

# THE JOURNAL OF INTERNATIONAL LAW AND ECONOMICS

Use Of The International Monetary Fund's  
Resources: "Conditionality" And  
"Unconditionality" As Legal  
Categories

*Joseph Gold*

Foreign Assistance Through Private  
Investment: A New Challenge To  
Credit Unions And Other  
Cooperatives

*Jack Dublin*

The Role Of The Board Of Directors In The  
Closely Held Corporation: A Comparative  
Assessment Of Recent Legislation

*Stewart Burbury*

Compulsory Land Acquisitor For New Communities  
And Redevelopment In Great Britain And The  
United States

*Alfred W. Wells*

The Diplomatic Methods To Achieve Minimum  
Order In The Middle East

*W. T. Mallison*

Agricultural Land Development In Liberia

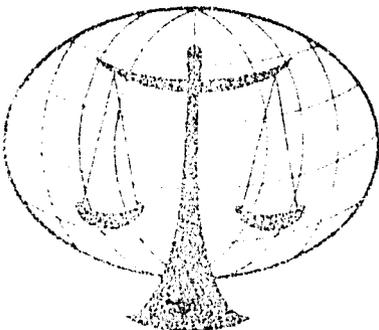
*Robert L. Curry*

Recent Proposals For Trade Legislation: The  
Dilemma Of Limited Propection

The Seabed Arms Limitation Treaty

Jurisdiction—Sovereign Immunity—*South African  
Airways v. New York State Division Of  
Human Rights*

Admiralty—Choice Of Law—The Jones Act—  
*Hellenic Lines v. Rhoditis*



Foreign Assistance Through Private Enterprise: A New....

334 Agency for International Development.  
D814 Foreign Assistance Through Private Enterprise:  
A New Challenge to United States Credit Unions  
and Other Cooperatives. Jack Dublin. 1971.

32 p.

Bibliographic footnotes.

Reprinted from The Journal of International  
Law and Economics, GWU, Vol. 5, no. 1, June  
1971.

1.Cooperatives.2.Credit unions.I.Dublin, Jack.II.Title.

# FOREIGN ASSISTANCE THROUGH PRIVATE ENTERPRISE: A NEW CHALLENGE TO UNITED STATES CREDIT UNIONS AND OTHER COOPERATIVES

Jack Dublin\*

The Agency for International Development (AID) is presently reexamining its relations with U.S. and international cooperative organizations in light of President Nixon's reorganization proposals presented to Congress on September 15, 1970,<sup>1</sup> which emphasized the continued role of the private enterprise sector and called for greater use of multilateral and international agencies in carrying out the United States foreign assistance program.<sup>2</sup> In the author's view the President's message enhances the prospects for U.S. cooperatives to occupy an increasingly important role in the United States foreign assistance program of the 70's, if they can rise to the challenge of foreign investment opportunities.

Part I of this Article reviews the workings of the cooperative development program of AID.<sup>3</sup> Part II discusses certain financing aspects of the program. Part III analyzes the resources of one type of cooperative - the credit union - and examines legal and legislative aspects of credit union overseas investment opportunities.

## *Part I—The Cooperative Development Program of Aid*

### *Cooperatives in Private Enterprise*

The Government program for foreign aid has increasingly included technical assistance and grants or loans to assist private enterprise in the less

---

\* Chief, Cooperative Development Service, Agency for International Development, United States Department of State.

1. AGENCY FOR INT'L DEV., UNITED STATES DEP'T OF STATE, FOREIGN ASSISTANCE FOR THE SEVENTIES, PRES. NIXON'S MESSAGE TO THE CONG., Sept. 15, 1970.
2. The President's recommendations were based largely on the report of the Task Force on International Development (Peterson Report). REPORT TO THE PRES. FROM THE TASK FORCE ON INT'L. DEV., UNITED STATES FOREIGN ASSISTANCE IN THE 1970's: A NEW APPROACH (March 4, 1970).
3. This section of the article is based on a statement presented by the author as United States AID Delegate to the Third International Conference on Technical Assistance to the Cooperatives of Developing Countries, April 1971, Loughborough, England.

developed countries. This has involved the support of United States private enterprise organizations whose technical expertise, and, to a limited extent, capital, have been utilized in the foreign aid program through contracts, grants, and investment insurance and guaranty programs.

One type of private enterprise, typically American in its origin, in its relations with government, and with regard to the services it provides is the cooperative. Cooperatives with their principles of open membership, limited returns on investment, one vote per member regardless of amount of shares owned, no proxy voting, patronage refunds (earnings returned to members on the basis of their participation in the business), and neutrality in matters of race, religion and political persuasion,<sup>4</sup> have been part of the American scene since 1620.<sup>5</sup>

Cooperatives, serving almost every conceivable need for which people are willing to pool their resources,<sup>6</sup> involve some 15 million American families in the ownership and control of these private enterprises which are playing a part in the United States foreign aid program.<sup>7</sup> Credit unions, the most numerous of American cooperatives,<sup>8</sup> outnumber all other United States financial institutions combined<sup>9</sup> and had almost 12 percent of the installment debt business in this country as of December 31, 1969.<sup>10</sup> Other forms of cooperatives participate in a substantial portion of the marketing, production and supply business of American agriculture.<sup>11</sup> In 1967-68, 69 percent of United States dairy products was sold, and 31 percent of the fertilizer was bought through cooperatives.<sup>12</sup> Fifty-two percent of all farms having electricity (other than in states having public power districts) are presently served by electric cooperatives.<sup>13</sup>

Dating from the 1946 Marshall Plan for reconstruction aid to Europe,<sup>14</sup> and the earliest days of the Alliance for Progress designed to help the Latin American countries, United States foreign aid has included

- 
4. J. VOORHIS, *AMERICAN COOPERATIVES* 11-22 (1961).
  5. See J. KNAPP, *THE RISE OF AMERICAN COOPERATIVE ENTERPRISE: 1620-1920*, at 5-6 (1969).
  6. See generally, *Cooperatives in the United States: Facts and Figures*, COOP. REPORT, Sept. 1968 (Annual Statistical Ed.).
  7. *Id.* at 11.
  8. *Id.* at 4.
  9. H.R. REP. No. 1457, 91st Cong., 2d Sess. 1 (1970).
  10. (CUNA Int'l Inc. Publication). 1970 INT'L CREDIT UNION YEARBOOK 3.
  11. See FARMER COOPERATIVE SERVICE, U.S. DEPT OF AGRICULTURE, *FARMER COOPERATIVES AGAIN INCREASE BUSINESS VOLUME* (reprint No. 377 from News for Farmer Cooperatives, Oct. 1970); FARMER COOPERATIVE SERVICE, U.S. DEPT OF AGRICULTURE, *COOPERATIVES NOW AND IN THE FUTURE* (June 1969).
  12. NATIONAL COUNCIL OF FARMER COOPERATIVES, *FARMING BEYOND THE FENCE ROW* (pamphlet).
  13. REPORT OF THE NAT'L COMM'N ON COOPERATIVE DEV., at 57-58 (Cooperative League of the U.S.A. ed., Sept. 1964).
  14. For the views of an American cooperator on the Marshall Plan's assistance to European cooperatives, see *The International Cooperative Bank*, address by Harry W. Culbreth, Ins. Comm. of the Int'l Coop. Alliance, New York City, Sept. 24, 1959.

technical assistance grants and loans for many kinds of private organizations, including cooperative enterprises.<sup>15</sup> Usually this assistance has been on a government-to-government basis, to those countries in which encouragement of cooperatives complemented the entire aid program.<sup>16</sup> On occasion, both technical and capital assistance have been given directly to the recipient cooperative organizations.<sup>17</sup> Members of the Cooperative League of the USA (CLUSA) are affiliated with the International Cooperative Alliance (ICA),<sup>19</sup> and through this affiliation they contribute to the international cooperative movement's interchange of information and advice, technical assistance and financing.<sup>20</sup> In addition, CLUSA, since 1944,<sup>21</sup> and Credit Union National Association, Inc., (CUNA) since 1954,<sup>22</sup> have had their own assistance programs to help foreign cooperatives.

### *United States Foreign Aid Policy on Cooperatives*

The United States Government's first specific commitment to assistance in the development of cooperatives came in 1961, when the Foreign Assistance Act<sup>23</sup> was amended to state that "it is declared to be the policy of the United States . . . to encourage the development and use of cooperatives, credit unions and savings and loan associations"<sup>24</sup> as part of the foreign assistance program. On August 25, 1961, the Director of the International Development Administration, AID's predecessor agency, reacting to the passage of this new law and anticipating the formation of AID, which would later assume his Administration's functions, announced

- 
15. See OFFICE OF PUBLIC AFFAIRS, BUREAU OF INTER-AM. AFFAIRS, U.S. DEPT OF STATE, *FACTS ON LATIN AMERICA'S DEVELOPMENT UNDER THE ALLIANCE FOR PROGRESS* (April 1967). For a general discussion of the beginning of United States cooperative development assistance, and with special emphasis on rural electrification, see C. ELLIS, *A GIANT STEP* 194-221 (1966).
  16. See, e.g., *THE FOREIGN ASSISTANCE PROGRAM* 35, 56 (Annual Report to the Congress, Fiscal Year 1969) (Philippines & Chile).
  17. See, e.g., *ORGANIZATION OF THE COOPERATIVES OF AMERICA (OCA), OCA'S TECHNICAL ASSISTANCE PROGRAM* 1.
  18. J. VOORHIS, *AMERICAN COOPERATIVES* 187-88 (1961).
  19. *Id.* at 187; 1 *INT'L COOPERATIVE TRAINING J.*, No. 3, 1965, at 6.
  20. J. VOORHIS, *AMERICAN COOPERATIVES* 187 (1961).
  21. See PAN AM. DEV. FOUNDATION, *CREDIT FOR MARGINAL GROUPS* xii (1969) (study of the principal private sector credit institutions providing loans to marginal groups in the countries of the Dominican Republic, Chile, Ecuador, Colombia & Guatemala).
  22. SPECIAL ADVISORY COMM. ON COOPERATIVES, *REPORT ON COOPERATIVES DEMOCRATIC INSTITUTIONS FOR ECONOMIC AND SOCIAL DEV.*, at 20 app., A (Nov. 1, 1961) (reporting to the AID Adm'r).
  23. 1961 Foreign Assistance Act 22 U.S.C. § 2351 (1964).
  24. *Id.* See generally AGENCY FOR INT'L. DEV., *PRIMER ON TITLE IX OF THE UNITED STATES FOREIGN ASSISTANCE ACT* 5, 8 (1961).

