EVALUATION OF THE FICOOP CREDIT PROGRAM

prepared for the

Sociedad Financiera para
el Desarrollo y la Cooperación
Santo Domingo, Dominican Republic

and the

Inter-American Foundation
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INTRODUCTION

Since its inception, the Inter-American Foundation has funded over one hundred projects which in greater or lesser degree involved agricultural credit. Over the past nine months, the Foundation and the Land Tenure Center have made initial attempts to look at credit projects funded by the Foundation. It was my privilege to work with Drs. J. David Stanfield and William C. Thiesenhusen on this study.

In March of this year I visited the Dominican Republic under the auspices of the Land Tenure Center to attempt to determine how the credit study being proposed could be set up with specific reference to the credit program of FICOOP--the Sociedad Financiera para el Desarrollo y la Cooperación. With the help from the Foundation, FICOOP was set up under the terms of a development promotion law, as a financial quasi-banking institution financing the production of the Dominican cooperative movement with its own funds and additional fund many times as great, provided under terms of the law by the Central Bank. Within the financial community of the Dominican Republic, FICOOP is unique, being the only financial corporation with a non-commercial orientation. It is also the largest credit project that the Foundation has supported in the Caribbean. FICOOP's Executive Director was Lic. Andrés Lockward A. who courteously showed me what the program involved and how it operated.

Subsequently, I was asked by Steve Vetter of the Foundation to return to the Dominican Republic to do a short evaluation of FICOOP. My co-worker on this project was Lic. Andrés Lockward, who had since resigned from FICOOP. This report is the result of that work.

The report is divided into two sections: the first describes the organization and operations of FICOOP and the second provides a series of case studies which connect these operations to the Federations, cooperatives, and people who benefit from its operations. Virtually

every document cited in the report is included in full in an oversized appendix, to encourage interested readers to delve deeper into the operation of this unique organization. It is a beginning; however, to fully understand the credit program FICOOP has established and the impact it has had on the Dominican cooperative movement and its members would take many more months than were available for this evaluation.

The ideas expressed in this report are those of the author and do not necessarily represent positions of FICOOP, the Foundation or the Land Tenure Center.

ACKNOWLEDGEMENTS

This study would have been impossible without the help and support of FICOOP, whose entire staff assisted in every way. Miguel Valenzuela, Acting Director of FICOOP, obtained all documents and information that the consulting team requested (and many more besides), as well as providing a typewriter and offering office space. I would like to give particular thanks to Lourdes Payan and Santiago Morel for helping understand how the accounting and projects departments work and providing a wealth of information, mostly included in the Appendix. FICOOP's secretarial staff also provided considerable assistance throughout the course of the consulting mission, as did its support staff.

The friendship, guidance and support of Lic. Andrés Lockward was indispensable for the completion of this report, just as it was for the formation of FICOOP. As the Executive Director of FICOOP from its inception until early this year, he was the ideal coworker for this project; it was a privilege to work with him. I would also like to thank my research assistant Roland Infante. Miguel made the master copy of the excellent map used in this report. My most profound thanks have to go to the Dominican small-farmers and other beneficiaries of FICOOP loans who, with the characteristic friendliness of the Dominican people, opened up their homes and businesses to show me the impact of these loans.

The Land Tenure Center has encouraged and supported my interest in rural credit programs; particularly this one with thanks due to William Thiesenhusen and David Stanfield. John Padgett of the First Wisconsin Bank provided advice on reviewing FICOOP's loan portfolio. The excellent typing work for the report was done by Ms. Wylma C. Robinson. Ms. Verónica Cid prepared the clipping file, report maps and organized the report. Each merits special gratitude.

I would like to thank the Inter-American Foundation for having given me the opportunity to do this study. Steve Vetter deserves special thanks for all the information and material he provided, most of which have been incorporated into this report.

C A N A D A
UNITED STATES
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CARIBBEAN SEA
GUATEMALA
EL SALVADOR
NICARAGUA
COSTA RICA
PANAMA
TRINIDAD AND TOBAGO
VENEZUELA
BR GUIANA
COLOMBIA

BACKGROUND ON THE DOMINICAN REPUBLIC

The Dominican Republic is located on the eastern two thirds of the island of Hispañola, which it shares with Haiti. The island is the second in the Antilles chain, east of Cuba and west of Puerto Rico. The total area of the Dominican Republic is 48,442 square kilometers, much of it mountainous comprised of number of ranges which extend across the country in an east-west direction. Average temperature is 26°C (79°F), with considerable variation depending on the altitude. Precipiation is more abundant in the north, falling off particularly in the south and southwestern parts of the country. A number of rivers provide irrigation water and hydroelectric power, although several generating plants were destroyed in Hurriacane David in 1979.

Santo Domingo, the capital city of the Dominican Republic, was founded in 1496 and is the oldest city of European origin in the New World. Haiti became independent from France in 1804, the first possession of the continental powers in the New World to gain ists independence; the Dominican people gained their independence from the Spanish crown in 1821, only to be conquered shortly thereafter by Haiti. The Haitian occupation lasted until 1844. Continuing border conflicts led the Dominican government to accept reannexation to Spain in 1861 which lasted until 1865. During the following 15 years there were various unsuccessful projects to annex the country to the United States. A series of military coups after the turn of the century facilitated the first U.S. occupation of the Dominican Republic in 1916. This occupation lasted until 1924, and set the bases for the rise of Trujillo to power. Trujillo's dictatorship lasted until his assassination in 1961, although titular control of the last two government's was vested respectively in his brother Hector and Joaquín Balaguer. Subsequently Juan Bosch was elected and ousted by a military coup. An uprising designed to return him to power in 1965 led to another U.S. intervention and the return to power of Balaguer, who remained in power throughout most of the late sixties and the seventies. The current President is Antonio Guzmán.

The current population is approximately 5.3 million. Nearly the entire population is of mixed racial ancestry, which has minimized racial problems.

According to the 1970 census, 45.5% of the economically active population was engaged in agricultural and livestock activities. 44% was employed in the service sector and only 11% in industry. On the other hand, the agricultural and livestock sector generated only 20% of gross domestic product while the industrial sector generated 28% of GDP with only a quarter of the agricultural sector's workforce. The lack of support received by the agricultural sector, its lack of dynamism and its low productivity are responsable for the low level of earnings and remunerations in agriculture, which has encouraged an outmigration from rural areas beyond the capacity of the cities to absorb these additional prospective workers. Most of this out-migration has had as its focus the slums on the outskirts of Santo Domingo; part of it has ended up in New York City, which after Santo Domingo countains the second largest concentration of Dominicans, considerably more than the second largest city, Santiago.

The four major export crops in the Dominican Republic are (in order of importance) sugarcane, coffee, cacao and tabacco. Sugar production is dominated by Gulf and Western and a few other companies; the other crops are produced by a variety of small and large farmers and are also less concentrated in terms of their commercialization. 40.5% of the crop land was dedicated to these export crops according to the 1971 Census. In recent years, the Dominican Republic's share of the world export markets for coffee and cacao has fallen. On the other hand, the U.S. economic embargo on Cuba has caused some shifting of the production of sugar and tobacco for the U.S. market to the Dominican Republic.

More than half the land recorded as in production in the 1971 Census was used for livestock; at the low levels of technology employed, each head of cattle occupied nearly one hectare. Most of this production is for export; however, Dominican law does require that a certain percentage of cattle production be retained in the country for domestic consumption at prices set by the Dominican government.

The principal crops grown for internal consumption are (in order of importance): rice, beans, corn, plantains, fresh vegetables and root crops. These crops occupy just under 60% of the area dedicated to crop production. Particularly in the case of corn, a major part of internal demand is supplied by imports, while rice imports are also significant in some years. Some of these products are also exported to the United States and Venezuela despite internal shortages of the same products.

By 1971, 76.5% of the farm enterprises surveyed were of less than 5 hectares in extension and controlled only 12.7% of the productive land of the country. At the top end of the scale, 2.3% of the enterprises were of 50 hectares or more and controlled 53.9% of the productive land of the country. Productive land of the country. Productive land was listed as just under 27 million hectares (nearly 27,000 square kilometers), or about 55% of the country's area. Thus, while the proportion of land available for production is considerably greater compared to many others countries in Latin America, a high percentage of the land still is concentrated in the hands of a small number of owners. The total area of the country is somewhat smaller than the combined area of New Hampshire and Vermont. The 27 million herctares of productive land are divided among 255,000 productive enterprises in addition to 50,000 residential farm units of less than a half a hectare.

Total membership of the two exclusively agricultural and livestock federations as of 1980 was about 30,000; adding about 10,000 more members of the savings and loan cooperatives who are engaged in agricultural activities, there are about 40.000 members of cooperatives engaged in farming. Therefore, somewhere between 10 and 15% of the farmers in the Dominican Republic are associated with the cooperative movement.

DEFINITION OF TERMS AND ACRONYMS USED IN THIS REPORT

Banco Agrícola:	The Agricultural Bank of the Dominican government. Also known as the Bagrícola.
CENACOOP	Centro Nacional de Educación Cooperativa: the National Center for Cooperative Education, set up by the Dominican Federation of Cooperatives (CODOCOOP).
CEPRODEX	The agency of the Dominican government in charge of promoting exports.
Caritas	A private benevolent agency engaged in supplying relief assistance and funds for development programs for the disadvantaged. Its full title is Caritas Dominicana, to distinguish it from Caritas programs in other countries.
COLAC	The Latin American Confederation of Savings and Credit Cooperatives. This Panama-based confederation groups together federations of savings and loan cooperatives throughout Latin America and makes available to them funds its has procured from international lending agencies and other sources.
FEDOCOOP	The Federation of Savings and Loan cooperatives, affiliated with CODOCOOP; FEDOCOOP is engaged principally in savings and loan activities and is composed primarily of urban-based cooperatives.

FENACOOP	National Federation of Agricultural and Livestock Cooperatives; the largest of the three Federations affiliated with CODOCOOP.
FENACOOPES	The National Federation of Fishing Cooperatives; established by the government's cooperative promotion agency (IDECOOP); not affiliated with CODOCOOP.
FENACOTRANS	The National Federation of Taxi Owners; not affiliated with CODOCOOP.
FETAB	The Federation of Agricultural and Livestock an Tabacco Cooperatives; affiliated with CODOCOOP and based primarily in the area around Santiago.
FICOOP	The Financial Institution for Development and Cooperation; basically FICOOP funtions like a bank for cooperatives which channels funds from the Central Bank of the Dominican Republic and from a variety of other public and private sources into the cooperative movement.
FIDE	The Investment Fund for Economic Development, set up by the Central Bank based on "soft" loans obtained from the Inter-American Development Bank and other international lending agencies; provided by the Central Bank through financial intermediaries to support development projects.

Financieras	These are financial institutions set up under the terms of Law No. 292 to act as intermediaties channeling resources from the Central Bank and the capital market to enterprises in need of loans to carry out projects designed to promote economic development; the law permits these financieras a number of special privileges in carrying out their quasi-banking functions. FICOOP is one of these financial istitutions.
GODR	Government of the Dominican Republic.
Hectare	10,000 square meters; equivalent to 2.47 acres.
IDECOOP	The Institute of Development and Cooperative Credits, the government agency responsable for promoting and supporting cooperatives.
INESPRE	The government's price stabilization board, which sets the maximum prices that may be charged on sales to consumers; this agency also has its own distribution system which purchases essential food products (either domestically or by importing them) and sells them at subsidized prices to the public.
Kilometer	1,000 lineal meters; equivalent to 0,62 miles.
PPA	Programa para el Pequeño Agricultor (Program for the Small Farmer); a program funded by USAID through the Secretary of Agriculture to provide credit at low interest rates for annual crop production on land owned or operated by small farmers.

Peso	The Dominican peso is officially at par with the dollar, and is denoted by the sign RD$ or simply $. In fact, there is a parallel or legalized black market operating in the Dominican Republic; in June 1980, the premium per dollar was about 40% above the official rate of 1 to 1.
Tarea	The most commonly used area measure for land in the Dominican Republic. There are 16 tareas in one hectare, and approximately 6.5 tareas in one acre.

I. HISTORY OF THE DOMINICAN COOPERATIVE MOVEMENT

It has taken the Dominican cooperative movement several decades to arrive at the level of development it occupies today with a membership of 70,000 organized in three Federations coordinated by a single Confederation. Initial discussions of cooperative principles antedate the Second World War. However, only in the post-war period did these efforts succeed in creating a significant number of functioning cooperatives. Initially, most cooperatives were set up in the various parishes of the country under the auspices of the Catholic Church; their major focus was on savings and loan activities. Another group of cooperatives with the same purpose was set up by non-ecclesiastic groups, many of whom were Free-Masons; to this day many of these have maintained their independence from the Federations which unite the rest of the cooperative movement. Trujillo channeled his support for cooperatives through the Church and used this support as a means for manipulating the movement in favor of the government. When his relations with Church deteriorated in the late 1950's, he eliminated the economic assistance that had been provided to the movement and changed to a policy of open hostility. By the time of Trujillo's assassination in 1962, the number of members of cooperatives had fallen to just over 2,000 from more than 10 times that number just a few years earlier. Cooperatives closed or were forced into bankruptcy with considerable losses of savings on the part of many members and the enrichment of a number of unscrupulous administrators of cooperatives.*

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* More detailed information in the history of the Dominican cooperative movement can be found in:

R. de Lancer y Asociados, "Estudio sobre el Movimiento Cooperativo Dominicano," Sto. Domingo, Dec., 1977, p. 5-10;

and

CODOCOOP, "Integración y Desarrollo: Dos Eventos Cooperativos," Santo Domingo, Dominican Republic, 1972, pp. 64-104. Included as Appendix I.

In spite of the economic recession following the military occupation of the country in 1965, the period since the end of the Trujillo regime has been one of considerable growth for the cooperative movement. By 1970 there were 261 cooperatives registered in the country with a total membership of nearly 30,000.

In the development of the Dominican cooperative movement, agricultural and livestock cooperatives are relatively recent arrivals. The first successful farm cooperatives to be formed were the 18 cooperatives of the Cibao which were organized in Santiago into the Federación de Cooperativas Agropecuarias y del Tabaco (FETAB) in March, 1966. This first Federation of agricultural cooperatives was followed a year later by the Federación Nacional de Cooperativas Agropecuarias (FENACOOP), which grouped together agricultural and livestock cooperatives from all parts of the country.

Two major landmarks in the history of the cooperative movement were the creation of IDECOOP, the government's Instituto de Desarrollo y Crédito Cooperativo, in late 1963 and a few months later, on January 27, 1964, the signing of Law No. 127 governing cooperatives.* These two changes provided the preconditions for the subsequent growth which has occurred in the cooperative movement. First, the creation of a government agency designed to promote the development of cooperatives signaled a change in government policy in favor of the movement and made it possible to obtain external resources from USAID as well as from other sources. Secondly, these changes ended the control which the Catholic Church had exercised over the movement, although it took time before the Federation of Savings and Loan cooperatives, which was reorganized about the same time, became fully integrated with the rest of the movement. The organization of the two agricultural and livestock Federations (FETAB and FENACOOP) was also made possible by this legislation. The same law made mandatory the affiliation of all cooperative federations with the Confederation (CODOCOOP); under the

* Included as Appendix II.

terms of the Law, there was to be only one Confederation under which the entire Dominican cooperative movement was to unite. CODOCOOP was formed on July 31, 1966 and incorporated on September 29th of the same year. As established in the Law of Cooperatives (No. 127), its function was to promote, supervise, coordinate and protect the cooperative movement.

Since this time, the growth of the cooperative movement has been considerable. When Trujillo died, the cooperative movement had been reduced to about 2,300 members and 27 cooperatives; by 1965, the movement had grown to 94 cooperatives with more than 13,000 members. Following the formation of the Federations (FETAB and FENACOOP) and the Confederation, by 1970 there were a total of 261 cooperatives with nearly 30,000 members.*

Table 1 gives the current configuration and approximate numerical importance of the institutions composing the Dominican cooperative movement. There are two Federations which are not affiliated with the Confederation. FENACOTRANS is formed of cooperatives of taxi-owners, formed to obtain special treatment from the government in the importation of automobiles. Taxi-owners' incomes also are considerably higher in general than those of other members of the cooperative movement. This Federation was expelled from the Confederation in the early 1970's due to non-compliance with confederation statutes and objectionable public conduct.** Subsequent contact with the rest of the cooperative movement has been limited to exchange of information.

FENACOOPES is the Federation of fishing cooperatives which have been set up under the auspices of IDECOOP. Financing and management of this cooperative is still largely in the hands of IDECOOP, to the extent that various officers of the Federation are on IDECOOP's payroll.

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* De Lancer, p. 9.

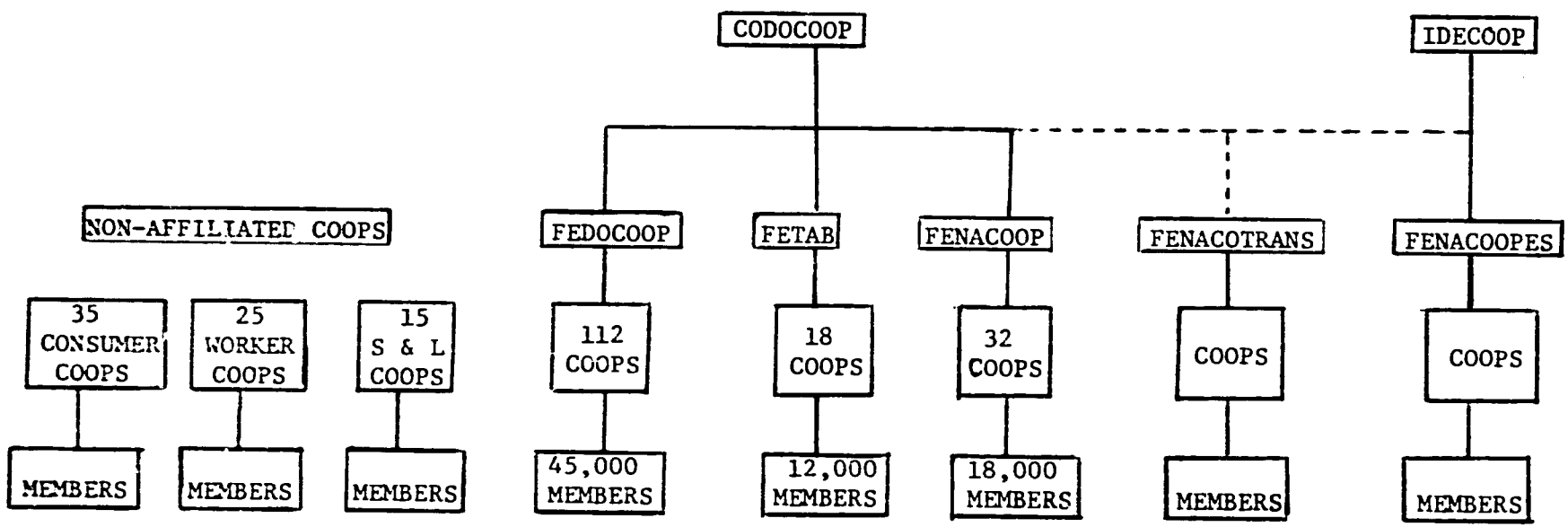
** CODOCOOP, "Confederación Dominicana de Cooperativas, Inc. - Sus Diez Años de Existencia: 31 de Julio de 1966 - 31 de Julio de 1976," Santo Domingo, mimeo, no date. Included as Appendix III.

