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FROM . Santiago

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SUBJECT . PROP for Small and Medium Scale Industry Development,
Project No. 513-13-290-210

REFERENCE .

NON CAPITAL PROJECT PAPER (PROP)

Country: Chile Project No. 513-13-290-210

Submission Date: 9/68 Original: X

Project Title: Small and Medium Scale Industry Development

U.S. Obligation Span: FY 1966 through FY 1970

Physical Implementation Span: FY 1967 through FY 1971

Gross life-of-project financial requirements:

U.S. dollars \$294,000

U.S. owned local currency -

Cooperating country cash
contribution N/A

Other donor -

7010
State
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PAGE 1 OF 8 PAGES

DRAFTED BY DS Rogers:ami	OFFICE OPI	PHONE NO 228	DATE 9/5/68	APPROVED Louis G. Sleeper Acting Director
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I. Summary Description

A. The goals of the industrial development portion of the project are to provide assistance to the Chilean Government in establishing a mechanism for promoting the development of small and medium sized industries which will contribute to an expansion of the industrial base, the increased production of goods for local and regional markets, increased employment opportunities, the establishment of a new group of industrial entrepreneurs and the generation and mobilization of savings for investment. The project is in its second year and all activities are currently being carried out by one contract industrial economics advisor. The services of a second contract advisor in industrial engineering were recently completed.

B. The goals of the cooperative development portion of the project aim at providing the Chilean Government, and other appropriate institutions, with technical advisory services to improve their cooperative development programs. This includes assistance in establishing development goals and priorities, planning programs and implementing and evaluating specific projects, as well as providing coordinated liaison between the Mission and the various entities involved in the field. Specific advisory services are also provided to selected cooperatives as this is determined to be beneficial to the overall development program. This activity is being carried out by one CLUSA contract cooperative development advisor who started work in the project in March 1968.

II. Setting

A. Chile's industrial sector has high potential among the major sectors of the Chilean economy to produce good results in terms of growth of output, productivity, employment and value gained for a given amount of investment. Yet there is general agreement that industrial development is proceeding slowly and that the climate for foreign private investment is not favorable.

Among the reasons contributing to this is that industry is heavily concentrated in limited areas, development credits are limited and usually favor established firms, taxes are high, there is excessive red tape and increasing labor/union problems and a national industrial development plan is lacking.

An immediate, important problem resulting from this situation is the inability of the economy to absorb in productive employment the influx of unskilled workers from the rural to industrialized areas with resultant strains on fiscal budgets for social services.

Through the Technical Cooperation Service (SCT), a branch of the Chilean Development Corporation (CORFO), the Mission initiated a two-year project in 1967 to establish an institutional basis for promoting the development of small to medium sized industries in Chile. The objective of the project was to develop procedures and to train people to identify, select, form and promote small and medium sized industries in Chile.

While this project has had reasonable success in establishing the desired institutional base and in developing personnel to carry out the work of promoting small and medium sized industries, the Mission now feels that this effort should be part of a total industry-wide program, and not restricted to small and medium sized industries. As a result, and upon the completion of on-going activities under this project, future efforts in the small and medium industry field will become a part of the larger, overall industry sector development program outlined in the Industrial Sector Planning PROP.

B. The cooperatives portion of this project will continue, however, with one CLUSA contract advisor who will work in the cooperative development field in conjunction with the Cooperative Development Department of the SCT. This advisor has been working for the Mission in Chile since August 1966. He was integrated into the Small and Medium Industries project in March 1968.

The development of production cooperatives, credit unions and savings and loan associations in smaller, now non-industrialized cities also offers opportunities for capital accumulation to support new enterprises in areas needing industrial and social development.

The Chilean Government has expressed an interest in this field. President Frei has stated: "I am convinced that cooperativism is fundamental to development in the construction of housing, in agriculture, in production, and in markets... If there is a movement that expresses the sense of our 'Revolution in Liberty' that is cooperativism." It is estimated that the

increase of cooperatives has been between 40-50% during the Frei Administration, reaching a numerical figure of over 1,700 individual cooperatives.

Mission has stressed cooperative development through education and leadership training, the organization of campesino cooperatives and cooperative development financing in other projects in addition to having contributed to planning and financing cooperative savings and loan and national rural electrification programs.

Because of the continued need for participation in the overall field, Mission created in 1968 this new advisory position which would incorporate a broader scope of services and responsibilities and provide increased cooperation between U.S. and Chilean cooperative development activities.

III. Strategy

A. The Mission will continue to assist in expanding the industrial base in Chile as a way of accelerating economic and social development of the country. Activities started in SCT under this project will continue until March 1969 when the remaining industry advisor will complete his work and depart. Future advisory services in industry would be provided under the proposed Industrial Sector Planning project.

With the shift of emphasis in the industrial sector to a new project, the Mission plans to broaden the scope of the present cooperative development sector of the project now being carried out in the SCT.

