

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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

DOMINICAN REPUBLIC: COOPERATIVE DEVELOPMENT

AID-DLC/P-725

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AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-725
June 14, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Dominican Republic: Cooperative Development

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,650,000 to the Government of the Dominican Republic to assist in financing the United States dollar and local currency costs of an agricultural cooperative credit fund, and technical assistance, training and equipment for the entity administering the credit fund ("IDECOOP").

Please advise us as early as possible but in no event later than close of business on Friday, June 21, 1968, if you have a basic policy issue arising out of this proposal.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:

Summary of Revisions to the Paper
Summary and Recommendations
Project Analysis
ANNEXES I-IV

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June 14, 1968

COOPERATIVE BANK LOAN - DOMINICAN REPUBLIC

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DOMINICAN REPUBLIC - COOPERATIVE BANK

SUMMARY AND RECOMMENDATIONS

1. PURPOSE: The purpose of this loan is to strengthen Dominican cooperatives so that they may continue to develop into an independent movement able to mobilize resources of their members. By reducing existing dependence upon the GODR, the coop movement will then become a stronger private sector force. By providing assistance at both the local and national level, this loan will improve the quality of cooperative activities, build a strong federation structure for national representation of all cooperatives and provide for the eventual creation of a privately-owned cooperative bank to enable the cooperative movement to establish its financial independence from GODR support.
2. BORROWER: The Government of the Dominican Republic (GODR) will be the borrower of the loan funds. IDECOOP (Instituto de Desarrollo y Credito Cooperativo) will be responsible for carrying out the program described in this paper.
3. LOAN AMOUNT: \$4,675,000
4. LOAN TERMS: The loan to the GODR will be at the statutory minimum terms: repayment of principal within 40 years, with a 10-year grace period; interest at 2% during the grace period and 2-1/2% thereafter.
5. BACKGROUND: The Dominican cooperative movement made its first notable progress in 1963 when the GODR established an autonomous agency, IDECOOP, to administer Dominican cooperative activities. The mandate granted IDECOOP was to promote the growth of the cooperative movement, and to act as the appropriate government agency to charter coops. During the last four years, with technical and financial assistance from AID and the GODR, the cooperative movement has established one confederation, four federations, and numerous cooperatives in the fields of credit, agriculture, production, marketing, and housing. However, a major effort in cooperative promotion has been hampered because of the lack of adequate resources for training and promotional activities, lack of equipment and lack of sufficient credit for use as a training tool to develop financially responsible cooperatives. Resources available to date have been completely inadequate to meet the rapidly increasing demand for production credit.

Two loan proposals to assist the Dominican Republic cooperative sector were presented to the CAEC in one capital assistance paper in October, 1967. One proposal was to have provided \$1,865,000 to IDECOOP for technical assistance, equipment and a promotion credit fund for high risk loans to coops. The other proposed loan was to have provided \$4,620,000 to serve as initial seed capital for a proposed coop bank.

The CAEC considered these proposals as IRRs in October, 1967 and granted approval to the USAID for undertaking intensive review. The minutes of the CAEC meeting note eight points for fuller treatment in the capital assistance paper. Many of the points are treated directly or indirectly in the body of this paper (#3 justification of amount, #4 definition of technical assistance to be provided, and #5 indication of prospective borrowers). Points Nos. 2 and 8 are discussed in Issue A, Why A Development Loan with a Large Local Currency Component and Points Nos. 1, 6 and 7 are discussed in Issue B, Relationship to Other Ag Lending.

Additional analysis provoked by discussions at the CAEC caused the project committee and IDECOOP officials to decide not to attempt the creation of a coop bank until such time as the coop movement has accumulated sufficient savings to capitalize the bank independently and thus avoid governmental ownership. Intensive review has revealed that one of the principal benefits to be derived from a coop bank would be this bank's autonomy from direct GODR control. We are joined in agreement by IDECOOP officials that the institutional autonomy of an independent coop bank is the sine qua non for its successful operation.

The present proposal has thus been structured in a form to allow IDECOOP to increase its resources to meet existing credit and training needs for deserving coops. At the same time the financial plan provides for the subsequent possible assignment of a portion of the credit funds to a coop bank on terms and conditions satisfactory to AID. The monies for cooperative ownership of the future bank will be accumulated under existing capitalization requirements of the cooperative Federations' bylaws as discussed on page 16.

6. PROJECT DESCRIPTION: The project aims to assist several interrelated programs to develop an independent cooperative movement in the Dominican Republic. The loan will make funds available for financing a GODR cooperative promotion and training program. It will also provide for a credit fund to augment present financing programs to meet the loan requirements of the agricultural cooperatives. Both of these programs are to be administered by IDECOOP. When and if the cooperative movement can raise a minimum of RD\$250,000 as paid-in capital for a coop bank, IDECOOP will assign to the new bank at least

RD\$2 million pesos for credit purposes. Such a bank will have to be organized in a form acceptable to AID. Until that time IDECOOP would administer the entire proceeds of this proposed loan by continuing its credit program described in this paper.

The RD\$1,440,000 contribution of the GODR will cover the operating expenses of IDECOOP during the first two years of this Project. This represents an increase of RD\$840,000 over the 1967 budget level of RD\$300,000 per year. Since the main intent of this loan is to reduce the required participation of the government in promoting and funding cooperative activities, the financial plan specifically does not include planned increases for IDECOOP in the GODR budget in later years.

The AID loan to the GODR will provide funds for (a) a credit fund to provide the necessary marketing and production financing, primarily for agricultural cooperatives, (b) training cooperative organizers, leaders and members and the necessary training materials, (c) scholarships for cooperative managers and other cooperative leaders, and (d) equipment, including audio-visual equipment and library materials

The financial plan for this project, including AID and DR funds and the estimated split of AID funds between dollar procurement and local currency financing, is summarized as follows: (in thousands of US\$ and RD\$).

	<u>AID LOAN</u>			
	<u>US\$</u>	<u>RD\$</u>	<u>GODR</u>	<u>TOTAL</u>
Technical Assistance	400.0	-	-	400.0
Equipment	29.0	15.5	-	44.5
Training (Local)	-	183.5	-	183.5
Scholarships	22.0	-	-	22.0
Credit	-	4,025.0	-	4,025.0
Operational Expenses	-	-	1,440.0	1,440.0
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 451.0	4,224.0	1,440.0	6,125.0

7. ALTERNATIVE SOURCES OF FINANCING: The IDB and IBRD indicated on _____ and _____ respectively, that they are not interested in this project. The ExImBank determined that it was not interested in this project on _____.
8. VIEW OF THE COUNTRY TEAM: The Country Team considers this project to be of high priority as an integral part of the Country Assistance Strategy by promoting private sector growth through agricultural production cooperatives reinforcing the efforts to increase agricultural production on a selective basis, and giving effect to the provisions of Title IX of the United States Foreign Assistance Act, as amended.

9. STATUTORY CRITERIA: All statutory criteria have been met.

10. ISSUES:

A. Why a Development Loan with a Large Local Currency Component

Since 1965 the Mission has simultaneously carried out programs originating from supporting assistance, PL 480 or development loan resources. An examination of the Mission's program since 1965 reveals that this trend has in fact occurred.

With various sources of funding available, we have gradually evolved certain principles for determining whether a program should be financed out of supporting assistance or development loan funds. The major factor for the Mission has been the maturity and readiness of the institution to accept DL requirements. Previous performance under SA programs has been a starting point for our analysis. For example, in FY 67 we felt that the community development program had reached sufficient maturity for its funding to be transferred to a development loan. We now have reached the same conclusion for IDECOOP. IDECOOP and the cooperative movement have received substantial SA monies over the last two years and we believe that IDECOOP now has the institutional strength to comply fully with development lending standards. We also believe that through the detailed monitoring provided by the Mission under a development loan, IDECOOP and the cooperative movement will be better able to reach the desired goal of maximizing participation by the private sector.

Another important reason for transferring this program to a development loan is that we will be able to provide more meaningful technical assistance to the cooperative movement through loan funded technicians than would be possible under our reduced development grant levels. During FY 68 our grant funds were adequate to provide only two coop technicians. Given the inexperience of many coop members and their lack of exposure to modern agricultural technology and credit, we believe that a program of the magnitude contemplated by this loan can only be realized with a significant input of technical assistance. As a result of this conclusion, the present loan proposal provides for six coop specialists, incorporating those two who are presently grant-funded and providing for four additional technicians. A description of the technical assistance required to carry out this program successfully is provided in Section III of this paper.

We believe that the coop program is of highest priority. Given the orientation of cooperatives towards agriculture, strengthening them will serve to increase agricultural production, the Mission's Number 1 priority. The effect of a vigorous coop movement on agricultural production is described in Section IV of this paper. In addition to its impact on

agriculture, we believe that the proposed program has significant Title IX benefits. By bringing Dominican campesinos, whose participation in the economy is presently marginal, into an active, vigorous movement where they will derive economic and social benefits, we believe that the USAID is furthering "maximum participation in the task of economic development on the part of the people of the developing countries." (Title IX)

A cooperative program with a high component of agricultural credit is by its very nature one that requires the use of local currency funds. To carry out such a program there is no alternative but to utilize local currency.

In our FY 68 Program Memorandum we did not expect that the combined SA-PL 480 package would take care of all of our local currency needs; we assumed a high level (\$48 million) of development lending which would cover local and dollar costs of specific projects. The availability of the use of existing local currency has in fact diminished since we have obligated \$7 million of supporting assistance pesos for the U.S. Government's contribution to the Tavera Dam. It was originally contemplated by the Mission that our contribution to Tavera would be in the form of a development loan. As a result of the utilization of these pesos for Tavera, the amount of local currency at our disposal for high priority programs has been substantially reduced. We are, therefore, obliged to look to DL funds for projects meeting development lending criteria regardless of their local currency component.

B. Relationship to Other Ag Lending

The case for the need for ag production credit is stated in Section V of this paper and is self-evident. The question of the mechanism for providing that credit is much more complex.

In the Dominican Republic agricultural credit for food crops, for most livestock and to all farmers other than the largest and best established is provided either by the Ag Bank or IDECOOP, with the latter being much newer and providing only a fraction of the credit handled by the Ag Bank. The combined ag lending of the private commercial banks does not equal the volume of the Ag Bank which made approximately \$22 million of new loans in 1967. A substantial portion of the commercial bank ag credit goes to private sugar interests and to the tobacco industry. A small amount, not over 10% of the total, goes for cattle loans (usually medium term) and the rest goes to coffee, tobacco and cacao, often to dealers or to credit middlemen who relend the money to the actual growers. The ag programs of the two US banks (Chase and First National) are very small and are concentrated in a few large commercial operations. The largest private bank, the Royal Bank of Canada, has a total of 11,000,000 pesos in ag credit,

more than all others combined, and yet it does virtually no lending for food crops and has no program reaching the smaller farmer.

As described in section V of this paper, the vast majority of Dominican farmers are mini-farmers and their total number is such that attempting to reach them with individual loans is clearly impossible. Only through a pooling of credit needs by means of a cooperative can the small farmer be given access to an efficient lending program. To date, the Ag Bank has not responded to co-op needs as it has made only one loan to a co-op. IDECOOP has already a loan portfolio in excess of RD\$1 million. The results of this credit program and its future potential are described in Sections II and V of this paper.

As explained in Section II Background, the creation of a coop bank has been deferred. One of the essential attributes of such a bank is that it be privately owned by the cooperative movement. If a coop bank were to be formed at this time the GODR, through IDECOOP, would necessarily have to become the dominant stockholder because the Dominican Republic coop movement is just beginning to accumulate capital.

Assuming that a coop bank is not a present possibility, and assuming that IDECOOP will continue to be the coop promotion agency, there are three distinct courses of action that could be followed to provide credit to agricultural coops. One is the creation of a coop unit within the Ag Bank and to assist it with both technical assistance and credit funds; the second alternative is to deal only with IDECOOP and to increase its lending resources so as to permit a more adequate response to the credit need; the third would be to continue to develop and expand IDECOOP while preparing the coop movement for the future establishment of a coop bank.

The attempt to finance coop credit through the Ag Bank, appears to have the advantage of offering a ready made banking system through which coop needs could be handled quickly with only minor readjustments in Ag Bank practices. However, this apparent advantage is nullified by several disadvantages. The Ag Bank, as is well known, has been trying to deal with many major inefficiencies in its operation. It is only in the past few months that steps have been taken resulting in a more efficient operation. The increase in efficiency has had a favorable effect upon the disbursements under the AID 9.5 million loan to the Ag Bank. As of December 31, 1967, \$2,157,000 had been disbursed under the AID loan. An additional \$1,500,000 has been disbursed as of the end of April, 1968 with an additional request pending in May for \$732,000. The marked increase in the disbursement rate since December with the prospects of continuing drawdowns at approximately RD\$350,000 per month causes the Mission to believe that any

diversion of the AID loan to cooperative sector would remove funds from areas where they are presently needed, and being utilized.

Moreover, it would be counterproductive to introduce the responsibility for a new credit function on an organization that has experienced administrative difficulties and is only beginning to rationalize its operation.

The chain of branch offices available to the Ag Bank does not provide as significant an advantage as it might seem due to the type of lending and technical assistance input that is required. The major responsibility for the promotion and control of credits will have to be carried out by IDECOOP promoters. Due to the relative inexperience with use of credit by the cooperatives, the coop clients will, of necessity, be accorded individual treatment by a coop promotor for purposes of coop organization, coop planning, and credit evaluation. This kind of assistance is simply beyond the scope of the Ag Bank capabilities. Finally because of the four basic advantages of a cooperative bank specified below that could never be fulfilled by the Ag Bank, the Mission feels that it would be undesirable to close off this possibility by limiting the coops to deal exclusively through the Ag Bank.

Increasing IDECOOP's credit resources without developing an institutional alternative has the major disadvantage of reinforcing the cooperative movement's dependence on the government for its leadership and financing.

