental in the development of UNICOOP (a chain of cooperative supermarkets partially financed by IDB) and INVICA and TECNICOOP (both of the latter supplying technical assistance in the formation and management of housing cooperatives). He has been the chairman of the international committee promoting the formation of an Inter-American Cooperative Bank.

In early 1964, with the help of Enrique Aguayo, a lawyer and former Loan Officer with the IDB, Sommerhoff began drafting the statutes and by-laws of UNICOOP. On October 28, 1964, Supreme Decree No. 1282 officially authorized the institution and approved its statutes.

On October 6, 1964, the USAID requested a short-term advisor under the AID regional contract with the Fund for International Cooperative Development to assist in the technical organization of the Cooperative Bank. Mr. Willis McAnelly, long-time President of the Farm Credit Bank of Houston, Texas, arrived in mid-December. Mr. McAnelly died suddenly in Santiago on February 22. However, due to his ability to motivate action and work productively with the small staff of Chileans, considerable progress had been made in establishing the Bank's organizational structure, policies and loan criteria. Also, Mr. McAnelly issued a summary report before he died and the information contained therein serves as the principal basis for the loan application.

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SECTION II - DESCRIPTION OF THE PROJECT

A. Purpose

The immediate objective of this proposed loan is to provide capital for the creation and initial financing of a Cooperative Development Bank to provide credit facilities to Chilean cooperatives including the financing of technical and managerial services. The long-run effect of such a project, in addition to providing credit for cooperatives otherwise unable to obtain project financing, will be to strengthen and unify the cooperative movement, increase its influence in the economy, induce increases in agricultural and industrial production, and spread the benefits of this increased production to groups which have heretofore been relatively unable to participate in the private sector effort.

B. Borrower

The Borrower will be the Institute of Cooperative Financing "IFICOOP" Ltd. The Government of Chile will be guarantor. The Central Bank will also be party to the Agreement.

IFICOOP was established as a society for private cooperatives by public deed dated 6/15/64. It obtained official status by Decree No. 1282, issued by the Ministry of Economy on 10/28/64. IFICOOP operates under Chile's General Law of Cooperatives and the members of IFICOOP must also be organized within the framework of this general law.

1. Principal Functions

a) To make loans for periods not to exceed 10 years to cooperatives in a position to meet requirements of adequate management and financial capacity.

b) To promote and finance capitalization of cooperatives and to promote savings by cooperatives subject to the General Law of Cooperatives.

c) To promote and finance plans for technical and management assistance and training for cooperatives.

d) To accept mandates or powers of attorney to conduct financial negotiations, to administer trust funds, or to represent national, foreign or international financial institutions and agencies for the purpose of channeling resources, property or services to cooperative institutions.

In its normal operations IFICOOP will make loans and finance technical and management assistance to cooperatives for purposes of agriculture, cattle raising, and lumbering; distribution and marketing of essential commodities and rural electrification; and extractive activities such as mining and fishing. In short, the Bank, following usual Chilean terminology, has grouped cooperatives in three categories: consumer, production (including processing and marketing), and service (e.g., electric and housing), etc.

2. Organization and Management

IFICOOP will be administered by a Board of Directors composed of 13 members. The member cooperatives will elect the board members by a direct mail vote according to the following pattern:

a) Consumer cooperatives will elect three members.

b) Credit unions, electric, general services, and housing cooperatives will elect one representative each (total 4).

c) Agricultural, dairy, and wine cooperatives elect one each (total 3).

d) Fisheries and multi-purpose rural cooperatives elect one member jointly.

e) Agrarian reform cooperatives elect one representative.

f) Non-agricultural production cooperatives elect one member.

The above groupings are explained in Annex II, Exhibit 1. Equitable representation is assured by the above voting technique. This affords at least one vote on the board to each cooperative member or group. It gives one additional vote if they have over 1000 and up to 10,000 members, and one further vote for each additional 5000 members. This system will be particularly advantageous to the agricultural and rural cooperatives whose representation needs are the greatest.

Each board member will serve a 3 year term. The board will elect annually a president, vice president, and secretary. The board will also elect the manager. The responsibilities of the board and manager of IFICOOP are set forth in Annex I, Articles 17 and 18, respectively. (See Annex II, Exhibit 2 for composition of the board.) A condition precedent to disbursement will be a detailed description of the manager's responsibilities and authority

as delegated by the board.

In view of the geographical make-up of Chile, and the inability of all council members to be in Santiago when needed, it is essential for the board to elect an Executive Committee which would represent it in all matters. A five man Executive Committee new functions as the principal management body. (See Annex II, Exhibit 2.)

In addition, the geographical structure of Chile will necessitate a degree of decentralization to regional offices if the institution is to process loan applications within a reasonable period of time and, at the same time, to truly serve and represent all the cooperatives. Therefore, the USAID recommends that $100,000 be included in the loan to finance the organization costs of 5 regional offices. Details concerning conditions precedent to disbursement for this purpose are presented in Section V.

On April 1, 1965, the board named Mr. Jorge Fontaine Aldunate as General Manager and operating head of IFICOOP. At about the same time, three additional management positions were designated as follows: Enrique Aguayo Mindebern, General Secretary; Gonzalo Sanchez Rivas, Chief of Projects; and Enrique Trautman Vergara, Promoter. The brief description of each individual is presented in Exhibit 3, Annex II.

Mr. Fontaine and the other members of management and the Executive Committee have had little experience in banking, although all have been active in the cooperative movement. In order to fill this gap, the following positions will be filled to AID's satisfaction before any disbursement under the loan:

i) The position of Treasurer has been set up within the operating management staff. This individual will have a broad banking background.

ii) CORFO will lend the services of one technical assistant knowledgeable in the area of cooperative financing and project evaluation.

iii) The proposed AID loan contains $70,000 for the services of a U. S. cooperative bank expert to work with IFICOOP management for a period of two years. This expert will sit in on all Board, Executive Committee, and Loan Committee meetings.

iv) The USAID has also included $180,000 (5% of the loan) for contracting the services of private firms and independent institutions to assist IFICOOP and individual cooperatives in project

formulation and implementation. (See Section II-D for details.)

As can be readily noted from the background description of the Board, Executive Committee, and Management members, there is not a great deal of financial (i.e., banking) experience within the institution. Nevertheless, the USAID believes that the existence of a Treasurer (having considerable banking experience) within the executive staff, plus Roberto Infante (Vice President of the Banco del Estado), and Carlos Icaza, (President of the Federación Nacional de Cooperativas Eléctricas) on the Loan Committee, is sufficient. Icaza has prime responsibility for sub-lending under the AID $3.3 million loan for rural cooperative electrification and will bring considerable experience to IFICOOP.

The USAID has not given priority in timing to the selection of banking management. This could be postponed during the organization stage of this bank, particularly since management assistance will be available. The first step was to organize the Bank as an instrument to serve the whole cooperative movement in Chile. With the wide disparity in regional and functional interests among Chilean cooperatives, compounded by the basic tendency in Chile for cooperatives to closely guard their own interests, the most difficult task has been to arrive at a management formula agreeable to all. The method of selecting a Board (as described above) is an example of a compromise. Ideally, each Board member might be elected by all IFICOOP members. Nevertheless, the USAID believes that the result, a Board and Executive Committee composed of the cooperative leaders from various sectors, truly represent Chile's cooperative movement and will make of the bank a tool serving the entire movement in its efforts to become a dynamic private sector force for development.

It should also be noted that cooperative lending involves a methodology quite distinct from the normal financial policies of commercial banks or the existing government institutions. Commercial banks in Chile cannot lend for longer than one year. They have had little experience with cooperatives. The Government institutions (i.e., Banco del Estado and CORFO) have made some longer term loans to cooperatives but have always emphasized larger projects. Therefore, there is not a wealth of cooperative financial talent in Chile and, with relation to selecting management, it is more important to stress cooperative background and general management experience and competence, and to complement that base with finance people.

IFICOOP's legal charter requires the formation of a Vigilance Committee charged with the responsibility of auditing

accounts on behalf of the membership or stockholders. The IFICOOP charter, however, permits the delegation of this responsibility. On January 13, 1965, in a general assembly meeting, this responsibility was delegated to Price, Waterhouse, Peat & Co.

C. Sub Lending Procedures and Policies

1. Major Policies

Loans will be extended on a short, medium, and long term basis. However, for the first five years of operation or until such time as IFICOOP's financial capacity permits otherwise, loans will have a maximum term of 10 years. (See Section IV-B for details on IFICOOP sub-lending terms and Section V for AID additional requirements.)

IFICOOP's maximum loan to any one borrower will be limited to 5% of IFICOOP's capital and reserves. This limit can be increased an additional 5% with the proper guarantees. On the basis of present capitalization and legislation which permits inclusion of 2% of total long term debt in setting loan levels, the maximum loan will be about $115,000. IFICOOP will also be able to guaranty loans extended to cooperatives from other financial institutions. Total guarantees outstanding may not exceed capital and reserves. No single guarantee may exceed 10% of capital and reserves except where the borrowing cooperative has offered satisfactory collateral. In this case, the limit can be raised to 20%.

Loans shall be made only where, in the judgment of IFICOOP's Loan Committee, the cooperative applying for the loan has an organization and management and business policies of such character as to assure the reasonable safety of the loan and the furtherance of good cooperative procedure.

No loans will be made under any condition where the obligation of the borrower to repay would be anything other than unqualified and unconditional.

Loans will be made only for eligible purposes and not for any purpose foreign to the function and duly authorized objective of the applicant. Loans will not be authorized to finance administrative expenses.

2. Types of Loans

a) Physical Facility Loans - These will be extended for the construction, acquisition or, in some cases, refinancing of physical facilities. They will be secured. The term "physical facilities" ordinarily should

be confined to buildings, fixtures, and equipment of relatively immovable character. In this case, however, office and laboratory equipment, trucks, tractors and other like articles may also be considered. Land will not be financed.

b) Working Capital Loans. These will be extended on a short term basis (not to exceed one year) to finance raw material purchases, marketing, and distribution costs, etc. Administrative costs will not be financed.

c) Commodity Loans. Commodity loans are self-liquidating and secured by marketable commodities such as agricultural commodities and supplies, building materials, consumer merchandise, processed fishery and liv stock products, textiles, and other manufactured products held for sale, and raw materials going into manufactured products, provided such commodities and materials are in the custody of a responsible warehouseman and are secured by a first lien represented by warehouse receipts, title documents, or other satisfactory first lien security instruments, and provided further that such loans will mature within the normal marketing season of the commodities or supplies and materials.

3. Procedures

a) Presentation of the Application. Cooperatives desiring a loan will contact the main office of IFICOOP or one of the Regional Offices. IFICOOP representatives will make preliminary inquiries. If they think that there is a probability that a loan is warranted, the cooperative will be given a loan application form to complete. (See Annex III, Exhibit 1) Upon receipt, the application will be processed. It may be necessary for a representative of IFICOOP to visit the applicant cooperative to obtain additional information. The circumstances in each case will govern. Usually a field examination will be necessary for a first application, but not essential for subsequent applications where the cooperative has satisfactorily established its credit. In the case of mortgage loans appraisals will be necessary.

b) Analysis of the Application. Each application received by IFICOOP will include a feasibility study. The review of the loan application will be as follows:

i) Institutional Analysis IFICOOP management will examine the cooperatives' administrative capacity with particular attention to the amount of technical and management assistance and training required.

ii) Legal Analysis. IFICOOP will make sure that the cooperative is legally permitted to obtain a loan. The analysis will also ensure that the various guarantees offered represent legally transferable properties or her assets

iii) Financial Analysis. A complete analysis of the cooperative's financial position will be made on the basis of (1) balance sheets and profits and loss statements for the last three years, and (2) the cooperative's financial projections over the life of the proposed loan.

The results of the above analyses will be incorporated in a credit report form and submitted to the Loan Committee. (See Annex III, Exhibit 2 for sample credit form.)

c) Approval. The Loan Committee will consider the application and make a decision. If the decision is favorable the loan agreement (Annex III, Exhibit 3) setting forth the terms of the loan will be prepared by the Treasurer or the Legal Counsel for legal sufficiency. The note and security instruments will be prepared under the supervision of the Legal Counselor.

In addition to the clauses indicated in the Loan Agreement form, all agreements will contain the following:

i) The purpose of the loan.
ii) The disbursement procedures and the conditions precedent to each disbursement.
iii) Method of repayment including readjustment provisions, if applicable.
iv) The right of IFICOOP to inspect the project.
v) Default provisions.
vi) The guarantee provision.

In the case of a facility mortgage loan, an inspection and appraisal, and a report thereon, will be made in the course of processing the application.

