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CLASSIFICATION
PROJECT EVALUATION SUMMARY (PES) - PART I

PD-AAB-699-41
Report Symbol U-447

1. PROJECT TITLE Agricultural Cooperative Development Loan 513-T-065	2. PROJECT NUMBER 513-0277	3. MISSION/AID/W OFFICE USAID/CHILE
4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <u>75-72-3</u> <input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION		

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PHO-AG or Equipment FY <u>75</u>	B. Final Obligation Expected FY <u>75</u>	C. Final Input Delivery FY <u>80</u>	A. Total \$ <u>22,500,000</u> B. U.S. \$ <u>15,000,000</u>	From (month/yr.) <u>April 1975</u> To (month/yr.) <u>June 1975</u> Date of Evaluation Review <u>June 1975</u>

B. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues, cite those items needing further study (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
Close monitoring of IFICOOP's financial status Close monitoring to assure TA benefits to target group	Rural Development Division A. Nathanielsz	Continuing

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/F	_____
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

A. Continue Project Without Change

B. Change Project Design and/or Change Implementation Plan

C. Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER BANKING PARTICIPANTS AS APPROPRIATE (Name and Title)

Ault M. Nathanielsz, Program Officer *(initials)*
 Arturo Urrutia, Rural Development Division
 Manuel Aguirre A., Operations Manager, IFICOOP
 Carlos Paut, Finance Manager, IFICOOP

12. Mission/AID/W Office Director Approval

Signature: *[Signature]*
 Typed Name: Richard F. Apodaca
 Date: _____

13. SUMMARY

The economic conditions of the period 1970-1979 were severe, ranging from rampant inflation to severe depression. Cooperatives which were heavily subsidized before 1973 found all their subsidies removed at a time when the economic seas were the roughest. IFICOOP became over extended in an attempt to assist coops in many fields. The loan program served a vital function in helping IFICOOP stay afloat and in turn helping agricultural coops, on which small farmers depend for marketing, to survive in the severe economic conditions which have marked Chile's recent history.

14. EVALUATION METHODOLOGY

This is a regular annual evaluation. Information was obtained from IFICOOP and from field visits to both borrowing coops and their members. Consultants financed with loan funds were given exit interviews.

15. EXTERNAL FACTORS

In January 1977, IFICOOP's management advised USAID that it was facing serious financial difficulties because of a combination of circumstances and past decisions that adversely affected its operations. Chief among these was IFICOOP's commitment to workers' cooperatives, i. e., enterprises owned and managed in cooperative form by the workers. Arrangements were made for acquisition of several enterprises by workers cooperatives. IFICOOP was involved as guarantor of future payments, as temporary owner until the cooperative could be formed, as lender of operating capital, and as technical advisor. The A. L. D. loan was not used for these predominantly urban-based activities.

By early 1977, IFICOOP management had become aware of some of the shortcomings of the worker cooperative concept, and decided that it would no longer support new ventures and that it would attempt to divest itself of existing holdings. (IFICOOP estimated that approximately \$1.5 million would be needed to put several of its acquisitions into good shape, thereby facilitating disposal at a profit.) But by this time, IFICOOP was in financial difficulty.

With the help of TDY assistance, USAID reviewed IFICOOP's financial situation in depth. By May 1977, it was obvious that IFICOOP had a serious cash flow problem that would require drastic cutbacks in operations.

Subloan processing had become sloppy during the financial crisis.

On July 15, 1977, the Superintendent of Banks appointed a provisional administrator of IFICOOP, granting him broad powers.

IFICOOP's Recovery: Under the provisional administrator, IFICOOP has:

- a) Renegotiated its bank debt with local commercial banks;
- b) Undertaken the liquidation of unprofitable or marginal ventures;
- c) Reduced personnel by over 50%.
- d) Instituted a financial management control system;
- e) Obtained Central Bank financial support; and
- f) Adopted more stringent practices for subloan collection.

USAID collaborated in the financial recovery effort by reimbursing IFICOOP approximately \$1.1 million, reflecting the fact that contributions of subborrowing cooperatives had exceeded the stipulated host country contribution. IFICOOP committed itself to maintain a separate revolving project account to relend A.L.D. funds and the IFICOOP contributions.

The Central Bank extended a short term loan of the peso equivalent of US\$3 million to IFICOOP and later the GOC made a long term loan under concessionary terms (equal to USAID loan terms) of the equivalent of US\$10 million to insure the existence of IFICOOP. Debts of IFICOOP of US\$20 million were renegotiated, its personnel were reduced by 50%.

IFICOOP recommenced operations in November of 1977 since which time it has limited new loans to the more financially stable coops and those with fairly large debts which without infusions of capital would founder but which, if provided, cash and TA could become sound.

At the same time IFICOOP has continued its active participation with A. I. D. in the Cooperative Improvement Grant (Grant 513-0296 Q. V.)

16. INPUTS

Project Inputs were:

- a) "Funding for technical assistance for borrowing coops in cooperative management, business and agricultural technology" and
- b) "Funding for economically viable agro-business projects for cooperatives."

In view of the financial problems described above, the project has proceeded well. IFICOOP has disbursed 80% of the project funds for sub-lending and has utilized 25% of the funds destined for technical assistance. A program for the utilization of the remaining T. A. funds has been agreed upon between IFICOOP and USAID.