The three Federations affiliated with CODOCOOP are FEDOCOOP, FETAB and FENACOOP. FEDOCOOP is a federation of 112 savings and loan cooperatives, with a total of about 45,000 members; only about a quarter of these have agricultural or livestock activities. FETAB is composed of 18 cooperatives dedicated to tobacco and agricultural and livestock production. Total membership is about 12,000, and is concentrated in the area around Santiago. FENACOOP brings together 32 cooperatives dedicated to a variety of agricultural and livestock activities dispersed throughout the country; total membership is on the order of 18,000. Total membership of the cooperatives affiliated with CODOCOOP is in excess of 70,000. Because of varying degrees of involvement of members in the cooperative movement, these figures should be taken only as orders of magnitude. Nonetheless, the fact that membership has more than doubled in the cooperatives affiliated with the Confederation bodes well for the movement in general and in particular of efforts to increase its integration.

There are also about 75 non-affiliated cooperatives, including about 35 consumer cooperatives, 25 worker-managed production cooperatives and 15 savings and loan cooperatives. These savings and loan cooperatives are not affiliated with FEDOCOOP because they began as Masonic cooperatives and therefore by reason of their origins find it difficult to belong to a Federation associated in the past with the Catholic Church. Some of these cooperatives may eventually affiliate with existing federations, just as there are cooperatives which have changed their affiliations from one federation to another.

TABLE 1

STRUCTURE OF THE DOMINICAN
COOPERATIVE MOVEMENT



II. THE START OF THE CREDIT PROGRAMS OF THE COOPERATIVE MOVEMENT

A major reorganization of CODOCOOP took place in 1971, designed to make the Confederation more effective in its promotion and support of the cooperative movement. The following year, two meetings of the organizations and people most involved in the Dominican cooperative movement in 1972,* provided a forum in which the achievements and aspirations found full expression. Most of the expositions show a clear understanding of the importance of increasing the access to credit on the part of the movement where such credit is channelled into productive activities. As of the early 1970's the cooperative movement was already receiving credit from a variety of public and private banks and government institutions, although the amount was generally felt to be insufficient and late in arriving (which is particularly detrimental in agricultural operations).**

Participants in these conferences proposed a variety of solutions to the credit problems of the cooperative movement. Several participants made concrete requests for guarantees up to $500,000 *** on the part of the government to facilitate the acquisition of loans by the cooperatives and Federations from the banking system of the country. However, for most of the participants, the long term goal remained the creation of a banking institution controlled and owned by the cooperative movement itself.**** Some of the numerous references in the conference proceedings to a banking institution suggested that it might be possible to work through the Banco del Trabajo which was being formed at that time. At this stage, whether such a banking institution was to develop exclusively within the cooperative movement or in conjunction with other working class groups, was left undefined. There was no doubt, however, about the goal:

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* CODOCOOP, "Integración y Desarrollo...," op. cit.

** Ibid., pp 134-135.

*** The Dominican peso and the U.S. dollar are officially at par.

**** Ibid., pp. 60, 155-156, 176-177, and 186.

> The Dominican cooperative movement can only develop if it is able to count on financial institutions within itself which finance its operations. The savings and loan cooperatives and their federation together with the cooperative bank must be the institutions which fulfill this role. The bank should be formed and directed by all cooperative organizations and should receive deposits from cooperatives and their members as well as from other non-profit organizations.*

Thus, by 1972 the cooperative movement had recognized financing the major factor inhibiting its development and had proposed a number of interim and long-term solutions to the problem.

Initially, CODOCOOP concentrated on education and promotion of cooperatives and placed little attention on financial matters. Until 1974, the cooperatives did however obtain some financing from private banks, IDECOOP and to a very limited extent from the Agricultural Bank. Interest rates on loans from the private banks was on the order of 14 to 15%; interest rates charged by the government institutions were somewhat lower. More important, however, than the interest rates charged was the fact that the volume of resources available from these sources was simply insufficient for financing the requirements of the cooperative movement.

In early 1974, contact was established between the Confederation and the Inter-American Foundation. Negotiations between the two institutions resulted in the signing of a grant agreement (DR-020) on December 10, 1974 whereby the Foundation obligated $500,000 to CODOCOOP. The purpose of this grant was to assist CODOCOOP in setting up an agricultural marketing fund. An additional $60,000 was provided by MISEREOR (West Germany). The project description in the IAF grant estimated that bank credit would become available in an amount equivalent to the grant plus expected capitalization of the marketing fund.

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* Ibid., p. 60.

As may be seen from Table 2 (taken from a FICOOP report to the Foundation dated Sept. 25, 1976), between 1974 and 1976, credit on the order of $1,000,000 was made available from outside funding sources, with the vast majority of these funds coming from private Dominican banks. It is highly unlikely that commercial banks in the Dominican Republic or anywhere else would have made loans of this magnitude to cooperatives without the guarantee offered by "corresponding balances" held in the banks. Banks holding such balances could increase their access to Central Bank funds at rates of interest substantially lower than those at which these funds were loaned to institutions of the cooperative movement. A more complete description of how the objectives of this project were attained in practice is contained in a letter from the Director of CODOCOOP to the Foundation:

> 1st. The objective of that project, which sought to open specific financial sources which would provide resources so that the cooperatives could completely achieve normality, since the banking institutions of the country upon noting the immediate growth in the operations of cooperative, have maintained a volume of credit of no less than a million pesos a year, which reach the primary cooperatives through the three principal Federations established in the Dominican Republic and united in the Confederation.*

In order to administer this credit fund, FICOOP (Fondo de Financiamento Cooperativo) was set up on January 25, 1975 as a department within the Confederation. The rules governing the use of these funds** set down as its objectives:

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* Letter Andrés Lockward to Steve Vetter, dated April 1, 1977. Included as Appendix IV.

** CODOCOOP, "Normas para regular el empleo del Fondo de Financiamiento Cooperativo 'FICOOP', aprobadas en reunión ordinaria del Consejo de Administración, en fecha 25 de enero de 1975," copy. Included as Appendix VI.

TABLE 2

FINANCIAL RESOURCES OBTAINED BY THE COOPERATIVE MOVEMENT, IN PESOS*

INSTITUTION	TYPE	YEARS 1974	1975	1976
BANCO CONDAL DOMINICANO	LOAN	850,000	550,000	550,000
BANCO DE DESARROLLO INDUSTRIAL	LOAN	-	400,000	349,000
IDECOOP	LOAN	-	30,000	91,000
MISEREOR	GRANT	-	58,000	-
		850,000	1,038,000	990,000

* CODOCOOP, "Informe a la Fundación Interamericana," Sept. 25, 1976

1) to act as a dynamic force for "financing the activities of production, processing and marketing of products of the cooperatives...of the agricultural and livestock sector..."

and

2) to use these resources to increase the integration of the cooperative movement in terms of stronger ties between the Federations and the Confederation and between the Federations and the base level cooperatives.

They also stressed the importance of the fund in leading to economic independence of the movement and in extending education in cooperatives to members and staff of the movement.

The fund was to be divided between short-term (less than 90 days) and medium-term (up to a year) loans. No less than 20% of the fund was to be dedicated to short term loans, and not more than 80% to medium-term loans. The main purpose of the fund was to faciliatate marketing operations by the Federations, particularly FENACOOP and FETAB, with particular attention to marketing and production of foodstuffs for domestic consumption.

The rules governing the employment of these funds state that no one federation could receive loans for more than 40% of the total available for lending. In fact of the total of $841,000 in loans made between January 1975 and July 1976, FETAB received 39.2%, FENACOOP 33.9% and FEDOCOOP 26.9%.* Sales volume during the same period was over $4.6 million; FEDOCOOP was not involved in sales during this period. On an annual basis, each peso loaned financed nearly 5 pesos of sales. One percent of the total volume of sales was to be returned to capitalize the FICOOP fund.

In addition to marketing, and production activities, part of the funds obtained from IAF were used to purchase facilities to process agricultural products (crop drying, rice milling, etc.) and to purchase land for cooperatives, establishing a precedent which has continued to be followed in subsequent years (see case study, Coop. Unión

* CODOCOOP, "Informe a la Fundación Interamericana.", Sept. 25, 1976, p. 5; included as Appendix V.

Dominicana). Systems under which cooperatively purchased land is operated vary from cooperative to cooperative but usually involve some combination of labor by members as well as the hiring of additional labor.

In this same period, the GODR graciously gave the Confederation title to 5.7 hectares of public lands located 28 kms. from Santo Domingo on the Duarte Highway, over which the cooperative movement had previously held only de facto control. It set up on this land a national center for cooperative education (CENACOOP). Here a number of short courses and seminars were held, in addition to the planting of a number of demonstration plots. A number of leaders of the cooperative movements were asked to participate in government commissions regulating coffee and cacao.

In summary, the establishment of an agricultural credit and marketing fund within CODOCOOP went part way to satisfying the requirements of the cooperative movement. It gave the movement increased access to private banking and other credit channels. It did not, however, fully satisfy the aspirations of the cooperative movement for a cooperatively owned credit institution capable of supplying the credit needs of the movement, estimated to be in excess of $6,000,000. Increased credit demand on the part of the cooperative movement may have been in part due precisely to the success of the FICOOP fund within the Confederation in increasing the movement's access to institutional credit.

III. THE ESTABLISHMENT OF FICOOP AS A FINANCIAL INSTITUTION OWNED BY THE COOPERATIVE MOVEMENT AND PROVIDING FUNDING FOR ITS DEVELOPMENT

Before the institutional form under which FICOOP is currently set up was chosen, two alternative forms were proposed and rejected without having been put into practice. The first was the incorporation of the finances of the cooperative movement into the Banco del Trabajo; it was thought that a bank established to support the labor movement might constitute an appropriate channel for funding the cooperative movement. This assessment proved to be incorrect since the Bank was hardly supportive of the labor movement itself.

A second alternative was the establishment of a Bank for Cooperatives. Capital requirements for such a bank were on the order of $28,000,000--far in excess both of the capabilities and the needs of the cooperative movement, since annual credit requirements had been calculated at about $6,000,000.* The only way such a bank could have operated would have been to dedicate to the vast majority of its resources, time and attention to serving the needs of non-cooperative business ventures; it was even doubtful that cooperatives would hold most of their deposits with such a bank because being spread all over the country, travel time would have been prohibitive.

Dominican law did however provide a structure which seemed tailor-made to the needs of the cooperative movement, although needs of cooperatives had not even been a consideration of those who had drawn up the terms of Law 292. "The Law governing Corporations Financing Enterprises which promote Economic Development" was signed into law on June 30, 1966 by Hector García Godoy, then President of the Dominican Republic, subsequently associated with the first financiera set up under the terms of the new Law.

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* CODOCOOP, "Informe...", Sept. 25, 1976

Law No. 292 offers financieras a series of advantages over the traditional banking structure. In the first place, capital requirements initially were extremely low (a mere $300,000), and although they were raised subsequently to $1,500,000 on October 27, 1977--the very same day that FICOOP was authorized--requirements still are minimal compared to those imposed on banks. Furthermore, the operations of financieras are exempt from a number of taxes which affect banks (chartering fee, tax on each loan agreement, tax on the registration of mortgage guarantees, etc.). Furthermore, the financiera itself is exempt for a period of 12 years from paying income or similar taxes on a return on its capital up to 15%; taxes would be due on income in excess of 15% of capital. In addition, investors in financieras are exempt from income taxes on half of what they earn from the financiera for 10 years, with an even more favorable treatment if they reinvest their earnings in acquiring additional stock in the same or another financiera. Finally, the financieras have the same privileges as the government's Banco Agrícola with the Central Bank, i.e., of rediscount, reimbursement, access to special lines of credit and preferential interest rates.*

The provisions of the law were tremendously advantageous and led to the creation of a total of 17 financieras. Traditional economic groups, economic groups of more recent formation, both domestic banks as well as subsidiaries of U.S. and Puerto Rican banks, were quick to take advantage of this legislation. Subsequently groups with connections to past and present Dominican governments formed financieras. The focus of all these groups was to increase the profitability of their operations. In some cases, this involved realizing these profits within the financieras themselves; in other cases, it related more to increasing the profitability of other enterprises controlled by the same economic group through preferential access to Central Bank

* See Appendix VII, "Ley No. 292 sobre Sociedades Financieras de Empresas que promueven el Desarrollo Económico."

TABLE 3

DOMINICAN FINANCIERAS SET UP UNDER THE TERMS OF LAW Nº 292

Institution	Controlled by	Authorized	Initiated Operations
Compañía Financiera Dominicana	Traditional Econ. Group	12/5/1968	7/1968
Corporación Financiera Asociada	Bank	6/4/1968	11/1968
Financiera Industrial	Other Econ. Group	1/27/1972	6/1972
Financiera Interamericana	Other Econ. Group	4/5/1973	9/1975
Financiera de Desarrollo Industrial	Traditional Econ. Group	5/30/1974	3/1975
Financiera Agroindustrial	Bank	11/28/1974	1/1975
Financiera Citicorp	Bank	10/30/1975	12/1975
Corporación Financiera Nacional	Other Econ. Group	1/15/1976	4/1976
Corporación Dominicana de Inversiones	Traditional Econ. Group	7/12/1976	8/1976
Financiera Empresarial	Bank	8/12/1976	8/1976
Financiera Nacional de Desarrollo	Group of Politicians	8/12/1976	10/1976
La Nacional Financiera	Traditional Econ. Group	3/29/1977	9/1977
Sociedad Financiera para el Desarrollo y la Cooperación	COOPERATIVE MOVEMENT	10/27/1977	1/1978
Compañia Financiera del Caribe	Group of Politicians	11/10/1977	12/1977
Corporación Financiera Continental	Group of Politicians	11/10/1977	-
Financiera de Desarrollo y Capitalization	Traditional Econ. Group	2/2/1978	6/1978

Source for Names and Dates: "Las Sociedades Financieras de Desarrollo: Base Legal y Normas Operativas en la República Dominicana," Centro de Estudios Monetarios y Bancarios, Santo Domingo, April, 1980.

credit.* The law was so advantageous that a number of groups sought authorization from the Monetary Board of the Central Bank not with the intention of operating as a financiera but rather to sell the company which owned the financiera once the authorization had been obtained.

Eventually, the Central Bank reacted to this situation, first by increasing the paid-up capital required for setting up a financiera. Subsequently, it simply stopped authorizing additional financieras. As can be seen from Table 3, no new financieras have been authorized in the past two and a half years.

By May of 1976, the National Seminar on the Situation of Dominican Cooperatives sponsored by CODOCOOP established the creation of a financiera as one of the goals of the cooperative movement. The Sept. 25, 1976 report to the Foundation stressed that between interest and closing commission charges, the cooperative movement was paying anywhere between 10 and 14 percent on loans obtained. Of equal importance, "this financing is received by the cooperatives on the dates determined by the financial institutions, which are not always the times of the year most beneficial for the final users." Timeliness in loan approval and disbursement is critical since most of the cooperatives were engaged in agricultural production which has a series of absolute deadlines by which various operations must be performed under penalty of reduced yields or complete crop-failure.

By the following year, CODOCOOP had discussed the possibility of establishing the financiera and on April 1, 1977 sent a letter to the Foundation formally requesting its assistance in the form of a grant of $500,000 to bring the initial capital to just over a million pesos. The Inter-American Foundation accepted this request and funded it as an amendment to the original grant (DR-020-AI). The agreement was signed on Oct. 30, 1977 and the first disbursement made in December of the same year. However, it was not received by CODOCOOP until March of the following year and the first loans were made within two months thereafter.

* Despite provisions of the law which restricted operations of financieras with enterprises controlled by major stockholders of the financiera.

Once the decision was made to proceed with the establishment of FICOOP (based on favorable informal reactions from the Central Bank and other government officials and from the Foundation),* it took less than a year between the first step in the process required to formalize the Financiera and the time that the first loan was granted. On June 4, 1977 the statutes setting up FICOOP as a stockholder corporation (called a compañía por acciones in Dominican legal terminology), were drawn up. The ownership of the shares of stock was registered by a notary public and the statutes approved by the first general assembly of stockholders on June 29, 1977. As may be seen in Table 4, which gives the paid-up capital at the time FICOOP was set up as well as current capital, FICOOP is owned by the Confederation, with a minute fraction of the shares held by the Federations and a token amount in the hands of a small number of cooperatives. The shares are non-transferrable, making it impossible for the cooperative movement ever to lose control over the Financiera. The shareholders may withdraw from their capital paid into the Financiera but only the amount that they actually put up in cash.** Grants or additions to capital from operations always remain with the Financiera and cannot be withdrawn. Table 4 also indicates where any major disagreements about FICOOP operations must be settled: in the Confederation. As a matter of course, voting in FICOOP's Executive Committee is handled by one vote per person on the committee but, in fact, FICOOP is a shareholder company, where shares vote, not individuals. Any major disagreement has to be handled first within the Confederation, which currently controls 89% of the shares of FICOOP. In the Confederation, the Federations each have equal representation.

The Monetary Board of the Central Bank accepted FICOOP's application to act as a financial intermediary under the terms of Law No. 292.***

* Memo dated Sept. 12, 1979 from Steve Vetter to Robert W. Mashek outlining the history of the Foundation's support for CODOCOOP. Included as Appendix VIII.

** This procedure is standard in most cooperative organizations. The ownership roster of shareholders is included as Appendix IX.

***On October 27, 1977.

TABLE 4

INITIAL AND CURRENT PAID-UP CAPITAL OF FICOOP

SHARE-HOLDER	Number of Shares Held INITIAL	Number of Shares Held CURRENT	VALUE RD$
Confederatión Dominicana de Cooperativas (CODOCOOP)	10,510	15,561	1,556,100
FETAB Cooperativas, Inc.	51	651	65,100
FENACOOP	51	651	65,100
FEDOCOOP	51	651	65,100
Coop. Agropecuaria Canca Reparación, Inc.	1	1	100
Coop. Agropecuaria Union Dominicana, Inc.	1	1	100
Coop. Agropecuaria Guananico, Inc.	1	1	100
Coop. Agropecuaria Padre Las Casas	1	1	100
Coop. Agropecuaria El Centro, Inc.	1	1	100
Coop. Agropecuaria Santa Cruz, Inc.	1	1	100
Coop. Agropecuaria San José, Inc.	1	1	100
Coop. Agropecuaria Palo Verde, Inc.	1	1	100
Coop. Agropecuaria San Salvador	1	1	100
Coop. de Ahorro y Crédito Los Maestros, Inc.	1	1	100
Coop. de Trabajadores del Ingenio Barahona	1	1	100
Coop. de Ahorro y Crédito San Martin de Porres, Inc.	1	1	100
Coop. de Ahorro y Créditos Fraternidad, Inc.	1	1	100
Coop. Agropecuaria Santa Ana, Inc.		1	100
Totals	10,676	17,528	$ 1,752,800

With a paid-up capital of over a million pesos, FICOOP was well over the limit of capital required for formation of a financiera; it had provided all documentation before the Board, as its first resolution of the day, raised the minimum to $1,500,000 for financieras operating in Santo Domingo. FICOOP apparently was accepted under the old limit ($300,000) although it might have been acceptable in any case since a new limit of $1,000,000, which was applicable for financieras located outside Santo Domingo, where most of FICOOP's operations are concentrated.

IV. HOW THE FINANCIERA OPERATES AND HOW IT DIFFERS FROM THE CODOCOOP CREDIT PROGRAM

The Sociedad Financiera para el Desarrollo y la Cooperación is a financial intermediary legally recognized by the Dominican government. It is subject to the same banking legislation which regulates the activities of all financial intermediaries and enjoys all the privileges afforded institutions set up under Law No. 292, which are considerable. The CODOCOOP loan fund was not regulated by Dominican banking legislation. In legal terms, CODOCOOP was merely a substantial depositor in one or more of the banks of the financial system; the security these deposits offered the banking system made it possible for Dominican banks to loan the cooperative movement about twice the value of funds on deposit. Banks were able to make this volume of funds available because of their ability to obtain additional funds from the Central Bank based on the volume of funds they held on deposit; CODOCOOP had no relations with the Central Bank except through the financial intermediaries with which it dealt, since the Law of Cooperatives did not empower the cooperative movement to deal with the Central Bank nor does banking legislation empower the Central Bank to by-pass the banking and financial system to deal directly with cooperatives.