When all documents have been prepared they will be sent to the applicant for signing. In the case of loans involving security documents, it may be desirable for the Legal Counselor, or some other IFICOOP representative, to close the loan at the headquarters of the applicant.

The Treasurer will make advances under the loan agreement promptly after all documents have been completed and signed.

The above description represents normal operating procedures. IFICOOP is establishing certain loan amount levels which will somewhat alter the procedures. Certain cases will require final approval by the Executive Committee and the Board. Once these levels are established, the following approval procedure will be used:

- Short term loans up to a certain limit will be approved by IFICOOP management. The credit form will serve only as information for the Loan Committee.

- Medium and long term loans up to a certain limit will be approved by the Loan Committee. Similarly, the Loan Committee may approve short term credits that exceed in amount the authority of IFICOOP's management.

- Medium and long term loans that exceed the Loan Committee's authorized limit will be submitted to the Executive Committee.

- Relatively large loans will be submitted to the Board for approval.

D. Technical Assistance

1. U. S. Expert

As indicated previously, $70,000 will be utilized for a U. S. expert to work with IFICOOP for a period of 2 years. He will guide overall policy and advise on operating procedures. This adviser will be permitted to sit in on all IFICOOP Board, Executive Committee, and management meetings, including those of the Loan Committee.

2. Project Assistance

In general, cooperatives in Chile can identify their own investment needs. However, many of these cooperatives do not have the financial or staff capability to formulate specific projects. As a result, IFICOOP has received and will continue to receive worthwhile investment requests which cannot be approved because of the lack of sufficient technical, economic, and financial data. There is a great need, therefore, to utilize experienced private firms and organizations to assist applicants in the final preparation of projects and to participate in combined programs of project execution and on the job training until the borrowing cooperative is in a position to complete the project and manage it competently.

The USAID has estimated that at least 5% of the proposed AID loan ($180,000) should be used for the above purpose. In addition to ensuring successful formulation and completion of projects, thereby minimizing the credit risk associated with IFICOOP's loans, the USAID sees three additional advantages to this technique. They are:

a) Technical assistance as necessary for the formulation of approved projects and for initial execution will accelerate use of AID loan funds for sound development purposes.

b) The use of these funds for contracting private firms and institutions will bring the Chilean private sector into action and make more efficient use of existing human resources. (Recent experience under the feasibility study loan has demonstrated that there are many well-qualified Chilean consulting firms with experience in the areas of agricultural project planning and marketing analysis.)

c) IFICOOP will be able to contract private firms to perform general programming studies, which will assist in identifying high priority projects. Certain projects so identified may be beyond the financial capacity of IFICOOP. In this case, contracts for a detailed feasibility could be entered into with the objective of eventually submitting the project for external financing. (Possible examples: UNICOOP, SODIMAC, a national Farmers' Wholesale Supply business.) Another example is the rural electric cooperative project which AID is partially financing.

Costs of technical assistance will be financed through IFICOOP loans as part of the project being financed.

SECTION III.- LOAN JUSTIFICATION

The previous section of this paper stated or implied the essential justification of this loan. The following discussion supplies additional final background.

The Mission believes that cooperatives can serve as focal points for the organization of large numbers of small businessmen, workers, farmers and consumers, to defend and promote their interests, influence official policy, compete with monopolistic influences in the economy, and gain common economic and social benefits. The development of the cooperative movement can be important in promoting private sector growth and in fomenting institutional changes in the structure of the economy in line with Alliance objectives.

A. Economic - Institutional

Although priority will not necessarily be given to agricultural cooperatives, the agricultural sector will receive a substantial portion of the credits extended under this loan. In Chile, the greatest need for accelerated capital formation and investment is in the rural areas where the imbalance of income distribution and the institutional weakness of the rural groups are pronounced. The rate of capital formation is low. There are deficiencies in the agricultural distribution system and in GOC price control policies for major commodities. The educational and managerial base is lacking. Other hampering factors include insecure tenure on the land, fragmented holdings, and small-scale and localized monopolies. As a result, agriculture accounts for 27% of Chile's labor force but contributes less than 10% to its gross national product. Scarce foreign exchange must be utilized to pay for the 20% of Chile's food requirements that are imported annually. Food imports have more than tripled in the last 15 years, while agricultural exports declined slightly.

Expanded production and a better standard of living will require not only agrarian reform and land tenure changes but also the development of efficient commercial and cooperative marketing, production, credit and consumer facilities.

Similar commercial and cooperative production and marketing institutions are required in the low income urban areas where there is a large reservoir of unemployment and underemployed manpower living at a subsistence level.

A major problem for both urban and rural sectors is that in Chile there is no integrated national market, and marketing facilities are poor or non-existent.

Since to date cooperatives in Chile have been small in terms of both members and capital, it has been almost impossible to effect far-reaching economies or to make a strong impact on the market. One of the problems has been that there is no financial intermediary through which capital could be channeled into the cooperative movement. Although the Frei government is taking measures to correct pricing policies (the agricultural price index should exceed the cost of living index in 1966) and to improve marketing organizations and facilities, additional credit facilities will be needed for productive investment. In addition, the availability of credit through a cooperative financial institution will promote an increase in cooperative membership and a re-structuring of the cooperative network in Chile. The USAID believes that credit availability on the basis of sound financial and technical analysis will induce the smaller, less efficient cooperatives to join or form federations. This structural reorganization would greatly enhance the cooperative movement and bring the real benefits of cooperativism to more people.

The creation of a cooperative bank to serve as a financial intermediary devoted exclusively to the financing of cooperative enterprises has been a priority Mission goal for almost four years. Commercial banks are not organized legally or administratively to provide for cooperative lending and have little interest in getting into this area. Commercial bank deposits (particularly in Chile because of the abruptness and magnitude of the inflation) are invested in short term self-liquidating loans. Furthermore, the decision to create a financial entity for cooperatives outside of CORFO possesses considerable logical appeal. CORFO's lending activities have been and are likely to continue to be spread throughout the whole economy (with possibly some emphasis being placed on loans in the industrial field). Moreover, CORFO lending to the private sector for smaller projects has been costly and CORFO has stated its intention consistently to rid itself of the administrative burden that such lending creates. This point has been expressed clearly during recent negotiations with CORFO concerning the proposed Corporación de Inversiones (CI). Indeed, IFC representatives have advised CORFO to divest itself of smaller projects. USAID negotiations further indicated that the CI will be principally concerned with medium industrial loans ($100,000 to $3,000,000) to established firms. CORFO, therefore, will specialize in overall project planning and promotion and confine its financing role to large projects which, although not immediately attractive to private enterprise, are justified by their contribution to the country's balance of payments position and infrastructure requirements. The large majority of cooperative investment projects, however, are expected to fall below the levels of CORFO and CI interest. Also, a financial review of a cooperative loan application

would have to be complemented by a social approach to the project which would and should not be the responsibility of the CI. Clearly, a specialized credit bank appears to be the most practical approach to systematically channel resources into the Chilean cooperative movement.

The economic benefits to be derived from this loan are widespread. The Chilean cooperative movement is not only spread throughout the entire country, but its operations are diversified. Cooperative development bank lending will facilitate increased agricultural production, improve the marketing and transport of foodstuffs to the major metropolitan areas, and promote expanded urban food marketing facilities. It has, thus, the potential for a significant contribution in lowering the costs of Chile's extremely inefficient marketing system. Although each of the cooperative projects is somewhat limited in magnitude and scope, the underlying economic rationale for this loan is to create a mechanism that will provide low cost developmental credits to small and medium sized private sector enterprises. In this sense, this loan is directed specifically at one of the most crucial factors in future development, namely, increased private sector activity and greater entrepreneurial involvement in Chilean development.

B. Social and Political

The Frei Administration envisages a social and political as well as an economic transformation in the situation of the lower income population of Chile. However, the low-income sector, particularly in the rural areas, has to date had little opportunity to participate in local government and community affairs. There is a weakness or absence of rural community organization and a traditional tendency to disregard rural opinions. There are no satisfactory channels through which the rural population can express its demands, through which reforms can be adapted to local needs and desires, and through which the local population can join forces with national agencies to make required services more effective. While organized employees and industrial workers have considerable bargaining power, the low-income rural and urban interests have been left out of the governing councils and have been unable to influence policy.

The Cooperative Development Bank will play a strong role in furthering the social and political ends of the cooperative movement. Ultimate success in influencing official policy and obtaining increased social benefits will depend on the cooperatives' management and financial effectiveness in meeting the needs of its members and the strengthening of the cooperatives' position in the political and economic framework of Chile.

SECTION IV - FINANCIAL CONDITIONS

A. Financial Plan

The proposed initial financing of IFICOOP is as follows: (E°3.26 = $ 1)

AID	$ 3,650,000	
Banco del Estado	307,000	(1,000,000 escudos - equity)
CORFO	61,000	(200,000 escudos - long term debt)
Member Capital	77,000	(250,000 escudos - equity)

1. Amount of AID Loan

The amount of the proposed AID loan is based principally on the following considerations:

a) A USAID review of applications already submitted to IFICOOP. This review put particular emphasis on the following factors:

i) The economic priority of the investment.
ii) The ability of the applicant to execute the project.
iii) The amount that could be used during a two year period (6/30/65 - 6/30/67).

b) The total availability of other financing.

c) $350,000 for technical assistance, regional offices (see Section II-D and Section V), and a U. S. expert.

d) The political desirability of including as many type cooperatives as possible in the bank's initial loan portfolio.

In order to initiate its own review of projects and determine a reasonable loan amount, the USAID requested IFICOOP management to submit a summary of all loan applications received. IFICOOP submitted the schedule of investments which is presented as Exhibit 1 to Annex V. This schedule indicates that IFICOOP's investment requirements, based on initial loan requests, amount to about $27,000,000 for the three year period 1/1/65 - 12/31/67.

The USAID informed the management it would need more information concerning the applications received as well as the applicants, and a new projection of actual resource requirements based on an IFICOOP analysis of applications which merit priority consideration from an economic and financial point of view. IFICOOP then submitted the schedule included as Exhibit 2 to Annex V as well as a table comparing the two schedules (Exhibit 3, Annex V). Although the second schedule reduces the total investment requirement to $7,703,680, the proliferation of lending fields has been maintained.

In addition to the above, the USAID received three page memoranda on each of 21 cooperatives or auxiliary societies, describing the organization, its capital and overall investment plans. A brief resume of these memoranda is presented in Exhibit 4 of Annex V. Most of these cooperatives will receive financing for projects during IFICOOP's first two years of operation. Portions of their overall investment plans are therefore included in IFICOOP's investment schedule (Exhibit 2 of Annex V).

With the above information, the USAID initiated its own review and reduced the $7,703,880 figure by $2,645,700 to $5,057,980. This review included an analysis based, in part, on the USAID's past experience with the proposed sub-borrowers.

The resulting $5,057,980 figure represented, in the USAID's judgment, projects of high economic priority, investment programs of technically and financially sound cooperatives and a potential investment portfolio truly representative of the cooperative sector.

The problem still remaining was to estimate the amount of money which could reasonably be expected to be disbursed within two years. IFICOOP's own estimates are included in its 10 year projection table (Exhibit 5, Annex V) which indicate disbursements of $ 1,700,000 in the first full year of operation and $2,100,000 in the second. The USAID believes, however, that in view of the necessity to meet conditions precedent and the fact that most of the proposed projects still require feasibility studies, it will be difficult for IFICOOP to reach the $1,700,000 level during its first year.

In view of the above, the USAID believes that a $1,200,000 figure for the first year's operation is more realistic while the $2,100,000 projection for the second year could be achieved. The total recommended loan, therefore, is as follows:

First year disbursements	1,200,000	
Second year disbursements	2,100,000	3,300,000
5% Technical Assistance (See Section II-D)		180,000
U. S. Expert		70,000
5 Regional Offices (See Section V)		100,000
TOTAL AID LOANS		3,650,000

In calculation of the above amount the USAID also considered that interest and readjusted principal repayments during CY 1966 could be applied to 1967 lending requirements. However, it was decided that very little would be available for relending for the following reasons:

(1) About E° 900,000 will be needed to cover operating expenses and reserve requirements during 1965 and 1966.

(2) Few loans will actually be executed in 1965 due to the time required to negotiate the Loan Agreement and for the borrower to meet conditions precedent.

(3) Disbursements will be spread out over 1966 with the bulk in the last half due to (i) the normal time required to initiate lending operations, (ii) the need to complete feasibility studies in most cases.