the appointment of a Special Advisory Committee on Cooperatives.<sup>25</sup> This group of thirteen private citizens from cooperatives, labor unions and other private organizations, was "to make recommendations to the AID Administrator on the utilization of cooperatives in the foreign aid program."<sup>26</sup> This committee submitted their report "Cooperatives—Democratic Institutions for Economic and Social Development"<sup>27</sup> to the Administrator of AID on November 1, 1961. The report described the role of cooperatives in the socio-economic process and the prerequisites, problems and techniques in cooperative development.<sup>28</sup> It made recommendations concerning the role of AID technical and financial assistance, and suggested programs for cooperative development, the organization and administration of a cooperative development office in AID, and coordination of this program with other agencies, organization, and programs.<sup>29</sup> The report concluded with a pledge on the part of the United States cooperative movement to continue helping with overseas cooperative development, and to "make sacrificial efforts to release technical personnel for service abroad and to receive and assist trainees who will be coming to this country from far corners of the world."<sup>30</sup> Most of the Committee's recommendations were accepted by AID, and since 1961 the United States program for assistance to cooperatives in developing countries has been a working partnership between U.S. cooperatives and their Government.

Congressional attention was again focused on cooperatives in 1966 and 1967 with the passage of Title IX of the Foreign Assistance Act,<sup>31</sup> which emphasized its purpose of "assuring maximum participation in the task of economic development on the part of the people of developing countries, through the encouragement of democratic private and local governmental institutions."<sup>32</sup>

AID took its guidelines for executing this new policy from several House Reports and other sources of information on Congressional intent. House Report 1651 (1966) contained the unequivocal statement that Title IX's goal can best be achieved through the fostering of cooperatives and other organizations which provide the training ground for leadership and democratic processes.<sup>33</sup>

---

25. For an account of the history leading up to the appointment of this committee, and a discussion of the first AID rural electrical cooperative development work, see C. ELLIS, *A GIANT STEP* 194-221 (1966).

26. SPECIAL ADVISORY COMM. ON COOPERATIVES, REPORT ON COOPERATIVES DEMOCRATIC INSTITUTIONS FOR ECONOMIC AND SOCIAL DEV., at 8 (Nov. 1, 1961) (reporting to the AID Adm'r).

27. SPECIAL ADVISORY COMM. ON COOPERATIVES DEMOCRATIC INSTITUTIONS FOR ECONOMIC AND SOCIAL DEV., (Nov. 1, 1961).

28. *Id.* at 11-30.

29. *Id.* at 31-41.

30. *Id.* at 43.

31. 22 U.S.C. §2218(a) (Supp. IV, 1965-1968).

32. *Id.*

33. AGENCY FOR INT'L. DEV., PRIMER ON TITLE IX OF THE UNITED STATES FOREIGN ASSISTANCE ACT 8 (1961).

*Administrative Arrangements in AID for Dealing with Assistance for Cooperatives.*

In 1961 a central office, the International Cooperative Development Service, was created within AID and given responsibility for coordinating the resources, planning and programming for AID's worldwide technical assistance program for cooperatives. AID executed a series of basic agreements with some of the leading U.S. cooperative organizations to conduct the new program, in addition to employing direct-hire technicians. A global task order was promulgated pursuant to these basic agreements to provide for administrative services and a limited amount of technical, promotional and organizational coordination for implementation of the national and regional contracts by which technical assistance to the various countries or regional areas is furnished under the umbrella of the basic agreements. The Cooperative Development Service (CDS)<sup>34</sup> as it is known today, manages the global contracts and grants that utilize some of the major United States cooperatives in the AID program. The national and regional contracts and grants are managed by the regional AID bureaus and by USAID Missions overseas.

Other offices of AID, in pursuing their program objectives in agricultural production, education, community development, institutional development and other fields, arrange for specialized types of technical assistance that may include help to cooperatives as a secondary goal to the main objective. These offices have had occasion to utilize the services of other Government agencies, through Participating Agency Service Agreements (PASAs), and of universities and other nongovernmental organizations, including cooperatives.

Capital assistance, usually in the form of concessional loans, is a function of specialized lending offices in the regional bureaus of AID. Where loans for cooperative development are under consideration, cooperative development specialists of the central office or others on the AID staff in the bureaus are usually consulted during the review process.

*Machinery for Consultation between AID and the Cooperative Movement*

The Special Advisory Committee on Cooperatives, which had been appointed by the AID Administrator in 1961, was the apex group for liaison with the United States cooperative movement until November 1968, when it was replaced by a movement-organized and constituted body, the Advisory Committee on Overseas Cooperative Development. Fifteen leaders of U.S. cooperatives, identified for the most part with cooperatives that are interested in AID's cooperative development program, meet regularly in this

---

34. CDS is a part of the Office for Private Overseas Programs which administers AID contracts and grants involving other programs with voluntary non-governmental organizations.

committee and maintain a dialogue with AID.<sup>35</sup> However, this committee is more than advisory in function; AID increasingly seeks both its advice and support for the benefit of the overall program. Liaison with the individual cooperatives which have contractual or grant relations with AID is largely a function of the Cooperative Development Service. Project managers of CDS coordinate the various AID-assisted programs with the overall foreign assistance scheme.

*Capital Aid*

The annual reports to the Congress on the Foreign Assistance Program do not delineate loans made for cooperative development purposes as one of the categories under the development or sector (agricultural, educational, etc.) loan classifications.<sup>36</sup>

AID loans are ordinarily made to governments or to development banks utilized by the recipient governments for distribution of the borrowed funds. Direct lending to institutions which are partially or totally controlled by the national cooperative movements is allowed if agreed upon between AID and the respective foreign governments.

Illustrative examples of both loans to governments and to cooperatives taken from the Annual Reports to the Congress on the Foreign Assistance Program for fiscal year 1966 and 1968 are given below:

*Examples of capital aid given by AID for cooperative development*

<u>To Governments</u>	<u>Purpose</u>
PERU — 1966 <sup>37</sup> Government of Peru \$1.6 million	To help finance rural electrification cooperative and technical assistance
PHILIPPINES — 1968 <sup>38</sup> Development Bank of the Philippines \$3.1 million (Two loans)	To be reloaned to rural electric cooperatives

35. D. DOUTHIT, OPERATION COOPERATION 3, 25. (prepared for Advisory Comm. on Overseas Cooperative Dev.) [hereinafter cited as DOUTHIT].

36. However, in a House Report on the Development of Cooperative Enterprises the total amount of AID loans for cooperatives and agricultural credit, fiscal years 1962-67, was given as \$400,640,000. REPORT FOR THE SUBCOMM. ON INT'L FINANCE OF THE HOUSE COMM. ON BANKING AND CURRENCY, 90th Cong., 2d Sess., DEVELOPMENT OF COOPERATIVE ENTERPRISES—1967 UNDER THE FOREIGN ASSISTANCE ACT OF 1961, at 15 (1968).

37. THE FOREIGN ASSISTANCE PROGRAM 47 (Annual Report to the Congress, Fiscal Year 1966).

38. THE FOREIGN ASSISTANCE PROGRAM 54, 64 (Annual Report to the Congress, Fiscal Year 1968).

*Foreign Assistance Through Private Investment*

<u>To Cooperatives</u>	<u>Purpose</u>
PANAMA — 1966 <sup>37</sup> Instituto de Fomento de Hipotecas Aseguradas	To make loans to affiliated savings and loan associations and provide technical assistance to borrower
DOMINICAN REPUBLIC — 1968 <sup>38</sup> Cooperative Bank of the Dominican Republic \$2.65 million	To assist in financing agricultural credit cooperative

AID also attempts to encourage the private sector to invest in cooperatives overseas. The AID Housing Investment Guarantee Program reported \$437 million in projects, many of which involved loans from U.S. savings and loan associations to overseas savings and loans, for cooperative and other housing in the period 1962 - September 30, 1970.<sup>39</sup> Another AID guaranty program attempting to encourage investments of United States credit unions in loans to credit unions located in AID-assisted countries was launched in 1969, but to date has succeeded in making only one guaranteed loan, for \$7,000.<sup>40</sup>

*Technical Assistance: Recruitment and Financing  
of Experts*

Experts assigned to providing technical assistance for cooperatives in developing countries are recruited by AID, and its contractor and grantee organizations.

The U.S. cooperative entities that have global contracts with AID are responsible for recruiting and selecting the experts who constitute the contractors' permanent administrative staffs, as well as the experts who will carry out the technical assistance activities and programs involved in the various task orders under contract. Those experts selected must be acceptable to AID. The task orders, which are arrived at by agreement between the contractor and AID, indicate the number of persons required, their periods of employment and pay scales. These employees make periodic and final reports to AID through its contractors.

Recruitment is also carried out by the regional bureaus and country missions of AID on a direct-hire basis. Some is done by other U.S.

---

39. HOUSING AND URBAN DEV. DIV., AGENCY FOR INT'L DEV., AID HOUSING AND INVESTMENT GUARANTEE PROGRAM SUMMARY SHEET 13-14 (Quarterly Report, Sept. 30, 1970).