A Dominican Coop Bank has been under consideration for approximately two years. It is one of the goals of IDECOOP and has received the endorsement of President Balaguer. It could play a significant role in the economic development of the Dominican Republic and also has certain important Title IX consequences. The Mission feels that the following four factors are particularly persuasive and has chosen to recommend alternate three on this basis:

- i) A cooperative bank provides a vehicle for the capitalization of the cooperative movement and a means of distributing this capital in a manner that is responsive to the needs of the cooperatives throughout the country. Without this institution, the cooperatives could still capitalize individually but there would be no mechanism to allow for the distribution of resources between cooperatives to maximize the utilization of their funds. As shown in the table on page 16 of this paper, the capitalization capability of the cooperatives will be quite sizeable when levels of credit presently needed for efficient production are provided.

- ii) A coop bank would provide a source of credit which is not controlled by the government. The structure of a cooperative bank, with democratic representation of all member cooperatives throughout the country, forces people from other parts of the society, outside the government, to take part in the decisions for achieving economic development. The very nature of this process will instill in the cooperative members the skills required for participation in a democratic society. Since cooperative members are generally drawn for the lower classes, the institution would give them the capability of deciding how to deal with their own developmental requirements and removes the absolute dependence upon governmental policy for resolving these issues.
 - iii) Such an institution furnishes the means for development to deal with the problems of all types of cooperatives. No institution presently exists to meet this need. This institution would allocate credit in such a manner that if, for example, financing to consumer cooperatives was necessary in order to efficiently market the output of the agricultural cooperatives, such financing would be available. Credit unions and production cooperatives should also be able to capitalize in a cooperative bank and have this vehicle available to meet their needs.
 - iv) A coop bank would provide a structure for the development of leadership at the national level. At present, there are relatively few means by which citizens can both voice their needs at a sufficient level to attract meaningful attention and to develop individually from involvement in a particular community to a regional or national institution in representation of lower class interests. The cooperative bank, along with a strong confederation-federation structure at the national level, would provide a solid front for representation of cooperative interests in an independent manner and by their own people.
11. RECOMMENDATIONS: Authorization of a loan to the Government of the Dominican Republic of up to four million six hundred seventy-five thousand dollars (\$4,675,000) under the following terms and conditions:
- Terms:
- a. Repayment within 40 years from the date of the first disbursement including a grace period of 10 years.
 - b. Interest at 2% during the grace period and 2-1/2% thereafter.
 - c. Repayment of principal and interest shall be made in US dollars.

Conditions:

- a. Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States or the Dominican Republic. Shipping financed hereunder shall be procured from the United States and marine insurance financed hereunder shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.
- b. United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through Special Letters of Credit and shall be used only for procurement in the United States.
- c. Policies and standards in a form satisfactory to USAID shall be established which IDECOOP will use in making sub-loans from the credit fund.
- d. Evidence shall be submitted to USAID showing that the credit fund lending policies will be in keeping with GODR crop priorities.
- e. Prior to the first disbursement, evidence shall be submitted to USAID that the technical assistance for IDECOOP and the cooperative movement has been arranged and will arrive within a reasonable period of time.
- f. GODR shall provide at least RD\$720,000, annually, for the operational expenses of IDECOOP.
- g. Such other terms and conditions as USAID may deem advisable.

PROJECT COMMITTEE:

Chairman	:	R. P. Genock, USAID Asst. Capital Development Officer
Economist	:	R. Van Leeuwen, USAID/DR summer intern
Programmer	:	N. Demos, USAID
Cooperative Advisors	:	C. Baker) J. de Pool) J. Dologaray) on AID contract L. Soto Rivera)
Drafting Officers	:	R. P. Genock/R. P. Ruby/A. R. Kasdan/ C. L. Crowder, USAID/DR

June 14, 1968

SECTION I - BORROWER

The borrower will be the Government of the Dominican Republic acting through IDECOOP, who will implement the program. IDECOOP (Instituto de Desarrollo y Credito Cooperativo) is a Dominican Government institution, established in 1963 (Law No. 31, October 25, 1963) to promote the development of cooperatives. Through its core of promotores, technical assistance, courses in education and training, and operating out of regional offices which cover the entire Dominican Republic, IDECOOP seeks to provide financial and technical support to existing cooperatives and groups in the process of becoming cooperatives. Besides its financial and technical support roles, IDECOOP is the only GODR institution which can issue cooperative incorporation charters. IDECOOP activities are supervised by a board of directors representing the principal GODR agencies concerned with the cooperative sector. (Exhibit 1 is an organization chart of IDECOOP). In this way IDECOOP maintains direct channels of communication with the cooperative sector it assists. IDECOOP is presently advised by two AID-financed Puerto Rican advisors in general operations and banking and in agriculture. In addition, IDECOOP needs technical assistance in long-term programming and planning and additional inputs, including credit, to carry on its promotion activities.

To administer the AID development loan for cooperative promotion and credit, IDECOOP plans to expand its staff, hiring additional promoters, technical and financial personnel. In addition, IDECOOP will, with the assistance of technical consultants, undertake a review of its own internal operations to correct and to improve procedures which may become obstacles to the smooth operation of an expanding promotion program. The loan agreement will contain a clause requiring IDECOOP to submit a copy of any outside study or report concerning its internal organization and to advise the USAID of any procedures or steps it plans to take to implement any recommendations contained in such a report.

The USAID feels that IDECOOP has demonstrated an increasing capacity to both stimulate cooperative development and to administer a credit program. As more fully explained in the body of this paper, the USAID feels that IDECOOP can administer all aspects of the promotion program to be financed with the AID loan. Newly trained credit department personnel will assist a core of experienced IDECOOP credit employees (see Exhibit 2). The AID-financed cooperative credit specialist will provide continuous assistance and help to the credit department.

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SECTION II - BACKGROUND AND ACTIVITIES TO DATE

The cooperative movement in the Dominican Republic originated in 1946 under the sponsorship of the Catholic Church. It acquired legal status and grew rapidly during the 1950's, especially in the field of credit unions.* In 1959 the professed democratic principles of the cooperative movement clashed with the repressive policies of the Trujillo dictatorship. From then until 1962, the Dominican cooperative movement was unable to function.

USAID first provided assistance to the Dominican cooperative movement at the time of its rebirth and the Mission's re-establishment in the country in FY 1962. (Table 1 is a summary of GODR and US financial assistance to cooperatives from CY 1963 - CY 1967. A more detailed list will be found in Exhibit 3). These initial efforts to set into motion a cooperative assistance program in late 1962 and 1963 were partially frustrated by the overthrow of the Bosch government in the latter year and the subsequent administrative disorganization.

Table 1

Summary GODR and US Financial
Assistance to Cooperatives CYs 1962 - 1967

<u>Year</u>	<u>\$US (000)</u>	<u>\$GODR</u>	<u>Total **</u>
1963	273	124	397
1964	-	553	553
1965	-	318	318
1966	500	420	920
1967	<u>615</u>	<u>300</u>	<u>915</u>
Total	1.388	1.715	3.103

* By 1958 there were 77 cooperatives in existence.

** RD\$1 = \$1

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In FY 1962 \$20,000 was obligated for assistance to credit unions through the Ministry of Labor, and an additional \$1,000 later in the year for a visit by a CUNA* representative. A total of RD\$230,000 under the 1962 \$25 million credit was earmarked and expended for cooperative development - RD\$70,000 for agricultural equipment in support of agricultural production cooperatives and RD\$160,000 for loans to cooperatives.**

In FY 1963, \$113,000 in technical assistance funds were provided for a comprehensive contract with the Cooperative Development Administration of the Commonwealth of Puerto Rico. This project agreement provided for Puerto Rican technical assistance to the Dominican cooperative movement and for the training of 80 Dominicans in techniques of cooperative organization and management. The Ministry of Agriculture agreed to establish a separate Department of Cooperatives (later to become IDECOOP) with a core of 35 technicians and administrators and a fixed annual budget. As a result of the overthrow of the Bosch government and the withdrawal of the AID Mission from the Dominican Republic, only \$39,000 of these FY 1963 funds were used, and the project agreement was only partially carried out.

In FY 1965, Task Order No. 1 under the Commonwealth of Puerto Rico contract, in the amount of \$65,000, was signed to engage the services of two technicians in cooperative credit and agriculture organization, who were given the task of helping to coordinate and strengthen a cooperative movement that was fragmented, faction-ridden, and most of whose 120 member cooperatives were poorly managed. (As previously mentioned, such technicians will be financed for an additional two years under the AID loan to the GODR).

With the growing strength of the Dominican cooperative movement, and a competent new director at the helm of IDECOOP, USAID and the GODR earmarked RD\$500,000 of FY 1967 Supporting Assistance funds (the \$40 million investment program) for cooperative development. The RD\$500,000 was allocated in the following way: RD\$330,000 for a general revolving loan fund, RD\$115,000 for cooperative organization and training, RD\$45,000 for vehicles, and RD\$10,000 for miscellaneous expenditures.

* Credit Union National Association

** No figures are available for the recovery rate on loans made from this RD\$160,000, because most of the money was loaned out for medium-term facilities loans and will become due during 1968.

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Under the general revolving loan fund, sub-loans of approximately RD\$500,000 had been made by the end of October, 1967. (RD\$330,000 was fully disbursed to IDECOOP in January 1967). From the end of October to January most of the funds remained tied into crop loans and thus by the end of January, there had been an increase of only \$7,000 in loans approved. Since cooperatives made tentative requests for funds during this latter period, it appears to be clear that the credit department could have moved more funds under this program than were available. (No peso figure is available for this difference since cooperatives were told that IDECOOP had no additional funds and thus no formal requests were made). As of 31 January 1968, the accounts receivable due more than 60 days amounted to 8% of the total revolving fund portfolio. (See Exhibit 4). The percentage is quite low because IDECOOP refinanced two major loans to be payable in the latter half of 1968. The loans that were refinanced represented approximately 40% of the total loans pending under the general revolving credit fund. At the time of refinancing, these loans were from 60-90 days overdue which underlines the high risk nature of present loans to cooperatives. However, it also indicates the extent of monitoring of loans by IDECOOP to meet refinancing requirements when necessitated by operational needs. In both instances, the loans were not paid back to IDECOOP because of a fear that, due to the lack of capital in the revolving fund, additional credit when needed would not be available for the new crop cycle.

Approximately one-third of the general revolving loan funds have been loaned to an intermediate credit institution, the Dominican Institute of Agrarian Services (IDSA), a private organization promoting agricultural production and marketing cooperatives. This organization is now being dissolved and all of its functions passed to the recently incorporated Federation of Agricultural Cooperatives. This transition involves a process of legalizing those Ag cooperatives not already incorporated and consolidation of these cooperatives in the same geographic region to attain some economies of scale in the overall operation.

Most of the remaining credit has been allocated to short-term - 90-180 days - crop loans for production credit (fertilizer, insecticide, land preparation, etc.) for rice, tobacco, coffee, and cacao cooperative producers. Loans to cooperative federations for relending to individual cooperatives are made at 6% per annum.

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The rest of the financial support provided in the RD\$500,000 was instrumental in enabling IDECOOP to provide training in administration, regional courses for cooperative directors, and seminars benefiting 1,165 cooperative leaders in FY 1967. In addition, it allowed 17 officials of the cooperative movement to attend short courses in cooperative organization and management both in the Dominican Republic and abroad.

Three additional revolving loan funds have been established under the \$40 million investment program to promote individual crops through cooperative organizations. RD\$330,000 of supporting assistance funds have been set aside for a revolving credit fund to assist coffee growers' cooperatives in the southwestern part of the country, which was devastated by Hurricane Inez. IDECOOP has assigned three supervisors and 12 promoters from its regular staff to assist the coffee cooperatives and to supervise the credit program. A similar fund has been established for the rehabilitation of plantain farms in the Southwest in the amount of RD\$185,334. Under the coffee fund, RD\$232,350 has been disbursed in subloans and under plantains, RD\$173,300. In both instances, these are for 203 year rehabilitation loans. A third revolving loan fund for cooperatives of cacao producers has been set up in the amount of RD\$100,000 and it is expected that RD\$70,000 will be disbursed in the latter part of May, 1968.

The experience gained from the management of the various funds by the credit department of IDECOOP will certainly be applicable to the supervision of the funds made available under this loan. When all of the various sources of funds are included together, this department had approved RD\$1,321,370 in loans up through 31 December 1967 and had a total portfolio outstanding of approximately RD\$1,000,000. Given the results of the general revolving fund, it appears clear that these funds are being reasonably well managed. During the preliminary studies and the intensive review of this development loan for cooperatives, USAID considered the advisability of creating and funding a cooperative bank to meet the financial requirements of the cooperatives. Such a proposal had been recommended by various consultants during 1966 and 1967. This possibility was removed from present consideration because of two major factors. First, analysis indicated that, at the present time, the capital structure and management of the individual cooperatives was such that very few low risk loans could be made. Thus, the conclusion was made to opt for a softer loan directly to the GODR to continue promotional lending to bring the cooperatives up to the level where they would qualify for institutional credit. Secondly, the accumulated capital of the DR cooperative movement as a whole is insufficient to provide the necessary share capital to create an independent cooperative bank.

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In addition to the financial support which IDECOOP has supplied to the cooperatives, this institution is primarily responsible for the growth of the cooperative movement that has taken place since its creation. In 1963, there was a total of 38 cooperatives. At the end of 1967, there was a total of 433 cooperatives. In addition, one confederation and four federations had been formed to provide private sector national representation for the cooperative movement. The training courses that include not only cooperative instruction but also deal with the importance of community involvement have helped to form many community leaders. Exhibit 8 is a partial listing of persons who have attended IDECOOP courses and have gone on to activities not only at the cooperative level but also at the community and national level. In overall terms, the achievements of IDECOOP, though hindered by minimal financial resources, have provided a substantial base for the cooperative movement.