NOTE: Although the investment projections in the schedule (Exhibit 2, Annex V) are stated in escudos at current prices, no attempt has been made to readjust costs due to inflation since the AID dollar loan and the depreciating exchange rate should compensate for cost increases.

2. Other Financing - The GOC

a) Program Loan - PL 480

An estimated total of 269 million escudos will be generated through $ 70 million of the 1965 program loan and $15 million of Title IV, PL 480. The USAID did not negotiate application of these funds to IFICOOP in the 1965 budget for the following reasons:

i) The USAID had no intention of recruiting a U.S. Cooperative Bank expert to assist in the preparation of IFICOOP's loan application until

the institution received full legal status. The decree establishing legal status was issued in October 1964. At that point, the USAID requested technical assistance to develop the loan application and estimated that very little project lending would be effected by IFICOOP during 1965.

ii) Although the USAID was certain that GOC funds would not be used in 1965, the desirability of insisting on GOC equity participation during 1965 through the Program Loan, or in 1966, was still being considered. The idea of insisting on direct GOC contribution in equity through the program approach was rejected for the following reasons:

-- It would have meant an increase in the program loan since the GOC budget had already been approved by AID (November 1964).

-- It would have generated escudos which would depreciate in value with the inflation and thus reduce the real contribution.

-- With reference to the 1965 program and PL 480 funds, the USAID entered into an agreement with the GOC on February 24, 1965 (copies of this agreement are on file in AID/W). As indicated in the agreement, AID will be effecting a greater degree of control over these projects than in the past. Reporting and publicity as well as audit and inspection requirements will be part of each activity memorandum jointly approved. The agreement would, therefore, induce substantial GOC involvement in the project which the USAID believes unwise during the start-up phase of this institution.

In addition, the USAID feels that direct GOC participation is not advisable in projects which must clearly operate in a private sector environment. This cooperative bank must eventually be capable of obtaining other free world financing. Over-dependence on fiscal support could delay the Bank's progress. A good example

is the Chile Central Savings and Loan Bank (Caja Central) which, until AID had induced action under its second development loan, had done little to develop a secondary market or engage in an active savings promotion program. The Caja Central receives E° 10,000,000 annually from the GOC.

-- The USAID does believe, however, that government support could be appropriately channeled to IFICOOP through an alternate mechanism. The USAID is also proposing a $3.6 million loan to the GOC for the importation of fertilizer. The repayments of sub-loans could be turned over to IFICOOP as fiduciary. This type procedure creates a bank/customer relationship and the GOC does not set precedent as a permanent investor.

iii) It is in AID's interest to associate itself as a forerunner in Chile's cooperative movement. Indeed, the Chilean Cooperative Bank may well serve as an example for all Latin America as has its savings and loans system. An indication of this probability was the May 27 and 28 meeting, in Santiago, of the International Institute of Cooperative Financing (IIFCOOP). This meeting represented IIFCOOP's first direct participation in the review and appraisal of a particular country's investment proposal. The results of this meeting are presented in Section VI.

iv) Due to the institutional nature of this loan proposal, the USAID believes a project approach is required to effect the necessary controls and technical assistance provisions. It would not be advisable to share this responsibility with the new government whose social objectives and political motives might induce policies counter to effective investment resource allocation. This project approach is in line with a major AID objective which is to reduce the need to rely heavily on program lending.

B. IFICOOP Lending Terms

1. Loans will be granted on a short, medium and long term basis. Short term loans are those for one year of less; medium - from one to five years; and long - 5 to 10 years.

2. Short term loans will bear interest at 16%. However, there will be an additional 1½ - 2½% fee on each loan for IFICOOP capitalization (See Section IV-C below for details). The USAID believes that the extension of these short term loans will result in some decapitalization. Therefore, AID will ensure that a maximum percentage relationship will be established between total short term loans and the total loan portfolio. In addition, IFICOOP has agreed not to roll-over short term credits unless it can be demonstrated that such action is warranted by circumstances, beyond the control of the borrower, which have precluded repayment within the original period. IFICOOP has projected actual short term needs at about 1/3 of the total loan portfolio.

3. Medium and long term loans will bear interest at 6%, but will also be readjusted annually in line with an index mutually agreed to by the Borrower and IFICOOP.

4. Medium and long term loans will not be granted in amounts exceeding 80% of the cost of the proposed project.

5. Unsecured loans - Any one unsecured loan may net exceed 5% of total capital and reserves.

6. Readjustment - The system of readjustment in Chile has not been successful. Although CORFO applied various indexes in its medium term credits to farmers, none were consistently able to ensure recovery of actual values loaned. The indexes varied widely over a 10 year period with the movement of one bearing little relationship to another. Actually, the indexes turned out to be, depending on the date of the loan, either favorable or detrimental to the farmer. As a result, last year CORFO removed the readjustment feature for all loans under 5 years.

The principal reasons for past failures with respect to the farmers' capacity to repay has been the use of price indexes at a time when the farmers' expenses were increasing at a more rapid rate. This was mainly due to agriculture price controls. It is expected that this situation will change with the new government which has promised to bring agricultural prices more in line with the rest of the economy. (It is estimated that the agricultural price index will exceed the cost of living index by 1966.) The USAID understands that the GOC is studying the possibility of adjusting agricultural prices according to the price fluctuations of farm inputs (i.e., fertilizer, farm tools, labor, etc.). Should such a system be developed, the various agricultural price indexes would more realistically conform to the farmers' income potential and greatly improve his ability to repay.

Therefore, a system of readjustment based on various indexes, which will be applied according to the nature of the loan, may be workable. Naturally, the success of the government's plans to halt inflation over the next 4 years is of the utmost importance to IFICOOP, which still will run the risk of some decapitalization with respect to agricultural loans insofar as agricultural prices will have to be raised gradually.

IFICOOP's preliminary idea is to apply four indexes of readjustment to its loans. They are:

i) The dollar - loans will be readjusted according to the escudo/dollar relationship when projects involve exports.

ii) Wage and salary index. This index will be used for loans connected with housing construction (also used by Savings & Loans system).

iii) Consumer index. Loans to consumer cooperatives, credit unions, artisan and fishery cooperatives will usually be based on this index.

iv) Agricultural index. All cooperatives involved in agriculture will be included under this index.

C. Financial Analysis

1. Total Project Cost

Proposed initial capitalization is as follows:

(E° 3.26 = $ 1)

AID	*$ 3,650,000	
Member Cooperatives	77,000	(250,000 escudos)
Banco del Estado	307,000	(1,000,000 escudos)

*At least 20% of the AID loan will be used for U.S. procurement.

The membership capital of 250,000 escudos is required by law as the minimum capitalization for an institute of this type. 125,000 escudos has been paid-in and the remainder will be paid-in by the end of 1966.

The Banco del Estado's equity participation will be paid in over a three year period ending 12/31/67. IFICOOP will pay a 3½% annual dividend on this investment. Banco del Estado will have only one vote in a general assembly meeting and will not participate in the election of the Board of Directors.

IFICOOP will also receive a 200,000 escudo loan from CORFO to cover initial operating expenses. This loan will be granted for a 6 year term with interest calculated at 75% of the commercial banking rate during the first year, 80% the second year, 90% the third year and 100% thereafter.

It should be noted that IFICOOP will be receiving additional funds for relending through readjustable savings. It is expected that this mechanism will enable the Institute to take full advantage of existing liquidity within the cooperative movement.

2. Debt/Equity Ratio

The resulting debt/equity ratio (including the CORFO loan) approximates 9.6 : 1. In its review of the IRR, Washington recommended a maximum loan of $ 3,000,000. The USAID has requested additional funds on the following basis:

i) The application of $ 3 million (less about $350,000 for technical assistance) would not permit the degree of loan diversification required during the initial financing stage. IFICOOP's ability to lend in all cooperative sectors will be a main stimulus to attract new members. At present, IFICOOP's membership is limited to 96 cooperatives. Capitalization will increase considerably once operations begin.

ii) IFICOOP will charge an additional fee of between 1½ and 2½% on all outstanding loans for capitalization purposes. On the basis of 1½%, IFICOOP projected an addition to capital of E° 700,000 over the next ten years. On AID/W's suggestion, the USAID urged that AID funds used for short term credits bear the additional 2½% charge. Since medium and long term loans are readjustable, the use of 2½% was not deemed advisable for these credits.

iii) The AID loan will be two-step. It is recommended that IFICOOP receive 25 year terms with a 10 years

grace period and interest of 1% during the first 10 years and 2½% thereafter. Under these conditions, it seems unrealistic to treat the AID loan as long term debt in the true sense of the term and apply a hard and fast debt/equity ruling.

iv) During the May 27 and 28 review by the Inter-American Institute for Cooperative Financing, the U. S. representatives stated that a 10:1 debt/equity ratio was not unusual for cooperative banks in the U. S. when operations were initiated. It was further stressed that no real guideline exists in determining debt/equity ratio for this type of institution.

v) The usual two step loan compels the Borrower to repay to the Government in local currency at the exchange rate on the day payment is due. In Chile, this exchange rate risk is significant. IFICOOP is presently negotiating with the GOC and hopes to be able to repay one half of the loan in the original amount of escudos disbursed plus an 8% annual interest fee. The second half of the loan would be repaid according to the normal formula. If approved, this would reduce IFICOOP's debt position in real terms.

vi) A condition precedent to disbursement over $1,200,000 will be included, which will require that the Borrower double the capital originally provided by its member cooperatives.

3. Financial Projections and AID Loan Terms

IFICOOP's ten year balance sheet and profit and loss projections are presented in Exhibit 5, Annex V. These projections are based on a $5,000,000 loan with disbursement over 3 years.

Operating expenses are expected to average $80,000 annually over the next 10 years. The breakdown is presented in Exhibit 7, Annex V.

IFICOOP has not yet established a reserve for bad debts exclusive of those funds resulting from Net Income. The establishment of such a reserve (between 2 and 5% of total loans) will be a condition to disbursement of AID funds.

The USAID is proposing 25 year terms (including ten years grace) with interest at 1% during the first 10 years and 2½% thereafter for the following reasons:

1. The loan from CORFO to finance start-up expenses will put somewhat of a strain on IFICOOP during the first 6 years.

2. The extension of short term loans at 16% interest (not including the 1½ to 2½% for capitalization) will result in a degree of decapitalization.

3. During the first 10 years of operation it will be necessary for IFICOOP to extend as many credits as possible in order to establish a true proliferation of lending fields and attract new members. For this reason, it is felt that the Bank should not be burdened with amortization payments.

4. The operating costs of regional offices has not been included in the financial projections. The USAID believes that IFICOOP's success in attracting new members will necessitate the establishment of several regional offices in addition to the original 5 throughout the country. This would require considerable investment by IFICOOP.

SECTION V - IMPLEMENTATION PLAN

A. Conditions Precedent to Disbursement for U. S. Advisor

1. Usual legal requirements (legal opinion, Borrowers' representative, etc.).

2. Evidence that a U. S. advisor has been contracted.

The USAID hopes that a draft contract can be ready by the end of June for negotiation in Santiago. It is expected that a temporary advisor will be sent to Chile for 3 months in order to assist the Borrower with additional conditions precedent to disbursement (see below). Foundation for International Cooperative Development advisors have suggested this technique since it may take time to find a permanent advisor.

The USAID believes that the above conditions can be met by August 31, 1965.

B. Conditions Precedent to Disbursement for Sub-Lending

1. IFICOOP will submit a copy of the Board of Directors' resolution defining the delegated responsibilities of the General Manager.

2. IFICOOP will select a treasurer satisfactory to AID.

3. IFICOOP will establish loan approval authorities for the management, Loan Committee, Executive Committee, and Board of Directors.

4. A satisfactory procedure for the transfer to IFICOOP of escudos generated under the proposed AID fertilizer loan.

5. The establishment on a basis satisfactory to AID, of a reserve for bad debts.

6. An Agreement with the GOC concerning the method for repaying escudos under the two step procedure.

7. AID approval of individual loan limits with respect to total inventory or working capital requirements of a particular project.

In Ecuador, the Bank is not permitted to loan in excess of 50% of the total inventory or working capital cost requirement. The USAID believes that this relationship is too conservative for Chile and will negotiate a more realistic level.

8. AID approval of a maximum percentage relationship between total short term and unsecured loans and the total loan portfolio. This level will be negotiated with a view towards minimizing the risk of decapitalization without seriously endangering IFICOOP's ability to meet priority financing requirements.

9. Evidence of the E° 1,000,000 equity participation by Banco del Estado.

10. Evidence that IFICOOP has received a 200,000 escudo medium term loan from CORFO.

11. AID approval of IFICOOP policies and regulations with respect to guaranteeing loans from other financial institutions on behalf of cooperative members.