40. AGENCY FOR INT'L DEV., U.S. DEPT OF STATE, CREDIT UNION LOAN PROGRAM (1968) (Extended Risk Guarantee Paper); *Hearings on the Fulton Bill for Credit Union Guaranteed Loans Before the Subcomm. on Inter-Am. Affairs of the House Foreign Affairs Comm.*, 91st Cong., 1st Sess., at 151 (1969) (testimony of Mr. Fowler, Deputy Coordinator for the Alliance for Progress; *First Guaranteed Overseas Credit Union Loan Made: FCU's Get Go-Ahead in Washington*, BRIEFS, March 21, 1969 CUNA Int'l., Inc.

Government agencies under Participating Agency Service Agreements (PASAs) with AID.

An unusual recruitment example is found in Cooperative Fertilizers International (CFI), a private cooperative enterprise, which is now assisting Indian fertilizer cooperatives with a large fertilizer plant project. CFI recruits its own experts and pays them out of a special fund of one million dollars that was raised by American fertilizer cooperatives for financing technical assistance to the Indian cooperatives.<sup>41</sup> Other private organizations, such as CUNA and CLUSA have their own overseas development experts.<sup>42</sup> Volunteer experts are also recruited by the Volunteer Development Corps (VDC).<sup>43</sup>

The Cooperative Development Service of AID assists in recruitment by acting as a central point of information and contact in the field of cooperative expertise.

Practically all of the financing is by AID except as noted above. AID pays for experts directly through the USAID missions in recipient countries, the AID regional bureaus, and indirectly through the task orders carried out by the cooperative contractors under regional and global contracts.

Technical assistance experts are assigned for periods ranging from one month to two years with possibility of renewal. Government and private experts are provided comparable employee benefits to attract the best qualified people for overseas work, with pay scales, fringe benefits and perquisites depending on the job.

Direct-hire experts receive an AID briefing and orientation. Language training is provided when necessary and appropriate. Where feasible, the cooperative contractors provide similar services for personnel they have recruited.

*Seminars and courses at home and abroad*

Training courses and seminars are provided at home and abroad as part of the overall technical assistance program. Operating under an AID contract, the International Cooperative Training Center at the University of Wisconsin, has given general and specialized courses for selected students from developing countries.<sup>44</sup> Students have been sent to other universities that are particularly qualified to provide specialized training. Furthermore, the expertise of various Government agencies has been made available for the training of foreign cooperative students.

---

41. DOUTHIT 8-9, 14.

42. See PAN AM. DEV. FOUNDATION, CREDIT FOR MARGINAL GROUPS (1969; SPECIAL ADVISORY COMM' ON COOPERATIVES, REPORT ON COOPERATIVES DEMOCRATIC INSTITUTIONS FOR ECONOMIC AND SOCIAL DEV., (Nov. 1, 1961). (Reporting to the AID Adm'r.)

43. Volunteer Dev. Corps, Fact Sheet (Nov. 1970).

44. DOUTHIT 20-21.

### *Foreign Assistance Through Private Investment*

Field training courses for leaders and technicians are arranged through AID on a country or regional basis, usually under the supervision of a cooperative contractor, who also prepares, or arranges for the preparation of, essential materials. Some of these courses provide specific technical and management know-how, while others are more general. Seminars are conducted to assist in the programming and administering of technical assistance.

#### *Recruitment and training of cooperative volunteers*

The Cooperative Development Service has only recently succeeded in stimulating the creation of the Volunteer Development Corps (VDC),<sup>45</sup> designed to recruit and assign volunteer experts for short-term technical assistance when requested by cooperatives in developing countries. VDC is an autonomous entity governed by a Board of U.S. cooperative leaders. It operates under a grant from AID, with part of the cost being shared by U.S. and foreign cooperatives. The VDC recruits volunteers (retirees and mid-career employees) who will serve without VDC compensation. Their major transportation expenses are paid by VDC. The recipient cooperative is expected to pay VDC a minimum fee and a share of the volunteer's local expenses. The VDC is patterned after the International Executive Service Corps (IESC) which is sponsored by AID and American businessmen and which has had several years of successful experience. The first two VDC experts recently completed their overseas assignments.

#### *AID's Cooperative Development Strategy*

Congress has tightened the fiscal reins on the foreign assistance program each year since 1966.<sup>46</sup> Until 1970 when Congress approved a two-year program, authorization for AID's continuation has been granted on a year-to-year basis, and funding for AID has been delayed until late in the fiscal year.<sup>47</sup> The strategy for cooperative development, which is essentially a long-range institution-building effort, has had to be adjusted to meet the realities of AID's year-to-year existence.

When it became the policy of the United States to encourage the use and development of cooperatives in other countries through its foreign assistance program a general air of anticipation, in and out of Government, built expectations for rapidly achieving abroad that which had taken

---

45. Volunteer Dev. Corps, Fact Sheet (Nov. 1970).

46. THE FOREIGN ASSISTANCE PROGRAM (Annual Report to the Congress, Fiscal Year 1969). For fiscal year 1969, AID committed \$1.689 billion for economic assistance. *Id.* at 1. This was the third consecutive annual reduction in the size of the program, which for fiscal year 1966 was \$2.665 billion. *Id.* (1966) at 5.

47. In fiscal years 1970 and 1971, AID appropriations were approved in January 1970 and December 1970, respectively.

cooperatives over 250 years to accomplish in the United States.<sup>48</sup> Many of the new governments in the early sixties, anxious to benefit from the generous funding made available under the United States macro-economic foreign aid strategy and cognizant of the singular potential for combined social and economic benefits from cooperatives, launched ambitious programs that attempted to short-cut the basic preparatory steps--education, management training, auditing, supervision and mobilization of capital. When some of these programs failed or fell far short of their announced goals, they were written off, possibly prematurely.<sup>49</sup>

For the most part, however, the countries which set out to build strong cooperatives did so in the belief that these cooperatives would be useful vehicles for the long, hard journey toward national goals of economic, social and political self-sufficiency.<sup>50</sup> In this effort they had the support of the

48. "The entire period from 1620 to 1896 for [American] cooperatives was one of search and experiment. It can be characterized as a time of probings when much was learned but little of a tangible nature was accomplished." J. KNAPP, *THE RISE OF AMERICAN COOPERATIVE ENTERPRISE* 4 (1969).

49. For case materials and other studies which illuminate the roles assigned cooperatives by the developing countries, and some of the problems that have been encountered see *RURAL COOPERATIVES AND PLANNED CHANGE IN AFRICA* (R. Apthorpe ed. 1970) (study made for United Nations Institute for Social Dev.); H. SEIBEL, *INDIGENOUS ECONOMIC COOPERATION IN LIBERIA* (1969); *RURAL INSTITUTIONS DIV., FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS, LAND REFORM--LAND SETTLEMENT AND COOPERATIVES* (1970); *FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS, REPORT ON THE SECOND AD HOC CONSULTATION ON AGRICULTURAL COOPERATIVES AND OTHER FARMERS' ASSOCIATIONS IN AFRICA* (1970). See also CHI-WEN CHANG, *RURAL ASIA MARCHES FORWARD* (1969). For an excellent discussion of the problems encountered in providing external assistance to the Latin American cooperative movement, see *Some Observations on External Assistance to the Latin American Cooperative Movement*, address by Fernando Chaves, Int'l Conference on Technical Assistance to Developing Countries in the Cooperative Field, Copenhagen Denmark, Nov. 1968; *Peasant Cooperation in Latin America* (unpublished paper written by Thomas F. Carroll, Inter-American Development Bank, Wash., D.C.).

For a critical discussion of cooperatives in African countries, see *Can Co-ops Make it in Africa?*, *AFRICA REPORT*, Dec. 1970, at 12. But see *Savings and Credit Cooperative Problems in Developing Countries*, address by G. Belloncle, 2d Int'l Conference on Cooperative Thrift and Credit, Paris, France, Sept. 1970, for a more sympathetic view of the African experience in cooperatives.

50. In certain of the newly developing countries, such as Tanzania, cooperatives are being successfully employed as special instruments of national development for achieving social, economic and political objectives. Peru, and to a much lesser extent Guyana have announced plans to move in this direction.

United States through its contributions to the United Nations<sup>51</sup> and its specialized agencies, notably the International Labor Organization (ILO).<sup>52</sup> For many years prior to the emergence of the United States' pro-cooperative policy, these agencies were providing the emerging nations with cooperative development technicians. AID has attempted to mold its technical programs to make the best use of United Nations and other assistance, and so as to conform them to the varying concepts of the countries which desire their implementation.

### *Financial Needs of Cooperatives*

While there is general agreement among cooperatives and governments on the necessity for member education and management training, there is much less agreement on what level of support cooperatives should expect from governments after they have reached the operational stage where capital assistance is required. Cooperatives are essentially self-financing, but the extremely low average personal income levels of the developing countries,<sup>53</sup> and interest rates that commonly run from 120 percent to 400 percent per annum from the local money lenders who do most of the business,<sup>54</sup> make it extremely difficult for peasant farmers and other low-income workers to save or borrow the capital they need to finance their cooperatives.

It is not uncommon for governments or for international assistance agencies to experience difficulties in delivering capital assistance to the

---

51. At its 46th session, the United Nations Economic and Social Council adopted Resolution 1413 in which it decided

to take full account of the potential role of the cooperative movement in the preparatory work for the Second United Nations Development Decade, and to make an assessment of the contribution which can be made by this movement in the achievement of the goals and objectives of the Decade, with a full view to ensuring that this contribution will be duly reflected in the international development strategy.

REPORT OF THE SECRETARY-GENERAL, UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL, THE ROLE OF THE COOPERATIVE MOVEMENT IN THE ACHIEVEMENT OF THE GOALS AND OBJECTIVES OF THE SECOND UNITED NATIONS DEVELOPMENT DECADE, at 2, 3-25 (March 27, 1970).

52. See *The ILO Resolution on Cooperatives*, 2 INT'L COOPERATIVE TRAINING J. 8 (No. 1, 1966).

53. Average personal income levels are estimated by the World Bank at less than \$300 per annum in most of the poorer countries of East Asia, Africa and Latin America, compared to \$3,520 per annum in the United States. *World Bank Atlas*, 1 FINANCE AND DEV., March 1969, at 30-41.