The advisability of a new coop bank has been discussed extensively with IDECOOP officials during recent weeks and agreement reached on the course of action recommended herein. (See Section IV)

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SECTION III - PROJECT DESCRIPTION

Although IDECOOP's efforts to form cooperatives have been relatively successful, major effort is still required to improve the quality of the present cooperatives and to form additional cooperatives among the less privileged groups primarily in rural areas. As of December 31, 1967, there were 234 incorporated cooperatives and credit unions, and 207 unincorporated cooperatives and credit unions. IDECOOP and USAID estimate that this represents a mere fraction of the coop potential. Over seventy per cent of the population of the Dominican Republic lives in rural areas, mostly occupied in agricultural activities. The GODR through IDECOOP has requested financial assistance to fund educational training programs and scholarships, equipment and materials purchases, and a credit fund to meet the present requirements of the cooperatives (primarily agricultural) for financing of the costs of production. When the necessary prerequisites for a cooperative bank have been filled, the project would allow for the transfer of at least RD\$2,000,000 of the credit fund to become part of the lending base of this institution. In addition, IDECOOP has requested funds for technical assistance to cooperatives in certain key areas: planning and programming, marketing, consumer cooperatives, and credit unions. Both the USAID and IDECOOP consider that an expanded technical assistance program focused on cooperative programming and planning, together with specialized assistance in problem areas, will make IDECOOP's promotion efforts more effective. It is also necessary to insure that the private sector of the cooperative movement, represented by a confederation and four federations, is strengthened so that the cooperative movement will not be dependent so completely on a government institution for the perpetuation and betterment of the movement as a whole. Thus, the technical assistance to the various types of cooperatives would be directed through the confederation-federation-cooperative structure to build the requisite expertise at each level to insure a strong private sector. A significant improvement in the quality of the present cooperatives and expansion in the number of new cooperatives depends almost entirely on the success of IDECOOP's program.

A. Training and Scholarships - (\$250,000)

IDECOOP estimates that training courses for about 4,000 people per year and materials for promoters and cooperatives' directors, and treasurers, as well as for cooperative members and voluntary cooperative leaders, will cost RD\$88,730 in the first year and RD\$76,730 in the second year covered under this project. (Exhibit 5 contains a list of the education and training courses which IDECOOP wishes to finance). To provide the materials, equipment, and a library for the promoters as aids in achieving meaningful communication in the classroom, IDECOOP has requested a total of \$44,540 for both years. (See Exhibit 6 for a specific list). Also, \$18,000 has been requested to finance the costs for two years for educational radio programs on cooperatives.

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In addition to the training courses offered, IDECOOP has requested \$22,000 for two years to provide scholarships to promotores and cooperative managers for on-the-job training primarily with cooperatives in Puerto Rico. These programs will be for training with agricultural and super-market cooperatives. Both USAID and IDECOOP consider that this input in training and specialization will greatly assist in raising the level of key cooperative management and IDECOOP staff to provide the strengths necessary for self-sufficiency of trained personnel within the cooperative movement in the Dominican Republic.

B. Credit Fund - (\$4,024,000). One of the most important tools for building strong, independent cooperatives is the use of credit. IDECOOP has requested that it receive additional monies for the expansion of its credit fund both to meet the present financing requirements of agricultural cooperatives (see Table 3) and to improve the managerial and financial quality of these cooperatives to the point where they can qualify for credit from banking institutions. It is expected that as cooperatives qualify for credit from other sources, the funds released thereby would be applied to new agricultural cooperatives and other production-type cooperative programs, i.e., industrial cooperatives, credit union agricultural lending programs, etc. The loan agreement will contain a covenant stating that the AID loan funds can only be used for cooperative production projects.

In order to give IDECOOP sufficient additional capital for its credit program, the loan provides funds, up to \$4.024 million for this purpose. (See Section IV for a detailed analysis of the justification for this amount.)

The credit fund will be administered by IDECOOP's credit department which will consist of 11 persons, including a department director, assistant director, 3 loan officers, 2 agronomists, 1 comptroller and 3 bookkeepers. This represents an increase of 1 loan officer and 2 agronomists to the present staff, which will be funded by the increase in the GODR budget for IDECOOP. Technical assistance to the IDECOOP credit department, which started in November 1966, will be continued by a loan funded cooperative credit specialist. The interest rate structure applicable to sub-loans granted under this loan will be 3% to IDECOOP, 2% to the Federations and 1% to the cooperatives. (The interest collected by IDECOOP must be used as additional capital in the credit fund. This will be possible since the GODR will cover all IDECOOP operating expenses.) Since all the loans made to the cooperatives will be channeled through the appropriate Federations, the funds will additionally be supervised by the staffs of these organizations. Any cooperative receiving a loan under this program must capitalize 3% of the loan value as cooperative shares in a trust fund, mutually administered by IDECOOP and the appropriate Federations. This trust fund will become the share capital of the cooperative bank when organized.

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Since the purpose of this program is to provide funds to borrowers who are largely unacquainted with institutional credit, underlining the high risk nature of this effort, the loan agreement will contain three covenants to the effect that: (1) USAID approval is required for any loan to a cooperative with an outstanding loan balance of more than 15,000 pesos; (2) USAID approval is required for the refinancing of any loan or portion thereof; and (3) the disbursement of funds of this loan above \$2,000,000 would be subject to a detailed review by USAID of the credit operation. In addition, IDECOOP will have to submit, in a form satisfactory to USAID, the policies and standards that will be applied in making subloans from this fund.

Agricultural loans will be made for projects which are in keeping with GODR agricultural priorities. USAID shall have the right, from time to time, to declare certain crops ineligible for financing under this loan. IDECOOP will coordinate closely in its efforts in the field of agricultural loans with the other institutions working in this field. Covenants will be placed in the loan to assure compliance.

The USAID has received a GODR commitment that it will increase its share of IDECOOP's expenses, particularly in the promotion field. The GODR projected budget amount of at least \$720,000 per year is more than double the 1967 contribution of RD\$300,000. A condition precedent to disbursement will be approval of the IDECOOP budget by the GODR.

As discussed in Section IV, it is important for the cooperative movement to be independent of governmental institutions for its sources of credit. Thus, IDECOOP has requested that when a cooperative bank has been legalized and has paid-in capital of at least \$250,000, that IDECOOP would pass at least \$2,000,000 of the credit fund to a cooperative bank in an arrangement that would not constitute government ownership and disbursed in a manner acceptable to AID so as to maintain a reasonable relationship between paid-in capital and funds supplied by the credit fund. A covenant to this effect would be included in the loan agreement.

C. Technical Assistance (\$400,000) - A major gap in the more successful development of the cooperative movement in the Dominican Republic has been the lack of an effective planning and programming unit either within IDECOOP or elsewhere. Other specific problem areas for the development of cooperatives has been the lack of expertise on agricultural marketing, and consumer and credit union management. Inasmuch as the major emphasis in cooperative promotion and field support has been in agriculture and related activities, IDECOOP promotion efforts and skills have not developed sufficiently in the areas of consumer cooperatives and credit unions.

IDECOOP has therefore requested four additional technical consultants for a two-year period to provide the necessary training and support for its enlarged cooperative promotion program. These consultants

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will be in addition to the cooperative credit specialist and agricultural advisor, who are presently financed with AID grant funds. The services of these two technicians will also be needed for an additional two years and both the GODR and USAID agree that they should be financed under the AID loan, instead of limited grant funds. These new technicians will include:

(1) Agricultural Marketing Advisor. In order to insure the logical development of an organized marketing system for the agricultural cooperative movement, the services of a Spanish-speaking cooperative marketing specialist are needed to advise the agricultural cooperative federation on all functions of marketing (storage, transportation, grading, packing, market development, etc.). The prime objective would be to assist the Federation in building its own capability to absorb these functions within two years. He will also be responsible for the development of a National Cooperative Market Center that is now in the planning stages and which would commence operation upon his arrival. The Market Center would be run by the Agricultural Federation. The close coordination between this advisor, the Secretariat of Agriculture, and national level USAID advisors would assure support for sound development of cooperative marketing activities. Coordination with the consumer cooperative advisor would also be necessary to establish the feasibility of a complete cooperative supply network from the producer to the ultimate consumer.

(2) Consumer Cooperative Advisor - Due to the large percentage of marginal consumer cooperative operations, the assistance of an experienced consumer cooperative technician is urgently needed. This technician would advise the consumer cooperative federation as to the best means to consolidate consumer cooperatives that are too small for efficient operation, to improve the efficiency of consumer cooperatives in maintaining low overhead while reaching as many consumers as possible, and in those cases where necessary, to specify these consumer cooperatives that should be disbanded. He will also be responsible for the development of large volume cooperative supermarkets in the low income sections of Santo Domingo, Santiago, and other population centers. The supermarkets and the supporting services will be under the direction of the Consumer Cooperative Federation. The development of these plans will require close coordination with the Agricultural Market Center to optimize the distribution of farm products to the ultimate consumer.

(3) Credit Union Advisor. The need for a specialist to formulate the details of a program for strengthening Dominican credit unions was made evident by a pre-feasibility study prepared under the auspices of the CUNA/AID program in May 1967. The preliminary report indicates a need for a credit union specialist for two years to (a) work with supervised agricultural production credit at the credit union level; (b) establish a centralized system of accounting on a national scale; and (c) assist the credit union federation with general operations and procedures. Although no funds from the loan will be used for consumer credit, the high number of existing credit unions justifies the use of loan funds for technical assistance in this area. It is expected that this advisor will develop programs for the use of credit funds in income-generating activities.

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(4) Programming and Planning Advisor - One of the basic problems of the Dominican cooperative movement is the relative preponderance of a government institution (IDECOOP) vis-a-vis the private sector (the confederation, federations and cooperatives). IDECOOP officials are aware of the danger of this position since this institution is not immune to political whim and have requested assistance in the development of meaningful goals for IDECOOP and for the private cooperative sector for the long run. This advisor would provide assistance in the following areas: (a) development of 5-10 year goals for the cooperative movement in terms of jobs to be done, who should do them, and the means of financing this effort; (b) the transition of the credit and education functions to the private sector; and (c) establishment of the desirable limits of IDECOOP activity as a government institution. Assistance in the shorter run would involve the implementation of a sound planning and budgeting process and the establishment of better techniques for the evaluation of cooperative performance.

To assist and carry out the recommendations made by the programming technician, IDECOOP will revise its planning department to establish more direct lines of communication between said office, IDECOOP's board of directors, and the Dominican cooperative movement. It is expected that the programmer will work closely with the Dominican Confederation of Cooperatives. IDECOOP also plans to establish an efficient statistics unit within its planning office to provide adequate information and data, which has not been readily available, on cooperatives activities. The loan agreement will contain a covenant that IDECOOP will be required to establish such a statistical facility within a reasonable time.

SECTION IV. - FINANCIAL ANALYSISa. Total Financing Required

The total cost of the project is estimated to be \$6,125,000. Major cost components and sources of funds during the two (2) year projected period are detailed as follows: (in thousands of US\$ & RD\$)

	<u>AID Loan</u>		<u>GODR</u>	<u>TOTAL</u>
	<u>US\$</u>	<u>RD\$</u>		
Technical Assistance	400			400.0
Equipment	29	15.5		44.5
Training (local)		183.5		183.5
Scholarships	22			22.0
Credit		4,025.0		4,025.0
Operational Expenses			1.440	1.440.0
	<u>451</u>	<u>4,224.0</u>	<u>1.440</u>	<u>6.125.0</u>

The project consists of an AID development loan for cooperative promotion, \$4,675 million, which will be made to the GODR, at the statutory minimum terms, for technical assistance, equipment, training, credit, and scholarship. The GODR will contribute \$720,000 per year to cover the total operational expenses of IDECOOP. There are no planned increases in the contribution by the GODR since the intent of this loan is to enable the private sector of the cooperative movement to absorb many of the educational, promotional, and financial activities now being executed by the government. Due to the transferral of these activities to the private sector, the maintenance of the RD\$720,000 annual budget for the near future should still allow IDECOOP to increase its cooperative missionary work that could never be fully financed by the private sector.

Approximately 10% of the loan value will be used to purchase United States goods and services. Additional indirect purchases of United States goods will be made since many items purchased with funds made available for credit will be off-the-shelf U.S. products.

b. Credit Analysis

The requirement for credit developed by IDECOOP was based on an intensive evaluation of the level of funds that (1) were needed and could be placed in cooperatives with a reasonable expectation that repayment would be made and (2) could be lent and controlled by the credit department of IDECOOP. This evaluation, which took approximately 2 months to complete, brought to bear the knowledge of the technical and executive staff of IDECOOP, the assistance of 5 technicians from USAID, and the assistance of the general manager of the Agricultural Cooperative Federation.

To establish the level of funding that could be used immediately in the agricultural cooperatives, the two agronomists working for IDECOOP prepared a master plan of those cooperatives that, in their judgement, were doing an acceptable job of farming and had the basic concepts of co-op administration in operation. (This selection process eliminated more than 55% of the agricultural cooperatives).

After this selection process was finished, the agronomists then tabulated each of the cooperatives selected by type of crop, amount of land, and planned expansion if credit funds would be forthcoming. (The estimates of total production were checked with the USAID Agricultural Development Division and accepted as reasonable targets). The list of cooperatives so selected with a projection of the total volume of sales generated by this group after the application of their credits is shown in Table 2.

Due to the much greater volume of activity at the Agricultural Bank, and thus the greater sample of data, the various production cost averages developed by the Ag Bank were applied to the raw data, supplied by IDECOOP to arrive at the credit levels required by each cooperative. The cost data was specifically programmed according to each crop cycle so that in the final compilation of the cash flow table, this would be an accurate forecast of actual cash needs at any point in the project time frame.

In addition to the credit required for production costs, a study was also made of the crops that would require warehouse financing in order to achieve a reasonable return on sales. Rice, beans and corn can presently be financed by the Agricultural Bank. Of the remaining crops to receive production credit, the only ones that can be stored and for which warehousing facilities are available are potatoes and onions. The warehouse financing requirement for these products also appears in the cash flow table. The evaluation resulted in the establishment of a credit requirement of RD\$4.024 million. The first year requirement was used as the basis for the credit fund since the cooperative movement should be able to generate the necessary capital necessary for the 2nd year as explained on page 16.

Table 3 summarizes these various calculations. The disbursement column represents production financing required each month, which when offset by the collections column produces the net new credit requirement. This amount was then judged in light of the past lending experience of IDECOOP. As noted in the Background Section, the IDECOOP credit department had approved RD\$1,321,370 of sub-loans up through 31 December 1967. If those loans made prior to January 1967 are subtracted, the credit department processed loans for approximately \$1,000,000 during the year 1967. Also, as noted in the prior section, the last three months of the year resulted in few loans due to lack of funds. Thus, it is quite probable that IDECOOP could have handled an amount significantly greater than the \$1,000,000 actually loaned.