At present, IFICOOP is permitted to guarantee individual loans up to a maximum 20% of Capital and Reserves with the overall authority not to exceed total Capital and Reserves. The USAID believes that such guarantees will require analysis equal to that given ordinary loans and is concerned with the possible volume of guarantee activity during the start-up phase of this institution.

Assuming the arrival of a U. S. advisor during early September 1965, the USAID believes that the above conditions precedent can be met by November 30, 1965.

C. Condition Precedent to Disbursement in Excess of $1,200,000

It is anticipated that the Borrower will be able to disburse $1,200,000 during its first year of operation. In order to receive additional funds from AID, the Borrower will have to increase the members' capital to the equivalent of $150,000 (more than double). The escudo amount will be calculated at the exchange rate on the day that a total of $1,000,000 has been disbursed. The capital collected through the 1½ - 2½% loan charge will not be included in the calculation.

D. Conditions precedent to Disbursement for Regional Offices

1. Justification for selection and location of the 5 offices. The USAID has been informed that this information is almost completed.

2. Description of the regional offices' operating procedures and the policy guidelines established by IFICOOP for their operation.

The USAID understands that these offices will operate with a staff of about 3 people under the supervision of a manager. Each region will elect an advisory committee representative of the member cooperatives of the region. If the regional manager recommends against a loan application which the committee insists should be approved, it will be referred to the Board of Directors.

3. AID approval of the proposed office staffs.

4. A breakdown of costs for the 5 regional offices.

E. Conditions Precedent to Disbursement for Technical Assistance

1. A full description of the procedures for contracting private firms to conduct feasibility or planning studies.

2. A description of the procedures to approve firms.

3. A standard contract for technical assistance services. These conditions should be met by November 30, 1965.

F. Special Covenants

1. Housing construction will not be financed under the loan.

2. Land costs will not be financed by IFICOOP.

3. A minimum of 20% of the total loan proceeds will be used for U. S. procurement.

4. The Cooperative Bank advisor, or other AID appointed representative, will be permitted to attend all meetings of the Board, Executive Committee or Loan Committee for a period of 5 years,

5. Unless AID otherwise agrees in writing, AID will approve all loans exceeding $75,000 for a two year period beginning June 30, 1965. The Borrower and AID will mutually agree to a procedure thereafter.

6. Administrative costs will not be financed unless it can be demonstrated that such costs are part of ardgenerated by the requirements of a particular project.

7. For a period of 5 years from the date of signing the Loan Agreement, AID reserves the right to:

a. Appoint an observer to attend all meetings of the Board of Directors.

b. Approve any General Manager appointed by the Board of Directors.

c. Approve any change in the policies of IFICOOP, particularly with respect to interest rates, dividends and capitalization requirements.

d. Approve any major organizational changes including the establishment of new offices or hiring of additional staff.

8. AID shall approve any change in the by-laws and all national decrees which specifically affect only IFICOOP.

9. AID shall approve any additional borrowing by IFICOOP.

10. AID shall approve any request for a feasibility study when the cost exceeds 5% of the estimated total project cost.

SECTION VI - RESULTS OF THE MAY 27 AND 28 REVIEW COORDINATED BY THE INTER-AMERICAN INSTITUTE FOR COOPERATIVE FINANCING

The following major observations were made during the two day session:

1. There was a general concensus that while the direct mail vote was necessary for the election of a Board of Directors, the geographical make-up of Chile justified a system of representatives for Cooperatives outside of Santiago during general assembly meetings. It was agreed that the proposed system whereby a representative cannot represent more than 5 cooperatives, was equitable.

2. The Committee unanimously agreed that it may be necessary for IFICOOP to raise its maximum loan limitation, which is 10% of Capital and Reserves plus 2% of long term debt. IFICOOP management agreed that the statutes should be changed to permit the Board of Directors to approve exceptions.

3. The committee thoroughly discussed IFICOOP's inability, under Chilean cooperative legislation, to withdraw voting rights from cooperatives which are not borrowing from the Bank. It was agreed that IFICOOP should obtain a change in its statutes which would require the cooperatives now participating to maintain 1% of their capital and reserves in IFICOOP shares in order to retain their vote.

4. Housing cooperative eligibility was the subject of considerable debate. No unanimous conclusion was voted.

5. The debt/equity question was discussed and it was concluded that an initial rate of 10 : 1 was not unusual during the start-up phase of a cooperative bank.

6. There was general agreement that the cooperative movement in Chile had achieved a degree of progress far greater than that experienced in other Latin American countries. The committee members were particularly impressed with the degree of diversification in the Chilean movement and IFICOOP's success in bringing the various cooperatives together.

SECTION VII - M.O. 1242.1 - RELATIONSHIP OF THE LOAN TO THE PRIVATE SECTOR

1. Of the total amount of money loaned, it is estimated that:

a. $3,650,000 is being loaned directly to private enterprise.

b. $3,650,000 is being loaned to intermediate credit institutions for relending to private enterprise.

c. $3,650,000 is being loaned to a government for disbursement to finance the import of commodities by private enterprise or for the use of private enterprise.

d. No funds are being loaned to a government to finance project work (including procurement) done under contract by private enterprise.

4. $3,650,000 is being loaned to a mixed enterprise (with about 60% private ownership). It is not possible to determine how much will be spent contracting private firms and how much for purchasing goods directly from private enterprise.

f. Funds are not being loaned to a government for the direct purchase by the government for its own use of goods from private enterprise.

June 18, 1965

"IFICOOP" Ltda. INSTITUTE FOR COOPERATIVE FINANCING

Constituted and modified by public writs dated respectively June 15 and September 9, 1964, and legalized by Notary Public, Fernando Escobar Vivian, of Santiago. The existence of this Institute was authorized and its social status approved by Supreme Decree No. 1,282 dated October 28, 1964 and published in the Diario Oficial of November 27, 1964.

Santiago 1964. STATUTES, Institute for Cooperative Financing "IFICOOP" Ltda.

TITLE I

Name, Address, Duration and Objectives

Art. 1 An auxiliary cooperative corporation was created under the denomination "Institute for Cooperative Financing, IFICOOP Ltda.", and in accordance with Art. 121 of the General Law on Cooperatives - R.R.A. No. 20 dated 1963 - and Supreme Decree No. 1385 dated in 1964; this corporation is designed to handle the financing of cooperative organizations. Its initials "IFICOOP" may be used in place of the full title.

Art. 2 The Institute's main office will be located in Santiago; its branches or agencies may be established at any point within or outside the country. Its duration will be indefinite and its purpose the following:

a) To render financial assistance by means of loans over periods not to exceed 10 years to those cooperative entities in a position to meet requirements in regard to adequate management systems and solvency. The Institute may also render indirect financing assistance through the granting of guarantees.

b) Financing and promoting capitalization of referred cooperative agencies and issuance of savings quotas subject to the General Law on cooperatives or for placement among those cooperative members who do not own personl or Institute quotas.

c) Finance and promote, directly or indirectly, plans for the rationalization and technical assistance for the better development of entities subject to the General Law for Cooperatives.

d) Accept mandates or powers of attorney to carry out financial negotiations, to administrate trust funds, or to carry out mandates for national, foreign or international financial institutions and agencies in order to canalize resources, property or services towards cooperative institutions; the limitation regarding length of repayment terms specified under (a) shall not apply in such cases.

e) Promote and participate in initiatives tending towards integration of the cooperative movement; and

f) Receive values under conditions to be agreed upon by the Council and celebrate all acts or contracts necessary or advisable for attainment of objectives pursued by the Institute, in accordance with the General Law of Cooperatives and the Regulations thereof.

ITLE II

Regarding the Members and Capital

Art. 3 Members of the Institute may include cooperatives and other institutions subject to the General Law of Cooperatives; also public and private entities which, under their statutes, are classified as non-profit organizations.

Art. 4 The status of member is acquired by submitting appropriate application to the Council and, once this is accepted, underwriting the requisite number of shares. The responsibility of each member for obligations contracted by the Institute is limited to the value of the shares underwritten by said member.

Art. 5 Members may resign at any moment, but the right to do so may be suspended in cases of liquidation, bankruptcy or suspension of payments on the part of the Institute. Refund of members' contributions may not be demanded before expiration of a lapse of six months after their resignation or withdrawal; in any case, refund will be subject to availabilities in the returned shares fund and to the condition that said refund will not imply decrease of paid-up capital according to the provisions of Art. 8.

Art. 6 Further to members' obligations under the laws and existing statutes, they must also comply promptly and fully with their commitments to the Institute, attend the meetings to which they are summoned, carrying out their part of agreements reached therein, and render every possible collaboration towards the aims of the Institution.

Art. 7 Members shall enjoy the following privileges:

a) They may participate in elections of the Managing Council and the Vigilance Committee in accordance with provisions of Art. 19;

b) Subject to decision taken at General Assembly they shall receive payment of an interest not to exceed 7% on their contributed capital; this assuming the Institute to have a residue after referred interest has been charged to expenditures.

c) Check on administrative and accounting operations through examination of pertinent books within the 8 days preceding the General Assembly which is to omit judgment regarding balance statement.

Art. 8 Capital will be variable and unrestricted starting from a basic E°250,000 divided into 25,000 shares of E° 10 each and will be paid up with 20% cash down, 30% at six months and the remaining 50% within 2 years on dates to be fixed by the Council. Nominal value of the shares may be revaluated according to provisions of the law.

The Institute may not decrease its paid-up capital to an amount lower than that featured in the last Balance Statement without express authorization to do so from the Cooperatives Department, Ministry of Economics, Development and Reconstruction, or equivalent entity.

Art. 9 Capital subscribed by the cooperatives may not be less than the amount of one basic monthly salary scale A of the Department of Santiago for each 100 members, nor less than 1% of its accumulated capital and reserves, whichever of the two amounts should be the greater.

In special cases and with the concurrence of 2/3 of the Cooperatives' active members, different contributions may be accepted for cooperatives affiliated to a Federation or Cooperative Union, provided that the contribution set for such Cooperatives are not less than the sum of the minimum amounts they would have had to pay individually under application of aforementioned norm. Federations, Unions, and Cooperative Auxiliary Societies joining the Institute should also directly contribute 1% of their capital plus reserves with a minimum equivalent to one monthly basic salary scale A of the Department of Santiago.

Public and private entities which according to their statutes are non-profit, referred under Art. 3, shall contribute capital - an amount to be determined by mutual agreement among the interested parties.

Art. 10 In order to negotiate a loan one essential condition is that the borrower, in addition to the minimum contribution referred to in the foregoing article, shall have to his credit an additional contribution of at least 5% of the loan requested. It will not be necessary to repeat this additional contribution in its entirety for each new loan negotiated, provided that the relationship of total interests accrued to referred additional contribution are as specified in the Regulations. Refund of this contribution

may not be demanded before expiration of 15 years as from the date on which it was made.

Art. 11 The savings quotas which, subject to agreement by the Members' General Assembly and the Department of Cooperatives, may be issued by the Institute in fulfillment of provisions under b), shall be subject to the conditions and formalities established by referred General Assembl,

TITLE III

Management

Art. 12 Management of the Institute will be handled by a Council comprised by not less than eleven nor more than thirteen proprietary members and an equivalent number of alternates, elected according to the following norms:

a) Consumer cooperatives will elect three office-holding representatives and an equal number of alternates.

b) Savings and Loans Cooperatives, Electrical Services, Miscellaneous Services and Housing Cooperatives shall each separately elect one office-holding representative and one alternate.

c) Farming cooperatives proper, dairy and wine producers associations shall each separately elect one office-holding representative and one alternate.

d) The Fisheries, Farm-laborers' and Producer Cooperatives shall jointly elect one common office-holding representative and one alternate.

e) In addition to the eleven members referred to in the foregoing, the Council may increase up to thirteen members for the purpose of achieving a better integration of the cooperative movement or a fuller cooperation towards its objectives. Alternate members will retain their posts for a three-year term.

Art. 13 Council members shall be nominated for three-year terms, may be re-elected indefinitely, and replaced by groups of 3, 4, or 4 and 5 -- in this last case when the Council was originally established with a full complement of 13 members.

Art. 14 Alternates shall replace any of the office-holders in the same group in case of resignation, death, disability or other reason for definite discontinuation of the functions. Members of the Council, as well as the manager, shall be bonded under the law.

Art. 15 Each year the Council will elect a president, a vice-president and a secretary, whose functions will be carried out according to the regulations.

Art. 16 Counwil will function with the majority of its members and agreements wi l be adopted on an absolute majority of those present, save in those cases in which existing statutes call for a special quorum.