While the CODOCOOP credit fund did not constitute financial intermediation, it is extremely unlikely that the cooperative movement would ever have been allowed to set up a Financiera like FICOOP were it not for the prior experience acquired in the CODOCOOP program. In dealing with FICOOP's application for status as a financiera, one of the first things that the Central Bank and the Banco Agrícola did was to audit CODOCOOP's books;* without a favorable audit report, it is unlikely that FICOOP's application would ever have been accepted.

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* Memo: Vetter to Maulhek, Sept. 12, 1979.

FICOOP's PRIVILEGES UNDER THE TERMS OF LAW NO. 292.

The principal privilege FICOOP obtained upon being authorized by the Monetary Board is the ability to carry out a series of operations with the Central Bank which effectively multiply its own capital many times. Secondly, FICOOP may also hold funds obtained from other institutions. both domestic and foreign, under administration contract; these funds generate the same multiplier with the Central Bank as FICOOP's own capital. Finally, FICOOP can emit bonds or other fixed or variable return debt instruments to obtain additional resources from the financial market.*

With funds thus obtained and from its own resources, FICOOP may make short, medium and long term loans with or without grace periods and with or without mortgage guarantees, for the establishment, expansion, transformation or strengthening of agricultural, industrial, agroindustrial, touristic or any other type of industry which could benefit national development, employment, and use of resources and inputs of the Dominican Republic or in combination with resources and inputs proceeding from abroad;"** this section of the loan policy of FICOOP is taken

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* To date, FICOOP has not used the bond market to obtain additional resources since to do so would raise its average cost of capital. Bank time deposits pay a maximum of 7.5%, thus establishing a floor on bond market interest rates; rates on bonds are in fact considerably above 8%. As long as FICOOP's own funds and funds obtained from the Central Bank at 5 to 7% interest are adequate to the needs of its credit program, it makes no sense to emit bonds. It is useful however to have this option available in case 1) the Central Bank should raise interest rates charged on its funds or 2) demand for credit should exceed FICOOP's available resources including those it can obtain at preferential rates from the Central Bank.

** FICOOP, "Pol ftica de Crédito a Aplicar por la FICOOP", approved in the February 3rd, 1978 meeting of the Board of Directors, revised and put into effect immediately in the session of March 29th, 1978. Included as Appendix X.

practically verbatim from the law. In line with the intent of the law to promote economic development, short term (less than 12 months) loans could go only to borrowers who had outstanding medium and long term loans (i.e., development oriented loans). Credit could be granted for purchasing capital equipment;* it could also be granted for refinancing debts within the context of development projects** or for providing working capital to enterprises already having received medium or long term loans from FICOOP.

While what the law permitted FICOOP to do was quite broad, what it proposed to do had a much narrower focus:

> The credit operations of FICOOP will have as their basic end to organize, promote and support all economic activities which may be carried out by people joined together in cooperative or other forms of association in the national territory, in the fields of agriculture, livestock, industry, agribusiness or any other activity which permits a major impact in our society for groups with limited availability of resources.***

This provision did not limit FICOOP's possibility of carrying out credit operations with individuals who were not associated with cooperatives or other forms of organization.

RELATIONSHIP BETWEEN FICOOP AND THE CENTRAL BANK

The feature which most sets off FICOOP's operation from loan program previously operated by CODOCOOP is the fact that a financial intermediary wholly owned by the cooperative movement is now able to deal directly with the Central Bank. Up to this time, CODOCOOP could only make use of its considerable economic power as a major depositor

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* In which case Central Bank financing would be available.

** In which case Central Bank financing would not be available, meaning that the Financiera would have to use its own funds.

*** FICOOP, "Política de Crédito..."

to pressure a financial intermediary owned by other groups to act in its behalf to obtain funds from the Central Bank through that financial intermediary. For these privileges, a considerable price was paid in terms of closing costs and interest rates (perhaps as high as 18% in some cases). More importantly, in a way that is not susceptible to measurement in quantitative terms, the cooperative movement through its ownership of a financial intermediary has moved a long way towards being able to act on equal terms with other economic groups in the Dominican Republic. The prestige this brings the movement is translated into more solid relations with branches of the government and finally into an improved economic situation for the movement and its member cooperatives.

Like other financieras, FICOOP has available a series of lines of credit with the Central Bank which permit it to obtain funds at preferential interest rates varying from a low of 3.5% to a high of about 7.5%, but normally in the 5 to 6% range. Paid-up capital of $1,000,000, gave FICOOP a credit limit of $2,500,000 in direct FIDE loan money (Fondo de Inversión para el Desarrollo Económico), $1,000,000 in reimbursements for loans made, and $1,000,000 for rediscounting of loans already made by FICOOP. There are of course a series of limitations on the kinds of loans that the Central Bank will and will not fund under each of these lines of credit, as well as percentages of loans that they will finance.

Rediscounting arrangements finance 100% of the cost of the capital tied up in the loan. Reimbursements by the Central Bank range from a low of 50% to a high of 80 or 85%, depending on the purpose of the loan. The FIDE loans involve payment of 90% of the loan's cost by the Central Bank. It should be emphasized that not all categories of loans fall under the purvey of Central Bank financing; those which do not (construction, refinancing of debts, or any other purpose not considered by the law or internal rules of the Central Bank to be directly related to development), receive no assistance from the Bank and therefore, if they are made at all, come directly from the capital and reserves of the financiera.

Collection procedures by the Central Bank are of the utmost simplicity: FICOOP maintains an account at the Central Bank which it debits when loan comes due.* As far as the Central Bank is concerned, the debtor is FICOOP on the funds it has received. Whether it is paid or not, it must have sufficient funds in its account on the day they are due to cover its obligations with the Central Bank. No prior notice is sent: the Central Bank simply debits the account. The lack of prior notice is no problem; the only problem is having sufficient funds available to be able to cover loans due to the Central Bank, even if the final borrower is unable to pay on time.**

Accounting departments are perfectly capable of keeping track of due dates for its obligations with the Central Bank or elsewhere. At the same time they are responsible for keeping short term lendable surpluses in interest-bearing accounts at terms that are consistent with the obligations that the Financiera has. FICOOP funds are kept at rates that vary from 7% to 11%. Scheduling is possible, because loan requests are normally received about 1.5 months before they are expected to be processed. Incredibly, some funds which are in checking accounts due to obligations accepted at the time the funds were acquired are drawing interest, due to tacit agreements on advance notice before withdrawal. Funds which could be loaned for some productive purpose are not kept unproductively at interest; on the other hand, funds which could earn some interest which is used to cover the cost of maintaining FICOOP and paying its obligations to the Confederation are not kept unproductively in a checking account bearing no interest. Coordination between the accounting department and the administration

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* Some loans with the Central Bank can be renewed, even automatically, if not paid on time; however, the FIDE loans are not subject to this condition and must be paid by FICOOP on the date due.

** A number of Financieras have received phone calls from the Central Bank reminding them to come and deposit funds to cover their obligations which have fallen due. Problems such as this have never happened to FICOOP, which maintains sufficient liquidity to be able to pay its obligations regardless of whether its borrowers pay on time or not.

has been high enough so that the high degree of liquidity necessary to maintain good relations with the Central Bank has not unduly limited the ability to earn interest on short-term funds not included for the moment in FICOOP's loan portfolio.

The Central Bank has signed a number of agreements with FICOOP. Two of them authorize rediscounts of FICOOP documents:* the first for RD$900,000 on June 29, 1978 (subsequently renewed for a year on the 29th of August, 1979 for a year) and the second for RD$750,000 on January 28, 1980. The only specific restriction in the notifications themselves is that the funds be used for financing investments in "productive sectors" and that they be used within 180 days (in the case of the two most recent authorizations). These facilities entitled FICOOP to rediscount loans that they had made for productive purposes upto 360 days earlier, provided that they fell within categories acceptable to the Central Bank.

On May 26, 1978, FICOOP and the Central Bank signed additional agreements for FIDE (Fondo de Inversiones para el Desarrollo Económico) funds, which are obtained by the Central Bank from the Inter-American Development Bank (IDB) and other international lending agencies.** These funds are available for industry or agribusiness, handicrafts, agriculture and livestock, mining and transportation or other services related with production. The funds are principally for purchase of equipment but apparently can also fund ancillary elements of an integrated project. These funds cannot finance sugarcane or sugar production or coffee growing, overhead or administrative expenses, land purchase or refinancing of debts, or the payment of taxes. The funds clearly are focused on productive uses, which is also the main focus of FICOOP loans. Unlike rediscounts or reimbursements, these funds are (in theory at least) only authorized based on approval prior to initiation of the projects to be financed. The criteria to be fulfilled on deciding whether or not funds can be loaned under the terms of FIDE,

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* Included as Appendix XI.

** Included as Appendix XII (Two Documents).

involve generation or savings of foreign exchange, increasing domestic production or productivity, installing new types of production employing domestic inputs or introducing improved technology, creating employment or appreciable value-added, location of enterprises in underdeveloped areas of the country, and economic viability of the project. As will be seen later in the section examining FICOOP's loan portfolio, loans generally come very close to fulfilling these criteria; they generally fulfill these criteria and add an additional criterion, which is that investments that they help fund, also contribute to improving the nutrition of the Dominican people. These funds are available for a minimum of 3 years and a maximum of 12 years at a maximum rate of 9%. FICOOP pays a rate of 5% for these loans, in accordance with a payment schedule established with the Central Bank, which takes no account of what happens to the final recipient of the loan (i.e., if FICOOP does not get paid, it still has to pay the Central Bank). Paragraph II of the agreement signed between FICOOP and the Central Bank is extremely tight on FICOOP: if the final borrower fails to make a single payment after the end of the grace period (should the loan have one), FICOOP is liable immediately for the entire loan obligation. Probably obligated by loan agreements it has with international lending agencies, the Central Bank makes FICOOP responsible for the use of these funds specifically for the purposes stated in the loan.* Beneficiaries are also required to have insurance for major risks (as was found in the FETAB case study). This agreement with the Central Bank was signed only 7 months after FICOOP entered into operation. The agreement is very favorable to FICOOP and the cooperative movement it finances, as long as all FICOOP's borrowers comply; should any of them not comply, even to the extent of failing to make a monthly payment, FICOOP could be held responsible for the immediate payment of the entire loan.

* Central Bank officials auditing FICOOP's books said that that was one of their main functions, i.e., to track down loan funds and to make sure that they were used for the purpose specified in the loan application: i.e., no purchases of Mercedes Benz with funds loaned for buying tractors,

About the same time, FICOOP signed an agreement with the Central Bank for a line of credit for livestock financed by $5,000,000 in funds from USAID.* Payments by the Central Bank were to be made from this fund based upon actual disbursements to final borrowers. Other terms are similar to those for FIDE loans. Terms of this agreement as of the previous one were clearly written by lawyers concerned with guaranteeing the Central Bank with full repayment of funds it had lent. Considering how favorable the terms of the loan are, this is as it should be: FICOOP has only loaned to borrowers who presented production plans that clearly made possible repayment on time based on projected cash flow.

On June 7, 1979, FICOOP has also signed an agreement with the Secretary of Agriculture (SEA) setting up a revolving loan fund with an initial capital of $250,000. These funds are part of the Program for the Small-Farmer (denoted by its Spanish acronym PPA), established by agreement between USAID and the Secretary of Agriculture.** Under the terms of the PPA, FICOOP obtains these funds at 3% interest and is obliged to lean them to small farmers (defined as native-born Dominicans organized in cooperatives or associations operating farm enterprises no larger than 32 hectares on a full-time basis) in amounts not to exceed $2,500 per production cycle. Half of each loan may come from PPA funds and the other half must come from FICOOP's own resources. The funds may not be employed for export crops; the clear intention of the agreement is that funds be employed in food production. Half of any losses incurred in collecting on loans are to be borne by the SEA, the other half by FICOOP. FICOOP may lend out these funds at a maximum rate of 9%, of which 3% must be returned to the loan fund as it is collected.

FICOOP is also able to receive on deposit funds in administration from outside entities. One such agreement*** exists between FICOOP and

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* Included as Appendix XIII.

** AID-517-T-027.

*** Formalized in an exchange of letters, included as Appendix XV.

Caritas Dominicana. FICOOP guarantees to make loans for up to three times the value of any funds that Caritas leaves on permanent deposit with the Financiera. It is able to make this guarantee because of the agreements described earlier which it has with the Central Bank, which in effect multiply its own capital or any additional funds it has on deposit by a factor in excess of three times. In fact, since it had funds available, FICOOP at one point had loaned Caritas and the associations of small farmers it works with more than 7 times the amount it had on deposit. It cannot be stressed too heavily how advantageous an arrangement such as this can be to an organization such as Caritas, since when it seeks grants to expand its credit programs, grant-giving agencies such as OXFAM are able to see their funds leveraging several times the value of the grant. From FICOOP's point of view, the arrangement is also favorable since it is virtually impossible to incur any losses on loans made in this program.* The speed and simplicity with which the agreement between FICOOP and Caritas was formalized is also impressive. In addition to Caritas funds on deposit in FICOOP, a number of other depositors hold funds on administration deposited in FICOOP. One of them is the Rosario Dominicana, the gold-mining firm recently purchased by the Dominican government from its American owners. Additional deposits on the order of $200,000 were expected (but so far not received) from funds FEDOCOOP receives from COLAC (the Latin American Confederation of Credit Unions).

Another agreement was signed the 29th of February, 1980 between the cooperative movement represented by CODOCOOP, the Secretary of Agriculture, the Instituto Agrario Dominicano (land distribution agency), INESPRE (price stabilization board), Banco Agrícola, and IDECOOP.** The agreement recognizes the importance of FICOOP in financing projects of cooperatives and proposes a greater degree of coordination among all the government institutions named above and the cooperative movement.

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* In fact, Caritas has been FICOOP's best client, repaying virtually all its obligations to FICOOP on time.

** Included as Appendix XVI.

It is too early to judge the concrete results, if any, that may arise from this agreement; its importance for the moment is in terms of its recognition of the cooperative movement and of the usefulness it may have in assuring that government development programs are effective in reaching segments of the society most in need of such programs. If in fact the agreement does produce the concrete results proposed, it will be of considerable importance to the cooperative movement.

AGREEMENT BETWEEN FICOOP AND INESPRE

In addition FICOOP has signed a very important agreement directly with INESPRE (the GODR's Institute for Price Stabilization).* Under the terms of this agreement signed on June 12, 1979, the two institutions agreed 1) to promote production of basic articles for internal consumption (rice, red kidney beans, corn, potatoes, sorghum, and coconut) and black beans for export; 2) to promote the employment of unemployed rural labor and the use of marginal and unused land; and 3) to increase the incomes of small farmers, reduce farm imports, improve the balance of payment, and to improve the diets of the Dominican people. Most of these concerns have shown up in other sections of this report.

The implementation of this agreement involved a commitment on the part of INESPRE to receive rice and beans of the agreed upon quality in the warehouses of the cooperatives and Federations and to pay for it within 48 hours after delivery.** INESPRE agreed to provide the personnel to carry out their part of this program, as well as to provide seeds for black beans and sorgum, and to leave part of the money needed to carry out this program on deposit with FICOOP, to the degree that INESPRE's availability of funds permitted.

* Included as Appendix XVII.

** Timeliness in monetary relations is a concern at harvest as at other points in the agricultural cycle.

FICOOP promised to provide the resources necessary to carry out the production of these products, seconding the efforts of the cooperatives and Federations. It further promised to consider and decide on any credit request related to this type of production within 30 days (the normal period is between 45 and 60 days).

The Federations agreed to sell within the next 12 months the amount of 650,000 hundredweights of rice (first class) and 40,000 hwts. of black beans of export quality. Sales of other products were to be made on the open market or to INESPRE depending on the support price it offered. Coconut production could be sold either internally or on the export market depending on the shortfall of vegetable oil, as determined by the export commission of the government, CEPRODEX.

V. INTEREST SAVINGS TO THE COOPERATIVE MOVEMENT AS A RESULT OF FICOOP LOANS

One of the major criticisms prior to the creation of FICOOP as an independent financial agent was the high interest rates and uncertainty of funding from the private banking community. The rationale for the DR-020-II amendment is quite clear on this issue:

> ...the uncertainty which surrounds...loans in addition to the high rates of interest which commercial banks charge have put the cooperatives at a disadvantage in the free market. The cooperatives, excluded from preferential treatment which the commercial sector has received from the Central Bank, cannot compete. The cooperatives recognize that they need not only a quantitative change increasing the amount of credit they receive but also a qualitative change which permits greater autonomy and control over how they are to receive and utilize these funds.*

As stated earlier, members of the cooperative movement dealing with credit, fully understood the degree to which the banking system was making use of its special privileges with the Central Bank to profit at the expense of the cooperative movement. Table 5 shows how this difference is important to the movement in terms of what they paid for funds borrowed. Legally, interest rates are limited to 12% by decree of the U.S. military governor in the first occupation of the Dominican Republic. In fact, what is erroneously called a "closing commission" can raise the real cost of money considerably; the nomenclature seems to be erroneous because closing commissions are generally understood to be one-time, up-front charge for obtaining or doing the paperwork related to the loan, whereas these merely increase the rate charged each year on loans. Average rates paid commercial banks have risen slightly from 14% to 15%. Financieras charged about 12% over the period that the movement obtained funds from them. What

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* DRAFT PUBLIC STATEMENT DR-020-II initialed by Bell & Toth. Included as Appendix XVIII.

TABLE 5

AVERAGE RATES OF INTEREST PAID BY COOPERATIVE ORGANIZATIONS, PERCENTAGES BY YEAR AND TYPE OF LENDING INSTITUTION.

Type of Institution	Y E A R S					
	1974	1975	1976	1977	1978	1979
Commercial Banks	14	14	14	15	15	15
Financieras	-	12	12	12	-	-
IDECOOP	-	11	11	-	-	-
FICOOP	-	5	5	5	7.5	7.5
Others	-	-	-	11	-	-

Note: These rates include the closing commission on loan operations.

Source: Lic. Andrés Lockward A.

TABLE 6

VOLUMES OF LOAN FUNDS OBTAINED BY THE COOPERATIVE MOVEMENT, IN DOMINICAN PESOS BY YEAR AND TYPE OF LENDING INSTITUTION.

Type of Institution	Y E A R S					
	1974	1975	1976	1977	1978	1979
Commercial Banks	850,000	550,000	550,000	350,000	450,000	450,000
Financieras	-	400,000	349,000	200,000	-	-
IDECOOP	-	30,000	91,000	-	-	-
FICOOP	-	290,000**	551,000**	551,000**	2,151,332***	1,651,334
Others	-	-	-	1,850,000*	-	-
TOTAL	850,000	1,270,000	1,541,000	2,951,000	2,601,332	2,101,334

* Extraordinary loan by Banco Agrícola for Coffee.
** FICOOP as a Department of CODOCOOP.
*** FICOOP as the Sociedad Financiera para el Desarrollo y la Cooperación.

Source: Annual accounting statements of the Federations, Cooperatives, and FICOOP. Table prepared by Lic. Andrés Lockward.

was most galling to people in the cooperative movement familiar with the Dominican credit system was that these institutions were obtaining these funds in large measure from the Central Bank at rates in the neighborhood of 6%; even in their certificates of deposit, they were not paying more than 7.5% on funds deposited by the general public. In other words, there was a considerable mark-up on funds borrowed by the cooperative movement, which was simply a loss of funds from the point of view of the movement. IDECOOP loaned the movement some funds at 11%, the same rate as was charged by the Banco Agricola on a special loan it made for coffee in 1977. When FICOOP was a department within CODOCOOP, it charged 5% interest on its loans. In its subsequent operations as an independent financiera, it has been charging an average rate of 7.5%. So far, this rate which is about 1.5% to 2% higher than the rates at which it obtains funds from the Central Bank has been sufficient to permit it to cover operating expenses. Initially, the Federations had proposed that it loan funds at only 1% more than its cost of capital, but this proposal was rejected because it was insufficient to cover operating costs.