54. J. DUBLIN, CREDIT UNIONS—THEORY AND PRACTICE 133-34 (1966). See also *Major Sources & Cost of Credit (estimated) for Farmers in Selected South East Asian Countries*, paper by Arthur Pursell.

poor.<sup>55</sup> Legislative or bureaucratic barriers may prevent or discourage cooperatives from accumulating enough of their own capital to warrant extension of credit by government or private lenders.<sup>56</sup> Even among the cooperatives some do much better than others in this regard. Those whose members have relatively high incomes generally are better able to fend for themselves<sup>57</sup> and are also more apt to benefit from outside financial assistance made possible by foreign assistance programs. Nevertheless, all over the world, people are setting out to build cooperative enterprises similar to those we have in the United States: "Cooperatives . . . that are consumer-owned, customer-owned, patron-owned businesses [that] belong lock, stock and barrel to the same people who use their services."<sup>58</sup> The leaders of cooperatives look first to their own members, however poor they may be, then to their governments, and finally to their fellow cooperators in other countries, for loans, equity investments, or gifts. With a few notable exceptions very few of them are prepared at the beginning to use large investments or loans because they start small and rely on member education, experience and natural growth to expand their capital-absorptive capacity.

*Part II—Financing the Cooperative Development Program*

Adequate financing is one of the prerequisites for successful cooperative development, as the Special Advisory Committee on Cooperatives recommended to the Administrator of AID in 1961:

Cooperatives are essentially self-financing institutions. In the developing countries, however, cooperatives will require financial assistance in their formative period . . . Financial aid to cooperatives should be regarded as a catalyst to create institutions that will facilitate and encourage capital accumulation. In the development of cooperatives, such financial aid can be provided in the form of "seed capital" loans to provide an initial reserve and operating capital. The value of such "seed capital" is frequently more psychological than financial.<sup>59</sup>

The importance of finance was recognized by AID when it enlisted the support of such cooperative financial institutions as credit unions, the

- 
55. See L. BROWN, SEEDS OF CHANGE 95-97 (1970); RURAL INSTITUTIONS DIV., FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS, LAND REFORM—LAND SETTLEMENT AND COOPERATIVES 29 (1970).
  56. L. VALKO, THE COOPERATIVE LAW IN ASIA 3 (Washington Agricultural Experiment Station Bulletin 706, May 1969).
  57. R. SHAW, JOBS AND AGRICULTURAL DEVELOPMENT 64-65 (1970) (monograph prepared for the Overseas Dev. Council, No. 3).
  58. J. VOORHIS, AMERICAN COOPERATIVES 17 (1961).
  59. SPECIAL ADVISORY COMM. ON COOPERATIVES, REPORT ON COOPERATIVES DEMOCRATIC INSTITUTIONS FOR ECONOMIC AND SOCIAL DEV., at 30 (Nov. 1, 1961) (reporting to the AID Adm'r).

agencies of the Farm Credit System,<sup>60</sup> and the cooperative insurance companies.<sup>61</sup> These institutions have helped with the cooperative development program through their affiliation with CUNA, CLUSA, or their membership in the Farm Credit System, though none were engaged in international finance in the early 60's. The Farm Credit agencies were then operating under special enabling statutes that clearly or implicitly confined their financial activities to the United States, its possessions and territories.<sup>62</sup> Credit unions, albeit with a different, international background to their legislation, had very little experience or interest in international inter-lending.

### *Cooperative finance program for Latin America*

In 1963 AID launched a series of cooperative development programs principally in the Latin American region, with three major thrusts into the field of finance.

The National League of Insured Savings and Loan Associations (NLISA) was asked to take the leadership in helping to build a system of savings and loan associations mostly for middle-income families, similar to the State and Federal savings and loan associations of the United States. NLISA recently reported a worldwide total of 93 savings and loan associations with \$798 million in savings and \$990 million in loans made to finance 175,532 homes, mostly in Latin America.<sup>63</sup> AID, through its investment guaranty and insurance program, has also involved savings and loan associations in its operations and continues to rely on them for the financing of housing, including cooperative housing.<sup>64</sup> However, the savings and loan industry of the United States has not identified itself or its work with AID as a part of the cooperative movement, either nationally or internationally.

CUNA and CLUSA became the principal AID resources for the two remaining AID attempts to institutionalize cooperative finance. CUNA undertook to mobilize capital from the *campesinos*--the subsistence farmers, and other low-income workers through its self-assigned role of building credit unions and federations of credit unions. These credit unions, if they

---

60. For a listing of these agencies, see FARM CREDIT ADMIN., COOPERATIVE FARM CREDIT SYSTEM, 35TH ANN. REP., at 57 (1967-68) (preliminary copy).

61. These companies are noted in *Cooperatives in the United States: Facts and Figures*, COOP REPORT, Sept. 1968, at 13-14 (ann. statistical ed.).

62. See COMPARATIVE DIGEST OF CREDIT UNION ACTS (1966) (published by CUNA Int'l, Inc.): COMM. ON AGRICULTURAL CREDIT, REPORT ON THE FARM CREDIT SYSTEM IN THE 70'S, at 3-4 (March 1970).

63. NATIONAL LEAGUE OF INSURED SAVINGS ASS'NS, INT'L NEWSLETTER, Jan.-Feb. 1971, at *Table on Int'l Savings and Loan Systems--Selected Statistics*.

64. See materials cited in Robinson, *Readjustable Mortgages in an Inflationary Economy--A Study of the Israeli Experience*, 5 J. INT'L LAW & ECON. 169 n.1 (1971).

developed as in the United States, would confine themselves to small consumer loans.

CLUSA undertook, through its Fund for International Cooperative Development,<sup>65</sup> to study and, if possible, to help organize an Inter-American Cooperative Finance Institute and a system of national finance institutes to serve the cooperatives of Latin America. The Inter-American Cooperative Finance Institute was to be capitalized with \$500,000 of paid-in capital from cooperatives of the Western Hemisphere plus \$50 million in "quasi-equity" and conventional loans from United States Government and international agencies. The system was to represent an adaptation of the experience gained in the operation of the Banks for Cooperatives in the United States. Ultimately, it would be owned by the cooperatives that borrowed from it.<sup>66</sup> Farm loans for production, marketing, medium-term housing construction and related needs of the farmers and their cooperatives would be made through this Institute and the national cooperative finance institutes that would have access to it.<sup>67</sup>

There was a marked similarity of the AID-CUNA-CLUSA plan to that of the Government in 1934 when the Federal credit union program, based on the small savings of individuals, was inaugurated to complement the program of the Farm Credit Administration, whose principal functions revolved around the lending of large amounts of Government-supplied capital to farmers through the Federal Land Banks, the Banks for Cooperatives, the Federal Intermediate Credit Banks, and the Production Credit Associations.<sup>68</sup>

---

65. For a description of this fund, see CLUSA, FUND FOR INT'L COOPERATIVE DEV. (brochure 10-62).

66. The Fund undertook four major studies on inter-American cooperative financing. The first study presented the Government with a concrete plan for an Inter-American Cooperative Financing System. FUND FOR INT'L COOPERATIVE DEV., COOPERATIVES IN ECONOMIC GROWTH: A PROPOSED INTER-AMERICAN COOPERATIVE FINANCE SYSTEM (submitted March 25, 1963) (Checchi & Co. prepared the report). Two further studies on the system were then undertaken. J. HOUK, TOWARD A DEFINITION OF DEVELOPMENT BANKING (Aug. 25, 1965), and STAFF OF THE INTER-AM. COOPERATIVE BANK DEV. PROGRAM, FINANCING THE GROWTH OF DEVELOPMENT BANKING (Oct. 1965) (prepared by J. Houk). When after a period of several years this proposal failed to gain the necessary financial support, a fourth study was made which concluded that establishment of the Inter-American Cooperative Finance Institute was not feasible at that time. THE INTER-AMERICAN COOPERATIVE FINANCE INSTITUTE (Sept. 1967) (feasibility study for the Fund for Int'l Cooperative Dev. prepared by Porter Int'l Co.).

67. FUND FOR INT'L COOPERATIVE DEV., COOPERATIVES IN ECONOMIC GROWTH: A PROPOSED INTER-AMERICAN COOPERATIVE FINANCE SYSTEM 26-27 (submitted March 25, 1963).

68. These farm credit institutions eventually became wholly owned by their farmer-patrons as originally planned, and all Government capital was retired in December 1968. The United States farm credit program has been very successful but only after a massive infusion of Government capital, enabling legislation that permitted the Farm Credit agencies to enter the money market, and some 35 years of hard work at all levels. FARM CREDIT SERVICE, A \$12 BILLION CREDIT SYSTEM COMPLETELY FARMER OWNED (circular no. 39/3-69).

The AID/CUNA credit union program has been remarkably successful in Latin America, and, to a lesser degree, in Africa.<sup>69</sup> By the end of 1969 the AID-assisted countries of Latin America reported 3,492 credit unions, with 900,931 members, \$74.6 million in savings, \$78.1 in loans outstanding, and a cumulative loan volume (since 1962) of \$244.1 million.<sup>70</sup> Losses on the entire loan business were estimated to be within one percent of the money loaned, and fully covered by reserves.<sup>71</sup>

These credit unions are, for the most part, organized into national federations, and through these federations in the countries of Bolivia, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru, and Venezuela, they are building efficient interlending systems by pooling their surplus funds and centralizing their accounting.<sup>72</sup> In thirteen countries they are engaged in experimental programs of directed agricultural production credit (DAPC), a supervised lending program designed to bring to *campesinos* agricultural extension services, credit and capital.<sup>73</sup> A 1970 report by AID concluded that this program is succeeding in the establishment of a new system whereby, on the capital base of their own savings, low-income farmers of developing countries can attract loans from outside sources through their federations, and thereby in the aggregate profitably utilize sizeable amounts of such borrowed money for rural development.<sup>74</sup>

The credit unions' DAPC plan may well be one way of providing education, training, financial service, and production education, training, financial service, and production guidance to the subsistence farmers of the countries where AID is currently helping, and where it has mutual interests in financing programs with the World Bank.