It is planned that the cooperatives advisor will expand his activities into a multiple role of advising, reporting, evaluating and making recommendations on cooperative development for the Chilean Government and for the Mission, as well as continuing to be directly available to the SCT to assist them in planning and implementing their cooperative development activities.

It is further planned that the advisor's responsibilities will include a concentrated effort to bring about closer coordination of the total cooperative development program of the country by acting as a technical liaison expert between the Mission, the Chilean Government and other agencies with responsibilities for significant specific cooperative development activities.

IV. Planned Targets, Results and Outputs

A. Work on the small and medium industry development portion of the project will continue with the SCT until the departure of the remaining advisor. Both industrial advisors have concentrated their efforts on:

- 1) Consolidating and terminating work projects already begun in SCT;
- 2) Providing some advisory service to CORFO's Industrial Sector Planning Office;
- 3) Advising the Mission on overall industrial sector matters;
- 4) Assisting the Mission on specific industrial sector and economic studies.

B. The cooperative development advisor will direct his attention to:

- 1) Improving the coordinating capacity of Chilean cooperative development agencies, giving primary assistance to the SCT and its Cooperative Development Department, which functions as the Executive Secretary of the National Cooperative Coordinating Commission.
- 2) Providing advisory assistance to strengthen the administration and coordination of government agencies and to cooperative movement organizations.

At the government level assistance will be given to the Department of Cooperatives of the Ministry of Economy, Corporación de la Reforma Agraria (CORA), Instituto de Desarrollo Agropecuario (INDAP), and Empresa de Comercio Agrícola (ECA), and in the cooperative movement to the National Confederation of Cooperatives, Instituto de Financiamiento de Cooperativas (IFICOOP), sector federations, auxiliary agencies and selected primary level cooperatives.

- 3) Increased reporting and evaluation of cooperative development activities for the Mission.

- 4) Making recommendations for development goals to the Mission in areas where new or expanded inputs might be desirable.

In all areas of responsibility the major goal will be to effect improved coordination of total cooperative development activities and to obtain the most effective use of available resources.

V. Course of Action

A. During the remaining months that the industry advisor will be on board he will concentrate his activities in the following areas with SCT and CORFO:

- 1) Assist in establishing an equity investment fund for loans to small and medium entrepreneurs.
- 2) Complete an ongoing cost-effectiveness study for SCT.
- 3) Develop a "functional diagram" for developing plans to be used in CORFO's Industrial Sector Planning Office.

This advisor, an industrial economist, will also advise the Mission on aspects of industrial development, especially as they pertain to initiating the proposed Industrial Sector Planning project.

B. During the next year of cooperative assistance, major emphasis will be on technical assistance and coordination of activities of the SCT and cooperative sector organizations. The advisor will evaluate the potential for structural and operational development and will make recommendations for possible project activities within specific sectors, especially the following:

- 1) Consumer cooperatives.
- 2) Agricultural supply and marketing cooperatives, especially to service small landowners.
- 3) Credit unions which will concentrate on loans for small producers.
- 4) The development of cooperative services in conjunction with labor union development.

The advisor will work directly with the Cooperative Development Department of the SCT, advising that Department's Chief and assisting in all of the Department's development projects. He will be responsible for general reporting on all cooperative development to the Mission and will be available to the Mission and other agencies for advising on other project activities.

As the advisor identifies development potentials that would require technical assistance and/or evaluation by consultants from specialized U.S. cooperative organizations, separate consulting contracts will be arranged. During FY 1969 and 1970 a maximum of eight man-months of consultant services will be anticipated, permitting up to three consultants per year.

Recommendations for consultant services will be accompanied by detailed preliminary studies of the area to be serviced or evaluated, and the consultant's responsibility will be detailed and will be programmed as advance level technical assistance within the cooperative advisory program. Periodic revision of short-term activity targets will be made as advisory services are required and as development activities permit.

A total of 24 man/months of participant training is planned, 12 man/months each for FYs 1969 and 1970.

KORRY

ESPANITA PROJECT FINANCING (OBLIGATIONS IN 0000)

Table 1

Project Title: Small and Medium Industry Development

PROP DATE

9/68

COUNTRY: CHILE

Original

Dev. No.

Project No.

51-11-00-010

Fiscal Years	Ap	1/6	Total	Cont 1/	Financial Inst.			Participations		Subsidies		Other Grants	
					AID	FINA	CONF	U.S. Agency	CONF	U.S. U.S.A.	CONF	U.S. U.S.A.	
Prior through Apr. FY 68	AG	0	187	184	-	-	163	3	-	-	-	-	21
Apr. FY 69	AG	0	57	39	-	-	33	18	-	-	-	-	6
Aug. FY 70	AG	0	50	32	-	-	28	18	-	-	-	-	4
B 1 FY													
B 2 FY													
B 3 FY													
All Subs.													
Total Life	AG	0	294	255	-	-	224	39	-	-	-	-	31

1/ Memoranda (nonadd) column.

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