Table 6 shows the total volumes of funds obtained by the cooperative movement from various sources in recent years and Table 7 shows the total cost of money to the movement. There has been a generally upward trend in credit obtained by the movement. 1977 is considerably above trend due to an extraordinary loan from Banco Agrícola, for coffee. The reduction in 1979 is basically attributable to Hurricane David which reduced possibilities for productive investments. In the post-hurricane period, FICOOP with the help of the Inter-American Foundation* was extremely active in helping cooperatives clean up and rebuild what the hur icane had destroyed. However, about 6 months went by without the Financiera being able to make the productive loans

* A National Reconstruction fund--FORENA--was set up to provide grants for rebuilding cooperative buildings destroyed or damaged by the Hurricane. By May, 1980 most damage to cooperatives had already been repaired.

TABLE 7

COST OF CREDIT TO THE COOPERATIVE MOVEMENT (INTEREST AND COMMISSION CHARGES PAID), IN DOMINICAN PESOS, BY YEARS AND TYPES OF LENDING INSTITUTIONS.

Type of Institution	YEARS					
	1974	1975	1976	1977	1978	1979
Commercial Banks	119,000	77,000	77,000	52,500	67,500	67,500
Financieras	-	48,000	41,880	24,000	-	-
IDECOOP	-	3,300	10,010	-	-	-
FICOOP	-	14,500	27,550	27,550	161,350	123,850
Others	-	-	-	203,500	-	-
TOTALS	119,000	142,800	156,440	307,550	228,850	191,350

Source: Calculated by Lic. Andrés Lockward from the two previous tables.

it normally makes.

The existence of FICOOP has helped the movement save a considerable amount of money in interest payments and commission charges. Based on the figures contained in Tables 6 and 7, the average rate of interest which was 14% in 1974, fell to 11.2% in 1975, 10.2% in 1976 and rose slightly to 10.4% in 1977, due principally to the effect of the Banco Agrícola coffee loan. With the formation of FICOOP as an independent financiera, rates fell to 8.8% in 1978 and rose to 9,1% in 1979, due to the reduction in total loan volume because of the hurricane.

A subsequent section will describe in more detail the mechanism by which loans are carried through the cooperative movement from FICOOP down to the base-level cooperatives and final users. Here it is sufficient to note that these figures do not denote rates paid by final users but rather are the rates charged by FICOOP and other lending institutions to the cooperative movement. The Federations then charge a one or two percent mark-up on the loans to the cooperatives and the cooperatives a similar mark-up to their members, in each case to raise money to cover their expenses. Since, at current rates of interest which are considerably below rates charged by moneylenders, small-farmers are more concerned about obtaining funds than at the rate they must pay, there are no complaints about these mark-ups. Basically, the existence of FICOOP guarantees the cooperative movement a substantially greater volume of credit. The final beneficiary in a given cooperative realizes some savings over previous arrangements and greater security of having money available. At the same time the movement benefits by earning the difference between the cost of funds from the Central Bank and the rate charged the members of cooperatives, most of which previously went to the private commercial banking system.

During the seventies, the Dominican Republic like most other countries has been subject to inflation. However, with the Dominican peso officially on par with the dollar and its rather low level, no public consciousness of inflation exists, such as is found in countries like Chile or Argentina where inflation is rampant. Infla on is likely

TABLE 8

CONSUMER PRICE INDEX BY INCOME STRATA (1974=100)

	Δ%	All groups	50.01-100	100.01-200	200.01-300	300.01-400	400.01-600
1974		100.0	112.8	105.7	98.7	97.1	99.0
	14.5%						
1975		114.5	129.9	122.6	115.8	113.3	110.2
	7.9%						
1976		123.5	134.8	128.3	121.8	120.2	114.5
	12.8%						
1977		139.3	148.3	143.4	132.5	134.8	125.6
	3.5%						
1978		144.2	152.3	147.1	137.3	138.5	126.8
	9.2%						
1979*							
Jan		147.3	155.9	152.9	141.1	139.6	128.9
Feb		147.7	156.0	152.5	142.3	142.4	129.8
Mar		149.1	157.5	155.2	145.3	144.2	131.8
Apr		150.3	158.8	156.5	146.4	145.1	132.9
May		152.3	158.8	157.5	147.5	145.7	133.8
June		154.2	162.6	159.0	150.6	148.9	137.5
July		154.8	163.1	159.2	150.5	149.0	137.6
Aug		159.0	166.8	162.8	153.4	152.5	142.6
Sept		159.8	169.3	164.7	154.3	153.3	143.0
Oct		162.2	172.4	166.2	156.7	156.3	145.8
Nov		167.5	181.1	175.1	165.5	162.3	151.8
Dec		184.6	198.3	191.3	166.3	173.2	161.9

* Percent change between January and December is 25.3%

SOURCE: Banco Central, Boletín Mensual Februrary 1980, Vol XXXIII, No. 2, p. 154; included as Appendix IX.

to become more serious in the future (since the main factor behind inflation in all countries are the extraordinary increases in the price of crude oil, which is 100% imported in the case of the Dominican Republic). At some point, inflation is likely to become the justification for increasing the interest rate.

Annual rates of inflation over the 1975-1979 period fluctuated from a high of 14.5% to a low of 3.5%. The January to December 1979 rates registered a record 25.4%, although the average change between 1978 and 1979 was only 9.2% since most of the increase was concentrated in December of 1979. This means that the Central Bank was loaning money at negative rates of interest during the entire period, with the exception of one year. It also means that the high nominal rates of interest paid by the cooperative movement, in real terms, varied from a high of 11.5% to a low of 1.2% in 1976, excluding 1974 when they paid an effective negative rate of 0.5%. It by no means minimizes the validity of the movement's complaint that the financial system was making excess profits at the expense of cooperatives; borrowing money from the Central Bank at 5 to 6% to loan it to the cooperative movement at 14 or 15% implies excess profits, regardless of what the rate of inflation is. Figures on inflation are presented in Table 8.

Eventually, it is likely that the Central Bank will raise the interest rate to levels closer to those in the U.S. money market to which the Dominican Republic is tightly tied; such an increase would partially offset capital flight by wealthy Dominicans to Miami banks, which has been estimated at approximately US$250,000.

FICOOP has been and is loaning money to the cooperative movement at negative rates of interest, which within the Dominican scheme of financial markets is perfectly logical, as long as they can obtain funds from the Central Bank at even more negative rates of interest.*

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* To put this in perspective, the World Bank, IDB, etc. have made over $500 million in loans to the Dominican Republic at concessionary rates of interest. Many of these loans require that the Central Bank loan them out to the various sectors involved at rates of interest which are also negative.

When the Central Bank decides to raise interest rates (and there have already been suggestions along these lines in editorial comment in the newspapers),* FICOOP will have to raise its interest rates by a corresponding percentage. In the process, it will suffer some erosion of its capital base, which it could make up either by making fuller usage of its privileges with the Central Bank or by seeking additional grants to increase its capital. There is no certainty as to when the Central Bank in the near future will raise its rates or by how much the rates will rise. For these reasons and others, it would be unreasonable for FICOOP to raise its interest rates prior to such a move by the Central Bank; furthermore, given current loan procedures, it is unlikely that an increase in interest rates to positive (real) rates would have a favorable effect on the allocative efficiency of FICOOP's loans.

One of the justifications for an institution like FICOOP is to redress in some small way skewed income distribution. Incomes of the kinds of borrowers receiving credit through FICOOP are in general low. Furthermore, the impact of inflation has been more severe on the lower two income strata followed by the Central Bank than on the upper three strata. By December, 1979, the simple average of the indices for the two lower income groups was nearly 17% lower than the same average for the three upper income groups. The lowest income group in fact has suffered a 22.5% greater reduction in its purchasing power as a result of inflation compared to the highest income strata.

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* See clipping file, "economy".

VI. CREDIT POLICY AND LENDING PROCEDURES

Basic credit policy of FICOOP is to support production by lower income groups in ways that will increase their incomes and the availability of goods, particularly food, for the Dominican population. Preferentially, this support goes to members of cooperatives and other types of small-farmer organizations, without absolutely excluding individuals not associated with cooperative organizations. Loans, with few exceptions, are made for productive purposes, only occasionally for refinancing debts, and never for speculative purposes. Loans can be made for land purchases, particularly those involving putting non-productive land into some productive use in agriculture. Frequently the land purchase by a base level cooperative is for the collective usage of its membership, usually in association with other cooperative agricultural projects. The credits should be of an amount and duration which permits adequate financing of all relevant aspects of the productive process. Loan priorities and programming is established every six months based on projections submitted by the Confederation and the three Federations; loan contracts are generally tripartite among FICOOP, the FEDERATION and the Cooperative, with the Federation receiving compensation for the services it renders in the supervision of the loan and its collection.*

LOAN PROCEDURES

It is fundamental to understand that loan requests originate at the level of the final user. While it is true that FICOOP is in the business of providing necessary financing to the cooperative movement, it is not trying to "move money." Most cooperatives now understand that FICOOP can and does provide financing for well-founded projects;

* FICOOP, "Comentarios sobre su Formación y Bases para la Proyección Durante el Período 1979-1981," pp. 3-4. Included as Appendix XX.

in the past there was little incentive for pursuing ideas for investment projects, since there was no possibility whatsoever of obtaining major financial commitments from lending institutions for anything more than 8 month crop loans. Currently cooperatives discuss investment ideas which could benefit a high proportion of their membership, such ideas are then proposed to the Federation* which suggests modifications and translates the requests from cooperatives expressed frequently in letter form into the format of a formal loan request and supplying the standard technical and economic information FICOOP requires to come to a decision on the loan's merits. Therefore, by the time a loan request has been incorporated into a Federation's semi-annual program, all relevant information should be available to FICOOP in the loan application and most difficulties that may have existed initially should have been solved.

FICOOP's project department prepares a technical report on the loan based on information contained in the loan application.** This information is verified during a visit to the cooperative, additional technical data required to accurately assess the viability of the loan is obtained and a technical report is prepared for the Executive Board of FICOOP. Recent reports contain more complete information of a technical nature than did those when FICOOP first began independent operation. The assumptions about costs, physical yields and product prices are all extremely conservative; grace periods and repayment schedules are carefully calculated to match the cashflow of the proposed investment projects, with the terms of some of the loans running upto 11 years for livestock projects. The conservative nature

* In response to the question of what percentage of ideas were completely unfeasible, an official of FENACOOP replied that there were very few. He calculated that over 90% of the loan proposals made to FENACOOP had a sufficient basis in fact to merit further study and that with some changes, most of them finally were funded.

** Appendix XXI includes a series of six documents: loan forms, technical reports and recommendation on several projects and Central Bank documentation.

of these projections makes it unlikely under normal circumstances* that borrowers will have to request extensions of the terms of loans in order to finish paying them off out of production devolving from them.

Small loans (less than $15,000) may be approved at the discretion of the Executive Director of FICOOP; this decision, however, must be ratified at the next board meeting. Therefore, the Director will approve only those loans on which there is a clear consensus. This freedom of action makes it possible for FICOOP to approve and begin disbursements on small loans in extremely short order. Other loans require the approval of the Executive Board composed of the representative of the majority stockholder, CODOCOOP, and the representatives of the Federations. Normally, the recommendation of the head of the projects department and Executive Director receive favorable action by the Board as a whole; as described earlier, major disagreements must be settled within the Confederation because of the structure of ownership of FICOOP.

All loans larger than $15,000 require prior approval by the Board. In order to decide, board members** will have before them a file naming the cooperative or individuals applying for the loan, a summary of their assets and liabilities, suggested interest rates, grace periods and repayment schedules plus the recommendations of the head of the project department and of the Executive Director. Each board member has a vote, but in practice decisions are by consensus or "spirit of the meeting," with serious disagreements being sent back to the Confederation. Should the Board require additional information, the full technical report (in addition to the summary) is available upon request of any board member. Once a loan is approved, a contract

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* When natural disasters such as Hurricane David occur, it is only normal that the borrowers most affected request extensions on their loans. FICOOP granted these requests, and expects to get most of its money back on them.

** A number of the board members are campesinos representing the Federations to which their cooperatives are affiliated.

(normally tripartite including the relevant Federation) is signed between FICOOP and the loan beneficiary. The procedures are kept as simple as possible within the requirements for information both of FICOOP and Central Bank; from start to finish they generally take no more than 6 to 8 weeks. Since many of the loans are for agricultural purposes and therefore have a very strict timetable, simple and rapid loan decision procedures are essential.

LOAN GUARANTEES

No disbursement is made on any loan before the borrower signs a contract and legally binding payment note with FICOOP. In the case of loans to cooperatives, particularly for marketing loans, the respective Federation countersigns the notes. Different types of security are called for depending on the type of the loan. For annual crop loans, normally the guarantee is the harvest itself, which normally involves crops that are marketed by the cooperative.* Industrial or agro-industrial ventures normally involve mortgages on real-estate, buildings and machinery. Long term credits to cooperatives involve mortgages of property assessed at at least 130% of the loan's value. Where such loans benefit private borrowers not associated with a cooperative, value of property mortgaged must be at least twice the value of the loan.** FICOOP can and does require additional securities on some of its loans. One loan for a teacher's cooperative received a favorable technical report on the condition that it 1) renegotiate existing debts with IDECOOP and 2) dispose of some real estate for which payments were seriously affecting cash flow.*** As a

* As always in this type of operation, there is a tendency for the borrower to sell through the cooperative only the amount of the agreed-upon product necessary to fulfill the terms of repayment of the loan; part of the educational campaigns of Dominican cooperatives are to convince members of the utility of selling a high percentage of their crops to the cooperative both for their own immediate benefit as well as for the more long term benefit which accrues to them through the strengthening of the cooperative movement.

** See the case studies in this report of F.M. and L.S.

*** See Appendix XXI-C.

condition of another loan, it not only asked for a mortgage on the building that housed the cooperative's store, but also an agreement binding the cooperative not to enter into any agreement changing the ownership or control over this property without FICOOP's approval and requiring it to take out an insurance policy on the property for at least the amount of the loan, naming FICOOP as beneficiary.* Basically guarantees are sufficient so that should it be necessary, FICOOP could make use of the legal remedies available to it to recuperate the amounts of principal and interest due it, in the event of default on any of its loans. So far, this procedure has not been necessary; delays in payment have occurred, particularly in the case of one major loan, but loans have eventually been repaid without recourse to legal action. In order to protect FICOOP's capital, it is important that such guarantees exist even if they never will have to be used.

These kinds of guarantees carry down to the relations between cooperatives and individual members grouped together in one loan it receives from FICOOP. Cooperatives sign contracts with each member benefitting from a loan for the amount received. These contracts, including a list of what valuable property the individual member is mortgaging, are registered with the local Justice of the Peace and are legally enforceable by a simple process. The importance of guarantees at all levels is not that they are used to collect but that they show the seriousness of all parties to the loan since they can be used for collection. The guarantees behind loans are important principally in establishing the seriousness of all parties in seeing the loan repaid; the seriousness of purpose in most cases is FICOOP's most direct and effective guarantee of repayment. Loan payments are made by beneficiaries directly in FICOOP's offices in Santo Domingo.

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* See Appendix XXI-D.

ACCOUNTING, AUDITING, AND CONTROL OVER THE USAGE OF FICOOP FUNDS

FICOOP's grants from the Inter-American Foundation include a non-reprogrammable line item for audits. Price-Waterhouse has carried out two such audits of FICOOP's books. Results of these audits were made available to the Foundation and conclude that FICOOP's accounts are kept in accord with generally accepted accounting practice.

Controls over the use of funds acquired by FICOOP are considerably more stringent than found in most other projects in which the Foundation supplies part of the funding. FICOOP is financial corporation set up under the Dominican law. It operates subject to the application of banking legislation, which includes periodic audits by a variety of institutions. To date, there have been four audits in addition to those carried out by Price Waterhouse: two by the Central Bank, one by the Superintendency of Banks, and one by the Secretary of Agriculture. The focus of the audits by the Central Bank are on the employment of the resources it has provided to FICOOP as well as FICOOP's use of its own resources. The Superintendency of Banks audits resource use but in addition covers internal organization and procedures and compliance with banking legislation. The Secretary of Agriculture concentrates on the use of $250,000 in funds which it made available to FICOOP.

At the time of the consulting mission, the Central Bank was conducting a complete audit of FICOOP.* The rules for finance corporations (set up under Law 292) promoting the development of a specific area or sector of the economy considered important by the GODR are

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* The author of this report shared office space in FICOOP for part of the time whith two auditors from the Central Bank.

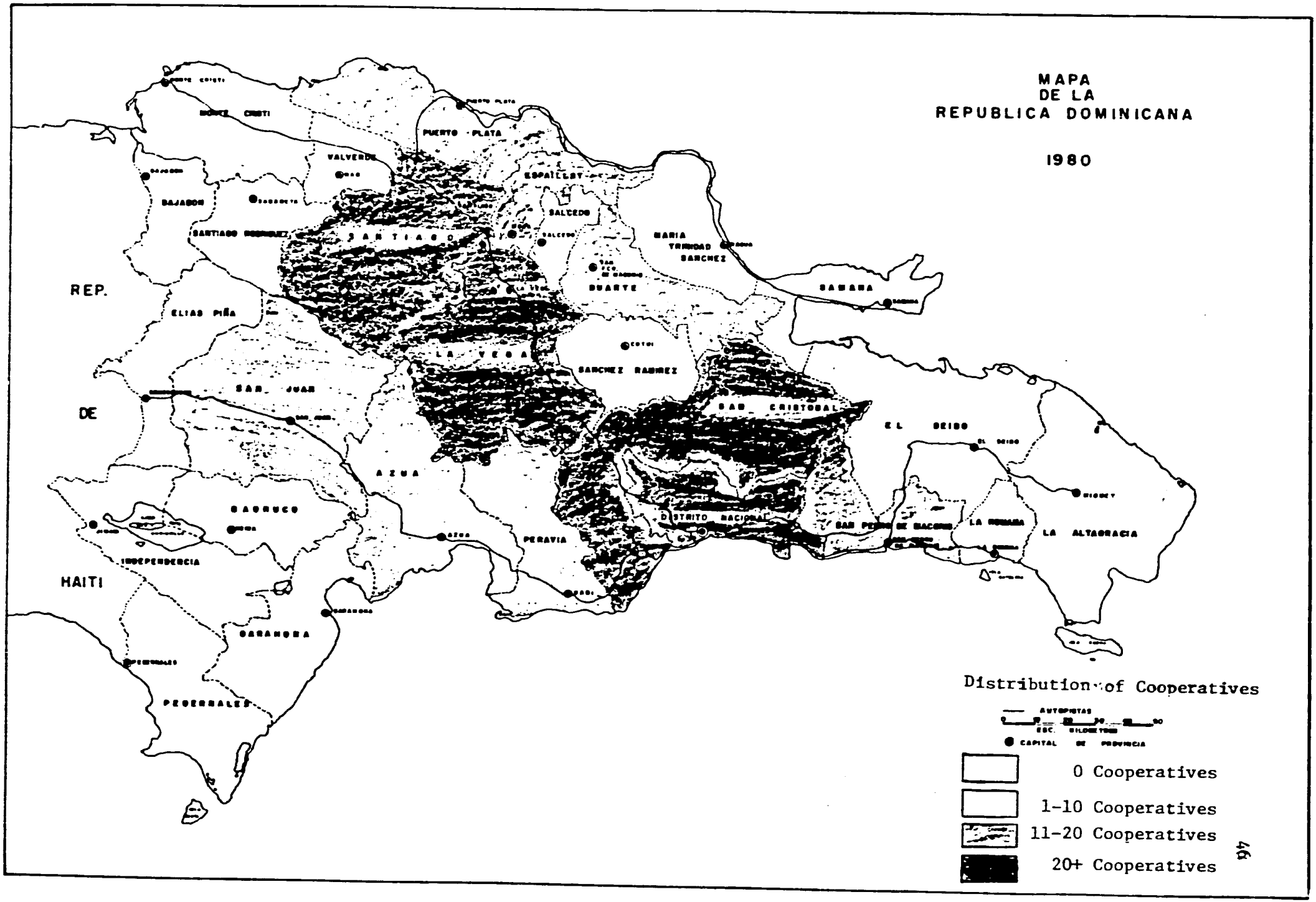
different from those governing banks but are nonetheless very stringent. Central Bank audits do not focus on misappropriation of funds by institutional staff members, since internal controls within finance corporations are sufficient to make that impossible. Examiners are more concerned about misapplication of loan funds by loan recipients: such as the purchase of an automobile with funds borrowed for the acquisition of farm machinery. The Central Bank examiners at FICOOP were carefully reviewing accounting statements. Because of the small number of operations and their relative simplicity, this part of the audit was relatively simple. They also check the books of the Federations and the Confederation as they relate to operations with FICOOP, and on a selective basis, follow them to their ultimate destination at the level of the cooperatives or even individual members of cooperatives, to make sure that funds are being applied as stated in loan descriptions.* The auditors do not differentiate between Central Bank funds and "own" funds of the institution being audited; their audit is a guarantee of the integrity of the institution and not merely that it correctly applies such funds as it may obtain from the Central Bank. This particular audit took over two weeks and involved two examiners from the Central Bank.