Art. 17 The Council shall perform the following duties:

a) Top level management of social negotiations;

b) Make decisions regarding admittance of members and the voluntary increase of or decrease of their contributions within limits established under these statutes;

c) Constitute special committees and designate their members, specifying their functions;

d) Contract for and terminate the services of the manager and other top officials of the society, and determine their duties and responsibilities;

e) Establish whatever internal regulations may be deemed necessary;

f) Decide distribution to be made of available credit resources among the various activities of the Institute;

g) Approve annually the expense budget and submit to the Members' Ordinary Assembly the Society's yearly report, inventory and balance sheet, together with proposed distribution of surplus;

Represent the Society judicially and extrajudicially without impairment to the authority vested in the Manager thereof, contracting commercial current accounts and savings and loan bank accounts, drawing and overdrawing on these, checking on half-yearly statements, contracting advances against acceptance, overdrafts and other forms of credit, contract credits on current accounts and loans of all descriptions with or without collateral; collect, draw, accept, reaccept, endorse, collection or in guarantee and without restrictions, discount, vouch for protest and annul bills of exchange, checks, drafts and negotiable documents in general; execute pledges, bonds and other guarantees; buy, sell, exchange and, in general, purchase and expropriate shares, bonds, and all types of property, real or personal, establishing quality boundaries, prices and terms of payment with limits stipulated in Supreme Decree No. 1385 dated 1964; cede and accept assignments; carry directly or through third parties the purchase and importation of products and merchandise; sign contracts in connection with financing of negotiations form or participate in other societies or cooperatives; let or lease property or real estate, substitute, compound and compromise; execute contracts for labor, insurance, deposit, freight or transportation or any other necessary to the function of the Society; pledge and mortgage real estate pertaining to the Society, being empowered to insert in such

contracts stipulative clauses anent overall mortgage security. For judicial purposes it shall be vested with the authority corresponding to the ordinary judicial power of attorney and the faculties stipulated in clause two, Art. 7 of the Code of Civil Procedures, taken for granted.

i) Create and suppress agencies and branches inside or outside the country;

j) Establish the credit policy to be observed and the general terms of loans;

k) Resolve or pass judgment on any matter provided for in present statutes, without impairment to the faculties of the Department of Cooperatives or the service representing said Department.

l) In general, carry out any act or contract in favor or useful to the fulfillment of the Institute's objectives, within the limitations established by the General Law of Cooperatives and its Regulations;

Art. 18 The Manager shall hold the judicial representation of the Institution, exercise the powers vested in him by the Council, and furthermore, shall be administratively responsible for the correct functioning of the Institute's transactions and services, for which purpose he will propose the administrative and technical staff.

Art. 19 Every September the members will hold a General Ordinary Assembly in order to emit judgment on the report and statement presented by the Council, to carry out procedures stipulated in Art. 12, to elect Councillors when appropriate, to designate members of the Vigilance Committee, and so handle any other matters within the routine activities of the Institute.

The General Assemblies, ordinary or extraordinary, shall be called by the President and shall be considered legally constituted when the majority of members attend at first summons or with as many as attend on second summons. Agreements will be carried on the absolute majority of votes of members present or their proxies, without impairment to the provisions regarding dissolution

(liquidation). Summons to the Assemblies shall be issued in two advertisements published in a newspaper of the locality of the Institute, the last of these advertisements to appear not less than 10 and not more than 20 days prior to the date on which the Assembly is to be held. Considering this same anticipation, members whose personal addresses are on file at the Institute will be advised by registered letter. The summons may arise as an initiative of the President or stemming from a request by the Council; or when it is requested by not less than 25% of the members.

Reform of the statutes and dissolution of the Society may only be discussed at an extraordinary assembly called for that specific purpose.

The dissolution of the Institute will conform with provisions contained in the General Law for Cooperatives.

Art. 20. At any voting which may take place, the members either individually or in groups as the case may be, and Cooperative Associations of the first grade in accordance with stipulations in Art. 12, will each be entitled to a vote as members. Furthermore they will be entitled to additional votes according to the following rating:

a) One vote if they have more than 1,000 and up to 10,000 members, two and so on successively for each additional 5,000 members; federations, union confederations and auxiliary corporations shall be entitled to two votes. The right to vote may only be exercised personally; but the cooperatives whether affiliated or not, may deputize the corresponding regional federation or union as proxy through specific mandate in writing. Public and private organizations indicated in Art. 3 will be entitled to a vote in accordance with provisions of the General Law for Cooperatives.

Art. 21 The Vigilance Committee will be comprised by 5 members: 1 office-holding representative and one alternate will be elected by each of the four

groups of cooperatives referred under a, b, c, and d, Art. 12 of these statutes; also one representative will be designated in rotating form by each of these groups; (i.e., one representative from each group will be nominated in turn as each one's term expires) as authorized by the Ordinary or Extraordinary Assembly, all or part of its functions may be performed by a firm of private auditors. The members of this Committee will serve a one-year term in office.

Art. 22 If for any reason the members of the Council or the Vigilance Committee were not designated opportunely, the functions of those awaiting replacement would be tacitly extended until the corresponding elections by the General Assembly of Members.

Art. 23 The Minutes of the Council shall be signed by all members attending the meeting; those of the Council of Members meetings shall be signed by the President, the Secretary and three of the members attending, as may be designated by the Council. In case any one of the Council members is absent or unable to sign the Minutes, these will be considered legal once signed by at least 2/3 of the members attending that meeting. If expressly requested by a Councillor, the Minutes will bear further the annotation of a dissentient vote whenever raised in regard to any point therein.

Art. 24 The Institute shall submit to the Cooperatives Department of the Ministry of Economics, Development & Reconstruction or its proxy a quarterly statement certified by a firm of auditors acceptable to said Department. Likewise the Institute shall submit statements of actual status at any moment if requested to do so by the Department.

TITLE IV

enefits, Transactions and Statements

Art. 25 The Institute will carry out all types of transactions as required in order to attain its objectives, raising financial resources and granting funding and technical assistance for improvement and expansion of the cooperative system throughout the country, animated by the principles and using methods inherent in cooperative techniques and doctrine.

Art. 26 The Institute, according to its Regulations and Supreme Decree No. 1385 dated in 1964, can carry out all transactions required to comply with the funding objectives contemplated in Art. 2 of these Statutes such as granting of credits on the basis of discounting bills of exchange, promissory notes, collateral, mortgage or security counter-guarantees for transactions of credit by third parties on behalf of any institutions subject to the General Law for Cooperatives who have complied with minimum quota requirements established in the present statutes; carry out any credit transaction compatible with its aims, such as handle or in general, carry out any acts or contracts advisable towards the attainment of its objectives. Loans will be granted on readjustable or non-readjustable bases as the Council may decide.

For the purpose of obtaining resources the Institute may seek association with national or international public or cooperative agencies.

Art. 27 Without impairment to the provisions contained in a), Art. 2, loan repayment terms shall not exceed 5 years. In qualified cases and with the favorable vote of 2/3 of the Council members, loans may be

granted on terms longer than 5 years but not to exceed 10 years.

Art. 28 The annual statement of the Institute shall be prepared as of June 30 of each year, and any residue shall be distributed as follows:

) 10% to legal reserves fund

) 5% to returned shares fund

) 5% to returned cooperative fund

) 30% to fund destined to cover credit risks; and

) 50% remaining to be divided among members in proportion interest paid by them on loans granted by the Institute.

Art. 29 Shares and savings quotas may not accrue more than 7% interest per year under the General Law for Cooperatives.

Art. 30 Loans granted from funds raised by emission of savings quotas shall accrue whatever readjustability may be necessary to guarantee the valuation of said quotas.

Art. 31 The loan contract agreements shall include a commitment on the part of the cooperatives to comply with instructions issued by the Institute in regard to the economic, technical, administrative or accounting aspects, also to permit whatever inspection or examination the Institute may deem necessary.

Art. 32 The members shall respond up to the value of all their property and all real or personal guarantees they may have pledged, and may not appeal to limitations of any nature merely on the grounds of their status as shareholders.

Art. 33 The total debt of any borrower with the Institute, shall not exceed in any moment the 5% of the capital and reserves of the Institute

plus an additional collateral of 5% of such capital and reserves when debt is secured with real guarantees of a value over the 50% of the amount of the loan, in excess of the additional 5%.

TRANSITORY PROVISIONS

Art. One.- The following Acting Council will be designated to functi until the 1966 Ordinary Assembly takes place:

Representing the Consumer Cooperatives. Office holders: Armando Bri Cerezo, Joaquín Morales Abarzúa, Guillermo Ronfeldt Brown. Alternate Héctor Castillo López.

Representing the Services Cooperatives. (Savings and Loan Cooperative Electrical Services; Miscellaneous Services; Housing Cooperatives). Office holders: Lufti Giadach Ghawi, Carlos Icaza Silva, Walter Sommerhoff Rues, Héctor Rubio Arenas. Alternate: Vicente Richard Bernard.

Representing Farmer Cooperatives, Agricultural, Dairy, Wine Producers Cooperatives.

Office holders: Ricardo Labarca Fernández, Carlos Wallert Elield, Roberto Infante Rengifo.

Representing the Fisheries', Country Laborers' and Producer Cooperati

Office holder: Enrique Serrano de Viale Rigo. Alternate: Carlos Ve Errázuriz.

Vigilance Council

For Consumer Cooperatives; Office holder: Alvaro Garcia Alamos Alternate: Ricardo Herrera Alamman.

For Savings & Loans, Electrical Services, Miscellaneous Services and Housing Cooperatives. Office holder: René Astorga Riveros. Alternate: Isidoro Gil Medina.

For Agricultural, Dairy and Wine Producers' Cooperatives. Office Holder: Juan P. Aréstegui Sepúlveda. Alternate: Alfredo Key Bennet. For Fisheries, Farm Laborers' and Producer Cooperatives. Office holder: Arnaldo Guerrero Garcia. Alternate: Fernando Elizalde Gajardo.

This Council will be definitely terminated at the first election. At the time of electing the first definite Council, lots will be cast to designate the three members of one year's duration in office, the four members of two years' duration and the four for three years. In case the number of Councillors should be increased to 13, the first year four members will be chosen by lot and five for 3 years.

Art. Two.- The Council may decide to consider as founding members thos who join the Institute within the first six months following the date of the present document.

Art. Three.- After the Council has adopted the agreements regarding it: enlargement according to provisions contained in Art. 12, and the consequent designation of the new Councillors, all pertinent data ther should be made known at the first Members' Ordinary Assembly following on the agreements.

Art. Four.- Faculties are hereby conferred upon Joaquín Morales Abarzú or Enrique Aguayo Mendiborn to the effect that, separately or jointly, they may consign to public writ the present statutes, negotiate the necessary personality before the Supreme Government and accept the modifications or clarifications that may be proposed or imposed.

Art. Five.- The alternate members of the Council who were not elected at the Constitutive Assembly shall be elected within a period of 6 months as from the date of publication of the Decree acknowledging legal existence of the Institute.

Functional Breakdown and Description of Cooperatives

Cooperatives in Chile are generally classified in three main groupings. They are:

I Production

II Consumer

III Service

I. Production Cooperatives

Production cooperatives in Chile are further subdivided into four groups. They are:

A. Land and Cattle
B. Artisan
C. Industrial
D. Mining

LAND AND CATTLE - By far the most significant today are the Land and Cattle cooperatives which are composed of the following sectors:

i) Agricultural
ii) Livestock
iii) Dairy
iv) Poultry
v) Viticulture
vi) Vegetables and Fruit
vii) Forestry
viii) Fishing
ix) Peasant
x) Regional

Generally, the Land and Cattle cooperatives have achieved a degree of organized administration, have substituted an attitude of collectivity where individualism and distrust prevailed, and have eliminated the small, independent cooperatives which achieved little and incurred high costs by regionalizing administration. Following is a brief description of how each of the above sectors fit into the lending program of IFICOOP.

1. Agricultural Cooperatives

Agricultural cooperativesmembers are thought of as those who engage in multi-product farming on land exceeding 50 hectares. Investments in this category will consist of the following:

a) Equipment
b) Silo construction
c) Seed selection and purification plants
d) Packing plants
e) Transportation facilities
f) Fertilizer production

Disregarding working capital loans, IFICOOP believes that $650,000 could be loaned to this sector within the first two years or operation.

These cooperatives are relatively advanced and are adequately administered.