The AID/CLUSA farm credit-type program failed to get the Inter-American Cooperative Financing Institute started as planned, but

---

69. CUNA, INT'L INC., SUCCESS—A PROGRESS REPORT ON CUNA/AID PROGRAMS IN 15 COUNTRIES OF LATIN AMERICA AND AFRICA (1967).

70. 1969 CUNA/AID CREDIT UNION DEV. PROGRAM ANN. PROGRESS REP. (CUNA Int'l. Inc., publication).

71. AGENCY FOR INT'L. DEV., U.S. DEPT OF STATE, EL SALVADOR: CREDIT UNION DEVELOPMENT (FEDECACES) (May 15, 1970) (Capital Assistance Paper).

72. 1969 CUNA/AID CREDIT UNION DEV. PROGRAM ANN. REP. 17-19 (CUNA, Int'l. Inc., publication).

73. [June 30, 1970] CUNA/AID CREDIT UNION DEV. PROGRAM PROGRESS REP. 11 (CUNA Int'l. Inc., publication).

74. See COOPERATIVE DEV. SERVICE, OFFICE FOR PVT. OVERSEAS PROGRAMS, AGENCY FOR INT'L. DEV., U.S. DEPT OF STATE, A NEW PRODUCTION CREDIT PROGRAM FOR INCREASING VILLAGE AGRICULTURE IN DEVELOPING COUNTRIES (Pvt. Dev. Assistance Series Rep. No. 2, Aug. 1970) (prepared by Arthur Pursell).

Eugene R. Black, former president of the World Bank, recognized a need for improving the bank's "contract approach" in "the vast area of providing services directly to the masses of peasant farmers who make up the bulk of the populations of Asia, Africa and Latin America." Black, 'Horrors' of Growth Have Been Exaggerated, Wash. Post, Jan. 3, 1971, §B, at 4, cols. 4-5.

CLUSA's work with AID has helped to build cooperative financing institutions in Argentina, Chile, Ecuador, Peru and Puerto Rico (another is in process in Columbia). These five Latin American cooperative financing institutions, as of December 31, 1968, had 1,652 member cooperatives with outstanding loans of \$12,721,000, and they were projecting loans for 1969 at \$22 million.<sup>75</sup>

Cooperatives of Latin America and the United States have not abandoned their hopes of putting together the plan and the money for the still dormant Inter-American Cooperative Financing Institute. They have organized Sociedad Interamericana de Desarrollo de Financiamiento Cooperativo [Inter-American Cooperative Finance Development Society (SIDEFCOOP)], with CLUSA and CUNA as members; through SIDEFCOOP, efforts are still being made to build and strengthen an international cooperative finance system for the Americas.<sup>76</sup> AID is helping SIDEFCOOP with a subgrant provided through The Organization of the Cooperatives of America (OCA).<sup>77</sup>

#### *International Cooperative Bank Co., Ltd.*

CLUSA and CUNA are also shareholders in the International Cooperative Bank Co., Ltd., (ICB) which was started in Basle, Switzerland, in 1957 by trade unions and cooperatives who were trying to get access to Marshall Plan money for redevelopment.<sup>78</sup> It was begun with expectations of a seed capital loan from the United States. When these loan funds failed to materialize the bank remained dormant for a number of years, but it was reorganized in 1965 and embarked on a program to get financing and support from the international cooperative movement. By December 31, 1970, it had grown to over Swiss Francs 644 million in assets, with 56 shareholders from 23 countries.<sup>79</sup> The bank has already made one loan to a Chilean cooperative, involving SIDEFCOOP as a broker. It is capable of

---

75. FINANCING COOPERATIVES IN DEVELOPING COUNTRIES 17, 95 (compiled during a seminar at Airlie House, Oct. 24, 1969, sponsored by the Advisory Comm. on Overseas Cooperative Dev.).

76. NOTES ON A NATIONAL FINANCING SYSTEM FOR COOPERATIVES AND OTHER ASPECTS OF COOPERATIVE CREDIT (Division of Language Services, Dep't of State trans. U.S. study submitted to the Third Inter-American Seminar on Cooperative Banks, Quito, Ecuador, Sept. 1970).

77. CLUSA OCA—ITS DEVELOPMENT AND PROGRESS (Jan. 1966) (report to AID); ORGANIZATION OF THE COOPERATIVES OF AMERICA, O.C.A.—INFORME DEL AÑO 1969 (Spanish ed.).

78. See note 14 *supra*.

79. INT'L COOPERATIVE BANK CO. LTD., REPORT ON THE FINANCIAL YEAR 1970.

providing both technical and capital assistance (including guarantees) for international cooperative development, in collaboration with the major lending organizations such as the World Bank.<sup>80</sup>

*President's Message on Reorganization of Foreign Assistance Program*

The time is approaching when Congress is expected to act upon proposals for a sweeping reorganization and redirection of the United States foreign assistance program. The President's message to the Congress on September 15, 1970, called for reorganization and reforms which would broaden the involvement in the foreign aid program of U.S. private organizations, the low-income nations themselves, and the international agencies. AID's cooperative development program started with private sector involvement,<sup>81</sup> and it has tended to move further toward this new pattern,

---

80. FINANCING COOPERATIVES IN DEVELOPING COUNTRIES 15-16 (Oct. 24, 1969). Stanley Dreyer, President of CLUSA, in speaking of the ICB, stated [the] 32 shareholders . . . from 16 countries, include primarily cooperative wholesales in Europe, banks, insurance companies with a cooperative orientation or ownership, housing cooperatives, and cooperative travel organizations. . . .

At the end of 1968 there was lending activity in 30 countries, with a major portion of it in West Germany and Switzerland.

Those of us who are excited by the strong growth and well established base in Europe of the International Cooperative Bank now see it extending its influence out to the developing nations.

We feel that the ICB may now provide cooperatives in many countries with a vehicle to assist international lending agencies in providing credits to cooperatives more easily.

. . . The Bank fully realizes and appreciates that only organizations of the size of the World Bank, the Inter-American Development Bank, the Asian Development Bank, and national and international government development agencies, are in a position to cope with the international problems arising from the general world situation.

The ICB, however, has the special aim of promoting the development and expansion of cooperatives and helping them to adjust to change. It hopes to accomplish these purposes in collaboration with cooperative, trade union, private, and commercial banks in other countries. What many of us feel is imminent, and what is a firm policy of the ICB, is that the Bank is now becoming established on a sound enough basis to open the way for collaboration with the major world lending organizations interested in aiding development through worthwhile and well-planned loans to cooperatives. The ICB hopes to aid in this process by lending its help or possible guarantee for such loans.

We believe that the International Cooperative Bank provides a new focus of unification and possible centralization for cooperative finance efforts worldwide.

81. ADVISORY COMM. ON PVT. ENTERPRISE IN FOREIGN AID, REPORT ON FOREIGN AID THROUGH PVT. INITIATIVE (1965).

especially in the last several years.<sup>82</sup> Consequently, an imposing inventory of resources is already available to AID in taking up the challenge of whatever new directives may emanate from Congress.<sup>83</sup>

Technical and capital assistance will be needed from the United States and other donor nations, but at different levels and in different proportions, depending upon the donee country.<sup>84</sup> Some of the developing nations have technicians and institutions by which strength can be added to the new international development programs, thus helping themselves and other low-income nations as well.<sup>85</sup> A new approach, truly cooperative, can utilize technicians of countries who are themselves the "products" of development, to transplant the latest techniques learned from their own experiences.<sup>86</sup> Capital has been accumulated in some of their cooperatives,<sup>87</sup> which can support "quasi-equity" and conventional loans from development banks, commercial banks, and other cooperatives.<sup>88</sup>

Mutual assistance is in the cooperative tradition. The interdependence of cooperatives in the United States is being demonstrated increasingly by the challenge of these overseas development programs. Up to now it has been a "common cause" type of responsibility being shared by U.S. cooperatives to help others internationally. Eventually all will benefit from it. For example, a group of U.S. fertilizer cooperatives, in a team effort with AID has organized Cooperative Fertilizers International (CFI) to help cooperatives of India develop a large scale fertilizer processing and distribution system. The U.S. cooperatives have contributed \$1 million toward providing technical assistance and paying the administrative costs of building this system's modern plant facilities.<sup>89</sup> If the project as now proposed is approved,<sup>90</sup> capital assistance from our government and the government of Great Britain will supplement investments made by the Indian cooperatives and the Government of India. Together they will create

82. See *Foreign Assistance for the 1970's*, address by Dr. John A. Hannah, Nat'l Foreign Policy Conference for Nongovernmental Organizations, Nov. 12, 1970.

83. *Capital and Credit for Cooperative Development*, address by the author, Int'l. Cooperation Day Conference, U.S. Dep't. of State, Wash., D.C., Oct. 21, 1968.

84. See address by Dr. John A. Hannah, *supra* note 83.

85. FCH SERVICES, INC., THE FOUNDATION FOR COOPERATIVE HOUSING, FINANCING SELF-HELP HOUSING AND HOME IMPROVEMENT 4-9 (Aug. 28, 1970).

86. See ALLIANCE FOR PROGRESS, WEEKLY NEWSLETTER N. 7 (Feb. 17, 1969). This utilization of indigenous technical expertise is now a major issue in some of the developing countries. Galo Plaza, Secretary General of the Organization of American States, speaking "as a citizen of Latin America and the whole world" called on Latin American members of the Alliance for Progress to "take the initiative in directing the cooperative development program in this hemisphere." *Id.*

87. 1970 INT'L CREDIT UNION YEARBOOK 19-23 (CUNA Intl., Inc. publication).