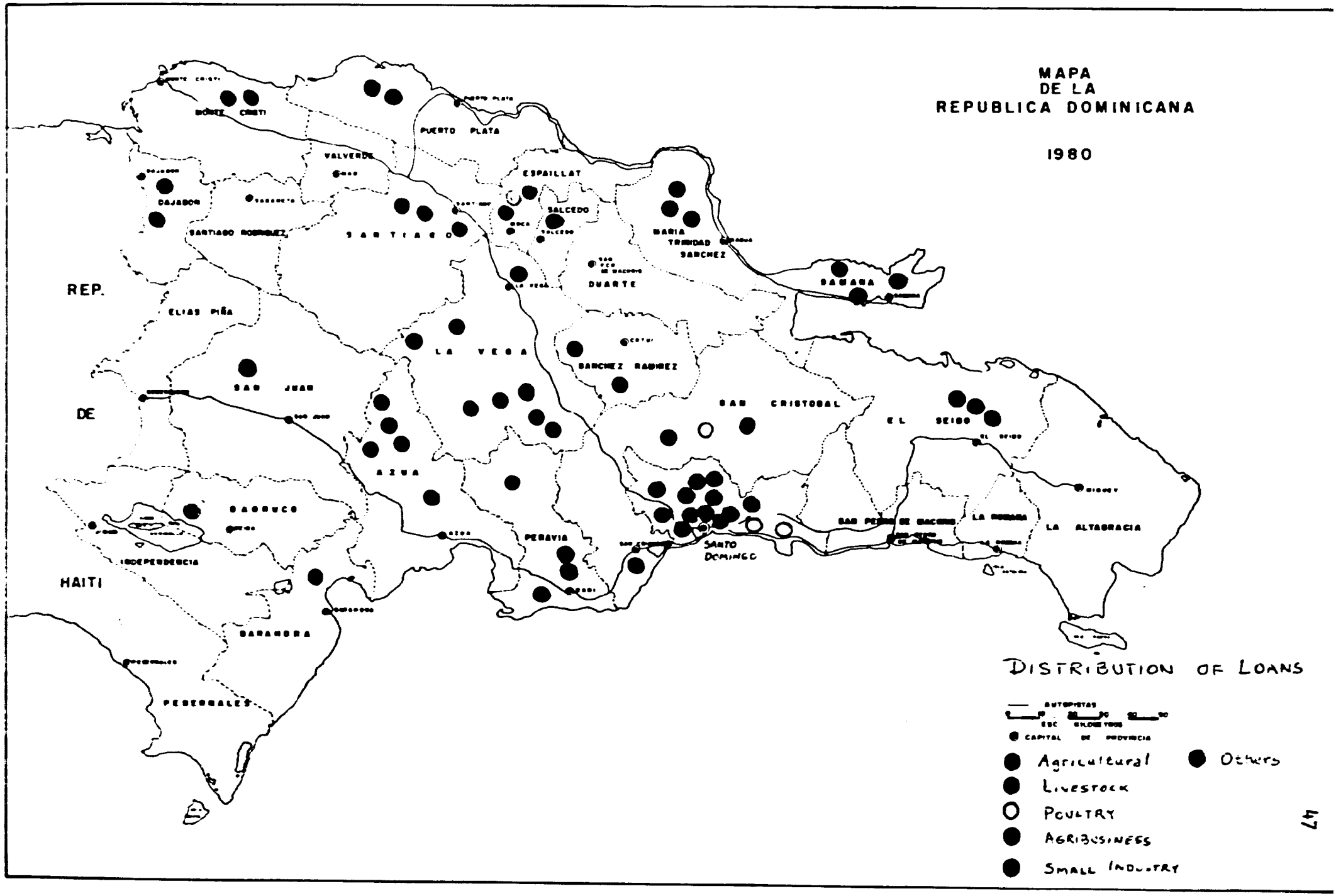
FICOOP's ACCOUNTING SYSTEM

Accounts are kept on a cash rather than an accrual basis. Other finance corporations used the accrual method as a way of recording (potential) earnings before they were in fact paid in; these was extremely useful for financieras interested in rapidly expanding their capital base in order to obtain additional funds from the Central Bank. FICOOP preferred the more conservative cash method, feeling it better expressed more clearly the assets it could definitely count on. The Central Bank subsequently made mandatory for all financieras the method used by FICOOP.

* They were expected to arrive at FETAB's offices in Santigo the same day of the author's field trip there.

FICOOP's accountants rapidly obtained and made available to the consulting team all information the consulting team requested. Much of this information forms the basis for the tables included in this report. The author of this report was particularly impressed by the fact that the statement on the status of complete loan portfolio as of May 31, 1980, was available less than 3 days after the end of the month. Keeping accounts up-to-date in this way is tremendously important to the success of any organization, but particularly so in the case of a credit program. For example, the Executive Committee of FICOOP was scheduled to meet during the first week of June had at its disposition figures on the loan portfolio which were less than a week old. Auditors want accurate (to the penny) records; administrators want up-to-date information on what is happening, and to get it, most would even sacrifice a little accuracy. At the present level of operations, which is relatively low with respect to levels that FICOOP can attain without increasing its subscribed capital, the accounting system is adequate to the task of pleasing the administration by generating information rapidly and the auditors by doing it accurately.


MAPA
DE LA
REPUBLICA DOMINICANA
1980
REP.
DE
HAITI
PUERTO PLATA
VALVERDE
ESPAILLAT
SALCEDO
BAJABON
SANTIAGO RODRIGUEZ
SANTIAGO
MARIA TRINIDAD SANCHEZ
DUARTE
SAMANA
ELIAS PIÑA
LA VEGA
SANCHEZ RAMIREZ
SAN JUAN
SAN CRISTOBAL
EL SEIBO
AZUA
BAORUCO
DISTRITO NACIONAL
SAN PEDRO DE MACORIS
LA ROMANA
LA ALTAGRACIA
PERAVIA
INDEPENDENCIA
BARAHONA
PEDERNALES
Distribution of Cooperatives
AUTOPISTAS
ESC. KILOMETROS
CAPITAL DE PROVINCIA
0 Cooperatives
1-10 Cooperatives
11-20 Cooperatives
20+ Cooperatives


MAPA
DE LA
REPUBLICA DOMINICANA
1980
REP.
DE
HAITI
PUERTO PLATA
VALVERDE
ESPAILLAT
SALCEDO
MARIA TRINIDAD SANCHEZ
DUARTE
SAMANA
DAJABON
SANTIAGO RODRIGUEZ
SANTIAGO
ELIAS PIÑA
LA VEGA
SANCHEZ RAMIREZ
SAN JUAN
SAN CRISTOBAL
EL SEIBO
AZUA
BAORUCO
PERAVIA
SANTO DOMINGO
SAN PEDRO DE MACORIS
LA ALTAGRACIA
INDEPENDENCIA
BARAHONA
PEDERNALES
DISTRIBUTION OF LOANS
Agricultural
Livestock
Poultry
Agribusiness
Small Industry
Others

LOAN BENEFICIARIES

By the end of January, 1980, FICOOP had made 75 loans totalling more than four million pesos and benefitting more than 22,000 families of producers,* for most of whom FICOOP was the only possible source of credit. As may be seen from the two maps depicting the extension of the cooperative movement and the distribution of various types of loans made by FICOOP, distribution of loans appears to parallel rather closely the distribution of the number of cooperatives in the various provinces of the country. Some of the loan concentration in the National District around Santo Domingo reflects loans to the Federations for marketing facilities which in fact benefit the cooperative movement in the entire country. There are two major points made by these maps: first that the cooperative movement reaches nearly all parts of the country and second that FICOOP is providing financing for the movement throughout the country rather than concentrating its efforts exclusively in the areas closest to the capital. It is particularly worth noting that it has attempted to fund projects in less developed regions such as the south-west. The distribution of cooperatives is based on information contained in the De Lancer report** and therefore is valid up to about the end of 1976. In general, areas shown to have little or no activity by cooperatives also have received little in the way of financing from FICOOP, while areas which show a high level of activity by cooperatives show a correspondingly high number of projects supported by FICOOP.

Table 9 shows the distribution of loans among agriculture, livestock and poultry, and other activities, as of November 30, 1979. Of the 60 loans, 40 had gone to agriculture, representing 72% of the total value of loans as of that date. Of the export crops, the greatest

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* FICOOP informational pamphlet, Santo Domingo, 1980. Included in Appendix XXII.

** De Lancer, op. cit., pp. 37-38.

TABLE 9

DISTRIBUTION OF LOANS BY CROP AND LIVESTOCK CATEGORIES, as of Nov. 30, 1979

No. of Loans	LOAN CATEGORIES	RD$	%
40	AGRICULTURE	2,729,517.15	72
10	LIVESTOCK & POULTRY	566,162.00	15
10	OTHERS: Agrobusiness, Mining, etc.	470,379.49	13
60		3,766,058.64	100%
	PRODUCTS FINANCED		
	AGRICULTURE		
	Coffee	1,074,977.50	39
	Cacao	171,439.70	6
	Tobacco	125,400.00	5
	Rice	705,977.00	26
	Beans	242,822.55	9
	Plantains	266,027.50	10
	Others	142,872.90	5
		2,729,517.15	100%
	LIVESTOCK & POULTRY		
	Cattle	235,455.00	42
	Goats	59,046.00	10
	Poultry	271,661.00	48
		566,162.00	100%

Source: Lic. Andrés Lockward, "FICOOP, Una Experiencia de Financiamiento Al Sector Rural," Appendix XXIII.

volume of loan funds went to coffee, basically for marketing and to a small extent for improvement of existing coffee plantations owned by small farmers. As a group, the food crops of rice, beans and plantains absorbed over a million pesos of loan funds. All rice is consumed domestically, as is nearly all the production of plantains. A considerable part of the production of beans financed under these loans is for the production of black beans (caraotas) for export to Venezuela.

Nearly half the volume of loans for livestock and poultry have gone to poultry; this basically involves egg production, which has expanded extremely rapidly, in part due to these loans. 42% has gone to cattle production, including milk cows. Ten percent has gone for goats, which are important especially now, due to the shortage of pork and which do well in areas with little water, which tend to be the poorest areas of the country.

VII. FICOOP's LOAN PORTFOLIO: DISTRIBUTION OF FUNDS BETWEEN FEDERATIONS AND OTHER BORROWERS*

Total loans made by FICOOP up to January 31, 1980 amounted to more than four million pesos, directly benefitting nearly 4 thousand families and indirectly benefitting over 22,000,** since many of these loans were for improving the infrastructure of cooperatives, which should benefit their entire membership. Two loans totalling more than $200,000 for building warehouses for FETAB and FENACOOP had the potential for benefitting nearly 30,000 members of cooperatives affiliated with these Federations.*** In addition, 5 loans had been processed under the Small Farmer Program (PPA) based on the agreement with the Secretary of Agriculture. These loans benefitted a total of 284 small farmers and involved a total authorization of just under $100,000 half of which were provided by Agriculture and the other half by FICOOP.****

As of January 31, 1980, 9 loans had been paid off entirely, representing a principle of $876,405.46 and interest payments of $154,869.78.***** Still on the books were 57 loans authorized for a total of $3,451,207.16.

By May, authorizations had risen to $3,614,085.66, although it should be noted that in the meantime some new loans had been authorized while some old loans had been retired. Of the total authorized, 91%

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* This section is based primarily on the summary of FICOOP's January 31, 1980 loan portfolio and to a lesser extent on the May 31, 1980 summary which became available as field work in the Dominican Republic terminated. Included as Appendix XXIV.

** One was included in Appendix XXI-E.

*** Estimates by Santiago Morel, head of the Projects Division of FICOOP.

**** FICOOP, Lourdes Payan, head of the Accounting Department of FICOOP.

***** FICOOP, Lourdes Payan.

TABLE 10

DISTRIBUTION OF OUTSTANDING LOANS, BROKEN DOWN BY FEDERATIONS AND OTHER TYPES OF BORROWERS, AS OF JAN. 31, 1980 (AND MAY 31, 1980, IN PARENTHESES)

Type of Borrower	(1) # of loans	(2) Avg. Term of Loan in Years	(3) Total Amount Authorized	(4) Total Amount Dispersed	(5) Total Amount Received from Central Bank	Percent of Total Authorized Loan Portfolio =(3)÷ Total x100	Percent of Disbursements Recovered from Central Bank
FETAB + ITS COOPS	9	3.1	880,717.90 (948,653.90)	760,032.83 (856,652.90)	342,167	25.5 (26.2)	45.0
FEDOCOOP + ITS COOPS	7	2.1	424,530.00 (424,530.00)	367,768.85 (392,768.85)	239,708	12.3 (11.7)	65.2
FENACOOP + ITS COOPS	25	2.8	1,701,518.75 (1,762,903.75)	1,635,851.44 (1,812,434.00)	654,741.35	49.3 (48.8)	40.0
CODOCOOP	1	2	25,959.09 (25,959.09)	25,959.00 (25,959.00)	-	0.8 (0.7)	0
NON-AFFILIATED COOPS	2	-*	36,209.00 (59,266.50)	36,104.00 (57,074.00)	-	1.0 (1.6)	0
CARITAS	4	1.9	90,080.00 (70,080.00)	89,580.00 (70,080.00)	74,165	2.6 (1.9)	82.8
INDIVIDUAL BORROWERS	9	4.3**	292,192.42 (322,692.51)	214,051.12 (290,855.12)	91,840	8.5 (8.9%)	42.9
TOTALS	57	3.0***	3,451,207.16 (3,614,085.66)	3,129,347.24 (3,505,823.87)	$1,402,621.35	100.0 (99.8)	40.6

SOURCE: LOAN PORTFOLIO (1/31/80 & 5/31/80), included as Appendix XXIV.

* No information available on the term of one loan.
** No information available on the term of one loan; this loan excluded from calculations.
*** Loans without information on term excluded; average based on 53 loans.

was disbursed in the January portfolio and 97% in the May portfolio. Of the total portfolio, nearly $900,000 or 25.5% of the authorized loan portfolio provided financing for FETAB and its cooperatives. About $425,000 or 12.3% had gone to FEDOCOOP and its cooperatives. About $1,700,000 or 48.8% of the portfolio is associated with FENACOOP. In total, the three Federations and their affiliates are responsible for just over three million pesos in borrowing, or 87.1% of the portfolio.

The remainder goes mostly to individual borrowers. Some of these borrowers are fairly well-off but are involved in priority areas for FICOOP; they offer excellent security on the loans and the high mark-up on the loans' cost subsidizes loans to cooperatives. Others are small businessmen, operating at a level not far above that of many cooperative members and engaged in productive enterprises which fall under the purvey of Law 292. Again, these loans offer good security and a favorable mark-up to FICOOP as well as promoting productive enterprises which benefit the underprivileged classes of the Dominican Republic. Altogether, these loans represented 8.5% of the January portfolio.

CODOCOOP had one small loan for less than 1% of the total value of the portfolio. There were small amounts of money made available to non-affiliated cooperatives, representing 1% of the portfolio. CARITAS with its loans secured by corresponding deposit balances held 2.6% of the portfolio, or $90,080.

The numbers of loans to various Federations and other types of borrowers correspond closely to the amounts authorized and therefore do not merit separate analysis. The terms of the loans average three years. Those of FETAB and FENACOOP are nearly on that average of three years; terms on loans to FEDOCOOP are only about 2 years, although there is sufficient dispersion in all the Federations so that this difference is not significant statistically. The average terms of loans to private borrowers is over four years; again while this difference is not statistically significant, it is nonetheless considerable.

By May, there had been a few small changes in the portfolio; in terms of the individual month, none of these changes are significant, but changes in the portfolio bear watching. FETAB's percentage of the portfolio increased somewhat while those of FEDOCOOP and FENACOOP decreased. The proportion of the loan portfolio devoted to CODOCOOP remained basically unchanged, while Caritas (perhaps for seasonal reasons) showed a decline; non-affiliated cooperatives increased their share, as did individual borrowers. It is worth noting that the two portfolios are different due to the approval of new loans and the paying off of a number of old loans, including some rather substantial ones.

In FENACOOP and FETAB, the percentage of funds made available or reimbursed through various arrangements with the Central Bank to total disbursements (since the Central Bank generally provides funds only against proof of disbursement), ranged in the lower forties. FEDOCOOP's percentage was just over 65%. At 43%, individual borrowers were on a par with the first two Federations. No funds had been obtained from the Central Bank for loans made to unaffiliated cooperatives or to CODOCOOP. Caritas showed the highest rate, at nearly 83%; what this confirms is that FICOOP and Caritas correctly assessed their ability to obtain Central Bank funds when they made their deposit agreement, and have proceeded to surpass expectations ($5.8 CB for each $1 of FICOOP rather than the 3 to 1 posited). Recuperate of private loans is on the order of 43%, about the same as FETAB and FENACOOP return from the Central Bank. It should be emphasized that these figures are minimums since many of the loan windows that the Central Bank has open to FICOOP take time. Except for FIDE loans, FICOOP lends the money first and collects afterwards from the Central Bank, albeit, based on previous understandings in many cases. Final percentages may be higher as additional loans are rediscounted or reimbursed.