2. Livestock Cooperatives

These cooperatives are engaged in the breeding, raising and sale of cattle and sheep. Investment in this sector will finance the following:

a) Equipment and sanitary processing plants
b) Improvement in systems of breeding, fattening and slaughtering
c) Increase in cultivation
d) Establishment of marketing outlets

To date, IFICOOP has received one top priority application relating to wool production for $ 400,000.

3. Dairy Cooperatives

Dairy cooperatives represent the most advanced sector of the Land and Cattle group. There are 24 dairy cooperatives in Chile which own 50% of existing milk plants and accounted for 40% of the 1964 total milk production of 700 million liters. Lending activity will be based on the following objectives:

a) Importation of machinery and processing equipment
b) Installation of artificial insemination stations
c) Importation of prize cattle for breeding purposes
d) Construction of marketing facilities in zones of highest consumption.

To date IFICOOP has received loan requests from 5 milk plant cooperatives totalling $500,000.

4. Poultry Cooperatives

At present there are six poultry cooperatives in Chile consist of about 800 individual producers. This is one of the most underdeveloped areas of Chilean agriculture. In general, credit needs will be as follows:

a) Installation of slaughter houses
b) Construction of storage warehouses
c) Construction of plants to produce animal feed and vitamin mixtures which are now imported
d) Fuel distribution plants
e) Construction of auction facilities for marketing.

5. Wine Cooperatives

There are presently 15 wine cooperatives in Chile consisting of about 1200 wine producers. There are approximately 30,000 wine producers in the country as a whole. Cooperatives control 10% of total production which amounted to 490 million liters in 1964. Investments are needed primarily in the following areas:

a) Machinery and equipment
b) Construction of warehouses for storage, preservation and marketing
c) Mechanization of bottling

IFICOOP has received credit requests from wine cooperatives totalling $10 million. It is believed that specific projects exist for $ 4.5 million.

6. Vegetable and Fruit Cooperatives

These cooperatives are composed of farmers who are located relatively close to big consumption centers. Production normally consists of fruits, vegetables and flowers. The average plot of land is between 5 and 25 hectares. Future credits will consist of the following:

a) Plants for washing and packing
b) Cold storage plants
c) Transportation vehicles
d) Seed and fertilizer

There are 10 fruit and vegetable cooperatives in Chile with about 5000 members.

7. Forestry Cooperatives

There are approximately 12 forestry cooperatives located in the southern zone of Chile. Although the country is abundant with insignis pine, there is a great need for equipment. The possibilitie for investments are:

a) Planting and reforestation
b) Construction of sawmills
c) Construction of cellulose and paper plants
d) Adaptation of lumber to chemical industry
e) Transportation facilities

8. Fishing Cooperatives

These cooperatives are concerned with the extraction, transformation and distribution of goods related to the fishing industry. At present, there are 33 such cooperatives which account for 65% of domestic consumption.

CORFO has recently formed an auxiliary society called "PESCOOP" to assist these cooperatives. It is believed that the principal credit needs are:

a) Installation of ice plants, cold storage and cutting rooms
b) Plants for the industrialization of dry fish and by-products
c) Capital equipment (i.e., motors, spare parts and fishing nets).

Tequests totalling $500,000 have been received from eight cooperatives.

9. Peasant or Rural Cooperatives

These cooperatives have been formed to organize the mass of rural families who do not specialize in any particular form of agriculture or industry. Normally, these people are small land owners or lessees with a monthly income of about $25. It is intended that credits will be extended to this low income cooperative group for the following purposes:

a) Small industries
b) Animal husbandry
c) Working capital to operate pig houses, rabbit-yards, hen-yards, etc.

10. Regional Cooperatives

The Regional cooperatives represent a diffierent philosophy from those presented above. This philosophy is based on regional organization without regard to product specialization. The main objectives are regional planning and political unity. IFICOOP intends to extend credits to those cooperatives which submit regional plans that demonstrate high degrees of marketing and production coordination.

ARTISAN - In Chile, there are approximately 500,000 people whose income fluctuate between $10 and $40 per month. As a result several artisan workshops have been formed on a cooperative basis. This cooperative sector is being assisted by the Work Promotion Institution, a non-profit organization. The individual cooperatives are composed of about 40 people. The main production items are: working clothes, furniture, mattresses, certain foodstuffs such as bread; ceramics, the manufacture and reapir of shoes, etc. At present, there are two operating cooperatives and ten in the process of formation. The credit needs of this sector will initially approximate $100,000 with the following objectives:

a) Purchase of tools and machines
b) Purchase of raw materials
c) Construction of workshops
d) Working capital

INDUSTRIAL - This group, which has as its prime objective the encouragement of small and medium industry, is probably the least developed. There has been little cooperative experience in industry with the exception of a recently organized ready-to-wear clothing factory initiated by the National Federation of Consumers' Cooperatives. IFICOOP funds for industrial cooperatives will be used for:

a) The purchase of machinery and equipment, including transportation installation and other costs related to the particular industry.
b) Building and factory construction.

IFICOOP estimates a loan portfolio of $1,200,000 over the next three or four years for industry. Among these projects are included the expansion of the ready-to-wear clothing factory, slaughter-houses, canning plants, industrial dyes for fabrics, and brick manufacturing plants.

MINING - There exist several small cooperatives in Northern Chile which are engaged in the extraction and processing of ore and its sale to various foundries. Credits would be extended for:

a) Machinery and equipment for extraction of ores.
b) Plants for ore processing
c) Vehicles

Since these cooperatives are still in the initial stages of organization, it is difficult to anticipate their credit needs.

II. Consumer Cooperatives

The purpose of the Consumer Cooperatives is to provide a mechanism to supply consumers with articles and merchandise for personal and domestic use.

Development of this cooperative group within the past 30 years has been exceptional. At present, there are over 150.000 members and total capital approximates $15 million.

The principal investments of these cooperatives are in marketing outlets (i.e., supermarkets), warehouses and merchandise inventory. Membership in such a cooperative is obtained by purchasing shares. Usually, such share purchases are executed by withholding payments from a member's monthly salary check.

Investments requiring greatest priority are as follows:

a) Installation of sales stores and warehouses (self-service and others).
b) Enlargement of existing stores
c) Installation of plants for the manufacture of ready-to-wear clothing, packing and transformation of products, printing, etc.
d) Purchase of vehicles.

IFICOOP has received capital investment requests from consumers' cooperatives for more than $ 3.000,000, and working capital requests for $1,500,000, and working capital requests for $ 1,500,000.

III. Service Cooperatives

a) Credit Unions

Credit Unions were initiated in Chile in 1949 and, after a measure of success, the Federation of Credit Union Cooperatives was formed in 1954.

The function of these cooperatives is to promote and receive savings and extend loans to members. The maximum interest rate charged jis 1% per month and the interest on savings cannot exceed 7% per annum.

In Chile, there are 186 Credit Union Cooperatives consisting of about 80,000 members. Total capitalization is 3,000,000 escudos.

With regard to specific projects in the sector, the Federación has planned an expansion program which would include 5 zones of the country. These projects amount to 950,000 and consist of the following:

i) Formation of small industries
ii) Construction of technical schools
iii) Expansion of general credit operations
iv) Agricultural operations

b) Electrical Cooperatives

There are 18 electrical cooperatives in Chile with a total of approximately 4000 members. Total net worth is estimated at $10,000,000. Fourteen of these cooperatives belong to the Federación Nacional de Cooperativas Eléctricas which presently sha res implementation responsibility with CORFO for a recent A.I.D. $3.3 million loan for rural electrification.

The electric cooperatives are on relatively strong financial footing . They provide electricity to some 120 rural towns serving about 250,000 people. Their future credit requirements are concerned with the need for storage warehouses and rural factories for the production of electrical components.

c) Housing Cooperatives

Chile has approximately 400 housing cooperatives with a membership of about 35,000 families. The purpose of these cooperatives is to purchase land, plan and design housing projects, including urbanization and community facilities, which will later be financed through the Savings and Loan system or other government institution.

The principal credit need of these cooperatives is to develop a system of construction financing in order to reduce total construction costs and housing prices.

"I F I C O O P"

ADMINISTRATION COUNCIL

PRESIDENT Mr. JOAQUIN MORALES ABARZUA

VICE PRESIDENT Mr. WALTER SOMMERHOFF RUHER

	TITULARS	ALTERNATE
A. CONSUMER		
	Armando Briceño C.	Hector Castillo L.
	Joaquin Morales A.	Osvaldo Cuadrado
	Guillermo Ronfeldt B.	Eduardo Mancilla
B. SERVICE		
Credit Union	Lutfi Giadach G.	Juan P. Libano M.
Electric Power	Carlos Icaza S.	Vicente Richard
Various Services	Walter Sommerhoff R.	Héctor Contreras
Housing	Héctor Rubio A.	
C. AGRICULTURE		
Agriculture as such	Ricardo Labarca F.	Edmundo Ruiz V.
Dairy	Carlos Follert F.	Enrique Bluth
Wine	Roberto Infante R.	
D. FISHING AND PEASANTS		
	Enrique Serrano V-R.	Carlos Velasco E.
E. PRODUCTION		
	Ramon Venegas C.	
F. LAND REFORM		
	José L. Pistono A.	

EXECUTIVE STAFF

GENERAL MANAGER	Mr. Jorge Fontaine Aldunate
GENERAL SECRETARY LAWYER	Mr. Enrique Aguayo Mendiborn
CHIEF OF PROJECTS	Mr. Gonzalo Sánchez Rivas
PROMOTER	Mr. Enrique Trautmann Vergara

SPECIAL COMMITTEES OF THE INSTITUTE OF COOPERATIVE FINANCING - IFICOOP

EXECUTIVE COMMITTEE

Mr. Joaquín Morales A.
Mr. Walter Sommerhoff R.
Mr. Ramon Venegas C.
Mr. Enrique Serrano V-R.
Mr. Ricardo Labarca F.

LOAN COMMISSION

Mr. Carlos Follert F.
Mr. Carlos Icaza S.
Mr. Roberto Infante R.
Mr. José L. Pistono A.
Mr. Armando Briceño C.

PUBLIC RELATIONS COMMISSION

Mr. Joaquín Morales
Mr. Walter Sommerhoff R.
Mr. Hector Runio A.
Mr. Guillermo Ronfeldt B.
Mr. Lutfi Giadach G.

BRIEF DESCRIPTION OF COUNCIL MEMBERS AND IFICOOP MANAGEMENT

I. Council

1. Name: Joaquín Morales Abarzúa (President)
   Profession: Lawyer
   Activities: a) Deputy for the Provi[illegible] of Linares
   b) Advisor to the Natio[illegible] Federation of Cons[illegible] Cooperatives
   c) Author of a cooperative banks project.

☆ 2. Name: Ricardo Labarca Fernández (Executive Councillor Agricultural Cooperatives)
   Profession: Architect
   Activities: a) Advisor to Agricultural Marketing Cooperatives
   b) Former Manager to Agricultural Cooperative "Cerecoop"
   c) Advisor to "Coopenor" and "Unicoop"

☆ 3. Name: Walter Sommerhoff Ruer (Vice President)
   Profession: General Manager of "Sodimac" (Miscellaneous Services)
   Activities: a) President of the Organizing Committee of IIFCOOP
   b) President of Unicoop
   c) National Advisor in financial and cooperative matters

4. Name: Armando Briceño Cerezo (Councillor)
   Profession: President of the Private Employees Cooperative (Consumer)
   Activities: Councillor of the National Federation of Consumer Cooperatives.

☆ 5. Name: Guillermo Renfeldt Brown (Councillor)
   Profession: a) President of the National Federation of Consumer Cooperatives
   b) Councillor of the Post Office and Telegraph Cooperative

☆ 6. Name: Lutfi Giadach Chawi (Councillor Savings Cooperatives)
   Profession: Commercial Engineer
   Activities: a) Member of the Technical Cooperation Service
   b) Former Manager of the Federation of Savings Cooperatives

7. Name: Carlos Icaza Silva (Councillor Electric Cooperatives)
   Profession: Civil Engineer
   Activities: a) President of the Federation of Electric Cooperatives
   b) Manager of Electric Cooperative "Talca"

8. Name: Héctor Rubio Arenas (Councillor Housing Cooperatives)
   Profession: President of the Chilean Federation of Housing Cooperatives
   Activities: a) Advisor during the organization phase of housing cooperatives
   b) Former Councillor of the Housing Federation

☆ Executive Council

9. Name: Carlos Follert Flield (Councillor Dairy Cooperatives)
Profession: Deputy for Osorno
Activities: a) Vice President of the Agricultural and Dairy Cooperativ of Osorno
) Advisor during the organization phase of dairy cooperatives

10. Name: Roberto Infante Rengifo (Councillor Wine Producers Cooperatives)
Profession: Engineer
Activities: a) Vice President of the Banco del Estado de Chile
b) Former Minister of Agriculture
c) Advisor to Wine Producers Cooperatives

11. Name: Enrique Serrano de Viale Rigo (Councillor Farm Laborers and Production Cooperatives)
Profession: Farmer
Activities: a) President of the Institute of Rural Education
b) President of Agricultural Cooperative "Prosefo"
c) Former Minister of Mining
d) Former Executive Councillor of IFICOOP

* 12. Name: Ramon Venegas Carrasco (Social Promotion Counsellor)
Profession: Architect and Economist
Activities: a) Advisor in the organization of low-income housing projects and communities
b) Advisor to the Chilean Government on social promotion

13. Name: José Luis Pistono Alvarez (Councillor Agrarian Reform)
Profession: Agronomist - Economist
Activities: Counsellor of the Agrarian Reform Corporation

I.. Management

1. Name: Enrique Aguayo Mendiboure (General Secretary - Lawyer)
Profession: Lawyer
Activities: a) Advisor to the Chilean Federation of Housing Cooperativ..
b) Former Councillor of IFICOOP
c) Former Loan Officer of IDB (Washington, D.C.)