88. *The Institutional Development of Credit Unions*, address by Harry Culbreth, Seminar: Cooperatives and Institutional Development, April 1, 1971.

89. DOUTHIT 8-9, 14.

90. DOUTHIT 8-9.

a multi-million dollar farmer-owned fertilizer cooperative to increase food crops. India will be that much less reliant on United States aid, as food production by Indian farmers relieves the need for United States food or dollar donations. In the long-range perspective, the farmer-cooperators of India may predictably seek trade relations with their British and U.S. associates as they expand their operations.

American cooperatives and those of other high-income countries, will have more opportunities to influence and possibly participate in, government-assisted lending and development activities in the new United States foreign assistance program. Their help could take the form of demonstration projects that are labor-intensive, and not heavily dependent on substantial amounts of money.<sup>91</sup> If American and other cooperatives that already have experience in business and finance could create their own international development organization, or guaranty system, for technical and capital assistance, such an organization would be a welcome addition to the international development community.<sup>92</sup> Country by country, internationally, cooperatives can build a system that delivers credit to the masses of peasant farmers who are not being reached by the World Bank or other major lenders.<sup>93</sup> Loans made by AID, the World Bank, the Inter-American Development Bank and the other regional development banks, are essentially government-to-government transactions. Not infrequently the negotiations for such loans are delayed by requirements that have been established by the lenders or the borrowing governments, to create an obligation that ultimately is government-guaranteed. Understandably the loan must be sufficiently large to justify the expenditure of the time and effort required on both sides.

For one reason or another few "seed-capital" loans of the type recommended by the Special Advisory Committee on Cooperatives to AID, ever qualify. They are better made on a private basis.<sup>94</sup> As they are made, and as they enable cooperatives to grow soundly, they make possible the larger projects and the development loans which can qualify for government guarantees.

---

91. *The Challenge of the Seventies*, keynote address by Orville L. Freeman, at 1-2, Second Int'l Conference on Cooperative Thrift and Credit, Paris, France, Sept. 21, 1970.

92. *Id.* at 20-21.

93. See COOPERATIVE DEV. SERVICE, OFFICE FOR PVT. OVERSEAS PROGRAMS, AGENCY FOR INT'L DEV., U.S. DEPT OF STATE, A NEW PRODUCTION CREDIT PROGRAM FOR INCREASING VILLAGE AGRICULTURE IN DEVELOPING COUNTRIES (Pvt. Dev. Assistance Report No. 2, Aug. 1970) (prepared by Arthur Pursell. See also OFFICE FOR PVT. OVERSEAS PROGRAMS, AGENCY FOR INT'L DEV., U.S. DEPT OF STATE, BUILDING FARMERS' ENTERPRISES AGRICULTURAL-COOPERATIVE DEVELOPMENT IN UGANDA (Pvt. Dev. Assistance Series, Report No. 1, 2d printing May 1970).

94. J. CLARK, DISCUSSION OF A PROPOSAL FOR THE ESTABLISHMENT OF A FUND FOR LOCAL ECONOMIC AND CIVIC DEVELOPMENT 2-5 (June 10, 1968).

*Part III—Investment Potential of  
United States Credit Unions*

Credit unions of the United States provide an interesting example of the possibilities for private investment by cooperatives. They have their roots in the Raiffeisen Societies of Germany,<sup>95</sup> a group of cooperatives that has given strong leadership to credit union development<sup>96</sup> everywhere. U.S. credit unions, like the Raiffeisen Societies, are service-motivated and persistently working for "the little man's" opportunity to control and use his money.<sup>97</sup> Assets of \$17.86 billion attest to their increasing financial strength as a mobilizer of working people's money and as a bridge for relationships with other financial institutions.<sup>98</sup> Strong as they are their great potential as one of our most promising "tools" for the next development decade will not be realized unless legal and legislative problems are overcome.<sup>99</sup>

The Federal Credit Union Act<sup>100</sup> and the credit union laws of 44 states,<sup>101</sup> are the enabling statutes for the organization and operation of credit unions in this country. The 1966 Model Credit Union Act of CUNA gives the following definition and purpose of a credit union, which embodies the sense of the various enabling statutes of the States and the other countries which recognize this type of situation:

A credit union is a cooperative, non profit association, incorporated in accordance with the provisions of this Act for the purpose of encouraging thrift among its members and of creating a source of credit at a fair and reasonable rate of interest. A credit union provides an opportunity for its members to use and control their own money in order to improve their economic and social condition.<sup>102</sup>

The term "Federal Credit Union" as defined in the Federal Credit Union Act, means "a cooperative association organized in accordance with the provision of this Act for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes . . . ."<sup>103</sup>

---

95. See F. RAIFFEISEN, *THE CREDIT UNIONS* (8th ed. 1966).

96. *Id.*

97. J. DUBLIN, *CREDIT UNIONS—THEORY AND PRACTICE* 9-25 (1966).

98. NAT'L CREDIT UNION ADMIN., 2 NCUA BULLETIN NO. 1, at Tables 1 & 2 (Jan. 1971). As of December 31, 1970, over half of the 23,845 credit unions in the United States were federally chartered, but state-chartered credit unions had slightly more than half of the \$17.86 billion in assets. *Id.*

99. See H. KALLEN, *THE DECLINE AND RISE OF THE CONSUMER* 325-27 (1945). For a discussion of the logic behind cooperative banking through credit unions and the investment of credit union surpluses in other forms of cooperative enterprise, see *id.*

100. 12 U.S.C. §1751 (Supp. V, 1965-1969).

101. Citations to these state laws may be found in *COMPARATIVE DIGEST OF CREDIT UNION ACTS* (1966 ed.) at page entitled *Statutes Cited in Digest*.

102. CUNA INT'L., INC., *THE MODEL CREDIT UNION ACT AND BYLAWS* 5 (May 14, 1966).

103. 12 U.S.C. §1752(1) (1964).

Administration of the Federal Credit Union Act is assigned to the Administrator of the National Credit Union Administration (NCUA).<sup>104</sup> Formerly, this authority was given to the Director of the Bureau of Federal Credit Unions,<sup>105</sup> who narrowed the legislative definition of *credit union* by Rules and Regulations that define the term to mean "a credit union chartered under the Federal Credit Union act, or, as the context permits, under the laws of any State."<sup>106</sup> Under this rule "[the] term 'State' means a State of the United States, the District of Columbia, any of the several Territories and possessions of the United States, the Panama Canal Zone, and the Commonwealth of Puerto Rico."<sup>107</sup>

Notwithstanding this ruling, federal credit unions organized among U.S. servicemen and employees of the Defense Department were permitted to establish overseas branches in 1967.<sup>108</sup> A number of these branches are operating successfully in other countries. Although they confine their activities to United States military bases, they project the image of U.S. credit unions as a segment of the international credit union movement.<sup>109</sup>

The credit unions of this country have a long history of international concern.<sup>110</sup> Raiffeisen House was the name given to the first headquarters building of the Credit Union National Association. Roy Bergengren was active in helping with the Nova Scotia credit union legislation of 1932,<sup>111</sup> just as Alphonse Desjardins of Quebec had helped with the Massachusetts credit union law in 1909,<sup>112</sup> and the New York law of 1913.<sup>113</sup> The Canadian credit unions have grown up, side by side, with the credit unions of the United States and they have affiliated with each other in CUNA for over 25 years.<sup>114</sup>

It seems probable that Congress was aware of much of this background when the Federal Credit Union Act was passed in 1934.<sup>115</sup> Congress must also have considered the potential benefits of permitting federal credit unions to invest in loans, in shares or deposits of credit unions outside of the United States, and to borrow from them,<sup>116</sup> when the Federal Credit Union Act was amended in 1937 to permit credit union interlending and borrowing.<sup>117</sup> The law provides that a federal credit union shall have power

---

104. 84 Stat. 49, 50 §3.

105. Federal Credit Union Acts ch. 750, §2, 73 Stat. 628 (1959).

106. 45 C.F.R. §300.1(g) (1970).

107. 45 C.F.R. §300.1(f) (1970).

108. 1967 BUREAU OF FED. CREDIT UNIONS ANN. REP. 54.

109. BRIEFS, March 5, 1971, at 4 (published weekly by CUNA Int'l, Inc.).

110. See G. BOYLE, *THE POOR MAN'S PRAYER* 175-76 (1951); C. WILSON, *COMMON SENSE CREDIT* 22-51 (1962). See also J. MOODY, C. FITE & G. FITE, *THE CREDIT UNION MOVEMENT: ORIGINS AND DEVELOPMENT 1850-1970* (1970).

111. R. GILES, *CREDIT FOR THE MILLIONS* 107 (1951).

112. *Id.* at 91.

113. *Id.* at 86.

114. J. DUBLIN, *CREDIT UNIONS—THEORY AND PRACTICE* 91 (1966).

115. 12 U.S.C. §1751 (1934).

116. M. CLEMENTS, *BY THEIR BOOTSTRAPS* 20-26 (1965).

117. 12 U.S.C. §1757(7)(c) (Supp. III, 1934-1937), amending 12 U.S.C. §1757 (1934).

to invest its funds in certain defined ways, including "in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus . . .,"<sup>118</sup> and, "in shares or deposits of any central credit union in which such investments are specifically authorized by the board of directors of the federal credit union making the investment . . . ."<sup>119</sup>

Federal credit unions can borrow, in accordance with rules and regulations prescribed by the Government, from any source, in an aggregate amount not exceeding 50 per centum of their paid-in and unimpaired capital and surplus:

*Provided*, that any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital.<sup>120</sup>

Permission to invest in loans to other credit unions has been interpreted and is by regulation limited to mean loans for a term of not more than one year to other federal and state chartered credit unions. Loans to credit unions of other countries, except as other countries are included in the regulatory definitions,<sup>121</sup> are therefore prohibited.<sup>122</sup> Conversely, a federal credit union may borrow from any sources (within its statutory limit),<sup>123</sup> or

---

118. *Id.*

119. 12 U.S.C. §1757(8)(g) (Supp. IV, 1965-1968), *amending* 12 U.S.C. §1757 (Supp. III, 1965-1967).