A revolving fund of US\$16.2 million composed of US\$14.2 million in loan funds and \$2 million of IFICOOP resources has been created for relending to cooperatives. The \$14.2 contributed by A. I. D. has been disbursed in sub-loans as has \$133,000 in IFICOOP contributions. IFICOOP's contributions are in line with projection.

17. OUTPUTS

Project Outputs were:

- a) "Subloan projects in coop-owned agro-business, agricultural infrastructre (for low-income coop members), and fishing."
- b) "Technical assistance to IFICOOP and borrower cooperatives."
- c) "Office equipment and vehicles and IFICOOP staff."

Separate subloans have been made to 60 different cooperatives for a total amount of approximately \$24.0 million under the loan; including subloans with rollover funds.

Approximately \$44,000 worth of office machines (typewriters and calculators), and a telephone switchboard was purchased by IFICOOP, as originally planned. Motor vehicles originally to be purchased with loan funds were financed with their own resources.

A total of approximately \$230,000 has been spent for technical assistance, and approximately \$13.0 million for subloans.

18. EVALUATION FINDINGS ABOUT PURPOSE

Project Purpose: "To develop a financing and technical assistance system for the creation of improved marketing opportunities for small farmer cooperative members, which will increase their income and increase value added and employment at the cooperative level." Project Purpose has been partly achieved. Although IFICOOP underwent a period of stress when its fate as an entity was in question (see External Factors), it is recovering and there is every prospect of achieving project purpose.

To date, over \$200,000 have been used by IFICOOP's technical assistance unit, for financing feasibility and special studies for primary cooperatives.

\$150,000 of the Technical Assistance portion of the loan is allocated to finance the upgrading of Rural Cooperatives to enable them to more effectively serve their members.

19. EVALUATION FINDINGS ABOUT GOAL/SUBGOAL

The Goal and Subgoals as defined in the project were "To encourage agricultural production in Chile;" and "To improve the standard of living of the Chilean Small Farmer." Progress has been made toward achieving these goals. Loans to Reform Sector farmers are addressed to target farmers and USAID field monitoring of the traditional agricultural cooperatives (i.e., non reform sector) subloan recipients, indicates that the benefit incidence of subprojects on the lower income members of these cooperatives has been high.

Fifty percent of the loan funds have been subloaned to coops composed exclusively of target group beneficiaries - i.e., reform sector farmers, traditional sector farmers and artisan fishermen.

Forty percent of the resources have been subloaned to "mixed" coops i.e., those composed of small, medium and large farmers, however, even in these cases small farmers represent over 50% of the membership. Furthermore, small farmers receiving assistance from other sources (including under loan 067) have found that coops supported under this project to be a vital channel for marketing - i.e., in some cases the only feasible market channel.

20. BENEFICIARIES

Subprojects have had high benefit incidence for the low income cooperative members.

The present economic policies in effect in Chile are designed to stimulate private sector production. Following these policies the lands expropriated during the period of agrarian reform have been sold to individuals and the agricultural infrastructure, i.e., systems for providing inputs and marketing of outputs which had been in the hands of the state, have been sold to the private sector. Cooperative members have received most of these resources either directly as "reformed sector farmers" (recipients of the land divided under the land reform) or as cooperative purchasers of the infrastructure sold off by the state supported by IFICOOP financing.

The impact of cooperatives on the small farmers has been important. The GOC - reasoning that the reformed sector farmers had been given a disproportionate amount of government assistance - i.e., low cost land and other assistance in the past decided that it would not continue this paternalistic policy toward the reformed sector farmers. The GOC subordinated Reform Sector debts to the state for the purchase price of the land so these owners could use their land as security for loans, but coops were virtually the only organizations through which the 35,000 new reform sector farmer-businessmen could receive assistance.

The strengthening of agro-industry coops has provided markets to small farmers without which they would have not been able to survive. Most important among these are the milk processing coops and marketing coops.

21. EVALUATION FINDINGS ABOUT UNPLANNED EFFECTS

No significant unplanned effect resulted from this project.

22. LESSONS LEARNED

IFICOOP moved a substantial amount of new funds into the lower income strata of the agricultural sector at a time financing was extremely scarce. Some cooperatives received more than they could handle and, to some extent, the amount distributed was more than IFICOOP could properly supervise. An Intermediate Credit Institution (ICI) needs to balance developmental loans with profitable loans for a balanced portfolio to avoid high delinquency levels.

23. SPECIAL COMMENTS

Early experience indicated that many of the agricultural cooperatives serving the target group (particularly the multi-purpose coops of the reform sector and the campesino coops) needed operating capital for their traditional activities of input distribution, harvesting, and marketing more urgently than investment capital for agro-industries. Up until 1974, short-term production credit had been available from the public sector, Banco del Estado, and Ministry of Agriculture INDAP at rates of interest less than the inflation rate. IFICOOP believed it could not compete and resisted early A.I.D. suggestions to undertake production credit financing. Once the GOC's credit contraction policies became effective, the real interest rates for agricultural production loans quickly became positive. IFICOOP with A.I.D. encouragement, responded by developing a credit package designed particularly for the reform sector cooperatives. The package provided the cooperatives with credit to redistribute to their members for agricultural production credit with appropriate repayment terms (usually 12 months) and follow-up financing for the cooperative to make necessary marketing arrangements. With this adjustment to its lending program, IFICOOP greatly stepped up its lending activities in line with earlier DAEC urgings.