Table 2

Agricultural Cooperatives Selected by IDECOOP for Credit Program (1968-1970)

<u>Name</u>	<u>No. of Members</u>	<u>Total Tareas</u>	<u>Total Sales Value of Production (Annual Rate-Year 2)</u>
Caficultores de Bani, Inc.	133	23,670	50,400.00
El Roblegal, Inc.	60	4,300	280,500.00
Juan Caballero, Inc.	140	3,300	417,000.00
San Jose, Inc.	275	24,900	311,300.00
Los Cacaos	200	15,250	256,900.00
San Antonio, Inc.	130	16,300	334,225.00
Santa Cruz	400	39,100	1,730,500.00
La Altagracia, Inc.	75	8,300	467,500.00
San Isidro, Inc.	103	14,630	836,850.00
Valle de Constanza	85	5,000	762,000.00
Valle de Bonao, Inc.	75	9,300	529,650.00
San Jose de las Matas	210	17,400	239,600.00
Luperon	399	47,200	1,453,000.00
Juma	126	5,700	310,200.00
Blanco	80	6,400	51,000.00
Villa Tapia	75	24,000	855,100.00
Pedro Garcia	75	18,200	389,980.00
Union de los Pobres, Inc.	116	18,500	263,050.00
Guananico, Inc.	84	21,040	130,150.00
Espailat, Inc.	250	23,950	372,200.00
Monte Llano, Inc.	96	15,700	246,900.00
Tenares, Inc.	84	14,080	199,200.00
Rincon Hondo, Inc.	90	22,500	206,060.00
Ceiba de Hostos	70	7,000	178,400.00
El Pozo	105	10,600	29,040.00
El Progreso	50	19,050	616,117.50
Cayaclara	80	8,200	469,500.00
El Esfuerzo, Inc.	47	18,200	1,055,100.00
Valle Verde	100	12,200	634,400.00
La Guajaca	65	6,800	188,625.00
Laguna Verde	50	4,500	82,875.00
Los Almacigos	40	5,700	87,100.00
Nuestra Sra. de la Caridad Inc.	63	5,300	331,750.00
Santome, Inc.	100	7,500	490,500.00
La Altagracia, Inc.	74	3,750	70,656.00
Bella Aurora, Inc.	84	4,186	69,244.00
Nuestra Sra. de Lourdes	50	8,000	36,000.00
Las Charcas	60	4,000	206,250.00
Moradores de Jinova	35	3,100	64,625.00
Las Charcas de Garabito	40	1,300	28,200.00
Agricultores de las Matas de Farfan	62	3,500	55,312.00
Pueblo Nuevo	25	2,300	39,000.00
Padre Las Casas	500	83,970	2,473,600.00
El Amparo, Inc.	900	17,700	398,100.00
Caficultores de Neyba	40	3,700	103,625.00
Caficultores de Villa Jaragua	35	3,800	63,500.00
Productores de Uvas	70	5,300	198,600.00
El Futuro	20	2,200	32,020.00
La Cuchilla	100	6,700	62,480.00
Los Diecisiete	100	2,400	38,300.00
Jaragua	37	3,000	45,950.00
Cascajal	105	8,800	128,750.00
El Cuey	35	6,100	57,790.00
TOTALS	6,503	677,576	19,028,674.00

Source: IDECOOP

TABLE 3

IDECOOP CREDIT NEEDS
Cash Flow Requirement of Selected Agricultural Cooperatives
(June 1968 - May 1970)

1968-1969	Disbursements	Collections	Funds needed for Credit during the month	Warehouse Financing	Cash in Bank
June RD\$	418,794.60	-	418,794.60		
July	292,681.35	122,375.00	170,306.35		
August	380,693.50	567,405.15	-		186,711.65
September	376,233.75	223,227.60			33,705.50
October	669,786.40	223,227.60	412,853.30		-
November	801,170.50	148,441.50	652,729.00		-
December	671,325.00	148,441.50	522,883.50		-
January	1,156,369.75	-	1,156,369.75		-
February	1,270,765.25	679,136.25	591,629.00		-
March	906,125.50	807,526.25	98,599.25	24,000.00	-
April	597,879.10	637,855.00	-		39,975.90
May	152,926.40	789,865.00		(24,000.00)	676,914.50
Total for the year RD\$	7,694,751.10	4,347,500.85	4,024,164.75		
<u>1969 - 1970</u>					
June	522,640.50	627,481.50	-		781,755.50
July	909,259.75	1,230,066.50	-		1,102,562.25
August	935,357.75	1,111,625.00	-		1,278,829.50
September	500,532.00	-	-		778,297.50
October	631,763.90	-	-		146,533.60
November	906,098.00	293,691.50	465,872.90		-
December	1,000,882.50	541,491.50	459,391.00		-
January	251,835.00	1,130,825.00	-		878,990.00
February	1,106,646.25	1,744,173.50	-		1,516,517.25
March	1,174,666.75	1,382,955.00	-	(24,000.00)	1,724,805.50
April	1,157,674.00	826,835.00			1,393,966.50
May	260,569.40	1,045,612.00		(24,000.00)	2,179,009.10
RD\$	9,357,925.80	9,934,756.50	925,263.90		

The collections shown in each month are applied to loans in the same month because allowances of a month to pay were built into the collection schedule to insure funds would be paid in the specified month.

To determine the movement of funds to be used through the period described, the number of tareas to be cultivated with the different kinds of crops, the vegetative cycle of such crops to estimate when they will be harvested and the sub-loan collected were taken into consideration. The disbursements were planned following the investment plan suggested to farmers according to planting seasons.

The production cost per tarea to be financed was based in the cost experiences of the Agricultural Bank of R.D.

Given that: the credit experience, as noted in Section II, has been quite favorable in terms of repayments; that IDECOOP, under the new GODR budget, will be increasing the staff of the credit department by 1/3 and almost doubling the size of its field staff (30 additional promoters); and that 4 technicians under this loan will be dealing with credit supervision, it is the considered opinion of IDECOOP and the USAID staff that the addition of RD\$4.024 million to the IDECOOP credit fund is a reasonable amount for effective disbursement over the life of the loan.

Since the major objective of this loan is to achieve a financially independent cooperative movement, the need for a non-governmental source of credit that can be capitalized by the cooperatives themselves becomes apparent.

With the agricultural cooperative loans that are scheduled during the first two years, under the Agricultural Federation by-laws, all the cooperatives receiving loans must capitalize 3% of the value of each loan which will be placed as cooperative shares in a trust fund that will be administered by IDECOOP and the Federation. In addition, at the end of the fiscal year, each cooperative must capitalize up to 5% of total sales insofar as net income permits. Of this amount, 40% is used to buy shares of the cooperative in the Agricultural Federation and 60% remains as capital of the cooperative as member shares.

The following table indicates the amount of capitalization that would take place based on the sales projection of Table 2 and the total value of loans as shown in Table 3.

Projection of Capitalization *

	<u>Trust Fund</u>	<u>Ag. Federation</u>	<u>Cooperatives</u>	<u>Total</u>
Year 1	230,840	186,000	279,000	695,850
Year 2	<u>280,740</u>	<u>228,000</u>	<u>342,000</u>	<u>850,740</u>
Total	511,580	414,000	621,000	1,546,580

* Note: Table 2 gives the sales level at the end of year 2. The sales for year 1 were derived from the following relationship:

$$\frac{\text{(Sales-Yr 1)}}{\text{Sales-(Yr 2)}} = \frac{\text{loan total (yr 1)}}{\text{loan total (Yr 2)}}$$

Also, the agricultural cooperatives have been earning 3% on total sales historically so this figure was used to derive the contribution based on total sales.

From the foregoing, it can be seen that the credit fund will enable the cooperatives who borrow from the credit fund to make a major step forward in building their own capital base. The difficulty is that the cooperatives do not have a financial institution that could maximize the use of these funds that is not at least partially government controlled, which does not remove the possibility that pressure would be brought to bear to use the funds for political ends. The trust fund,

run by the Agricultural Federation and IDECOOP, is a compromise solution that still has this innate danger. As was discussed in the Background section, a development loan for a cooperative bank was felt to be inappropriate at this time because of the lack of well-capitalized cooperatives. Thus, in order to facilitate the creation of a cooperative bank, when the cooperatives have formed the necessary capital base, the loan agreement will allow for the transfer of at least \$2,000,000 of the credit fund in the form of debt or non-voting stock to a cooperative bank at the time when at least \$250,000 in capital stock has been accumulated by the cooperative movement. As can be seen from the foregoing Table, it should be possible to achieve this amount of capital solely from the Trust Fund during the first two years of the Project. The creation of this institution along with the strengthening of the individual cooperatives and the respective Federations would give a solid base for a completely independent cooperative movement.

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SECTION V - PROJECT JUSTIFICATIONA. Agriculture in the Dominican Republic

The greatest impact which cooperatives can have on Dominican economic growth is in the agricultural sector. The Dominican economy today still rests on an overwhelmingly agricultural base. About 57% of the population is engaged in farming and the majority of the country's exports consist of agricultural products. Sugar is the most important crop, accounting for almost one-half of total foreign exchange earnings. Industry in the Dominican Republic is also strongly agriculturally oriented: refined sugar, tobacco, beverages, and other food products account for almost 80% of manufactures. Agriculture, however, has not maintained its share in the growth of the national product. Between 1960 and 1964 agricultural and livestock primary production fell from 29% to 23% of GNP.*

The most important common denominators of agricultural problems in the Dominican Republic are low levels of productivity and a high rate of unemployment. Low levels of productivity in the Dominican agricultural sector are the result of a number of related factors, which include: (1) land fragmentation, (2) price exploitation, and (3) high cost of credit.

Land fragmentation, common in many LDC's, reduces the average size of large numbers of holdings to uneconomic scale. It ultimately forces the small farmer into mere subsistence production and fatally weakens his chances of obtaining credit and marketing facilities at reasonable cost.

USAID/Agriculture estimates that 75-80% of all agricultural production comes from farms of 20 acres or less, and that there are more than 350,000 farmers in this group. The overall agricultural growth goal proposed by USAID - 7% growth per year over the next five years for crops other than sugar cane and coffee - and the individual crop production goals (page 47 PM), cannot possibly be met unless agricultural cooperatives grow, learn new production techniques, and produce more for domestic production and export. Secretariat of Agriculture, IDECOOP, and USAID technicians are convinced that this growth can and will take place. An indispensable element of this growth is cooperative credit.

* IMF Report

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The individual Dominican farmer must pay high retail prices for his production necessities, such as fertilizers, insecticides, bags and simple farm tools. These inputs are essential to the growth of agricultural labor productivity. His income and standard of living are also depressed by the high retail prices of consumer goods, the lack of adequate product transportation facilities and the dubious practices of many middle men. Often products are transported to the nearest buyer by hand, mule pack and truck, only to be weighed on rigged scales.

Normal agricultural credit for small farmers is not sufficiently available in the DR and the cost of obtaining such credit may run as high as 20% per week. The Banco Agricola does not have sufficient resources to provide large amounts of credit to such farmers since approximately 70% of its resources are lent, at about 8% annual interest, to medium and large size farmers, who can offer more security for loans. This unavailability of credit, often combined with unsuitable terms, prevents many small Dominican farmers from investing in production inputs that can significantly raise their productivity. (See discussion of Ag Bank in Issues Section in Summary and Recommendations.)

The following table developed within the USAID agricultural development division shows the estimated new credit needed to achieve necessary production increases in certain priority crops (see page 47 PM). To participate in these production programs, it is necessary that cooperatives have available credit sources, over and above the minimal credit made available by USAID local currency inputs over the past year. (It should be noted that estimated peso investment in the Table below are only for new production investments, and are in addition to those of the previous year or years.)

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Estimated Cost of Projected
Production Increase by Priority Crops (Pg. 47 PM)

Crop	1968		1969		1970	
	Increase (in M/T)	RD\$ Cost	Increase (in M/T)	RD\$ Cost	Increase (in M/T)	RD\$ Cost
Beans	10,000	\$ 880,000	5,000	\$ 440,000	5,000	\$ 440,000
Onions	2,000	107,128	1,000	53,565	1,000	53,565
Peanut Oil	6,800	967,238	7,200	1,024,132	5,600	796,545
Grain						
Sorghum	11,000	387,200	9,000	316,800	26,800	943,360
Rice	12,000	117,334	24,000	234,666	26,000	254,222
Tomatoes ^S	800	27,866	400	13,933	1,300	45,284
Tomatoes ^P	32,400	471,542	17,000	218,307	-	-
Pigeon Peas	1,800	108,900	900	54,450	900	54,450
Corn	9,000	576,000	7,000	448,000	2,000	128,000
Platano	23,000	463,848	24,000	484,001	25,300	510,216
Potatoes	6,000	507,690	1,000	84,615	1,000	84,615
Garlic	600	182,763	100	30,461	100	30,461
Total		\$ 4,797,509		\$3,402,903		\$3,340,718

B. Role of Cooperatives in Agricultural Development

The USAID agricultural program attempts to deal with two dominant aspects of the agricultural problem in the Dominican Republic. On one hand the simple need for greater production of certain existing and new crops and second, the economic and social consequences of the high percentage of Dominicans living in rural areas on small plots of poorer land, frequently not owned and, therefore, apparently locked into subsistence production patterns. The proposed project should produce positive results in both areas and affords an opportunity to obtain wider participation in the USAID effort by the small farmer, thereby transforming some of the inactive rural population into active economic forces. By strengthening and expanding the Dominican cooperative sector, it will contribute to the country's economic development through (1) increased production and, particularly in agriculture and related activities, (2) an increase and redistribution of income, and (3) an increase in capital accumulation.

Through the pooling of its members' resources and enhanced buying power through group action, cooperatives are able to obtain technical and financial support which would not be available to their individual members. Such technical and financial assistance should result in production and a concomitant lowering of unit production costs. The resulting increase in the incomes of cooperative members should effect a significant redistribution of income. With increased cooperative income and the requirements and incentives introduced by cooperatives, savings and investment for development purposes will increase.