Table 11 shows loan payments and amounts listed as overdue in the January and May portfolios. Accounting procedure calls for payments of principle and interest to be listed as "overdue" one day past the

TABLE 11

PAYMENTS AND OVERDUE BALANCES ON THE LOAN PORTFOLIO, BROKEN DOWN BY FEDERATION AND OTHER TYPES OF BORROWERS, AS OF JANUARY 31, 1980 (AND MAY 31, 1980, IN PARENTHESES)

Type of Borrower	Payments			Overdue Balances			Payments as a % of Totals
	Capital (1)	Interest (2)	Total (3)	Capital (4)	Interest (5)	Total (6)	(3)/[(3)+(6)]x100
FETAB	-	36,918.04	36,918,04	100,000	315.96	100,315.96	26.9%
	(-)	(31,765.74)	(31,765.74)	(219,000)	(1,276.62)	(252,041.62)	(12.6)
FEDOCOOPS	23,890.00	22,891.11	46,781.11	152,490.00	1,274.08	153,764.08	23.3
	(88,234.70)	(10,336.50)	(98,571.20)	(108,145.30)	(3,942.16)	(112,087.46)	(46.8)
FENACOOPS	486,834.40	62,309.46	549,143.86	467,589.94	26,947.65	494,537.59	52.6
	(488,834.40)	(64,753.35)	(551,587.75)	(486,589.94)	(35,468.79)	(522,058.73)	51.4
CODOCOOP	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(2,587.50)	(2,587.50)	0
NON-AFFILIATED COOPS	-	868.61	868.61	(-)	490.85	490.85	63.9
	(-)	(1,336.96)	(1,336.96)	(-)	(1,494.70)	(1,494.70)	47.2
CARITAS	14,221.66	5,969.22	20,190.88	-	107.22	102.22	98.2
	(21,332.49)	(6,847.15)	(28,179.64)	(-)	(510.52)	(510.52)	(98.2)
INDIVIDUAL BORROWER	-	7,455.75	7,455.75	(-)	2,070.54	2,070.54	(78.3)
	(-)	(13,619.12)	(13,619.12)	(7,500)	(5,830.96)	(13,300.96)	(50.5)
TOTALS	524,946.06	136,412.19	661,358.25	720,079.94	31,206.94	751,286.88	46.8%
	(596,401.59)	(128,658.82)	(725,060.41)	(821,235.24)	(51,111.25)	(872,346.49)	(45.4)

SOURCE: LOAN PORTFOLIO (1/31/80 & 5/31/80); Included as Appendix XXIV.

payment date specified on the loan contract, which is not particularly interesting to administrators of credit programs. Lending institutions are more concerned with good faith on the part of the borrower and fulfillment of the contractual obligation, even if this is carried out somewhat past due. However, if a number of major loans are being paid past due, it forces FICOOP to maintain a high degree of liquidity and to forego interest earnings by paying off obligations to the Central Bank (temporarily out of its own funds rather than with the proceeds of these loans).

This table shows payments made and overdue balances on both capital and interest. The final column establishes the value of payments as a percentage of total amounts due on loans (payments and overdue balances). Caritas Dominicana stands out in both January and May from other types of borrowers in terms of its record for on-time payment (98.2%) of loan obligations. Overall the percentage is just under 50% (46.8% in January and 45.4% in May).* Declines in these percentages either overall or within individual categories of borrowers indicate the need for corrective action.

As may be seen in the accounting balances from January 1, 1978 to January 31, 1980 shown in Table 12, FICOOP's loan portfolio has increased over the period by more than $2,000,000, while modestly increasing liquid assets. Almost a million and a half of the $2.6 million loan portfolio has been supported by rediscount operations and FIDE loans from the Central Bank. The substantial increase in "buildings, furniture and equipment" by July, 1979, corresponds in large measure to the purchase of the house where FICOOP has its offices.** The accumulated deficit of over $15,000 had been reduced to a little more than $5,000 by January, 1980. Funds on deposit under FICOOP's

* Payments on-time as a percentage of total disbursements also decline from 76.0% in January to 70.0% in May.

** In view of the purchase price and continuing inflation, this appears to have been an excellent investment for the cooperative movement.

administration are currently at $350,000, including deposits from the Rosario gold-mines, owned by the government. By January, 1980 total assets had reached nearly $3.6 million pesos only 25% below projections of $4.8 million made in April 1977,* before the Financiera was constituted; given a nearly 6 month delay in receiving the funds necessary to begin loan operations and the reduction of these operations attributable to the hurricane, so small a shortfall from projections is remarkable. Continued growth can be expected since FICOOP enjoys considerable unused borrowing capacity with the Central Bank.

* Table 1 in the April 1, 1977 letter from Lockward to Vetter outlining the proposed creation of FICOOP. Some of the projections are, ex post, remarkably close: for example, table 7 of the letter estimated the total loan portfolio at $2,589,526, only $15,377 below its real value by Jan. 31, 1980. See Appendix IV.

TABLE 12

FICOOP - ACCOUNTING BALANCES - 1978 TO PRESENT

	Beginning 1/1/78	7/31/78	7/31/79	1/31/80
ASSETS				
LIQUID ASSETS				
Cash & Bank Accounts	516,500	258,768	537,565	604,436
LOAN PORTFOLIO				
Guaranteed Loans	560,000	865,651	1,822,483	2,604,903
Various Debtors	-	-	11,377	9,872
Accounts Receivable	-	544	4,546	894
OTHER ASSETS				
Buildings, Furniture & Equipment	19,500	25,075	328,894	331,961
Deferred Accounts	300	6,816	13,429	23,917
Other	3,700	-	1,612	1,734
TOTAL ASSETS	1,100,000	1,156,854	2,719,906	3,582,717
BALANCE ACCOUNTS (Credits Authorized But Not Used)	-	99,461	382,438	474,358

	Beginning 1/1/78	7/31/78	7/31/79	1/31/80
LIABILITIES				
SHORT TERM LIABILITIES				
Various Creditors	32,400	5,242	1,518	75
Rediscounts with Central Bank	-	-	898,518	899,718
Funds on Deposit (Administration)	-	-	12,350	12,350
Credits Authorized But Not Utilized	-	99,461	-	-
LONG TERM OBLIGATIONS				
FIDE Loans (Central Bank)	-	-	218,940	529,029
Funds on Deposit (Administration)	-	-	350,000	350,000
Deferred Loans	-	-	2,205	-
CAPITAL, RESERVES & SUPERAVIT (OR LOSS)				
Paid-Up Capital	1,067,600	1,067,600	1,251,100	1,752,800
Legal Reserve	-	-	-	36
Other Reserves	-	-	-	44,251
Accumulated Profit (Or Loss)	-	(15,449)	(14,725)	(5,542)
TOTAL LIABILITIES, CAPITAL RESERVES & PROFITS	1,100,000	1,156,854	2,719,906	3,582,717
BALANCE ACCOUNTS (Credits Authorized But Not Used)	-	99,461	382,438	474,358

VIII. RECOMMENDATIONS

FICOOP.

1) The main feature differentiating FICOOP from other types of rural credit programs is its borrowing privileges with the Central Bank. Sufficient liquid assets must be maintained in FICOOP's accounts in banks and other financieras to cover loan payments to the Central Bank on time regardless of whether or not the final beneficiary of the loan pays on time. Any difficulties by FICOOP in fulfilling these obligations could result in rescinding these privileges.

2) In any organization a change in key personnel normally does reduce overall organizational efficiency until replacements are found and become familiar with their job. Within the limitation of finding the most qualified person with experience in credit programs and cooperatives, it is important that the cooperative movement settle on a permanent Executive Director as soon as possible.

3) Particularly now, maintaining the principle that loans are to be paid on time is important to any lending institution; the idea being discussed in FICOOP of physically sending someone out directly to cooperatives with overdue loans to collect, appears to be a good one.

4) The change in presentation of the monthly loan portfolio from listing loans chronologically by date of signing of the loan contract to grouping them by Federations is a good one. This report has suggested a number of indicators which might be useful to watch with respect to changes in the portfolio. In addition, FICOOP should constantly search for ways of presenting accounting information in ways which focus attention on the most pressing problems of the moment.*

5) All cooperatives and Federations, but particularly those with low present debt levels with FICOOP, should be encouraged to come up with feasible projects within the lines of production supported by FICOOP, to make use of their own unused borrowing capacity and the unused capacity FICOOP has with the Central Bank.

* A number of possible changes are included in Appendix XXV.

6) A clear dichotomy must be maintained between FICOOP's lending function and its welfare function. The $2,500 monthly contributions to CODOCOOP and its support of educational programs clearly are part of FICOOP's function to improve the welfare of the cooperative movement. Loans where there is a mixture of the lending function to support production and the welfare function to "help out a cooperative" should not be in FICOOP's regular portfolio. If there is a necessity for "soft-loans," grant money should be sought to cover the losses and such loans should be given a special name and kept in a portfolio entirely separate from the general loan portfolio.

Inter-American Foundation.

1) The Foundation has provided considerable assistance to the Dominican cooperative movement in attaining its objective of a financial institution of its own. Thanks in a large measure to this assistance, the movement now has access to a volume of credit on favorable terms which exceeds current requirements and is available to support growth of the cooperative movement. If in the future, FICOOP and the cooperative movement should require additional assistance, the Foundation should give full consideration to that request in view of results obtained under its original grants.

2) FICOOP was set up under the very special circumstances existing at the time in the Dominican Republic which it made possible to set up a financial institution able to combine its own resources with those obtained from the Central Bank in support of the cooperative movement. "Replication" of a financial institution like FICOOP in other countries will not be possible because conditions making possible its formation will not be available. However, the Foundation should encourage popular organizations elsewhere to examine the banking legislation and institutional structure of the financial markets in their respective countries for mechanisms which would allow these movements to obtain additional resources from institutional channels traditionally closed to them. The most important lesson of the FICOOP experience is the cooperative

movement's imaginative use of traditionally indifferent or hostile institutions for the benefit of the rural poor. The Foundation should help diffuse this experience in other countries.

3) If the Foundation decides to go ahead with a study of its rural credit programs, FICOOP should be one of the projects and the Dominican Republic, one of the countries selected for such a study.

4) Based on this experience with FICOOP, the Foundation is more likely to achieve the objectives of its grants when it works with organizations like CODOCOOP which have been functioning for a number of years, even if their level of activity is relatively low, rather than with organizations recently formed with the specific purpose of obtaining grants.

5) If the Foundation makes grants to other organizations with credit programs or productive activities in the Dominican Republic, it might suggest that part of the funds be held on deposit in FICOOP under the terms of agreements such as that between Caritas and FICOOP, which multiply funds on deposit several times.

6) In the southwestern region of the country, there is a regional development institute called INDESUR which has been set up recently. At present, the Institute is operating at a rather low level since GODR funds promised it have in fact been supplied at much lower levels. The Foundation might look into assisting this institution, perhaps through some kind of an agreement with FICOOP.

7) In terms of its overall program in Latin America, the Foundation should attempt to determine on an annual basis the social rate of return on its grant portfolio in the various countries and various projects it supports. If the number of people benefitted per $1,000 of grant money, the number of times initial grants are reinvested to assist people, etc., is high, in a given project like FICOOP or a given country like the Dominican Republic, it should indicate that a greater percentage of the Foundation's resources should be allocated to these kinds of projects or these specific countries.

CASE STUDIES

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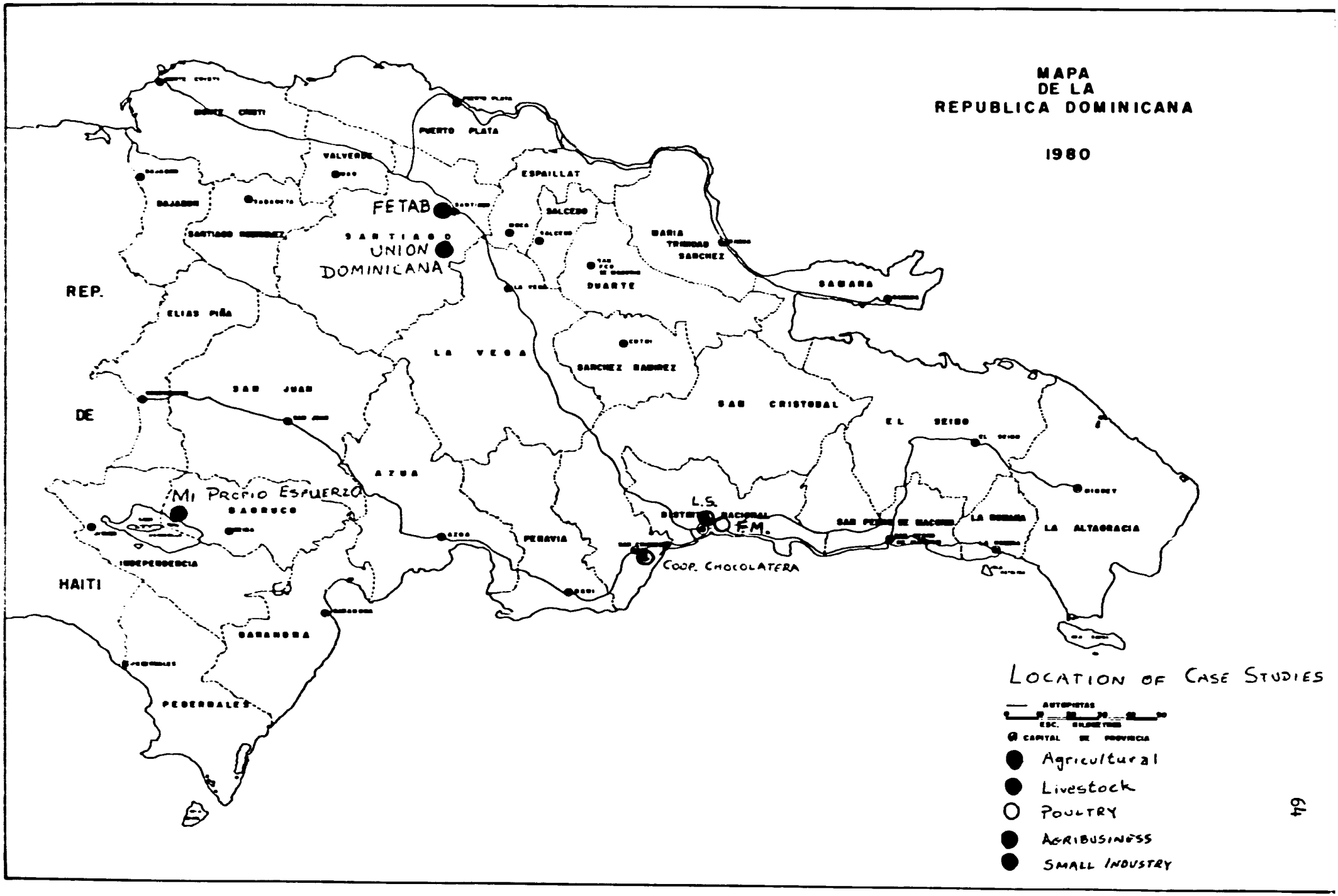
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LOCATION OF CASE STUDIES
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ESC. KILOMETROS
CAPITAL DE PROVINCIA
Agricultural
Livestock
Poultry
AGRIBUSINESS
SMALL INDUSTRY

Tuesday, May 20, 1980

COOP. Agro-pecuaria MI PROPIO ESFUERZO, Inc. - Los Rios, Neiba.

In deciding which areas and which cooperatives to visit, one criterion was that field trips should include one cooperative from each Federation and a good geographical dispersion so as to better represent conditions prevailing among cooperatives in the entire country. In going over an earlier study of CODOCOOP financed by the IAF*, it became apparent that the area where negative comments on current conditions were most prevalent was Barahona, in the South Western part of the country. This may be due more to the general poverty and shortage of water of the area than of any problems related specifically to the cooperative movement. In any case, Andres Lockward suggested this particular cooperative because of my interest in the area and because of the amount of resources that FICOOP has dedicated to it. FICOOP attempts to contribute to correcting regional imbalances, by dedicating more resources to cooperatives in poorer areas of the country.

This cooperative is located on the shores of Lake Enriquillo, a very large salt lake in the southwestern corner of the Dominican Republic. Like most of the rest of the south western region from Azua on, the area is quite dry for most of the year. On some of the land, there are also problems of soil salinity; this is common in much of the area, and is a problem about which not much can be done. The problem is particularly severe along the shores of the lake, where some of the most productive land of members of the cooperative was located. This land had abundant pastures in the past derived from natural grass. Unfortunately, because of excessive rainfall since Hurricane David, the level of the lake has been rising; while this makes the lake fishermen and some government officials interested in the lake's tourist potential happy, it is extremely detrimental to members of this cooperative which has borrowed $95,300 from FICOOP and had invested it in milk cows which it pastured down by the lake. The lake's expansion is apparent through the number of large trees in

*R. De Lancer and Associates, "Estudio sobre el Movimiento Cooperativo Dominicano," Santo Domingo, República Dominicana, Dec. 1977.

the water and fences in the waves. Not only is the land under water unusable, but even land located considerably above the water level becomes saline, further reducing available pasture land.

On the day we visited the cooperative, we encountered two agronomists from FICOOP who were also visiting it trying to help find a solution to the limitations on pasture land which were severely affecting the dairy operation. The members of the cooperative were requesting additional funds to fence in land they owned on higher ground above the lake to take advantage of natural pasture growing there and to cut down on the time wasted chasing down lost cattle. From the tone of the meeting we attended, it appeared that the campesinos there agreed unanimously on the necessity of obtaining fencing materials as soon as possible and that the technical representatives of FICOOP would report favorably on this request, in order to protect its prior investment in the cooperative. Since this was one of the early projects, the technical report accompanying the loan request was somewhat less complete than those accompanying later loans. In any case, it is unlikely that such a dramatic change in the lake level could have been foreseen.

Prior to the loan from FICOOP, this area had been important in grape production, although grapes generally do not do too well because of the quality of the strains grown here, the climate, or the tendency to harvest grapes too early to take advantage of higher prices for early delivery. In Los Rios, however, the grape arbors had died off due to some undiagnosed disease and had not been replaced. Indeed, this area was previously more important than Neiba, where the Secretaría de Agricultura was having a processing plant to make jelly installed. When the disease struck, the Secretaria made no attempt to discover the cause and halt the destruction of the grape arbors.

Other activities include the production of beans (mainly domestic but also some export varieties), corn, and coffee. Another major activity for a number of years has been milk production basically bound for market in the nearby town of Neiba; total numbers of farmers

dedicated to this activity, of cows and volume of milk production was, however, low until the credit from FICOOP.

The cooperative had 85 members at the time the credit was being requested. Past experience had been limited to a small credit obtained through the Federation (FENACOOP) of about $5,000 for the production of beans. There had been other credits as well, but none of them very large. Many of the members doubted that it would be possible to obtain as large a credit as that which was being discussed. Many of the members did not even bother to attend the meetings at which the credit was discussed. Only 45 of the 85 members requested the credit, although all of them had land that could be used for grazing milk cows.

The credit was approved and disbursals began on October 25, 1978. Payments were made to the cooperative and passed on to members as they were able to locate milk cows (criollo stock) for purchase. The individual members and not FICOOP or the Federation were responsible for selecting the cattle to be purchased; they did however have to submit a blood test to show that the cattle were not affected by brucelosis or other serious diseases. In fact, of the 250 cows finally purchased, only 10 died. The total number of calves born could not be determined (i.e., the campesinos did not want to say) but certainly was over 100 and probably closer to 200, although some of the cows had only been recently purchased and were still carrying calves. Those who had taken out the loans appeared to be most satisfied with results to date.

In the initial request for credit, the members requesting cattle listed a total of 8,000 tareas (500 hectáres) of land available for grazing cattle. In fact, in terms of the land members had available for use as pasture, the total probably exceeded this amount. This total includes a substantial amount of government lands to which members do not have clear title; FICOOP has repeatedly stressed the importance of applying for title to this land. The IAD (Instituto Agrario Dominicano) normally will title land farmers have cleared and planted, but farmers have to start off the procedure by requesting titles.

The amount of land individual members have under their control (including government land which they have cleared but to which they do not hold clear title) is quite variable, ranging from 100 tareas of good land, to 300-400 tareas of land of average quality and up to 1,000 tareas of poor quality land. In any case, land does not appear to be a binding constraint on their operations. The land is frequently located in 3 or 4 different places, rarely are all plots contiguous, normally at different elevations. Almost all (80 or so of the 85 socios at the time of the credit request) had some land bordering on the lake, and all of those are affected by the increasing waterlevel. All of them also have land in the highlands more than 20 kms. distant which is planted in coffee; at harvest time, they spend two or more weeks up there and then bring the harvest down on the backs of mules. Generally, the planting of corn and beans (both for domestic consumption and export) is carried out on hillsides, where the small farmers or their fathers have hacked patches of government land out of the brush, and use it for a couple of years before abandoning it for a long fallow period while they clear new patches of land.