120. 12 U.S.C. §1757(10) (Supp. IV, 1965-1968), *amending* 12 U.S.C. §1757 (1964).

121. 45 C.F.R. §300.1(G) (1970).

122. 1969 ANN. REP. OF THE FED. CREDIT UNION PROGRAM 30 (Nat'l Credit Union Admin. publication). State laws that expressly recognize the right of State credit unions to invest in loans to or shares of other credit unions include: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Idaho, Indiana, Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, Montana, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Pennsylvania, and Vermont. COMPARATIVE DIGEST OF CREDIT UNION ACTS 4-9, 72-80 (1966 ed.). Interlending activity reports of credit unions in other states indicate that they have similar powers. 1969 NAT'L CREDIT UNION ADMIN. ANN. REP. 8 (report on state-chartered credit unions).

123. BUREAU OF FED. CREDIT UNIONS, HANDBOOK FOR FEDERAL CREDIT UNIONS 5 (1969).

discount with federal intermediate credit banks up to the full amount of its capital and surplus.<sup>124</sup>

This regulation of federal credit unions has the effect of treating lending and borrowing as if these transactions were unrelated, whereas the growing practice among credit unions is to consider lending and borrowing as a "two-way street." It is no longer uncommon, especially for multi-million dollar credit unions, to both lend and borrow, sometimes simultaneously, with other credit unions.

Government regulation that permits federal credit unions to play a vital role in the leadership of an international movement and to borrow but not to lend internationally aggravates a basic weakness of the United States credit union movement resulting from the paradoxical history of the Federal Credit Union Act. In the Federal Credit Union Act of 1934,<sup>125</sup> Congress initially sought to create a federal credit union system;<sup>126</sup> yet in all the years since that declaration Congress has been unable to agree on any of the credit unions' repeated proposals for legislative authority to systematize their financial functions in a reserve institution like the Federal Reserve System for banks, or the Federal Home Loan Bank System for savings and loan associations.<sup>127</sup>

A number of studies have focused on the inability of United States credit unions to organize a central bank or discount institution in order to pool their surplus money, borrow directly or indirectly by discounting their notes receivable, and obtain access to the United States money market.<sup>128</sup> Repeated and consistently unsuccessful legislative attempts have made to

---

124. *Id.* California, Ohio and Texas give State credit unions the same borrowing power as federal credit unions—to borrow up to 50 percent of their paid in and unimpaired capital and surplus from any source. *COMPARATIVE DIGEST OF CREDIT UNION ACTS* 80 (1966 ed.). Most of the other 41 state laws have similar provisions, though they vary somewhat in the wording of the formula for computing the maximum amount that may be borrowed. *Id.* at 80-81.

A few states expressly permit discounting of notes but most state laws are silent on this point. Discounting of notes has been provided for Federal credit unions from the 1930's when the Farm Credit Administration was administering the Federal Credit Union Act, 51 Stat. 4, §2 (1937), *amending* 12 U.S.C. §1757 (1934), but since Federal credit unions' lending has centered more on urban than on agricultural loans, very few of their loans qualify for discounting with the Federal Intermediate Credit Banks. J. CROTEAU, *A NATIONAL CENTRAL CREDIT SOCIETY* 41 (report prepared at the direction of Congress, Aug. 1960) (CUNA publication).

125. 12 U.S.C. §1751-70 (1934).

126. 12 U.S.C. §1751 (1934).

127. *FEDERAL CREDIT UNION ACT* (prepared at the request of House Banking and Currency Comm. by H. Price, Dec. 3, 1970) (Legislative Reference Service document).

128. *E.g.*, J. CROTEAU, *A NATIONAL CENTRAL CREDIT SOCIETY* 6 n.1 (1960); J. DUBLIN, *CENTRAL BANKING, STABILIZATION, AND SHARE INSURANCE FOR CREDIT UNIONS* 3-7 (study & report prepared for Mich. Credit Union League, 1962).

create a system for financing, starting with the Senate Bill No. 1640<sup>129</sup> introduced by Senator Morris Sheppard (D-Tex.), in 1934.

Central credit unions, as their name implies, are supposed to have different powers and functions than other credit unions. Designed primarily to provide a specialized type of credit union service, the centrals are intended to be reserve banks for other credit unions. Originally, as conceived in the legislation that became the Federal Credit Union Act of 1934, federal *central* credit unions were to be established in each state where they would act as reserve institutions for their member state and federal credit unions, with access to the Federal Reserve banks.<sup>130</sup> This essential feature of the law was lost in the 1934 legislative effort, and to this day there is no central credit union system or any other reserve system for credit unions in the United States.<sup>131</sup>

Both state and federal so-called "central" credit unions were chartered, but since they could not function as wholesalers of credit they began to accept both individuals and local credit unions as members. Until the mid-sixties most of them (particularly the federal centrals) were in effect "officers' credit unions"; they primarily served officers of other credit unions who were limited in what they could legally borrow (only up to the amount of their share-holdings) from their own credit unions.<sup>132</sup> Finally in 1968, when Congress authorized extensive revisions of the entire Federal Credit Union Act, the amendments included liberalized officer borrowing (from their own credit unions) and investments in the shares or deposits of any central credit union.<sup>133</sup> Thus central credit unions are now exercising more of their intended central functions in dealing with other credit unions. They are also growing larger, as surplus credit union money is flowing into them both in loans and shares. As of December 31, 1969, the five largest "centrals"—those in Colorado, Michigan, Ohio, Southern California, and Wisconsin—had assets totaling \$111 million.<sup>134</sup> As of February 26, 1971, the Michigan Central Credit Union alone had assets of \$101 million.<sup>135</sup>

While United States credit unions await Congressional authorization for a reserve system, the centrals will have to depend primarily on themselves and their member credit unions to perform the reserve functions. The major source of share capital of most credit unions is their large share accounts, and any increase in this concentration of shareholder liability necessitates corresponding increases in liquidity (the ability to convert loans and other assets into cash). It is advantageous to all credit unions, centrals included, to

---

129. See *Hearings on S. 1639, S. 1640, S. 1641 Before a Subcomm. of the Senate Comm. on Banking and Currency, 73d Cong., 1st Sess.* (1933).

130. S. 1640, 73rd Cong., 1st Sess. §20 (1934).

131. J. CROTEAU, *A NATIONAL CENTRAL BANKING SYSTEM* 8 (1960).

132. J. DUBLIN, *CENTRAL BANKING, STABILIZATION, AND SHARE INSURANCE FOR CREDIT UNIONS* 4 (study & report prepared for Mich. Credit Union League, 1962).

133. 12 U.S.C. §1761c (Supp. IV, 1965-1968), *amending* 12 U.S.C. §1761c (1964).

134. 1969 NAT'L CREDIT UNION ADMIN. ANN. REP. (report on state-chartered credit unions).

135. BRIEFS, March 5, 1971, at 1 (CUNA, Inc. publication).

broaden the base of their share capital.<sup>136</sup> Broadening their base to include credit unions outside of the United States could stabilize the centrals, as well as other credit unions, by giving them access to funds and to investment outlets not entirely dependent on the American economy. International interlending and borrowing could add a degree of liquidity to U.S. credit unions, including the big centrals that need it most, thereby complementing the federal share insurance program<sup>137</sup> that provides some solutions to emergency liquidity problems. Interlending that is confined to United States credit unions does not provide an answer to their liquidity problems, because as a group they have no access to the money market or to a "lender of last resort."<sup>138</sup>

---

136. BUREAU OF FED. CREDIT UNIONS, RESEARCH REP. NO. 2, at 5 (July 1969).

137. The federal credit union share insurance law, which was enacted on Oct. 19, 1970, 84 Stat. 944-1015, gives a maximum of \$20,000 share or deposit insurance to members of all federal and participating state credit unions, similar to the insurance provided for depositors in banks and savings and loan associations. The House Banking and Currency Committee, commenting on the purpose of the legislation, called it "a reward for the outstanding job performed by credit unions" and "in no way intended to indicate that credit unions face a period of monetary difficulty." H.R. REP. NO. 1457, 91st Cong., 2d Sess. 2 (1970). Nevertheless, the legislation includes the usual provisions of deposit insurance laws. Losses from insolvency are covered by a national credit union Share Insurance Fund, 84 Stat. 995 §203(a), and an Administrator is given regulatory powers, 85 Stat. 994 §201(b)(6)(7)&(9), aimed at preventing or minimizing losses that can result from unsafe or unsound practices which endanger the solvency of a credit union. The Fund can be used to provide liquidity to individual insured credit unions in distress, but only as a means of preventing or minimizing Fund losses, 84 Stat. 1013 §208(a)(1)&(2). Share insurance does not provide, nor can it substitute for, the central banking functions that credit unions, as well as banks and savings and loan associations, have found necessary to assure their liquidity as a means of achieving and maintaining day-to-day competitive business efficiency.

The problem of liquidity often obscures another persistent problem—the problem of surplus funds. Most credit unions cannot fully apply their members' savings to provide members' loans. From 1950 through 1969 the combined loan volume outstanding of both federal and state credit unions was never able to match their total resources.<sup>139</sup> Although there

---

138. Liquidity to a greater extent than solvency has been a potential weakness of the U.S. credit union movement since its inception. J. CROTEAU, *THE ECONOMICS OF THE CREDIT UNION* 57-81 (1963). The other major financial institutions—banks, and savings and loan associations—are assured of liquidity through the Federal Reserve System and the Federal Home Loan Bank System respectively bolstered by government deposit insurance against insolvency.

To the extent that the experience of the other financial institutions is any guide, and certainly if credit unions continue to become more competitive with them by extending their loan maturities or by entering the money market, the problems of liquidity among credit unions will become more noticeable than they have in the past.