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This description is particularly appropriate for countries like the Dominican Republic whose economies are primarily based on agriculture. Table 4 shows the difference in income in the Dominican Republic attributable to the different prices individuals would have received as members and non-members of cooperatives for key agricultural products during the last crop year. Mainly through their storage, processing and marketing functions, incorporated and unincorporated agricultural cooperatives in 7 major crops were able to raise their members' income about 40%, or RD\$3 million (per capita about RD\$380). These gains, however, are probably greater since they do not include any increases in productivity.

Recent examples of specific cooperative successes in the Dominican Republic are readily available. The most recent and striking example involves the formation of an onion cooperative to warehouse the onion harvest of one of the most productive agricultural areas of the Dominican Republic.* This has resulted in a gain for each coop member of about RD\$1,000 or three times his income in a normal year. Other recent examples include coffee mill and production cooperatives which have increased the prices which their members receive for their coffee by more than 50% through the elimination of the profits made by middle men and non-cooperative mills. Similar gains have been made in the field of rice mill cooperatives. In some instances, income not only increased 40%, but productivity increased significantly. This has been an important factor in increasing rice production in the Dominican Republic to a point where rice no longer has to be imported in major quantities throughout the year.

As of December 31, 1967, there were 227 incorporated cooperatives and credit unions in the Dominican Republic, with about 28,647 members and an FY 1967 sales and transactions volume of RD\$11.0 million. In addition, there were 206 unincorporated cooperatives and credit unions with 10,078 members and an FY 1967 sales and transactions volume of about RD\$7.6 million. The net profits of incorporated and unincorporated cooperatives and credit unions in FY 1967 are estimated to be about RD\$400,000 and RD\$256,000, respectively.**

*Prior to the formation of this cooperative, the price and production of onions fluctuated with the harvesting cycle. During harvest periods, onion prices fell below production costs and farmers were either forced to sell at ridiculously low prices or to see their harvest rot in the fields. During other times of the year, prices for onions reached astronomical figures and required importations from the US to both reduce internal price levels and to supply a staple of the Dominican diet. With adequate warehousing facilities, the coop has been able to release over a longer period of time sufficient quantities of onions to keep the price in the period following the harvest season at a fair level and to supply the market during most of the off-season.

**Table 5 provides a graphic presentation of the scope, earnings and income of the DR cooperative sector. It should be emphasized that these are estimated figures since IDECOOP does not compile this data on a regular fiscal year basis.

TABLE 4

ESTIMATED DIFFERENCE IN INCOME ATTRIBUTABLE TO MEMBERSHIP IN
AGRICULTURAL COOPERATIVES a/

Crop	1966-1967 Production (quintales) <u>b/</u>	Price Re- ceived by Nonmembers (RD\$/quintal)	Price Re- ceived by Members (RD\$/quintal)	Income at Nonmember Prices (RD\$)	Income at Member Prices (RD\$)	Members' Income Gain (RD\$)
<u>Tobacco</u>						
1-Piloto Cubano	10,500	30	44	210,000	462,000	252,000
2-Dom. Aromatic	45,000	25	28	1,125,000	1,260,000	135,000
3-Criollo	57,800	13	15	751,400	867,000	115,600
<u>Beans</u>	80,550	7	10	563,850	805,500	241,650
<u>Corn</u>	188,000	1.88	2.50	353,440	470,000	116,560
<u>Rice</u>	420,840	8	12	3,366,720	5,050,080	1,683,360
<u>Cacao</u>	14,640	8	13;17 <u>c/</u>	117,120	233,280	116,160
<u>Coffee</u>	27,720	20	27	554,400	748,440	194,040
<u>Plantains</u>	20,000,000 <u>d/</u>	11 <u>e/</u>	15 <u>e/</u>	220,000	300,000	80,000
TOTALS				7,261,930	10,196,300	2,934,370

a/ Includes both incorporated and unincorporated cooperatives.b/ 1 quintal = 100 lbs.c/ Different prices were received by incorporated and unincorporated cooperatives.d/ By unit, not weight.e/ RD\$ per thousand.

SOURCE: Based on IDECOOP data.

TABLE 5
 STATISTICAL PROFILE OF
 INCORPORATED AND UNINCORPORATED COOPERATIVES AND CREDIT UNIONS

	No. of Coops	No. of Members	FY 1967 Sales or Transactions Volume (RD\$)	Estimated Net Profits FY 1967 (RD\$)	(Sub-total)
<u>CONSUMER COOPERATIVES</u>					
Incorporated	52	8,199	4,151,400	186,813	
Unincorporated	39	2,284	1,792,800	80,676	<u>267,489</u>
<u>AGRICULTURAL COOPERATIVES</u>					
Incorporated	44	5,508	5,006,764	150,203	
Unincorporated	74	3,763	5,137,404	154,122	<u>304,325</u>
<u>INDUSTRIAL COOPERATIVES</u>					
Incorporated	14	395	695,000	27,800	
Unincorporated	11	415	160,000	6,400	<u>34,200</u>
<u>CREDIT UNIONS</u>					
Incorporated	117	13,895	1,149,000	34,470	
Unincorporated	82	4,266	479,400	14,382	<u>48,852</u>
TOTALS	433	38,725	18,571,768		654,866

Source: Institute of Development and Cooperative Credit (IDECOOP)

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In the agricultural sector, cooperatives can dramatically improve their members' marketing position by acting as bargaining agents in securing markets, by storing, processing and standardizing products, and by jointly organizing advertising, dealer service, and retail outlets. In addition, they can buy fertilizer, insecticides and other inputs in bulk at wholesale prices. By reducing the role of middle men in these activities, cooperatives can directly raise farmers' incomes enabling them to save more and to invest in fertilizer and other productivity-raising inputs.

The example of the onion growers cooperative was mentioned in a preceding section. Another striking example is found in the 400 member cooperative at Yamasa, located in San Cristobal province. Growing cacao, rice, coffee and cigar tobacco, this cooperative has been engaged in a spectacular "operation bootstrap". Before the coop was formed in 1956 the combined annual income of the group was \$69,000. It is now \$200,000. Interest rates on their borrowings have dropped from 60% to 8%. The coop now does its own marketing, thus eliminating another set of middle men. With their earnings plus their own labor they have built rural roads where there were none. They have tripled the number of schools and have raised the literacy rate from approximately 30% to over 70%.

There are 44 incorporated agricultural cooperatives in the Dominican Republic, with a total membership of about 5,508. In FY 1967 these cooperatives sold more than RD\$5 million of produce, and made a net profit of about RD\$150,000. The number of unincorporated agricultural cooperatives is almost twice as great, with a membership of 3,763 and an FY 1967 sales volume of about RD\$5 million. Their net profits for the year amounted to about RD\$154,000.

The consumer cooperative is one of the simplest means available to improve the economic lot of the individual. It is, in effect, a non-profit wholesale distributor which buys consumer products for its members in bulk, thereby bypassing the traditional retailer selling to individual consumers. There are at present about 52 incorporated consumer cooperatives in the Dominican Republic, with almost 8,200 members and an FY 1967 sales volume of more than RD\$4 million, and net profits for the year of about RD\$190,000. In addition, there are about 39 unincorporated consumer cooperatives with almost 2,300 members, an FY 1967 sales volume of close to RD\$2 million, and estimated net profits of about RD\$81,000.

By lowering the prices paid by its members for consumer goods, this type of cooperative represents an effective means of raising real standards of living. Thus, since consumer cooperatives are predominantly organized by lower-income groups, they tend to adjust a highly unequal income distribution in their favor. An example of this function is

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furnished by a scarcity of peanut oil, a basic food commodity in the Dominican Republic, in late 1965. A strike at the peanut factory froze supplies of peanut oil and merchants hoarded the scarce commodity until its price doubled. Consumer cooperatives, however, continued to sell at the old price, thereby raising the real standard of living of lower-income groups relative to that of high-income groups.

AID's experience with credit unions has proved them to be an extremely effective means of mobilizing local rural savings and of reducing the cost of credit to their members. In the Dominican Republic, a group of at least 15 persons is required by law in order to form an incorporated credit union. Each member of the credit union pledges a specified minimum contribution to a joint savings pool. These savings, coupled with the credit unions' borrowing capacity, constitute a revolving loan fund for members. The directors of the credit union determine the lending rate, which in the DR averages 1% per month on the unpaid balance.

The number of incorporated and unincorporated credit unions in the Dominican Republic is almost as large as that of all other types of cooperatives combined:* 117 incorporated credit unions have a membership of about 13,895 with an FY 1967 transactions volume of more than RD\$1 million. The 82 unincorporated credit unions have 4,266 members and had an FY 1967 transactions volume of about RD\$0.5 million. FY 1967 net profits were about RD\$34,500 and RD\$14,400 for incorporated and unincorporated credit unions respectively. The benefits of credit unions in the agricultural sector accrue mainly to small farmers who are unable to obtain low-cost credit from alternative sources. Thus credit unions, like other types of cooperatives, in effect raise the real standard of living of low-income groups.

Cooperatives and credit unions can be equally effective in the industrial sector. Small producers of handicrafts and simple manufactured products stand to gain as much as their agricultural counterparts by organizing into cooperatives. The number of industrial cooperatives in the DR is still relatively small. There are only 14 incorporated and 11 unincorporated industrial cooperatives in the country, with about 400 members in each category and FY 1967 sales volume of RD\$695,000 and RD\$160,000, respectively. These cooperatives have been organized mainly in the production of shoes, clothing, furniture and cigars. FY 1967 net profits were about RD\$27,800 and RD\$6,400 for incorporated and unincorporated industrial cooperatives.

* Although the number of credit unions is large, IDECOOP and the USAID consider that technical assistance for credit unions is needed. (See Section IIIC above).

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Cooperative agro-industries can be an effective means of rural development, especially in their employment-creating function and by serving as a market and stimulus to increased agricultural production. By expanding rural employment and increasing its attractiveness, the growth of such industries will help to combat the rising urban unemployment resulting from large-scale rural-urban migration. Other existing and potential areas of cooperative organization include housing, water supply and electrification.

If effectively organized and operated, agricultural cooperatives, consumer cooperatives, credit unions and industrial cooperatives will bring about a significant improvement in both rural and urban standards of living. By raising income levels and setting minimum standards for saving, they will promote investment. In addition, they will have a substantial impact on agricultural and industrial productivity by supplying the small individual producer with inputs that were formerly beyond his reach, and by cheapening such inputs to larger producers in cooperatives.

The cooperative movement in the Dominican Republic performs not only economic but several important social functions as well. By drawing people together in a joint economic effort, cooperatives help educate them in the simple processes of cooperation, organization and management. By bringing within the small producer's reach new means of production, often involving new production techniques, cooperatives help to further the task of education.

The Dominican campesino is often described as a "marginal" member of his society due to his lack of participation in its social, economic and political growth. The existence of an economically successful cooperative can do a great deal to instill in the campesino a new confidence in his own abilities and in the democratic process by which it is operated. The low-income urban producer, somewhat less marginal than his rural counterpart, benefits similarly. In this way, the cooperative movement reinforces existing AID Title IX efforts.

AID has been directly or indirectly involved in large scale cooperative efforts in other countries in Latin America whose economies are similar to the Dominican Republic's. In Bolivia and Ecuador, for example, it is estimated that agricultural cooperatives have produced a 10-20% increase in the incomes of their members over a relatively short period of time. The importance of cooperatives to economic and agricultural development is also supported by the case of Puerto Rico, a neighboring island which 30 years ago faced many of the same economic problems now confronting the DR. At that time the Puerto Rican economy was principally based on the production of sugar and other tropical agricultural exports. Rural poverty was rife and the majority of the

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rural population contributed little to the country's economic growth. Through a variety of factors, a major one of which was the development of cooperatives in agricultural production, income levels of Puerto Rican agricultural workers increased 100% over a ten-year period.*

C. Federation structure - Private sector representation

At the present time the federation structure of the cooperative movement consisting of a Confederation of Cooperatives, an Agricultural Cooperative Federation, a Consumer Cooperative Federation, Credit Union Federation and a Federation of Tobacco Cooperatives is, at best, a skeletal organization for meeting the needs of the cooperatives and representing their interests on the national level. (See Exhibit 7). As mentioned above, IDECOOP officials are aware of the danger in the extremely weak position of these Federations. IDECOOP has adopted a policy of loaning personnel, primarily promoters, to the various Federations to assist them in meeting the basic needs of their respective cooperatives.

The programming and planning technician, along with the technicians assigned to each of the Federations, will have the responsibility of setting up a timetable and program for putting each of the Federations on a self-financing basis for two basic reasons: (1) to give the cooperative movement a strong, independent voice in the representation of their interests before the government or any other institution and (2) to reduce the need of a government subsidy for the promotion, education, and financing of credit needs. Each of the technicians assigned to the respective Federations will provide the necessary expertise to improve the managerial capability of each institution so that it can independently plan and administer future programs.

A major aid to the capitalization of the agricultural Federation will come from the economic activity generated under this loan. The bylaws of this organization state that 3% of the value of a loan received by a cooperative must be capitalized as shares in a trust fund to be administered by IDECOOP and the Federation. These monies will later form the base of the projected cooperative bank. In addition, 5% of total sales must be capitalized out of net income, 2% of which will be share capital in the Federation and 3% for the capitalization of the individual cooperative.

For the other Federations, the 3% ruling on loan value will apply to all cooperatives who qualify for loans under the credit fund. It will be the objective of the other Federations to also include in their

* As estimated by AID's Puerto Rican advisors. Ecuadorean experience noted in Congress by Senator Nelson.

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by-laws, the means for generating share capital both for the cooperatives themselves and the particular Federation. Part of the responsibility of the technicians hired under this loan will be to implement appropriate capitalization measures.

With the addition of a cooperative bank, as discussed in Section IV, to the strengthening of the cooperative-Federation structure, it is the opinion of all parties concerned that the cooperative movement would be a strong, independent sector of the Dominican economy.

D. Conclusion

The proposed project, by strengthening and expanding the Dominican cooperative sector, will contribute significantly to the country's economic development, particularly in the agricultural sector. With low levels of private domestic and foreign investment, a serious balance of payments problem, and the majority of the population engaged in agricultural activities, development of the agricultural sector is essential to overall economic progress.