In spite of the relatively large amounts of land that some of the members have, they are definitely small farmers in terms of the incomes they receive from their farm operations and their command over productive resources. Lack of irrigation is a major drawback. Some of them also have other jobs: pick-up truck owner, justice of the peace, school teacher; some of these people were present at the meeting we had with some of the leaders and members of the cooperative. They did not dominate discussion at the meeting nor do they dominate the cooperative. The cooperative meets every Sunday, with attendance of 25 people on average; they are not always the same 25, but rather who is in attendance depends on who is not occupied in other tasks on a given Sunday. The executive committee of the cooperative is composed of 7 members, including the manager of the cooperative. It meets 5 times a year.

The FICOOP loan is for a period of 8 years, which includes a two year grace period during which only interest payments are required

and the remaining 6 years during which interest and payments on the principle of the loan are made. The cooperative is charged 9% interest on the loan, which its leaders said was one percent above the rate at which it had obtained the funds. The total amount of the loan is $95,300.

Members of the cooperative pay an interest rate of 11%, with the additional 2% above the cost of the loan to the cooperative going to cover expenses of the cooperative. The loan was distributed among members according to the number of cows they had indicated that they wanted to buy, with amounts varying from $1,000 to $4,000. Most members also took part of the value of the loan in barbed wire and other fencing materials.

I asked if it would have been possible to obtain a loan of this kind from the Agricultural Bank. There was unanimous agreement that there was no chance whatsoever of obtaining a loan from the Bank. The only loan that they had received previously was for $3,000 and was obtained through the Federation from IDECOOP, the government agency having to do with cooperatives.

IMPACT OF THE LOAN

Milk production had risen to 15,000-18,000 bottles a month, which is about triple previous production levels. Formerly, they sold about 6,000 bottles a month in Neiba. They sell about 9,000 bottles a month to the Ministry of Public Health which distributes it free of charge to the people in the area. Furthermore, they also sell an additional amount in town as well as having milk for their own families and to sell or distribute to neighbors in Los Rios who do not have cows. Strange as it may seem, before this program, very little milk was available in this area of the country, and what there was was sold rather than being consumed on the farm and contributing to the nutrition of rural families.*

* It is worth noting that the person in charge of selling the eggs produced on another project financed by FICOOP noted that in rural areas where they were now selling eggs, they found that the few eggs campesinos in these areas produced were sold rather than used in the family diet.

The manager of the cooperative (himself a member) said that he was being offered more milk for the Ministry of Public Health program than he could accept and had to limit the amount of milk supplied to the program by some members so that everyone could share this market. There were a few problems, however, since at the time of the visit the Ministry was three months behind in payments for the milk that had been supplied to date. This delay was regarded as a nuisance associated with disorderly operation of the bureaucracy rather than a serious problem that could jeopardize the program. For example, the last time the manager had gone to collect, they had the February milk check ready for him, but he refused to accept it because January still had not been paid, and he was afraid that by accepting the February check he might later have problems collecting what was owed for January.

The cooperative deducts 2 cents per bottle of milk turned over to the ministry, which involves a total of $180 a month. The manager hinted that it might be nice to use some of that money to pay the manager a small salary since he had been working at the job for a long time without any remuneration. No decision was taken at the ad hoc meeting we attended. (Later, Andrés Lockward and I discussed the matter of paid employees of cooperatives. He was in favor of the manager receiving a salary in a case such as this one; the manager's services should be considered a cost the same as any other. In this case, an alternative had been proposed that IDECOOP (GODR's Cooperative promotion agency) pay the manager a salary as a "promoter of cooperatives," in effect making him a civil servant responsible to the government. This kind of a situation would not be good for the cooperative because of probable conflicts of interest between what was best for the cooperative at a given moment and demands put on the manager by the government institution paying his salary.)

All inputs except for pasture are purchased by the members through the cooperative. Molasses is produced by the government owned sugar mills and sold to livestock producers at the subsidized price of 5 cents a gallon (considerably below the world market price). The molasses is

sold at the mill about 25 kms. away; the manager brought back whatever amount he could every time he had a trip in that direction, but because the cooperative did not have anything in which to transport a large quantity of molasses, they could not buy their entire allotment nor could they fill a large tank they had on the premises of the cooperative specifically for molasses. The other major input which the cooperative provided its members was bran (afrecho). Therefore, on the input side, everything the small farmers needed was provided by the cooperative.

In addition to increased income from milk production, which had doubled since the loan was made, they receive additional income from the production of calves. Female calves are retained for milking cows; male calves can be sold after they're a year and a half old for $225 a piece. This provides additional income, as well as a source of capital that can be liquidated rapidly to meet unexpected needs.

FICOOP also provided $900 for the purchase of a bull for freshening the milk cows of all the members of the cooperative. FICOOP told the manager of the cooperative of a farmer who had a number of bulls for sale at varying prices and said it would provide the money for whichever one the members of the cooperative liked best. They chose a young Brown Swiss bull, and were very happy with their choice. At the time of the visit, the bull had suffered a bruise of some sort, and the cooperative was trying, so far unsuccessfully, to get a veterinarian from the Secretaría de Agricultura to come examine him. This appears to be another example of the unwillingness of the Secretaría to cooperate with projects that they do not control directly. In reports on agricultural activities in the area, they do not even mention the existence of milk production, although employees of the Secretaria pass by the cooperative several times each week.

IAF made a donation of $7,5000 toward the construction of an assembly hall and storehouse for the cooperative. At the time of the visit, all the heavy construction of the building of approximately 80 square meters was finished. They planned to finish it as money

became available to the cooperative. They estimated that it was going to take another $7,5000 to finish it, which involves putting on the roof, pouring the cement for the floor, plus stuccoing and painting. There seemed no doubt that the work would be finished in the not too distant future. After that, they hoped to obtain medical supplies for the milk cows and to maintain a supply of them in the cooperative.

IMPACT ON THE COOPERATIVE

As was noted earlier, of the 85 members at the time of the loan, only 45 requested to participate. Most of the others simply did not believe that someone actually was going to loan the cooperative that amount of money to buy cows. Now that the cows are actually there, having calves and producing milk, those who did not ask for credit to purchase cows want to. Furthermore, an additional 40 people have joined the cooperative, including some people from the next town up the road, bringing total membership up to 125. The cooperative has imposed a waiting period of 3 months on consideration of new applications for membership, in order to hold growth down to reasonable proportions. At the same time, the cooperative is beginning to prepare a new request to FICOOP for a loan for more cattle for those who missed out the first time around and for new members. If in fact a new request is submitted to FICOOP, the agronomists whom we encountered there that day thought it was probable that it would be accepted. In fact, however, other production might have to be developed, such as goats, since FICOOP's technical director did not believe there was a market for more milk in that area.

For the moment, what the agronomists were considering was a request for a loan for additional fencing materials. Land lost because of the rising water level in the lake made it necessary to fence off additional land higher up to take advantage of available pasture and to cut losses due to straying animals. This credit was receiving top priority because some of the members were having major problems feeding their cattle, due to the effects of the rising lake on the areas that

they had set aside for pasture when they had requested the loan for milk cows from FICOOP.

ADDITIONAL COMMENTS

On their cut and burn agricultural operations for producing beans and corn, the small farmers in the area used no fertilizer or other chemical inputs. For the moment, land is not in short supply in the area, since additional government lands can be opened up and cleared as they are needed and areas that have overgrown after crop production in the past can be cleared again. One of the farmers did claim that he used some fertilizers on the coffee plantation in the highlands, but this practice is not common, since in most areas farmers cut out only enough brush to reach and harvest the trees and do little else with them for the rest of the year. During the coffee harvest and for some crop operations, they do hire labor. In the past, the cooperative had done some commercialization of beans and coffee, but was not involved in that at the time of the visit.

The return trip was made through Jimaní, following the road around the other side of Lake Enriquillo. One of the major landowners in the area also has a large herd of milk cattle. For a while he was pasturing them free of charge on the Isla de Cabritos in the middle of the lake. When one of the members of the cooperative attempted to do the same, he was shot and killed. Subsequently, the Island was declared a national park and at present no one is grazing cattle there. There is considerable illwill between this landowner and the cooperative.

The area west of the lake is very arid and virtually void of population from there to the Haitian border, except for a few people who make charcoal from the brush and trees and some goats, steers and sheep. Around Duverge, water becomes more available and there is an agrarian reform asentamiento; in those areas where irrigation projects have been carried out, particularly between Duverge and Barahona, considerable agricultural and livestock production is observed. INHDRI (the government agency involved with irrigation) already has studies which show that a considerable amount of water could be pumped on a sustained yield basis--without affecting the water table.

COOPERATIVE Union Dominicana, Affiliated with FETAB.

This cooperative is located about 8 kms. off the main road from Santo Domingo to Santiago, and about 18 kms. south of Santiago. The area is hilly (lomas), suited to a wide variety of agricultural and livestock uses and densely populated. Crops grown in that area include criollo tobacco, plantains, beans and corn. Further to the north west of Santiago province, production is concentrated almost exclusively in tobacco.

The cooperative was formed 6 years ago when about 10 groups of small farmers began discussions tending toward the formation of a larger cooperative. In the end, four of the groups did come together to form Union Dominicana. The cooperative has over 200 members, divided into 4 groups and spread out over a considerable area; most of them grow tobacco. In the past they have received three separate loans from FICOOP, one of which went to finance the grading of tobacco prior to turning it over to FETAB for curing and export. Grading takes about 6 months, during which time it employs 80 to 90 people on average; the operation is located in the same rural area as the cooperative and makes a considerable contribution to providing employment for cooperative members and their families, without having to relocate.

FICOOP has also loaned the cooperative money to acquire about 20 tareas of land (16 tareas = 1 hectare) next to the cooperative's warehouse. This is a feature typical of FICOOP's production loans: they often include the financing of some land acquisition for demonstration plots and cooperative production. In this particular case, a major reason for land acquisition is to improve and standardize the quality of the tobacco plants the members transplant on their individual farms. At present members all buy through the cooperative seed of good quality from the Instituto Del Tabaco of the Secretaría of Agriculture and individually produce their own plants for transplanting in August of each year. Growing all the plants together in one place should make it easier to assure that the appropriate measures are taken to assure that members have available plants of uniformly high quality. Other agricultural activities will probably be carried out on this land, employing labor hired by the cooperative.

The cooperative takes out a loan every year with FICOOP for planting tobacco; other loans finance the production of other crops. Members are asked how much tobacco they plan to plant and how much financing they plan to ask for from FICOOP. Credit requirements are aggregated to the cooperative level and transmitted to FICOOP through the Federation. Financing is set at a rate of $26 per tarea. Money is disbursed by FICOOP to the Cooperative as needed throughout the production cycle; the cooperative in turn passes the funds on to its members (as determined by their requests and the operations effectively performed). Tobacco is very labor intensive crop; some labor is hired, but if most of the work was not performed by the small farmers themselves and their family, it would not be possible to finance the operations for $26 per tarea. In fact, many of the members have resources of their own and either do not ask for financing or finance only part of the area they plant in tobacco.

The directors of the cooperative present FICOOP with a production plan through the Federation, and after the request has been reviewed and approved, two of the directors sign documents with the Federation and it turn signs with FICOOP obligating payment of the funds. Individual members also sign with the cooperative. These contracts include liens on real property of the members and are registered with the local Justice of Peace. In this way there is a legally binding contract at each satage for money disbursed, which could, if it were to prove necessary (which so far has not been the case), be enforced by judicial process. The president of the Federation, Chito Inoa, did not find the process to be complicated; he also said that there had been no problem getting people to pay off their loans.

The interest rate reived by the cooperative is 9%, with a higher rate being charged by the cooperative (10.5 or 11%) to its members to cover the costs of the cooperative. They have at least one paid employee, a pick-up truck (which they use to bring the inputs called for in the production plan to members), etc. The cooperative also has a small store located next to the warehouse. Each of the four geographically disbursed groups also have groups also have corner stores to supply the basic needs of their members;

these stores are operated independently from each other and from the cooperative's main store and warehouse.

Of the two hundred odd members of Unión Dominicana, about 170 receive loans for tobacco. Those who don't may receive loans for other types of production, such as plantains. The tobacco loans are for a period of 8 to 10 months; other loans are for shorter or longer periods, depending on the length of the production cycle of the individual crop being financed. Once the old loan is paid off the cooperative comes back to FICOOP the following year for a new loan. Andrés Lockward explained that this procedure put fewer demands on the cooperative in terms of its handling of the investment of loan funds paid off by members during the months prior to the next planting season than would a long term revolving loan fund managed exclusively by the cooperative. In other words, each year is handled as a separate transaction.

It was not possible to estimate what proportion of the small farmers in the area were members of the cooperative, because the members are scattered with one member on one hillside, another on the next, and so on. There are other organizations in the area, such as Clubes de Agricultores, but at the moment, these don't apparently serve as channels of credit. Membership in Unión Dominicana appeared to be basically stable, with approximately the same number of new members coming in as members who left the organization. Prior to the loan from FICOOP, the members had received financing from the Santiago branch of the Chase Manhattan bank. This loan was countersigned by the Fundación de Desarrollo, which charged 3% for this service on top of the standard commercial rate at which the loan was obtained. They may also have received some financing from a recently terminated arrangement which FETAB had with a Dutch tobacco importing firm.

At the time of the visit, all tobacco had been harvested; a little was still hanging to dry under palm-thatched sheds next to each of the <u>empacadores</u> (packers) who cure the tobacco and prepare it for export. The current price for tobacco being offered in the region was $50 per hundred pounds; last year's price had been $45, but the farmers planned to hold on for another month on the expectation that the price still

might rise a little bit more. One month, however, was the outside limit because the people needed the money that would be obtained from the crop's sale.

Chito Inoa is president of FETAB, as well as being a small farmer and a member of Union Dominicana. As president of the Federation, he is on the board of directors of FICOOP, which meets monthly to vote on credit and other operations of the Financiers. The President of Unión Dominicana, Jesús Inoa, was also present as well as a number of other members in the discussion.

The amount of tobacco grown by individual members varies from none to anywhere from 10 to 40 tareas, depending on the amount of land they have available on which tobacco can be grown and their interest in growing this and other crops. It does however appear that tobacco, where it can be grown, earns more for the small farmer per tarea than any other crop that can be grown. Production estimates ranged about 2 hundredweights or more (i.e., $100 per tarea at current prices, equivalent to $1600 per ha.) while costs per tarea were estimated by FICOOP at $26, which includes all appropriate technological inputs and part of the cost of labor.

IMPACT OF THIS LOAN

The FICOOP loan to Unión Dominicana for tobacco financed nearly 2000 tareas of the 3000 to 4000 that Inca estimated that members of the cooperative planted. Since tobacco is very intensive in its use of labor, it provided considerable employment both for members of the families of those who planted tobacco as well as for hired farm laborers. It is likely that this loan and previous loans to the cooperative are in part responsible for the high level of technology employed in tobacco production (100% use by members of improved tobacco seed and recommended chemical inputs which are provided through the cooperatives). To the extent that the area planted was greater than it would have been without the loan, incomes were also higher for cooperative members and hired laborers. The interest rate charged members, even taking into account the coop's surcharge on the rate FICOOP charged it, is still lower than

rates the small farmers could have obtained on other sources of funds. The rate charged by money lenders was reported in the local papers to be anywhere from 10 to 20% per month. Furthermore, the terms of the loan specify a repayment period which permits the small farmer to do some on-farm holding in expectation of a higher price.

The loan made earlier to the Coop. for the construction of its tobacco warehouse is at least partially responsible for providing 6 months of employment in the rural area where the cooperative is located to about 85 people. Prices members obtain on basic necessities are probably also lower due to the existence of the cooperatively-owned stores also constructed with funds obtained from FICOOP loans. Additional improvements in the amount and quality of tobacco produced will probably occur based on production of tobacco plants for transplanting by members on land acquired by the cooperative based on proceeds of a loan from the Financiera; if this land is also cropped, additional employment will be generated, as would seem to be likely.

In addition, the day of the interview with the leaders and members of the cooperative, Union Dominicana was awaiting the arrival of a tractor which it had also purchased with funds obtained from a Canadian foundation. FICOOP does not loan money for purchasing tractors because of a history of unfortunate experiences of cooperatives with their use, maintenance, etc. Some of the Federations are still in debt to the government Agricultural Bank because of tractor sales. Where tractor services are required, tractors can be rented from a government agency or private individuals.

Saturday, May 24, 1980

FEDERACION DE TABACALEROS (FETAB).

FETAB's central warehouse is located in Santiago, the second most important city in the country after Santo Domingo. The city's landscape is dominated by huge marble spire set on a huge arch, which was Trujillo's way of celebrating the 25th anniversary of the "Peace" he had brought to the Dominican Republic. FETAB is managed by Bienvenido Abreu, from offices located at the tobacco packing warehouse in the city

of Santiago. The Federation's operations run into the millions of dollars, and in addition to tobacco, also include rice-milling, coffee, etc. In terms of the volume of funds it handles, FETAB is a considerably larger operation than FICOOP.

At present, the most important operation is preparing and curing tobacco for the export market, in which FETAB has come to occupy a position of some importance, as evidenced by a variety of awards on the wall of Abreu's office in recognition for excellence in the quality of tobacco, etc. The Federation employs a large number of employees in preparing and curing the tobacco. The extraction of the "vein" and grading of tobacco is done largely by women, and provides employment for 1,300 women over a period of 7 months. Graded tobacco is stacked for curing and checked daily throughout this process of a period of several months, before it is baled and ready for export to the United States, Europe and Africa.

The tobacco market is extremely concentrated, with only a small number of firms doing virtually all of the importing. Everyone knows everyone else; much of the business is done over the telephone or by letter. Tobacco is dispatched without prior payment or even legally binding purchase orders. Most tobacco is shipped on simple agreement to pay at a given date, usually not less than 60 days later and occasionally as far off as 120 days or more. Such agreements are invariably fulfilled, but without any commercial paper which can be discounted in addition to a normal invoice.

This means that the Federation's tobacco, which costs it $90 and sells for $300 per hundredweight and goes into the blend of $1.50 cigars, is already in the hands of American and European cigar-makers for a considerable time before payment for it is received by FETAB. This puts a considerable strain on financing its operations, since it takes up to 8 months before it can get tobacco out of the door and even longer before it obtains payment for it. Money it can borrow from FICOOP does not even come close to covering the volume of working capital that FETAB has to have available to finance its operations. At the present time, there is a major money crunch on. None of the local

banks have money to loan; the Central Bank has reduced the amount of money it is making available to the local banking system and doesn't have enough money available for normal operations such as rediscounting, etc. It is basically responsible for financing the GODR's deficit in both foreign and domestic currency. In this situation, it is having a hard time obtaining the resources it needs to fund the purchase of tobacco, which it buys from the cooperatives and for which it has to pay cash.

Its warehouses and offices are guarded by watchmen 24 hrs. a day. It is protected by a large number of fire-extinguishers of different types depending on the type of fire. Workers are trained periodically in their use by the Federation's insurer. Thanks to this, there have been no major fires there. They are, in any case, fully insured against all contingencies.

The Federation also has a rice-milling operation, which purchases rice from member cooperatives and mills it for sale domestically. The major by-product of the milling was then sold back to the campesinos at $9 per quintal, for use in fattening pigs, which until now now have been the major source of wealth for Dominican campesinos. Unfortunately, African swine fever has arrived in the country. possibly by way of Spain, and the entire Dominican population of pigs is being exterminated. To a large extent, most of the population of pigs has already been exterminated. Since pigs are the single major store of wealth for Dominican campesinos, the impact of this extermination program is disastrous. Not a single pig was observed during the entire consulting mission. Unfortunate as it is, the program is necessary, according to all authorities on the subject.