* 2. Name: Gonzalo Sanchez Rivas (Chief of Projects and Promotion)
Profession: Lawyer
Activities: Former Secretary of the National Institute of Agricultural Promotion

3 Name: Enrique Trautmann Vergara (Membership and Operations Promoter)
Profession: Military Engineer
Activities: Former General of the Chilean Army

* Executive Council

APPLICATION FOR LOAN
INSTITUTO DE FINANCIAMIENTO COOPERATIVE IFICOOP LIMITADA

June 18, 1965

1. Name of applicant:

2. Address of applicant:

3. Amount applied for: $_____

4. Applicant will use the loan, if made, for the following specific purposes, and for none other without the prior written consent of IFICOOP.

5. Applicant offers the following as security for the loan:

   Applicant states that there are no liens on any part of such property except taxes not now delinquent, and the following:

6. If a loan is granted, applicant will repay it in the following manner:

7. Is applicant involved in any litigation; yes( ) no( )

   If the answer is "yes", describe fully on separate sheet.

8. Is voting limited to one vote per member? yes( ) no( )

9. If answer is "no", does any member have more than 15% of the total vote? yes( ) no( )

10. If the answer under No. 8 is "no" does the applicant pay dividends on stock in excess of 7% per annum? yes( ) no( )

11. The business transacted during the fiscal year ended _____ 19 , was as follows:

With or for members	_____	$ _____
With or for non-members	_____	$ _____
Total		$ _____

12. Applicant attaches hereto as a part of this application the exhibits specified on the following page and agrees to submit annually to IFICOOP, and at such other times as IFICOOP may require, a statement of its financial condition in form approved by IFICOOP, and said applicant further agrees that IFICOOP may at any time while it is indebted to IFICOOP examine its books, records and accounts.

13. All statements herein and in the exhibits attached, including answers to questions and statements heretofore, or hereafter submitted to IFICOOP by applicant in connection with this loan, are statements of fact and representations made for the purpose of obtaining the loan and are warranted correct, and the undersigned officer of the cooperative, authorized by a resolution adopted by applicant's board of directors, executes this application and has made the representations and statements contained in this application and other documents herewith or hereafter submitted for the purpose of influencing the action of IFICOOP or its officials.

ATTEST

_____
(Applicant)

_____ By _____ Its _____

SEAL

BEST AVAILABLE COPY

EXHIBITS TO BE FILED WITH APPLICATION FOR LOAN
INSTITUTO DE FINANCIAMIENTO COOPERATIVO IFICOOP LIMITADA

Santiago, Chile

EXHIBIT A. Copy certified by its secretary, of the resolution of its directors authorizing the filing of this application for a loan or loans (Form attached).

EXHIBIT B. Copy of its statutes with all amendments thereto.

EXHIBIT C. Copies of all contracts between applicant and its members.

EXHIBIT D. Copies of audit reports for last three years if audits have been made. If audits have not been made submit copies of annual statements for past three years.

EXHIBIT E. Statements prepared by applicant consisting of:
(a) Balance Sheet as at close of month preceding filing of this application.
(b) Statement of income and expenses covering period from the date books were closed last to the close of month preceding the filing of this application.

EXHIBIT F. Statement showing volume of business in terms of value and units for each of last three years.

EXHIBIT G. Certificate showing the names and places of residence of applicant's officers, together with signatures of its officers authorized by the board to execute documents required in connection with this application and/or loan (Form attached).

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EXHIBIT "A"

RESOLUTION OF THE BOARD OF DIRECTORS

of the

_____

WHEREAS, this cooperative has been duly chartered under the laws of Chile, and under its statutes it has full power and authority to borrow money and to secure the same by mortgage, deed of trust, pledge or otherwise of its own property, and property delivered to it for marketing or otherwise; and all prerequisite steps and proceedings, acts and things preliminary to the adoption of this Resolution have been taken and done and in due and proper form, time and manner.

NOW THEREFORE BE IT RESOLVED that the Manager and the Treasurer and the _____ of the Cooperative be, and each of them is hereby jointly and severally authorized and empowered to obtain for and on behalf of the Cooperative, from time to time, from the Instituto de Financiamiento Cooperativo IFICOOP Limitada, hereinafter referred to as IFICOOP, a loan or loans under the Resolution not exceeding in the aggregate the sum of $ _____ at any one time outstanding, exclusive of amounts authorized to be borrowed under other resolutions submitted to IFICOOP; and for such purposes: (1) to execute such application or applications (including exhibits, amendments, and/or supplements thereto) as may be required; (2) to obligate this Cooperative in such amounts at such rates of interest, and on such terms and conditions as the officer or officers so acting shall deem proper; (3) to obligate this Cooperative to purchase stock of IFICOOP as required by IFICOOP pursuant to its statutes; (4) to execute and deliver to IFICOOP or its nominee all such written instruments that may be required by IFICOOP in regard to or as evidence of any loan made pursuant to the terms of this Resolution; (5) to pledge, hypothecate, mortgage, convey or assign property of this Cooperative or property of others on which it is entitled to borrow of any kind and in any amount as security for any or all obligations (past, present, or future) of this Cooperative to said IFICOOP; (6) from time to time to pay, extend, or renew any such obligation or obligations; and (7) to reborrow from time to time, subject to the provisions of this Resolution, all or any part of the amounts repaid to IFICOOP on any loan made purusant thereto.

RESOLVED FURTHER that the said officers of the Cooperative, and each of them, be and are hereby jointly and severally authorized and directed to do or cause to be done, from time to time, all things which may be necessary and proper for the carrying out of

EXHIBIT "C"

C E T T I F I C A T E

The undersigned, as SEcretary of the Cooperative named below, hereby certifies that the following persons have been duly elected or appointed and are the duly qualified incumbents of the offices set opposite their respective names; and that the signatures set opposite their respective names are true and genuine specimens of their respective signatures: (Note - Only the signatures of those who are to execute papers in connection with the loan, or loans, need be given).

OFFICERS

Title	Name	Address	Signature
Manager	_____	_____	_____
Ass't Manager	_____	_____	_____
Secretary	_____	_____	_____
Treasurer	_____	_____	_____
Ass't Secretary	_____	_____	_____

and that their terms of office expire on the _____day of _____, 19____.

_____

Secretary of:

_____

DIRECTORS
(Signatures not required)

Name	Address
_____	_____
_____	_____
_____	_____

RESOLVED FURTHER that any officer of the Cooperative be and is hereby authorized and directed to cast the ballot of the Cooperative in any and all proceedings in which the Cooperative is entitled to vote for the selection of members of the Councilers of IFICOOP: Provided, however, that prior to casting any such ballot on behalf of the Cooperative, such officer shall ascertain the views of the directors of the Cooperative and in casting such ballot shall reflect, as nearly as practicable, the views so ascertained.

RESOLVED FURTHER that the provisions of this Resolution shall remain in full force andeffect until a certified copy or copies of a duly adopted resolution or resolutions effecting a rescission or amendment, as the case may be, shall have been furnished to IFICOOP to which the Cooperative is, at the time, obligated with respect to any loan or loans made under the provisions hereof.

CERTIFICATION

The undersigned as Secretary of the applicant Cooperative, hereby certifies that the Board of Directors, at a meeting duly and regularly called, noticed, convened, and held on the _____day of _____19_____, at which a quorum was present, did adopt the foregoing Resolution, and that said Resolution has not been rescinded or amended in any way, Dated this _____ day of _____19 ____.

Secretary of:

CREDIT REPORT
INSTITUTO DE FINANCIAMIENTO COOPERATIVO IFICOOP LIMITADA

_____
Date

TO : LOAN COMMITTEE

FROM: _____, TREASURER

APPLICANT.

Name and address

HISTORY

Give brief history of Cooperative

PRODUCT OR SERVICE

1. State briefly nature of business
2. Principal product handled or service rendered.

AMOUNT APPLIED FOR

$ _____ Commodity

$ _____ Seasonal operating capital

$ _____ Term operating capital

$ _____ Total

IFICOOP's EXPERIENCE WITH BORROWER

1. Status of outstanding loans:

Date _____

Type _____

Amount of Commitment _____

Advances _____

Loans Outstanding _____

Commitments outstanding _____

2. Include information on repayment terms, maturity dates of commitments, and other pertinent factors on outstanding loans and commitments such as the maximum credit outstanding on seasonal loans during the year.

3. Comment on credit experience with the borrower.

4. Comment on borrowings and lines of credit with commercial banks or other lenders, if any.

PURPOSE OF LOAN

1. State purpose for which funds will be used and comment on classification of loan.

2. If funds are to be used to acquire facilities, indicate briefly how that portion not financed through IFICOOP will be handled. If funds are to be used to refinance facilities, indicate date facilities were acquired if within 8 years from date of application.

SECURITY

1. Facility Loans: Give description and appraised value of facilities and percent that proposed loan plus any additional outstanding facility loans and commitments is to the appraised value of all security therefor.

2. Seasonal and Term Operating Loans: Describe the security for these loans. Comment on whether the security is also collateral for other loans from IFICOOP.

3. Commodity: Summarize pertinent factors including (1) description of commodities, (2) percentage of loan to net value of commodities, (3) type of security instruments - (warehouse receipts, factor's liens, chattel mortgage or other acceptable title documents), and (5) information on Cooperative's ability to keep loans properly margined.

FINANCIAL CONDITION

1. Current Balance Sheet
2. Condensed comparative Balance Sheets for last three years.

OPERATIONS

1. Current Operating Statement
2. Comparative Operating Statements for last three years.
3. Comparative data on unit volume of products handled.

DIVIDENDS

Comment on Cooperative's dividend policy and practices - both dividends on stock and patronage dividends.

TAXES

Comment on the Cooperative's position with respect to all types of taxes.

MANAGEMENT

Give Manager's name, how long he has served in his present position, and comment on his experience and qualifications. State whether he is related to Board members or employees.

AFFILIATIONS

1. State if the Cooperative is first, second, or third degree.
2. Name other cooperatives or general organizations with which it is affiliated and nature of affiliation.

COOPERATIVE ASPECTS

Comment on the Cooperative's statutes and membership agreements with respect to their efficiency, or sufficiency, in maintaining accepted cooperative principles.

SUMMARY

1. Amount of loan proposed.

2. Type - (Commodity, operating, or facility).

3. Security.

4. Method of repayment.

5. Cancellation or expiration date of commitment.

6. Special conditions, if any, to be included in the loan agreement.

_____
Rreasurer

LOAN AGREEMENT
(COMMITMENT)

INSTITUTO DE FINANCIAMIENTO COOPERATIVO IFICOOP LIMITADA

No. _____

Date _____

_____
(Name of Cooperative)

_____
(Address)

$_____ _____
(Type of Loan)

The Instituto de Financiamiento Cooperativo IFICOOP Limitada agrees to make loans to the above-named cooperative upon the following terms and conditions:

AMOUNT : Not to exceed $_____

INTEREST: (Rate)

NOTES AND SECURITY:

PURPOSE:

PURCHASE OF STOCK: (Contractual purchase of stock

CONDITIONS:
While this agreement is in effect the Cooperative will:

(a) Maintain its status as a cooperative as defined in the statutes of IFICOOP.

(b) Furnish such information as IFICOOP may request relative to its affairs and permit such examination of its books and records as IFICOOP may specify.

(c) Maintain insurance covering such risks, in such companies, forms and amounts, and fidelity bond coverage in such companies, forms and amounts, on such officers and employees as IFICOOP may request.