The expansion of credit to cooperatives will lead to an improvement and stabilization of income for agricultural and industrial producers. By increasing the purchasing power of these groups, the credit program will promote the development of local markets for low-cost manufactured products. Labor productivity in agriculture and industry will benefit from an expansion of cooperative credit through the availability of new production inputs at lower prices and from the educational functions of cooperatives. Saving and investment will be promoted and the expansion of credit to cooperatives will tend to increase the capitalization of the agricultural and industrial sectors of the economy.

The Mission views the cooperative movement in the Dominican Republic as one of the principal means of introducing democratic institutions at the grass-roots level. The recent spurt in the growth of cooperatives and groups seeking to become cooperatives, the Office of Community Development's efforts to stimulate self-help groups, and the growing interest in the improvement of municipal administration, indicate a national awakening to the fundamental importance of voluntary group action. The support of cooperatives is in conformance with the following stated Mission goal:

"Establish, through community development activities, sub-municipal, grass-roots associations with potential for local organization and self-government."

The support of cooperatives is also an integral part of the Mission's efforts to comply with Title IX of the Foreign Assistance Act.

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The growth of the cooperative movement in the United States has amply demonstrated that strong cooperatives in rural areas can become a motivating force for area development and improved local government. There is no reason to believe that cooperatives cannot or should not perform similar functions in the Dominican context. At this time, the cooperative movement in the Dominican Republic has already begun to participate in the international cooperative movement and to develop especially strong ties with its US counterpart.

One of the chief US economic assistance objectives is to bring about a "more equitable income distribution, and increasing opportunities for participation of the common man in all aspects of national life." Since, as has been pointed out in the financial analysis, cooperatives tend to help the individual farmer, fisherman, consumer, and manufacturer by regulating and controlling prices to the established retailers, middle men and commercial lenders, the promotion of more and better administered cooperatives is one of the principal means open to the Mission to improve income distribution.

The social functions of cooperatives have already been referred to above. They will contribute significantly to increasing the scope of the common man's participation in Dominican national life. Voluntary cooperative associations are the most effective available means by which small Dominican producers can make their voices heard in what is still a relatively oligarchic rural economy. The Mission considers the cooperative movement to be an effective multi-pronged approach to raising agricultural and industrial income, productivity, and participation in the Dominican economy. Present trends indicate that the need and the demand for cooperatives in the Dominican Republic, and especially in the rural areas, will continue unabated over the next few years.

SECTION VI - FAA SECTION 611

The plans and cost estimates necessary for the execution of the project are considered to be adequate to reasonably determine the amount of US assistance required to carry out the proposed project successfully.

SECTION VII - IMPACT OF PROPOSED LOAN ON PRIVATE SECTOR

The entire project is aimed at increasing the private cooperative sector. Although part of the funds lent to the GODR will be used to pay for equipment and training for IDECOOP employees, most of these funds will be used to provide technical support and credit to private groups.

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SECTION VIII - PROSPECTS FOR REPAYMENT AND IMPACT ON US ECONOMY

Based on the current experience of the USAID Mission, the project committee feels that there is a reasonable probability that these loans will be repaid. (This subject is treated more fully in Section VIC of the Education Sector Loan Proposal).

The US procurement provided for in these loans will be of direct benefit to the US economy. The cooperative and agricultural development stimulated in the Dominican Republic will not have an adverse effect on the US economy.

SECTION IX - IMPLEMENTATION PLANa. Loan Implementation

This project will be carried out for the GODR by IDECOOP with a large technical assistance complement and guidance from the USAID Mission to the Dominican Republic. No particular implementation problems are envisioned by the USAID.

IDECOOP has presented its budget to the GODR which includes the addition of approximately 35 people to its staff to provide the base of manpower to undertake this expanded program. The loan agreement with the GODR will contain a covenant binding the GODR to contribute at least RD\$720,000 annually for the operational budget of IDECOOP. Loan disbursements will thus depend on the receipt by IDECOOP of the budget amount prorated on a monthly basis.

b. Recommended Conditions Precedent to Disbursement

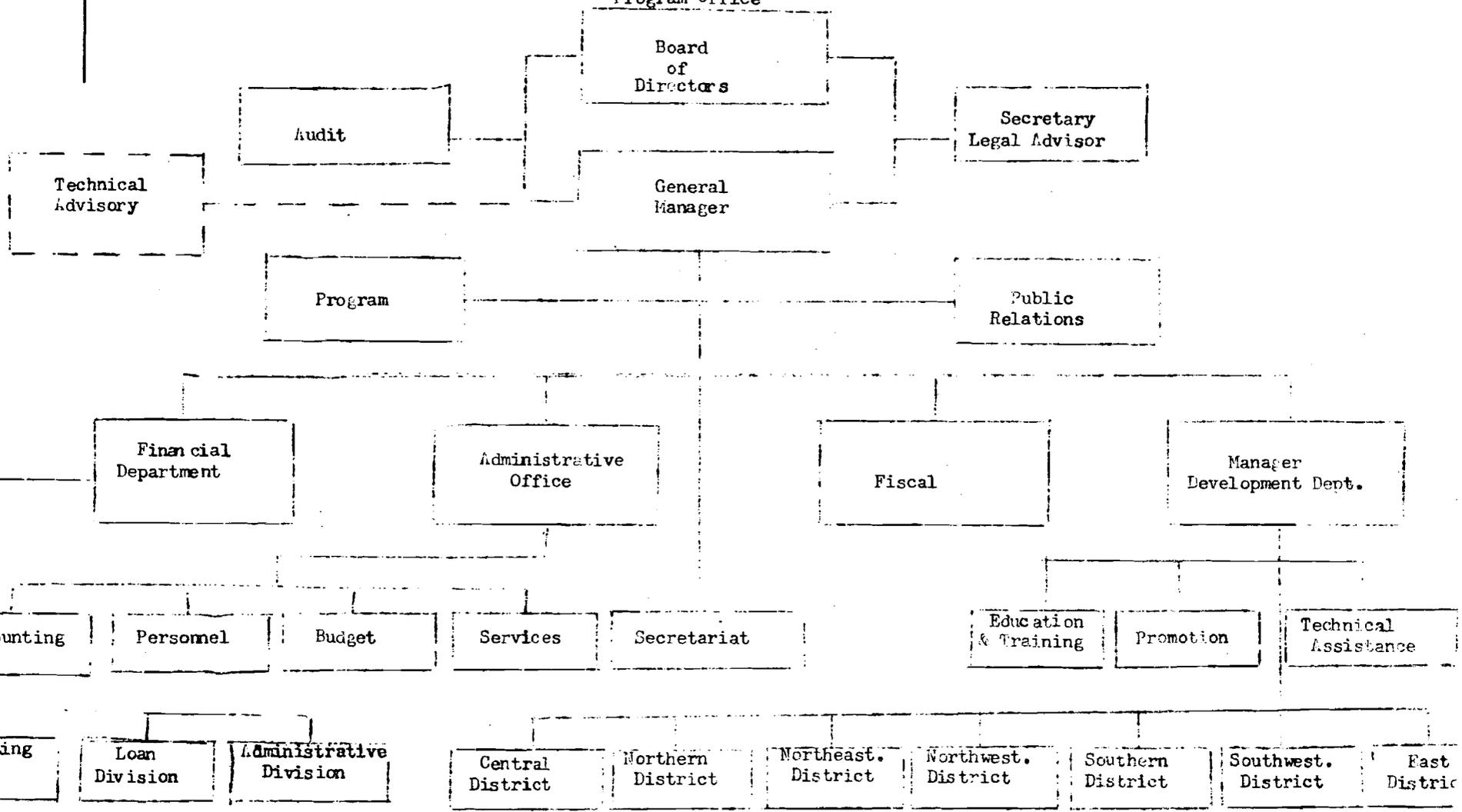
1. Usual legal requirements in a form satisfactory to USAID (legal opinion, borrower's representative, etc.).
2. Evidence that the GODR has approved the IDECOOP budget of RD\$720,000 per year and has started disbursements accordingly.
3. Evidence that IDECOOP has a sufficient, adequately trained staff to meet the requirements of an expanded promotion program.
4. Policies and standards in a form satisfactory to USAID which IDECOOP will apply in making loans from the promotion credit fund.
5. Evidence that the credit fund lending policies will be in keeping with established GODR crop priorities.
6. Evidence that the technical assistance for IDECOOP and the cooperative movement has been arranged and will arrive within a reasonable period of time.

c. Additional Conditions

1. The credit funds provided under the loan agreement, and the repayments (both interest and principal) deriving from sub-loans, can be lent only to production or production-related cooperative projects.
2. Any sub-loan made to a cooperative with an outstanding debt balance of RD\$15,000 or more, or a new sub-loan for RD\$15,000, must receive AID concurrence.

3. The refinancing of any subloan must have USAID concurrence.
4. The interest rate structure applicable to sub-loans will be 3% to IDECOOP, 2% to the appropriate federation, and 1% to the individual cooperative. Any interest rate change will be subject to IDECOOP and USAID approval.
5. Each cooperative receiving a sub-loan must capitalize at least 3% of the value of the sub-loan to be placed in a trust fund administered under IDECOOP and the appropriate Federation.
6. The trust fund, derived from the capitalization of 3% of each sub-loan, will automatically pass as cooperative share capital to the cooperative bank, upon incorporation of said institution.
7. The disbursement of loan funds above RD\$2,000,000 will be subject to a detailed review of the credit operation by USAID.
8. USAID shall have the right, from time to time, to declare certain crops as ineligible for financing under the loan agreement.
9. IDECOOP will coordinate its effort of agricultural loans with the Secretariat of Agriculture, Agrarian Reform, Office of Community Development, Ag Bank, and any other institutions working in this field.
10. IDECOOP will establish within a reasonable time an efficient statistics facility to provide information and data on cooperative activities.
11. IDECOOP will furnish USAID with a copy of any outside study or report concerning its internal organization and will consult with USAID regarding any steps it plans to take to implement any recommendations contained in such a study or report.
12. Upon incorporation of a cooperative bank and attaining paid-in share capital of at least RD\$250,000, IDECOOP and USAID will agree upon a mutually satisfactory transfer of at least RD\$2,000,000 of the credit fund to the cooperative bank as an increase to its lending capacity.
13. USAID shall have the right at all reasonable times to inspect the program, the utilization of all goods and services financed under the Loan, and the Borrower's books, records, and other documents applicable to the Loan.

DOMINICAN REPUBLIC
DEVELOPMENT AND COOPERATIVE CREDIT INSTITUTE
Program Office



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FINANCE DEPARTMENT

ACCOUNT OF PERSONNEL BY SECTION AND CATEGORY

Office of the Deputy Financial Manager
(General Manager):

NAME & BIOGRAPHICAL DATA

TITLE

Ramon Emilio Savinon: 38 years of age. Controller, graduated from the Banking and Commerce School of Mexico. Among other positions, he has occupied those of Director of the Department of Credit of the "Corporacion de Fomento Industrial"; Director of the Industry Dept. of the "Corporacion de Fomento Industrial"; Deputy Financial Manager of IDECOOP.

Deputy Financial Manager
(General Manager)

Guillermo Augusto Taylor Freeman: 57 years of age. Certified Public Accountant; University degree in Economics; Licensed Secondary School Teacher. He has, among other positions, occupied those of: Inspector of Public Education; Special Professor at the "Universidad Autonoma de Santo Domingo"; Internal Revenue Inspector; IDECOOP Loan Officer, and Director of the IDECOOP Credit Department.

Controller of the Finance
Department

Office of the Comptroller:

Lic. Guillermo A. Taylor F.
University degree in Commercial Science;
Certified Public Accountant

Comptroller

Pablo Cesar Soriano Mena: High School degree; Commercial and Accounting course.

Accountant

Candido Martinez Taveras: High School degree; Commercial and Accounting course

Assistant Accountant

Loan Department:

Lic. Miguel Angel Hernandez Sepulveda

Accountant

33 years of age. Certified Public Accountant, graduated from the Autonomous University of Santo Domingo with a degree of Licenciado in Commercial Sciences. Has a Certificate of Assistance to the Agricultural Marketing course sponsored by the Secretariat of Agriculture and also for the course in Project Evaluation sponsored by the Banco Central of the Dominican Republic and the InterAmerican Development Bank (IDB). He has held the following positions: Accountant in the Secretariat of Labor, Inspector Accountant in the old Inspection Department of IDECOOP, Head of the Credit Department.

Lic. Alberto Andujar Ozuna: Certified
Public Accountant

Accounting Analyst

Lic. Eliseo Ant. Nataniel C.: Certified
Public Accountant

Accounting Analyst

Castor Jimenez Soler: High School degree;
Marketing Specialist

Marketing Assistant

SOURCE: Institute of Development and Credit Cooperative (IDECOOP)

Santo Domingo, D.R.