In terms of the Federation, the impact of this has been a reduction in the price of the principal by-product of milling from $9 to $3. It is sold wet, and therefore is not particularly useful as feed for chickens, where production has been rising rapidly.

FETAB was the first federation of agricultural and livestock cooperatives and was formed back in 1966. Previous to that time, the only cooperatives in the country were the savings and loan cooperatives.

An earlier attempt by a Catholic priest to form an agricultural coop. based on a farm that had been purchased had failed, in part because of the inaccessability of the farm. In 1966, Abreu and others organized 18 cooperatives in the federation. While it goes by the name of FETAB, in fact, member cooperatives are involved in a number of activities other than tobacco, including other agricultural products, such as rice, corn, plantains, etc. as well as livestock. They are proud of the success that the federation has had in growing and in attaining a position where its importance as one of the major exporting of tobacco is recognized.

Cooperativa Chocolatera del Sur, Inc.

This cooperative was formed by 15 young men, all graduates in mechanics from a technical highschool. It is located about 30 kms. from Santo Domingo, on the east side of Trujillo's hometown, San Cristóbal. They had the idea that they could produce cooking chocolate of better quality than that produced by the local monopoly which dominates the Dominican market almost completely and controls a large market share in Puerto Rico. They found a recipe that they liked and produced a batch by hand and took it to the local market where they did a consumer acceptance test; 64% of the shoppers surveyed preferred their chocolate to the commercially produced chocolate that they had been using. The chocolate is not candy but chocolate which can be prepared into hot chocolate with milk or hot water. Either way, it is extremely nutritious.

With the results of the survey, they went to FICOOP, since many of them had participated in the cooperative movement in the past and came up with an investment proposal, which FICOOP approved on April 16, 1979, for a little more than $30,000. They had been in operation for less than a year at the time of the March visit. At present the cooperative they formed is not affiliated with any of the three Federations.*

In a plant of about 300 square meters of floor space, they have installed a production line including both imported machinery as well as some equipment that they made themselves. The ingredients used in the production, basically cacao and sugar, are purchased locally in the Santo Domingo market. At current production levels, it is not worthwhile for the cooperative to attempt to purchase its cacao from agricultural cooperatives, which are generally located at a considerable distance from San Cristóbal making transportation costs a major consideration.

Production consists of about 300 packages of chocolate which they wholesale for $1.90 each. One day's production is stored over night to cool and picked up for sale the next day. All the production is wholesaled, some of which ends up in stores while the rest is hawked on the street corners. The market share of the cooperative is insignificant compared with that of the major producer, and thusfar has not

*There are about 25 unaffiliated work and production cooperatives of this type in the country.

provoked a response on its part. Should the volume of production increase significantly, some kind of response is to be expected.

In order to cool the chocolate faster, a local engineer suggested that they needed a cold storage chamber, costing about $15,000. An expense of this order would have raised the cooperative's total indebtedness by 50%, which is dangerous in any business, particularly one less than a year old. On the advice of the Director of FICOOP, they were going to try the alternative of installing one or two window air-conditioners in a closed, well-insulated room; it was expected that this would produce the same conditions as a cold storage chamber at a fraction of the cost. This is an example of the way FICOOP helps local cooperatives devise solutions to problems they confront with low cost technology within their means. Such technology is more labor intensive.

IMPACT OF THIS LOAN

Employment. The loan provided permanent employment for a few of the 15 members of the cooperative. Others worked there only occasionally, since the current levels of production called for only limited number of workers with the skill levels of the cooperative members. It did provide skilled labor positions for a small number of skilled workers making the chocolate and a larger number of unskilled workers who packed it, as well as a couple of children who stacked wrappers. Total direct employment generated with the $30,000 loan was on the order of 20, or about $1,500 per job created which is extremely favorable, since ratios of $100,000 per job created are not uncommon in many industries. Additional employment is also generated indirectly at the retail level.

The loan's initial contribution to improving nutrition was small in absolute terms given the level of production. However, the potential exists for making a major contribution. By late May discussions were in progress to include chocolate produced by the cooperative in the daily ration of the Dominican government's school lunch program. They had calculated that the cooperative could fulfill the volume that would be contracted with the government with current production facilities,

although it would require putting on two additional shifts and reducing or eliminating sales to retailers. This prospect had not been formalized by the end of the consulting mission in early June, 1980.

LUIS S. P.: FURNITURE MAKER.

Mr. S. received a credit from FICOOP last December for $5,000, of which he has already paid back about $500, for working capital to finance the production and sale of a number of pieces of furniture which he already had on order at the time of the request for credit. He had read about FICOOP in the papers, but more importantly, he is from San José de Ocoa where his entire family on both his father's and his mother's sides are members of the cooperatives. He himself is a member of a cooperative there, although he has no activity with it.

He's had his little furniture factory for about 15 years now. There he hand makes all kinds of solid wood and upholstered furniture. The wooden furniture is produced on lathes and then hand carved, and is really quite attractive. In particular he makes rocking chairs which sell for a set of four and a small table for $300 which are just beautiful; the wicker is imported from China; most other materials are domestic, although part of the pine he works with is from the United States. He also uses mahogany, cedar, and a number of other local woods.

Specifically, the FICOOP loan was for working capital to finance three buffers; 3 sets of dining room furniture, and 3 or 4 sets of rocking chairs with their respective tables. He had thought about asking for loans before and had actually gotten as far as picking up loan applications from banks but was intimidated by the requirement that someone acceptable to the bank countersign the loan. Nobody likes to have to ask someone to countersign a loan, and people who have started poor find it particularly difficult.

FICOOP gave him the loan in short order for a 2 year term and at 9% interest rate. It does not appear that the interest rate was the prime consideration. Of more importance is FICOOP's relation to the cooperative movement of which Mr. S. is a member; initial contacts must have left him feeling that his loan application would be accepted; otherwise, it is clear that he would not have applied. FICOOP did not want a countersignor. It did, however, demand other guarantees. The security on the loan is not only the shop itself, but also Mr. S.'s house which is connected internally to the shop, as well as the accounts

receivable (furniture sold on credit) for more than twice the value of the loan. The January and May 1980 portfolio statements confirm his statement that he has been making the interest payment as they fall due.

When he took out the loan he had no doubt about his capacity to pay it back, because he knew his trade well and had more customers than he could satisfy. What he needed was capital; he would have liked to have asked for $15,000 but only dared ask for $5,000, which was what he received. Mr. S.'s problem is that although he has to sell on credit, he has to pay cash for much of the materials that he buys. With extra orders such as those he had at the time he asked for the loan, he had to have more working capital.

Normally, his shop employs 5 or 6 people (about what it had at the time of the visit), but in the few months following the loan, it came to employ upwards of a dozen people before returning to its former level. The amount of employment generated is substantial, although it is not permanent. The money goes into materials and then into the financing of furniture sold on credit. Before the loan, he had accounts receivable for about $12,000; now those accounts stand at about $25,000; he has a lot of customers, but most of them are not wealthy and require financing. He takes a small downpayment and then finances the rest over 12 months or more; this is so standard that when he cites a price, what he is talking about is the price on credit terms. In fact a substantial discount is available on cash sales, but there are so few that he doesn't even think in those terms.

To make a permanent impact on the volume of production and employment in his business, Mr. S. would have to have a much greater amount of working capital, perhaps of the order of $15,000; he said that if things worked out all right with this loan, he might ask FICOOP for another.

The customers sign lien agreements on the furniture, permitting Mr. S. to repossess it if they don't pay. This procedure appeared to be rare. In fact about 75% of the people pay right up every month; the remaining 25% are slow in paying but eventually do pay. The documents

people sign with him are legally valid within the National District (Capital city area), so he generally does not sell on credit outside that area. He does not advertize beyond having his phone listed in the Yellow Pages, plus having the people who collect the bills spread the word about the factory. Most sales are referrals from friends of past purchases who see his furniture and ask who made it. Quality advertizes itself.

There are lots of little businesses like his, which per $ of capital provide work for lots of people from the very neighborhoods where they are located. It might be mentioned that where Mr. S. lives is a very marginal urban area (what is called a "favela" in Brazil and a "población marginal" in Chile). It took several visits to find Mr. S. there since other days he was out buying materials or selling furniture, but when we finally caught him there, we had to leave the rented car in which we arrived several blocks away because two little kids told us not to go in because there was a strike over a drastic increase in price of gasoline. People were throwing rocks at the cars.

In terms of the kind of individual being benefitted by this loan, it is fair to say that Mr. S. is someone who started poor and now is a little better off than some of his neighbors in this very poor part of town called Domingo Savio. His "factory" has about 150 sq. meters of floor-space and his house, which is connected to it, less than half that. He is a campesino who has come to town and is now running a small business which feeds his family and the families of five or six workers. At present, few financial institutions loan to businesses of this type.

F.M.: Private individual producing eggs for the local market.

FICOOP has made two loans to this individual. The first, a small one of about $21,000 for working capital, basically for the purchase of corn to feed the laying hens. This loan has been repaid. The second FICOOP loan is for $86,000. Another financiera put up $40,000 which covered part of the construction of a second set of sheds which housed the chickens. The FICOOP loan paid for finishing the construction and the purchase of 29,000 laying hens and some of the equipment.

From FICOOP's point of view, loans such as this one help cover the overhead, which though small compared to standard financial institutions (not too many employees, a modest installation, etc.), still must be met. There is a two percent commission on the value of the loan ($1,720) plus interest for the grace period of 8 months was deducted up front. The rate charged on the loan was 9%, considerably higher than the interest paid by FICOOP on the 85% of the operation financed by Central Bank funds; thus slightly less than $13,000 of FICOOP funds was tied up in this operation. What this means is that the small number of loans of this type are made to bear the burden of a disproportionate share of the cost of running the Financiera, while costing it nothing as long as borrowers do not default. Earnings on loans of this type make it possible to make loans to the cooperatives at 7 percent and still cover overhead.

From the borrower's point of view, the loan was a good deal, probably a good 4 points lower than he could have gotten from any other lender assuming that he could have gotten the money at all. Mr. M. got involved in egg production initially through a partnership with a cousin in a feed mill which produced feed for a variety of animals and financed its sale to farm operators. Feed constitutes 75% of the cost of egg production. At some point, the partnership decided to add on an egg production operation. This operation was located on a piece of property that had been purchased 9 kms. east of Santo Domingo, on the road to the airport. It is marked by two over-sized signs telling people to keep out

and not to blow the horn. The location is less than ideal, precisely because of its location on the main road which brings the danger of infections and of noise, both clearly detrimental to poultry production. However, the property had already been purchased by the time it was decided to go into egg production. When the partnership was dissolved, Mr. M. retained the poultry farm and his cousin, the feed mill. As it turned out, this was a lucky choice for Mr. M., because the feed mill was destroyed in Hurricane David, while the chicken farm came through it with only minor damage because the center of the Hurricane hit Santo Domingo and points west extremely hard but did little damage to the east. In fact, the farm suffered more from the lack of electricity and the heavy rains that followed than from the hurricane itself.

One building was completely destroyed, another lost its roof and the rain drowned a large number of hens, and most seriously, many hens suffered from stress and molted (changed most of their feathers). Egg production dropped from 24,000 to 12,000 per day. However, production fell even more in the other farms which were either destroyed entirely or cut off from the Santo Domingo market by disruptions in transportation. This one farm--the closest one to Santo Domingo--became the major source of supply for the city for a time.

After the hurricane, wholesale egg prices rose modestly from 6 to 7 cents a piece. This rise plus the help of the Agricultural Bank (Bagrícola) led to a major influx of new producers into this market as well as to the reconstruction of those who had been in the business before. As might be suspected given the short cycle of production (the lapse from start-up time to full production is less than 9 months), a surplus of eggs developed. While I was here, newspapers made frequent reference to excess production of eggs. The wholesale price dropped to about 5.6 ¢ a piece, slightly below a long run equilibrium price of 6 cents which Mr. M. estimated. INESPRE, the price stabilization board of the government, had agreed to buy eggs the very day of the visit to this farm. INESPRE has a fleet of trucks with which it distributes basic foodstuffs to the population in general in Santo Domingo,

particularly those of lower incomes. Eggs will be added to the products which they distribute already. It should be noted that eggs are not a normal part of the diet of lower income Dominicans, as they should be since they are the cheapest form of animal protein. Hopefully, this temporary excess of production can be handled by distributing it to the local population and encouraging the inclusion of eggs in consumption thus creating a habit of consumption rather than by export, which is one of the solutions being suggested. Mr. M. did feel that the market for eggs would continue to expand, as it has been doing.

His operation includes the old farm with several large chicken houses with total capacity of about 30,000 chickens next to the main highway and the new farm about two kilometers back into the hinterland, which was financed in large part by FICOOP. The old farm had been financed by the Bagricola, which is responsible for the modern production of chicken and eggs in the Dominican Republic. Fifteen years ago, there were only a few farms with more than 20,000 birds; now there are more than 20; one has 100,000. Mr. M. was "borrowed up" with the Agricultural Bank and could probably not have acquired sufficient credit either from it or from other sources to construct the other segment of his farm. So the loan package between FICOOP and another Financiera is responsible for the existence of the second part chicken farm.

Egg production is a batch process: it starts with a flock of one day old birds, raises them until they are 6 months old (at which time they start to produce) and sells them off at about the same time when they are all 19 months old and have started to fall off in egg production. It is dangerous to have a flock including birds of various ages. So when production ends, the sheds that house the birds must be cleaned out* and disinfected before a new batch of birds can be brought in. The loan Mr. M. acquired from FICOOP and the other financiera was for the purpose of setting up a physically separate egg producing farm that would come into production just when the birds on the other farm are being eliminated. By producing a more regular cash flow, from an economic standpoint, this is a very sound idea. Epidemiologically, it is also very wise to maintain the physical separation which exists between the

*Mr. M. described how chicken manure he sells is used to feed cattle, in combination molasses (subsidized by the government's sugar mills) and some other ingredients.

two flocks. Mr. M. has acquired considerable expertise in egg production; he follows a careful program in managing his poultry, including obligatory cleaning of shoes by those who enter any of the sheds housing the birds, and periodic visits by a service specializing in the best techniques for poultry management. Average daily egg production for the unit financed by FICOOP is over 22,000 eggs per day; the birds by the road are old and are being sold off for meat at about 35¢ per pound of live weight.

The chickens laying are White Leghorns. The eggs they lay are basically uniform in size and are graded into A and B eggs on the farm and in the distribution plant. Grade A eggs are sold in the Santo Domingo market; Grade B eggs are taken out into the small towns, so as not to depress the price of the grade A eggs. The degree of consumer sophistication is low. Market segregation is required because otherwise consumers would buy smaller eggs at a lower price (not recognizing that they were smaller) and thus depress the price of larger eggs. Their importance as a source of protein is generally not recognized by rural people, who sell them and use the money to buy high-priced and low quality salami. When nutritionists compare various types of meats and vegetables, eggs are used as the basis of comparison because they are the most complete source of protein.

In connection with this enterprise, Mr. M. has set up an egg distribution business. In addition to his own production, he buys eggs from other producers who do not have a distribution system of their own. Until recently, his business sold through retailers, smaller corner grocers, and directly to those who came to their distribution outlet located in a lower and lower-middle class, densely-populated area of the capital. A few months back, however, a major oversupply condition developed and several of the major producers got together to find a way to market their production. The manager of the distribution outlet suggested to the other producers that they purchase a number of small trucks with loud speakers and sell the production in the barrios and the bateys (villages where workers live on the sugar mills). Other producers thought it would be too expensive. So Mr. M. went out and bought 12 tiny Japanese trucks, had loud speakers put on them, and

within days had them out in the streets and countryside convincing the housewives that they should buy eggs directly from their trucks. In fact, it wasn't too difficult, because Dominican shopkeepers like to make a high profit margin and in spite of their low turnover on a perishable item like eggs, refused to lower prices and reduce their profit margin; they charged 9 cents for an egg that they bought at wholesale for 5.6 cents. In the countryside, Mr. M.'s trucks go as far as the Haitian border. In the bateys they sell eggs directly to the public for about 7 cents a pice rather than the 15 cents charged by store keepers there. They also distribute to retailers.

INESPRE will soon be buying eggs. The overproduction will be further reduced by the elimination from each farm of old, less-productive chickens. Some farms will apparently begin producing turkeys for the local market (partially employing experience and existing installations in a non-traditional area).

LOAN IMPACT

1. SECURITY OF THE LOAN.

Loans such as this one are commercial operations designed to provide sufficient earnings for the Financiera to cover operating expenses and thus subsidize loans to cooperatives which constitute the bulk of FICOOP's loan portfolio. While colateral requirements on loans to cooperatives are generally on the order of 130% of the value loaned, security of loans such as this involves colateral in excess of 200%. So such loans represent little risk for FICOOP. Furthermore, since few such loans are made, the credit reputation of the borrower must be extremely good. In this case, the Financiera had had previous experience with Mr. M. in a small loan made for working capital which had been repaid.

2. FULFILLMENT OF OTHER LOAN CRITERIA.

This loan is a commercial operation from FICOOP's point of view; its recipient runs one of the larger egg production and distribution enterprises in Santo Domingo. Nonetheless, it does fulfill the other criteria which guide FICOOP's loan policy in general.

Employment. The impact of this loan on the generation of employment both directly and indirectly is clearly positive. Generation of employment during the construction of the new part of the farm including about 10 large chicken houses and a warehouse, must have been substantial. There are five permanent employees on the farm plus the administrator; there are an additional six employees working there at all times, although there is considerable turnover among those workers. Although there are economies of scale in egg production, since the new section of the farm which was financed by this loan houses more than half the enterprise's total population of laying hens, in effect the loan is responsible for the generation of at least half the on-farm employment.

The distribution part of the enterprise employs an administrator and 17 other workers: 12 truck drivers and 5 more people who sort eggs and load them on the trucks. Since additional eggs are purchased from other producers, here it is harder to say how many jobs have been generated indirectly by the loan, although there can be no doubt that the impact on employment is positive.

Income distribution. The owner of this enterprise is not poor by any measure, but he does participate directly in the management of the farm and has chosen a relatively labor intensive technology with which to produce eggs. Since high levels of employment are normally associated with more even income distribution, it is fair to assume that this loan is contributing to a more even income distribution through its generation of employment. On the demand side, it also helps stretch the incomes of Dominican people, especially those living in rural areas, by providing a high quality source of protein at significantly lower prices.

Nutrition. The clear intention of this loan was to increase egg production on a farm located very close to Santo Domingo, making available more high quality protein for domestic consumption at reasonable prices. Wholesale egg prices here are currently at a level comparable to those in the United States, and production has increased to the point that the government distribution system for food (INESPRE) has agreed to buy eggs and distribute them through subsidized distribution channels to the country's urban and rural poor. The same excess

of production has encouraged producers such as Mr. M. to seek new domestic markets for their production, including the purchase of a fleet of trucks and direct marketing to the people living in the poorer urban and rural areas where retail margins on eggs were highest. For the moment, the impact on consumption of high quality protein is positive, and to the extent that consumption patterns are changed by improved distribution of eggs, permanent improvements in nutrition are likely through loans such as this.

3. ALTERNATIVES TO COMMERCIAL LOANS

FICOOP has kept operating costs to a minimum; those it has, must be met. Rather than charge each operation with cooperatives a prorated proportion of costs or meeting such costs with grant money as many organizations do, FICOOP has chosen to charge cooperatives a mark-up on commission rates and interest charges which does not meet its full operating costs and to make up the difference by means of a surcharge on a small number of commercial loans. As long as these loans can be made in addition to rather than in lieu of loans to the cooperatives, this alternative constitutes a "cheap" way of financing FICOOP's operation by employing unused borrowing capacity with the Central Bank.