(d) Maintain management and business policies satisfactory to IFICOOP and promptly make such changes therein as IFICOOP may, from time to time, request in writing.

(e) Declare or pay cash dividends only upon written approval of IFICOOP - (optional).

(f) Obtain loans from other lenders only upon written approval of IFICOOP - (optional).

(g) Maintain a credit policy satisfactory to IFICOOP (optional).

(Conditions (a), (b), (c), and (d) should be included in each operating capital and facility loan agreement. Include the optional conditions or any other conditions or provisions deemed advisable.)

REPAYMENT:

EXPIRATION DATE OF COMMITMENT:

DEFAULT: (Conditions under which default will be declared)

ACCEPTANCE:

BY DIRECTION Of the Loan Committee this _____ day of _____, 19 ___.

INSTITUTO DE FINANCIAMIENTO COOPERATIVE IFICOOP LIMITADA

By_____
Manager

ACCEPTED AND AGREED TO:

_____
(Cooperative)

By _____ _____
(Officer) (Title)

Date _____

(Note) - A different and longer form of loan agreement would be used for commodity loans.

CHILE - INSTITUTO DE FINANCIAMIENTO COOPERATIVO - IFICOOP
(COOPERATIVE DEVELOPMENT BANK)

CHECK LIST OF STATUTORY CRITERIA (ALLIANCE FOR PROGRESS)

1. Foreign Assistance Act of 1961, as amended (hereinafter FAA), Section 102. The loan will further the policy of the Act, as stated in this Section. Every possible precaution will be taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary purposes, balance of payments purposes, or military purposes) or any other purpose not essential to the long-range economic development of Chile.

2. FAA Section 201(d). Loan funds are not to be loaned or re-loaned at rates of interest which are excessive or unreasonable for the Borrower, or higher than the applicable legal rate of interest in Chile of about 18 per cent. (See pages 20 and 21).

3. FAA Section 202(c), Foreign Aid and Related Agencies Appropriation Act of 1964 (hereinafter "App."), Section 117. Funds have been appropriated by Congress for this loan.

4. FAA Section 204. The terms and conditions of the loan are in accordance with standards and criteria established by the Development Loan Committee.

5. FAA Section 251(a). The loan will promote economic development in Chile and will contribute to the welfare of its people. (See pages 13 and 15).

6. FAA Section 251(b)(1). Account has been taken of the extent to which Chile is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political, and social concerns of its people, and of the extent to which the Government of Chile as demonstrated a clear determination to take effective self-help measures. (See page 14).

7. FAA Section 251(b)(2). The activity to be financed is economically and technically sound. (See pages 4 through 13).

8. FAA Section 251(b)(3). The activity is consistent with and is related to other development activities being undertaken or planned and will contribute to realizable long-range objectives. (See pages 1 and 2; 13 through 15).

9. FAA Section 251(b)(4). The loan will have no foreseable adverse effect on the U.S. economy.

10. FAA Section 251(b). Financing from other free world sources (including private sources within the United States) on reasonable terms for the project is not available.

11. FAA Section 251(b). The terms of the loan (interest, year amortization) are reasonable under circumstances affecting the loan and the capacity of Borrower to repay. (See page 24 and Exhibit 5 Ann. V).

12. FAA Section 251(b). Account has been taken of the extent to which Chile is making reasonable efforts to encourage repatriation of capital invested in other countries by its own citizens.

13. FAA Section 251(b). There are reasonable prospects that the loan will be repaid. (See Exhibit 5 Annex V).

14. FAA Section 251(d). An application has been received for this loan which gives sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner.

15. FAA Section 251(g). In view of the nature of the project, it is not appropriate to utilize the loan to assist in promoting the cooperative movement in Latin America.

16. FAA Section 601(b); 621. The loan will be administered in such a manner as to encourage and facilitate participation by private enterprise to the maximum extent practicable. United States private engineering services, and other services of United States private enterprise will be employed whenever practicable. The facilities of other Federal agencies will be utilized only if they are particularly suitable, are not competitive with private enterprise, and can be made available without unde interference with domestic programs.

17. FAA Section 602. American small business shall be assisted to the maximum extent practicable to participate equitably in the furnishing of goods and services for the project, in accordance with the procedures described in this section of the Act. (See page 27).

18. FAA Section 604(a). Equipment, materials, and services (except Marine Insurance) financed for the project under the loan shall be procured from the United States or Chile. Dollars utilized under the loan to finance procurement in the United States shall be made available through appropriate procedures and, except for Marine Insurance, shall be used only for procurement in the United States. (See page 27 iv).

19. FAA Section 604(b). Any commodities financed by the loan and purchased in bulk will be purchased at prices no higher than prevailing U. S. market prices.

20. FAA Section 604(d). Loan funds shall be available for Marine Insurance on commodities shipped when such insurance is placed on a competitive basis, as specified in this section of the Act. In the event that Chile discriminate against any U.S. marine insurance company, commodities purchased with loan funds shall be insured against marine risk with a U. S. company, as required by this section.

21. FAA Section 611(a)(1). Necessary substantive technical and financial planning for the project has been completed, and a reasonably firm estimate of cost of the project to the United States has been obtained. (See page 22).

22. FAA Section 611(a)(2). No further legislative action in Chile is required for implementation of the project.

23. FAA Section 611(b), App. Section 101. The project does not involve water or related land resource construction.

24. FAA Section 611(c). Construction contracts to be financed by the loan shall to the maximum extent practicabe be let on a competitive basis.

25. FAA Section 619. Not applicable. Chile is not a newly independent country.

26. FAA Section 620(a), App. Section 109(a), 109(b). No assistance will be furnished under this loan to the present government of Cuba, nor does Chile furnish assistance to the present government of Cuba.

Chile has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuba trade.

27. FAA Section 620(b). The Secretary of State has determined that Chile is not controlled by the International Communist Movement.

28. FAA Section 620(c). The Government of Chile is not indebted to any U. S. citizen for goods or services furnished or ordered, where such a citizen has exhausted available legal remedies or where the debt is not denied or contested by or the indebtedness arises under an unconditional guaranty of payment given by

29. FAA Section 620(d). Loan funds will not finance construct or operation of any productive enterprise which will compet with United States enterprise.

30. FAA Section 620(e). Neither the government of Chile nor any governmental agency or subdivision thereof has, on or after January 1, 1962, nationalized, expropriated, or seized ownership or control of property of any U. S. citizen or firm, taken steps to repudiate or nullify existing contracts with such citizens or firms, or imposed or enforced discriminatory taxation or other exactions or restrictive conditions, or taken other actions having the effect of nationalizing, expropriating or otherwise seizing ownership or control of property owned by U. S. citizens or firms, as specified in this section of the Act, without taking appropriate steps to discharge its obligations, as specified in this section of the Act.

31. FAA Section 620(f), App. Sections 109(a), 109(b). Assistance provided by this loan will not be furnished to any Communist country.

32. FAA Section 620(g). Assistance provided by this loan will not be used to compensate for expropriated or nationalized property.

33. FAA Section 620(h). Assistance provided by this loan will not be used in a manner which promotes or assists foreign aid projects or activities of the Communist bloc countries.

34. FAA Section 620(i). The President has not determined that Chile is engaging in or preparing for aggressive military efforts directed against the United States, or any country receiving assistance from the United States, or against any country to which sales are made under PL 480, nor is any basis for such determination known to A.I.D.

35. FAA Section 636(h). The Government of Chile will contribute local currency in the amount of about E° 17,000,000 to meet the cost of contractual and other services to be rendered in conjunction with the project. Foreign currency owned by the United States will, to the maximum extent possible, be utilized to meet the costs of contractual and other services for the project.

36. App. Section 102. Obligations of funds in excess of $25,000 for engineering fees to any firms or group of firms financed under the loan will be reported to the committees on appropriations of the Senate and House.

37. App. Section 104. Funds obligated by the loan, and local currency generated thereby, will not be used to pay pensions, annunities, etc., as prohibited in this section.

38. App. Section 111. U.S. personnel to serve under contracts for services financed by the loan shall have security clearance.

39. App. Section 112. Firms which provide engineering, procurement, and construction services financed by the loan for the project, and the terms of their contracts, shall be approved by A.I.D.

40. App. Section 114. Loan funds will not be used to make any payment to the U. N.

41. App. Section 118. Construction work financed by the loan shall be performed by qualified persons, in accordance with A.I.D. regulations promulgated pursuant to this section.

42. App. Section 601. Loan funds will not be used for publicity or propaganda purposes within the United States.

_____
Chairman, Project Committee

CLEARANCE: Counsel_____
Deputy Director_____

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ECONOMIC AND FINANCIAL SUMMARY

(NOTE: This paper was originally prepared on April 29. Information which became available between that date and May 14 is summarized in the paragraphs shown in brackets. The more recent data reinforce rather than modify the conclusions of the April 29 paper.)

Real Growth in 1964

Real growth in national income and gross national product during 1964 probably differed little from the growth rate in population. Thus there was little change in per capita GNP; the latter is estimated at about $450 when allowance is made for the presently overvalued exchange rate. Population increased about 2.3 percent while GNP probably rose between 2.5 and 3 percent.

Prices

The cost of living has been relatively stable from last October through March. The increase over the five-month period ending in March was only 7.7 percent compared to 25 percent during the same five-month period a year earlier. As a result of this relative stability the cost of living index in March 1965 was only 27.2 percent above the March 1964 level (although the October 1964 index was 47.5 percent above the same month in 1963).

As a forecast for the future, this relative stability in the cost of living index is believed to be illusory. The March index is almost at the 25 percent annual rate of increase level set as the target for the year as a whole, but this should not be read to mean that it will be easy for the government to reach its 25 percent target. The index has been held down by especially tight official controls on the prices of many of the items in the "market basket" from which it is calculated. As is indicated by the increases authorized since March in bread, flour, and urban transportation rates, the government cannot continue to hold the line so tightly on these prices in the face of rising costs and prices elsewhere in the economy. Because of these increases the index is expected to rise substantially during April.

(The cost of living in April was 6.9 percent above the March level according to the official retail price index that was published in early May. As a result of this sharp increase during the month, the cost of living in April 1965 was 32.2 percent above that in the same month a year earlier. Since October 1964—the month before the Frei administration took office—there has been a 15.2 percent increase in the cost of living, just about double the 7.7 percent increase reported through March.)

The increase in the money supply last December and in the first quarter of this year have not yet made their weight felt on the cost of living

index. Thus one finds the anomalous situation that the money supply has increased by about one-third between the end of October and the end of March while the cost of living increased by less than eight percent during those five months. While some of the difference in trend is explainable by special circumstances which lead to an unusually high money supply figure as of the end of March (see below), it is believed that the inflationary effects of recent increases in the money supply are still far from fully reflected in the retail price index.

Data on wholesale prices are available only through December when they were 43.7 percent above the level of December 1963; this compares with a 38.4 percent increase in retail prices during the same period. The increase in the wholesale price of imported products was almost identical with the general increase in wholesale prices even though the cost of imports as measured by the futures market exchange rate had risen by only 28.6 percent during the same period. This disparity suggests the importance of factors other than the exchange rate in determining domestic prices for imported goods, including the scarcity prices that imports can command as well as import surcharges, prior deposits, interest charges for payments delays, etc. It calls into question the effectiveness of the government's policy of using an overvalued exchange rate to limit the increase in prices of imported goods and, indirectly, the increase in the general level of prices in the economy.

Money Supply

During the first quarter of the year the money supply increased by 17.2 percent. This period is not, however, a very useful one for economic analysis as it does not take into account either the very large increase in money supply that took place last December or the special circumstances that tended to overstate the money supply at the end of March. The end of March figure tended to be overstated because of a large volume of tax payments that the government received at the end of the month (which had not been cleared through the banks on which they were drawn as of March 31). The elimination of this "float" during the first weeks of April reinforced by a loss of foreign exchange reserve by the Central Bank and an increasingly restrictive monetary policy led to a drop in the money supply during April. Thus by April 15, the estimated increase over December had dropped to 12.7 percent and by April 22, the figure had further dropped to 10.1 percent. (These mid-month estimates of the money supply are based on samples rather than a complete tabulation of private demand deposits and notes and coins in the hands of the public; they are, however, believed to be generally reliable estimates of trend.)

(When the official figure for the money supply as of the end of April became available it indicated a 14.4 percent increase over the end of December level but—for the reasons indicated above—a 2.4 percent drop from the end of March level. Further upward pressure on prices from the increase in the money supply is still to be expected. Compared with April 1964, money supply has increased by 46.4 percent while prices have risen by only 32.2 percent.)