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USAID AND GODR ASSISTANCE TO IDECOOP*

1963 - 1967 ^{1/}

<u>Year</u>	<u>Total</u>	<u>US</u>	<u>GODR</u>	<u>AGREEMENT</u>	<u>PURPOSE</u>
1963	396,564	160,000		Loan No. 001 (\$25m.), Agree- ment No. 25, 1/30/63.	Loans to cooperatives. Technical Assistance to cooperatives.
		113,000		FY 1963 Technical Assistance Grant	
			123,564	-	Operating expenses.
1964	552,598	-	552,598	-	Operating expenses.
1965	318,028	-	318,028	-	Operating expenses.
1966	919,666	500,000		Loan No. 011, (\$40 m. Supporting Assistance), Investment Agreement No. 10, 8/10/66	Cooperative credit, promotion and misc. IDECOOP expenditures.
			319,666	-	Operating expenses.
			100,000	-	Consumer cooperative credit and promotion.
1967	915,434	330,100		Loan No. 011, Investment Agreement No.26, 3/29/67	Hurricane relief loans to coffee cooperatives.
			300,000	-	Operating expenses.
		100,000		Inv. Agreement No. 10, 9/18/67	Rehabilitation of cacao.
		185,334		Inv. Agreement No. 8, 15/4/67	Rehabilitation of plantains
<u>TOTALS</u>	<u>3,102,290</u>	<u>1,388,434</u>	<u>1,713,856</u>		

^{1/} As of Dec 31, 1967

* RD\$1.00 = US\$1.00

Source: USAID and IDECOOP

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IDECOOP
 GENERAL REVOLVING CREDIT FUND
 ANALYSIS OF LOANS OUTSTANDING
 (as of 31 January 1968)

<u>Cooperative</u>	<u>Loans Approved</u>	<u>Loans Pending 31/12/67</u>	<u>Less than 30 days</u>	<u>30 - 60 days</u>	<u>60 - 90 days</u>	<u>90 - 180 days</u>	<u>180 days - 1 year</u>	<u>1 year or more</u>
Espailat, Inc.	55.000	10.000				5.000	5.000	
Canca Reparacion	6.000							
El Roblegal	34.000	12.100		12.100				
Caficultores Bani	31.240	31.240	7.186	24.054	9.998	1.077	3.993	2.515
IDSA	176.076	160.146		5.825	9.000			
FETAB	74.410	144.320						
El Amparo	12.000							
La Altagracia	12.655	8.277		2.591				
Tenares	3.608	2.405	1.024					
San Isidro	14.844	14.844				1.500		
Fed. Dom. Coops	1.000							
Monte Llano	9.800	9.800						
Juan Caballero	13.980	12.980	10.260					
Criadures del Cibao	6.700	5.025						
Santa Ana	700							
Fed.Nac.Coops Agrops, Inc.	50.000	35.000		15.000				
La Altagracia	<u>5.000</u>	<u>5.000</u>						
TOTALS:	507.013	451.137	18.470	35.516	9.000	7.577	8.593	2.515
Percentage of Portfolio Outstanding:			4.1%	7.9%	2.0%	1.7%	1.9%	.56%

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IDECOOP EDUCATION PROGRAM
 (1969)

<u>Type of Course</u>	<u>Duration of Course</u>	<u>Number of Courses</u>	<u>Cost (RD\$)</u>
Cooperative Extensionists	30 days	1	6,000
	1 day	12	1,200
Cooperative Directors	30 days	4	24,000
	15 days	3	4,500
	5 days	9	5,500
Cooperative Managers	30 days	2	12,000
Cooperative Treasurers and Bookkeepers	30 days	2	12,000
Cooperative Marketing Supervisors	30 days	1	6,000
Federation and Confederation Directors	2 days	1	760
	1 day	10	570
Cooperative Members	5 days	4	2,500
	3 days	14	8,400
	1 day	<u>53</u>	<u>5,300</u>
Total		116	88,730

Resume of persons trained:

Cooperative Extensionists:	40
Cooperative Directors:	420
Cooperative Managers:	80
Cooperative Treasurers and Bookkeepers:	80
Cooperative Members:	<u>3,420</u>
Total	4,040

IDECOOP EDUCATION PROGRAM
 (1970)

<u>Type of Course</u>	<u>Duration of Course</u>	<u>Number of Courses</u>	<u>Cost (RD\$)</u>
Cooperative Extensionists	30 days	1	6,000
	1 day	12	1,200
Cooperative Directors	30 days	2	12,000
	15 days	3	4,500
	5 days	5	3,000
Cooperative Managers	30 days	2	12,000
Cooperative Treasurers and Bookkeepers	30 days	2	12,000
Marketing Supervisors	30 days	1	6,000
Federation and Confederation Directors	2 days	1	760
	1 day	10	570
Cooperative Members	5 days	8	5,000
	3 days	14	8,400
	1 day	<u>53</u>	<u>5,300</u>
Total		105	76,730

Resume of persons trained:

Cooperative Extensionists:	40
Cooperative Directors:	420
Cooperative Managers:	80
Cooperative Treasurers and Bookkeepers:	80
Cooperative Members:	<u>3,410</u>
Total	4,030

IDECOOP EDUCATION PROGRAM

(1969 - 1970)

Equipment Request:

<u>Item</u>	<u>Number</u>	<u>Total Cost</u>
Slide projectors	10	\$ 1.195 (US)
Portable Power Plants	10	\$ 2.640 (US)
Portfolios - Educational material	20	\$ 1.000 (RD)
Motion Picture Projectors	4	\$ 2.200 (US)
Portable Megaphones	10	\$ 1.250 (US)
Flannelboards	20	\$ 500 (RD)
Library Equipment various items		\$17.000 (US)
Subtotal		25.785

Materials Request:

Pamphlets	205,700	\$10,285 (RD)
Wall posters	10,000	500 (RD)
Sheets of paper	50,000	\$ 1.000 (RD)
Books and Manuals	1,035	\$ 2.070 (RD)
Motion pictures	14	<u>\$ 4.900 (US)</u>
Subtotal		<u>18.755</u>
TOTAL		<u>44.540</u>

(TOTAL US)

(29.185)

UNCLASSIFIED

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Confederation and Federation Structure

Present Staffing Pattern

(15 March 1968)

Confederation of Cooperatives (Represents national coop movement and
coordinates federation activities)

- 1 Executive Director
- 1 Director of Education and Assistant
- 1 Director of Promotion
- 1 Typist

Income in 1967 - \$37,382 (\$28,918 donated by International
institutions)

Credit Union Federation (represents 71 incorporated credit unions)

- 1 Executive Director
- 1 Secretary-Accountant
- 2 Extensionists (paid for by IDECOOP)

Income in 1967 - \$16,260

Agricultural Cooperative Federation - (Represents 20 Ag cooperatives and the
Tobacco Coop Federation)

- 1 Executive Director
- 1 Auditor
- 1 Bookkeeper-Secretary
- 3 Administrators (3 coffee warehouses)
- 4 Extensionists (2 paid for by IDECOOP)

Income in 1967 - \$7,450 (Legally constituted in June 1967)

Consumer Cooperative Federation - (Represents 44 incorporated cooperatives)

- 1 Executive Director
- 1 Secretary-Accountant
- 2 Extensionists (paid for by IDECOOP)
- 1 Messenger

Income in 1967 - \$14,530

Santo Domingo Warehouse (Managed by Exec. Dir. of Federation)

- 1 Despatch Agent
- 1 Accountant
- 1 Truck Driver
- 1 Typist
- 1 Laborer

La Vega Warehouse

- 1 Manager
- 1 Accountant
- 1 Typist
- 1 Despatch Agent

SAMPLE OF ACTIVITIES BY PERSONS WHO HAVE
ATTENDED IDECOOP COURSES

1. Sr. Francisco Guerrero Andujar
Member of Board of Directors of Ag. Cooperative "San Antonio"
Deputy to National Congress
2. Sr. Reinaldo Cruz
Ex-President, Agricultural Cooperative "Espaillat"
Candidate for Town Council-Villa Trina
3. Sr. Jose Antonio Moreno
Director - School of Cooperatives, Pedro Henriquez Urena University
4. Sr. Guillermo Augusto Taylor
Professor of Economic Policy in Economic Development,
Pedro Henriquez Urena University/
Professor of Cooperative Administration-PanAmerican Union
5. Sr. Arturo Felix
Community Leader - Barrio "Maximo Gomez" - Santo Domingo
6. Sr. Buenaventura Garo Terrero
Community Leader - Enriquillo, Province of Barahona
7. Sr. Efrain Javier Batista
Member of the Board of Directors - Consumer Cooperative "Santa Ana"
Candidate for Councilman in Santo Domingo
8. Sr. Esmeraldo Henriquez
Member of Board of Directors - Consumer Cooperative "Bonao"
Candidate for Mayor of Bonao
9. Sr. Francisco Antonio Abreu
Treasurer - Credit Union "Acacia"
Member of Board of Directors of Catholic Laymans Organization
10. Sr. Manuel de Jesus Luna
Community Leader-Bonao
11. Sr. Pedro Antonio Perdomo
Community Leader and Director of Group for Community Progress.

June 14, 1968

A.I.D. 1240-2 (11-67) DOMINICAN REPUBLIC - COOPERATIVE BANK LOAN

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, summarize for each item the information or conclusion requested. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1967.

App.- Foreign Assistance and Related Agencies Appropriations Act, 1968.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA §.208; §.251(b)(1); §.251(b)(5); §.251(b)(6). *Extent to which country is:*

a. *Making appropriate efforts to increase food production and improve means for food storage and distribution.*

a. In recent years there has been significant growth in agricultural production in the Dominican Republic, particularly in food crops for Dominican consumption and exports such as winter vegetables.

b. *Creating a favorable climate for foreign and domestic private enterprise and investment.*

b. The climate for foreign and domestic private enterprise and investment has been steadily improving over the past two years. Several major investments are now being considered or are ready for implementation.

c. *Increasing the public's role in the developmental process.*

c. The public's role in the development process is being encouraged through the programs of the A.I.D. and the GODR.

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d. *Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs.*

d. Dominican expenditures for military purposes have been held at a constant level during recent years and are not for purposes of intervention in affairs of other Free Countries.

e. *Willing to contribute funds to the project or program.*

e. The GODR has indicated its willingness to consider allocating the necessary funds for this purpose.

f. *Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangement, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*

f. The tax yield obtained by the GODR is one of the better in Latin America and significant improvements are continually being made in collection processes. Freedom of expression and of the press, and recognition of other individual freedoms are values which the Dominican Government is promoting on a continuing and more significant scale.

g. *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*

g. The Dominican Republic is adhering to the principles of the Act and Charter.

h. *Responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*

h. The present Government is responsive to the vital economic, political, and social concerns of its people.

2. *FAA §.251(b). Information and conclusion on country's efforts to repatriate capital invested in other countries by its own citizens.*

2. Account has been taken of the extent to which the Dominican Republic is making reasonable efforts to encourage repatriation of capital invested in other countries by its own citizens.

Relations With U. S. and Other Nations

3. FAA §.620(c). *If assistance to a government, existence of indebtedness to a U. S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies, debt is not denied or contested by such government or indebtedness arises under an unconditional government guaranty.* 3. The Dominican Republic is not known to be indebted to U.S. citizens in any such manner.
4. FAA §.620(d). *If assistance for any productive enterprise which will compete in the U. S. with U. S. enterprise, existence of agreement by the recipient country to prevent export to the U. S. of more than 20% of the enterprise's annual production during the life of the loan.* 4. Not applicable.
5. FAA §.620(e)(1). *If assistance to a government, extent to which it (including government agencies or subdivisions) has taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U. S. citizens or entities beneficially owned by them without taking steps to discharge its obligations.* 5. The Dominican Republic has not taken such actions.
6. FAA §.620(j). *Information whether the country permits, or fails to take adequate measures to prevent, the damage or destruction, by mob action, of U. S. property.* 6. Adequate measures have and are being taken by the Dominican Republic in this regard.

7. FAA §.620(l). *Consideration which has been given to denying assistance to a government which after December 31, 1966, has failed to institute the investment guaranty program for the specific risks of inconvertibility and expropriation or confiscation.*

7. The Dominican Republic has signed and instituted such an agreement.
8. FAA §.620(o). *If country has seized, or imposed any penalty or sanction against, any U. S. fishing vessel on account of its fishing activities in international waters, consideration which has been given to denying assistance.*

8. The Dominican Republic has not taken any such action.
9. FAA §.620(q). *Existence of default under any FAA loan to the country.*

9. At the time of preparation of this paper there is no default under any FAA loan to the Dominican Republic.
10. FAA §.620(t). *Prohibition on aid if country has severed diplomatic relations with U. S., unless agreements have been negotiated after resumption of relations.*

10. Not applicable.
11. FAA §.620(u). *Status of the country on delinquent U. N. obligations.*

11. To the best of our knowledge the Dominican Republic is not delinquent on any U.N. obligations.
12. FAA §.209. *Information about multilateral assistance being furnished to the country.*

12. Other international financial institutions are presently providing assistance to the Dominican Republic.

13. FAA §.620(a); App. § 107(a) and (b). *Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes, or permits any ships under its registry to carry items of primary strategic significance, or items of economic assistance, to Cuba.* 13. The Dominican Republic has not knowingly provided any such assistance.
14. FAA §.620(b). *If assistance to a government, existence of determination it is not controlled by the international Communist movement.* 14. The Dominican Republic is not controlled by the international Communist movement; this has been determined by the Secretary of State.
15. FAA §.620(i). *Information on representation of the country at any international conference when that representation includes the planning of activities involving insurrection or subversion against the U. S. or countries receiving U. S. assistance.* 15. The Dominican Republic has not been represented in any international conference that included planning and activities involving insurrection or subversion against the United States or countries receiving U.S. assistance.
16. FAA §.620(n); App. 107(b) and 116. *Compliance with prohibition against assistance to countries which traffic or permit trafficking with North Viet-Nam.* 16. The Dominican Republic does not traffic or permit trafficking with North Viet-Nam.

Military Expenditures

17. FAA §.620(i). *Existence of determination that the country is engaging in or preparing for aggressive military efforts.* 17. No determination has been made that the Dominican Republic is engaging in or preparing for aggressive military efforts.

18. FAA §.620(s). *Information and conclusion whether country is devoting unnecessary percentage of budget for military purposes and using foreign exchange for military equipment.*
18. The Dominican Republic has held its military expenditures to a constant level. Reductions in these expenditures are expected in the future.
19. App. §.119. *Information on reduction in assistance by amounts spent by country for the purchase of sophisticated military equipment.*
19. The Dominican Republic has not purchased sophisticated military equipment.

CONDITIONS OF THE LOAN

General Soundness

20. FAA §.201(d). *Information and conclusion on legality (under laws of country and U. S.) and reasonableness of lending and relending terms of the loan.*
20. A.I.D. development loans at terms similar to this loan have been made in the Dominican Republic. The terms are both legal and reasonable.
21. FAA §.251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness, including information on availability of an application together with assurances to indicate that funds will be used in an economically and technically sound manner.*
21. The technical and economic soundness of the project are described fully in this loan paper. An application has been made by the GODR stressing the priority of this project.
22. FAA §.251(b). *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*
22. There are reasonable prospects of repayment of this loan.

23. FAA §.611(a)(1). *Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost to the U. S. of the assistance.* 23. There are sufficient plans necessary to carry out this project and a reasonably firm estimate of all costs.
24. FAA §.611(a)(2). *If legislative action is required within recipient country, basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.* 24. Other than legislative ratification of the Loan Agreement no legislative action is required by this loan project.
25. FAA §.611(e). *Compliance with requirement that Mission Director certify, with respect to projects estimated to cost over \$1 million, as to the country's capability effectively to maintain and utilize the project.* 25. The certification prescribed by this section is attached to this paper as an Annex.
26. FAA §.251(b). *Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.* 26. Financing from other Free World sources, including other U.S. sources, is not available for this project.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA §.207; §.251(a). *Extent to which assistance reflects appropriate emphasis on:* 27.
- a. *Encouraging development of democratic economic, political, and social institutions.* a. A.I.D. assistance to the Dominican Republic is encouraging the development of democratic economic, political, and social institutions.

- b. *Self-help in meeting the country's food needs.*
- b. Measures taken to meet the Country's food needs are achieving increasing success.
- c. *Improving availability of trained manpower in the country.*
- c. Efforts are continually being made by the GODR and the A.I.D. to improve the trained manpower in the country.
- d. *Programs designed to meet the country's health needs.*
- d. A.I.D. and the GODR have many programs designed to meet the country's health needs.
- e. *Other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.*
- e. Much of A.I.D.'s assistance to the GODR is designed to meet the needs of the sectors referred to in this section.
28. *FAA §.251(b)(3). Information and conclusion on activity's relationship to and consistency with other development activities, and its contribution to realizable long-range objectives.*
28. This loan is consistent with other development activities and and contributes to long-range objectives.
29. *FAA §.251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
29. This project is an essential ingredient for the achievement of self-sustaining growth in the Dominican Republic

30. FAA §.281(a). *Extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic private and local governmental institutions.*
30. Through the improvement of the human resources of the Dominican Republic this loan will contribute to the objective of assuring maximum participation of commodity and local governmental institutions.
31. FAA §.281(b). *Extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in governmental skills.*
31. The answer given to the item above is equally applicable to this item.
32. FAA §.601(a). *Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.*
32. This loan should foster private initiative and competition, encourage the development of local organizations, and improve technical efficiency of industry, agriculture, and commerce.
33. FAA §.619. *Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate.*
33. Not applicable.

34. FAA §.251(h). *Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its review of national development activities.*
34. This activity is consistent with the findings and recommendations of CIAP.
35. FAA §.251(g). *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*
35. This loan is for the purpose of assisting the cooperative movement in the Dominican Republic.
36. FAA §.209; §.251(b)(8). *Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*
36. This program will not directly affect the integration of Latin America.
- Loan's Effect on U. S. and A.I.D. Program
37. FAA §.251(b)(4); §.102. *Information and conclusion on possible effects on U. S. economy, with special reference to areas of substantial labor surplus, and extent to which U. S. commodities and assistance are furnished in a manner consistent with improving the U. S. balance of payments position.*
37. A portion of these loan funds will be used for U.S. goods and services. Over the long term this project will have a beneficial effect on the U.S. economy.
38. FAA §.601(b). *Information and conclusion on how the loan will encourage U. S. private trade and investment abroad and how it will encourage private U. S. participation in foreign assistance programs (including use of private trade channels and the services of U. S. private enterprise).*
38. Not applicable.

39. FAA §.601(d). *If a capital project, compliance with the Congressional policy that engineering and professional services of U. S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.*
39. This requirement will be complied with.
40. FAA §.602. *Information and conclusion whether loan will permit U. S. small business to participate equitably in the furnishing of goods and services financed by it.*
40. Insofar as possible and applicable this requirement will be met and U.S. small business will be permitted to participate in the project.
41. FAA §.620(h). *Compliance with regulations and procedures adopted to ensure against use of assistance in a manner which, contrary to the best interests of the U. S., promotes or assists the foreign aid projects or activities of the Communist-Bloc countries.*
41. This project will not promote or assist foreign aid projects or activities of the Communist-Bloc countries.
42. FAA §.621. *Information and conclusion on how the loan in providing technical assistance will utilize to the fullest extent practicable goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*
42. This loan will make direct use of the technical services available from professional firms and enterprises of the U.S. private sector on a contract basis.

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43. FAA §.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
43. None of the loan funds will go directly to private enterprise; however, this program, as administered by the GODR, will have a direct beneficial effect on the private sector.

Loan's Compliance with Specific Requirements

44. FAA §.608(a). Information on measures to be taken to utilize U. S. Government excess personal property in lieu of the procurement of new items.
44. The customary excess property utilization provisions will be implemented.
45. FAA §.604(a); App. §.108. Compliance with restriction of commodity procurement to U. S. except as otherwise determined by the President and subject to statutory reporting requirements.
45. Procurement under this loan will be limited to the United States and the Dominican Republic.
46. FAA §.604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U. S. at time of purchase.
46. Procurement under the loan will be by competitive bid.
47. FAA §.604(d). Compliance with requirement that marine insurance be placed in the U. S. on commodities financed by the loan if the host country discriminates against U. S. companies.
47. In the event that the Dominican Republic discriminates against any U.S. marine insurance company commodities purchased with loan funds will be insured against risk with a U.S. company as required by this section.

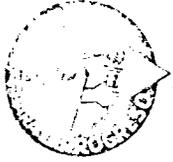
48. FAA §.604(e). *Compliance with requirement that funds not be used for procurement of any agricultural commodity or product thereof outside the U. S. when the domestic price of such commodity is less than parity.* 48. Not applicable.
49. FAA §.611(b); App. §.101. *If water or water-related land resource construction project or program, information and conclusion on benefit-cost computation.* 49. Not applicable.
50. FAA §.611(c). *Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable.* 50. Contracts for construction will be let on a competitive basis to the maximum extent practicable.
51. FAA §.620(f); App. §.109. *Compliance with prohibitions against assistance to any Communist country.* 51. This loan will not assist any Communist country.
52. FAA §.620(g). *Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property.* 52. This loan will not be used to compensate owners for expropriated or nationalized property.

53. FAA §.612(b); §.636(h). Steps that have been taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and that foreign currencies owned by the U. S. are utilized to meet the cost of contractual and other services.
53. Account has been taken of the availability of any local currencies that might be used in this project. Such currencies have been planned for projects which supplement this particular loan proposal.
54. App. §.102. Compliance with requirement that payments in excess of \$25,000 for architectural and engineering services on any one project be reported to the Congress.
54. This requirement will be complied with.
55. App. §.104. Compliance with bar against funds to pay pensions, etc., for military personnel.
55. No loan funds will be used to pay pensions, etc. for military personnel.
56. App. §.106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally, application which will be made in negotiations of contrary principles as expressed by the Congress.
56. No distinctions on the basis of race and religion will be considered.
57. App. §.111. Compliance with requirements for security clearance of personnel.
57. All such personnel will be cleared as necessary.
58. App. §.112. Compliance with requirement for approval of contractors and contract terms for capital projects.
58. These provisions will be fully complies with.

48. FAA §.604(e). *Compliance with requirement that funds not be used for procurement of any agricultural commodity or product thereof outside the U. S. when the domestic price of such commodity is less than parity.* 48. Not applicable.
49. FAA §.611(b); App. §.101. *If water or water-related land resource construction project or program, information and conclusion on benefit-cost computation.* 49. Not applicable.
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56. No distinctions on the basis of race and religion will be considered.
57. App. §.111. Compliance with requirements for security clearance of personnel.
57. All such personnel will be cleared as necessary.
58. App. §.112. Compliance with requirement for approval of contractors and contract terms for capital projects.
58. These provisions will be fully complies with.

59. App. §.114. *Compliance with bar against use of funds to pay U.N. assessments, etc.*
59. Funds will not be used to pay U.N. assessments, etc.
60. App. §.115. *Compliance with regulations on employment of U. S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).*
60. Regulation 7 will be complied with.
61. FAA §.636(i). *Prohibition on financing non-U. S.-manufactured motor vehicles.*
61. Loan funds will not be used to finance non-U.S.-manufactured motor vehicles.
62. App. §.401. *Compliance with bar against use of funds for publicity or propaganda purposes within U. S. not authorized by the Congress.*
62. Loan funds will not be used for publicity or propaganda purposes within U.S.
63. FAA §.620(k). *If construction of productive enterprise where aggregate value of assistance to be furnished by U. S. will exceed \$100 million, identification of statutory authority.*
63. Not applicable.



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

UNCLASSIFIED
AID-DLC/P-725 /A Draft
ANNEX III, Page 1 of 2

UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

LOAN AUTHORIZATION

Provided From: Alliance for Progress Funds
DOMINICAN REPUBLIC: Cooperative Development

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Government of the Dominican Republic ("Borrower") of not to exceed two million six hundred and fifty thousand United States dollars (\$2,650,000) to assist in financing the United States dollar and local currency costs of an agricultural cooperative credit fund ("credit fund"), and technical assistance, training and equipment for the entity administering the credit fund ("IDECOOP"), this loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment. Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period not to exceed ten (10) years. The Borrower shall pay interest to A.I.D. in United States dollars on the disbursed balance of the loan of two (2) percent per annum during the grace period and two and one-half (2 1/2) percent per annum thereafter.
2. Other Terms and Conditions:
 - (a) Equipment, materials and services (except shipping and marine insurance) financed under the loans shall have their origin in and be procured from the United States or the Dominican Republic. Shipping financed under the loan shall be procured from the United States and marine insurance financed hereunder shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.
 - (b) United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee under the Special Letter of Credit procedure and shall be used only for procurement in the United States.

- (c) Prior to first disbursement under the loan, Borrower shall submit evidence of arrangements satisfactory to A.I.D. for technical assistance to IDECOOP and the cooperative movement in the Dominican Republic, and that such assistance will arrive in the Dominican Republic within a reasonable period of time.
- (d) Prior to first disbursement to finance the credit fund, Borrower shall submit a statement of policies and standards, satisfactory to A.I.D., to be used in making subloans from the credit fund; such policies and standards shall assure, inter alia, that utilization of the credit fund will conform with Borrower's crop priorities.
- (e) Borrower shall agree to provide no less than RD\$720,000 annually for the operational expenses of IDECOOP.
- (f) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U. S. Coordinator

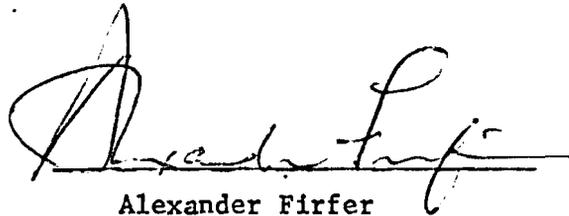
Date

C E R T I F I C A T E

I hereby certify to the Administrator of the Agency for International Development that to the best of my knowledge and belief the Dominican Republic possesses both the financial and human resources effectively to maintain and utilize the project to be undertaken pursuant to the terms of the A.I.D. loan proposed in this paper for Cooperative Development between the Government of the Dominican Republic and the United States of America. In so certifying I have taken into account the maintenance and utilization of projects in the Dominican Republic previously financed or assisted by the United States, and I have more particularly taken into account the demonstrated capability of the Dominican Republic to effectively utilize development projects of this nature.

May 22, 1968

Date



Alexander Firfer
Director
A.I.D. Mission to the
Dominican Republic

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July 14, 1968

SUPPLEMENT

Dominican Republic - Cooperative Development

SUMMARY OF REVISIONS TO THE PAPER

After review of the loan proposal submitted by the Mission, it has been decided that the loan recommendation should be limited to \$2,650,000 at this time. This amount will be used to finance approximately \$650,000 of technical assistance, training, scholarships, and equipment purchases for IDECOOP, as described in the loan paper, and a credit fund of \$2,000,000. The GODR will be required to increase the annual budget of IDECOOP to \$720,000.

This reduction in the proposed amount of the recommended credit funding is responsive to two considerations: (1) the need to limit the total level of local currency funding in the Dominican Republic; (2) the need to give IDECOOP additional time and experience to build up its administrative capacity before committing either IDECOOP or AID to the formation of a Cooperative Bank. The loan paper as presented indicates a reasonable need for credit funds at the \$4 million level. The justification applies a priori to the \$2 million level here recommended.

These loan funds will permit IDECOOP to expand its program of agricultural credit to Dominican cooperatives which will further the development of the cooperative movement, increase agricultural production, and also permit the coop movement to accumulate the necessary capital and attain the administrative experience with which to organize a private coop bank. The question of funding a coop bank will be fully reconsidered after this loan is disbursed when the Dominican coop movement is ready to capitalize the proposed bank. Thus, there will be no mention of a coop bank in the loan agreement signed at this time and the conditions contained in paragraphs #6, 7 and 12 on page 34 will be eliminated from further present consideration.

The interest charge to sub-loan borrowers should be 8%, rather than 6%, and the coops should receive the additional 2% to use for operating expenses or for their required capital accumulations. Negotiations will be conducted with IDECOOP to achieve such an interest rate structure. (This replaces the statement contained in item #4 on page 34).

Accordingly, it is recommended that a loan be authorized the Government of the Dominican Republic of up to \$2,650,000 under the following terms and conditions:

Terms:

- a. Repayment within 40 years from the date of the first disbursement including a grace period of 10 years.

- b. Interest at 2% during the grace period and 2½% thereafter.
- c. Repayment of principal and interest shall be made in U.S. dollars.

Conditions:

- a. Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States or the Dominican Republic. Shipping financed hereunder shall be procured from the United States and marine insurance financed hereunder shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.
- b. United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through Special Letters of Credit and shall be used only for procurement in the United States.
- c. Policies and standards in a form satisfactory to USAID shall be established which IDECOOP will use in making sub-loans from the credit fund.
- d. Evidence shall be submitted to USAID showing that the credit fund lending policies will be in keeping with GODR crop priorities.
- e. Prior to the first disbursement, evidence shall be submitted to USAID that the technical assistance for IDECOOP and the cooperative movement has been arranged and will arrive within a reasonable period of time.
- f. GODR shall provide at least RD\$720,000, annually, for the operational expenses of IDECOOP.
- g. Such other terms and conditions as USAID may deem advisable.

Approved for Presentation
to DLSC: _____

R. W. Richardson