Although many credit unions borrow from banks, and will no doubt continue to strengthen their banking connections, the banks would be a doubtful source of loans in the event of a severe emergency. They could not be expected to favor the credit unions—especially the large ones that are most competitive—over their other customers, if, for instance, the Federal Reserve System should pursue a tight-money policy as it did in 1969.

Large credit unions, those with assets of \$1 million or more, are noticeably vulnerable. Outnumbered though they are by the smaller credit unions, the larger credit unions control most of the money in the credit union movement. 1969 ANN. REP. OF THE FED. CREDIT UNION PROGRAM 89, Table 31 (Nat'l Credit Union Admin. publication). Generally they are more successful in maintaining a higher loan-to-share ratio than the smaller credit unions. *Id.* at 91, Table 32. This enables them often to give better service and usually to be completely self-supporting, but it also accentuates their liquidity problems. Since they represent such a large part of the total resources of the credit union movement, any threat to their liquidity becomes a major concern to all credit unions.

Except in the unusual circumstances when short-term government obligations pay extremely high returns, as they did in 1970, the large credit unions must keep their money invested in loans to their members, in order to pay a competitive dividend on shares. Philosophically and economically member loans are their best investment, so it pays them to keep liquid funds at a low level. As a group the large credit unions are becoming more dependent on an assured source of low-cost external funds. Some of them have started to issue debt instruments that compete with their shares for membership investment. *Id.* at 9-12. With a 12 percent per annum legal interest ceiling on what they charge their members, severe limitations on their investment powers, and prohibitions on fee services, they are among the first to feel the pinch when tight-money periods drive up the interest rates on loans from banks and other lenders. They cannot afford to use members' savings to maintain a highly liquid position, nor can they afford to risk being caught in a tight-money market.

139. 1969 NAT'L CREDIT UNION ADMIN. ANN. REP. 11, table 4. (report on state-chartered credit unions).

have been periods when loans have grown faster than savings the surplus funds are mounting into the billions. At the end of 1968 United States credit unions had \$2.045 billion in outstanding investments<sup>140</sup> --money they could not place in loans to their members. At the end of 1969, a tight-money year, investment totals had risen to \$2.099 billion.<sup>141</sup> In 1970 loans increased slightly more than \$1 billion, while savings increased \$1.7 billion, leaving a larger surplus than in 1969.<sup>142</sup>

The most recent bill that attempts to provide a reserve system is H.R. 18424. First introduced by Representative Wright Patman (D., Tex.), in the second session of the 91st Congress,<sup>143</sup> and reintroduced in the 1st session of the 92nd Congress<sup>144</sup> on March 30, 1971, as H.R. 6936, this bill proposes the creation of a National Credit Union Bank (NCUB) which would have the functions of a typical central reserve institution. It is a logical conclusion to the long search for a link between the United States credit unions, their centrals, the United States treasury, and the money market. With the supervisory examination and share insurance functions of the National Credit Union Administration (NCUA) fully utilized and represented by the NCUA Administrator on its board of directors, the new Bank would also have other directors and an independent status. This broad representation from the entire credit union movement could provide important leadership roles for both the Government agency<sup>145</sup> and the credit unions<sup>146</sup> as they move together into the new era of international relationships.

Interestingly, the bill has three separate and distinct definitions of "credit unions," "federal credit unions," and "state credit unions." It defines federal and state credit unions as they are defined in the Federal Credit Union Act so as to include them in the proposed new system. But it goes on to define a *credit union*--as separate from federal or state credit unions--to mean "a cooperative association organized for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes."<sup>147</sup> The NCUB is authorized:

- 
140. BUREAU OF FED. CREDIT UNIONS, U.S. DEPT OF HEALTH, EDUC. AND WELFARE, STATE-CHARTERED CREDIT UNIONS 1968 14, Table 2; 1968 BUREAU OF FED. CREDIT UNIONS ANN. REP. 54, Table 1.
  141. Figure obtained by combining total federal credit union investments, 1969 ANN. REP. OF THE FED. CREDIT UNION PROGRAM 56, Table 1, (Nat'l Credit Union Admin. publication), with the total state credit union investments, 1969 NAT'L CREDIT UNION ADMIN. ANN. REP. 18, Table 2. (report on state-chartered credit unions).
  142. NAT'L CREDIT UNION ADMIN., 7 CREDIT UNION STATISTICS NO. 1 (Jan. 25, 1971).
  143. H.R. 18424, 91st Cong., 2d Sess. (1970).
  144. H.R. 6936, 92nd Cong., 1st Sess. (1971).
  145. J. DUBLIN, CREDIT UNIONS--THEORY AND PRACTICE 159 (1966).
  146. J. DUBLIN, CENTRAL BANKING, STABILIZATION, AND SHARE INSURANCE FOR CREDIT UNIONS 33-35 (study & report prepared for Michigan Credit Union League, 1962).
  147. H.R. 18424, 91st Cong., 2d Sess. §12 (1970).

to develop and enter into agreements with or among *credit unions* and other financial institutions for the purpose of aiding in the establishment of an efficient interlending system among credit unions, and for the purpose of aiding credit unions in establishing concentrated lines of credit with other financial institutions, and to act as a depositor or transmitter of funds for the purpose of carrying out this power.<sup>148</sup>

Taken in context with the definition of a "credit union", this section of the bill should enable the Bank to participate in international credit union lending and finance. However, credit union money would not necessarily flow only one way—from the United States to other countries—as some might anticipate. Not inconceivably, credit unions and other financial institutions of the international cooperative community could and would provide a measure of support to the United States credit unions if there were more channels for the international flow of funds.

AID is presently attempting to activate an Extended Risk Guaranty (ERG) Credit Union Loan Program that was started in 1969, with the assistance of CUNA, whereby the Government guarantees principal and interest against all risks on U.S. credit union loans made to credit unions of other countries. Under an amendment to the Foreign Assistance Act of 1967, Congress authorized AID to provide \$1.25 million in guaranties under this program,<sup>149</sup> and AID has initiated a pilot program of \$1 million to cover the first loans. Although they are not permitted to lend to foreign credit unions because of the prohibition on such inter-lending, Federal credit unions are permitted to invest in ERG loans, as Government-guaranteed securities.<sup>150</sup> However, only one AID-ERG loan has been made, and that by the state-chartered Arizona Central Credit Union which loaned \$7,000 to the Guaranda Credit Union in Ecuador on March 14, 1969.<sup>151</sup> This is one of the few overseas loans known to have been made by an American credit union to a credit union of another country.

In January of this year a Canadian credit union made two sizeable loans to United States credit unions, both without any kind of guaranty. These loans, one for \$200,000 and one for \$100,000, were widely publicized in Canada<sup>152</sup> and the United States.<sup>153</sup> They were the first to be made internationally through a new program of the ICU Services Corporation (ICUS), an internationally-owned affiliate of CUNA. ICUS presumably

---

148. *Id.* at §53(f).

149. AGENCY FOR INT'L DEV., U.S. DEP'T OF STATE, CREDIT UNION LOAN PROGRAM 2 (1968) (Extended Risk Guarantee Paper).

150. *Hearings on the Fulton Bill for Credit Union Guarantee Loans, Before the Subcomm. on Inter-Am. Affairs of the House Foreign Affairs Comm.*, 91st Cong., 1st Sess., at 151 (1969) (testimony of Mr. Fowler, Deputy Coordinator for the Alliance for Progress).

151. *First Guaranteed Overseas Credit Union Loan Made: FCU's Get Go-Ahead in Washington*, BRIEFS, March 21, 1969 (CUNA Int'l. Inc., publication).

152. NACCU BRIEFS, Jan. 29, 1971 (Nat'l Ass'n of Canadian Credit Unions publication).

153. *ICUS Interlending Makes First International Transaction*, BRIEFS, Jan. 29, 1971 (CUNA, Inc. publication).

arranged these loans on a routine exchange of authorizing board resolutions, financial statements, audit reports and promissory notes. These simple steps are essentially the same for inter-credit union loans made (usually without security) within Canada and the United States.

The Canadian-U.S. loans might be difficult to duplicate in other countries where far greater problems of communications, maintenance of currency valuation, exchange controls, legislative or regulatory impediments, are known to exist. Yet there is a growing conviction in credit union circles that all of these problems can be solved and that the best insurance against these risks is the integrity of the low income credit union member. Usually, he is a small-scale farmer, businessman, or worker, and as the ultimate recipient, he will go to any lengths to keep his credit standing since he stands to lose the most if his credit is cut off. After years of studying these problems and weighing them against the benefits of interlending, the national credit union federations that formed the Confederation of Latin American Credit Unions (COLAC) in 1970 have incorporated into their bylaws the authority for COLAC to provide the services of a regional financing organization that will enable them to engage in international lending and borrowing.<sup>154</sup>

Recently AID ventured into the field of unsecured and non-guaranteed credit union lending at the federation level by preparing to make a \$2 million loan direct to a federation of credit unions in El Salvador for sublending to small farmers, workers and artisans through their credit unions. The loan paper<sup>155</sup> contains "soft" terms that will enable the federation to augment its own funds with the loan proceeds over a lengthy period.<sup>156</sup> Income from the roll-over of short-term loans, and mandatory capital investments by the borrowing credit unions, will enable the federation to become self-supporting.<sup>157</sup> Repayment will be over a twenty-five year period, including a seven year grace period.<sup>158</sup> Interest during the grace period will be two percent per annum, and three percent per annum thereafter. However, interest and principal payments will be made in U.S. dollars.<sup>159</sup> Even more important, no collateral or host government guaranty other than convertibility<sup>160</sup> is required. AID's stipulation that the federation and its member credit unions must individually pass "resolutions,

---

154. Bylaw Proposal for the Establishment of a Latin American Confederation of Credit Unions (COLAC) art. II, §3 (1970). These bylaws have been registered by the Republic of Panama by Resolution No. 268, *Consejo Nacional De Cooperativas in Panamá* on April 23, 1971.

155. AGENCY FOR INT'L DEV., U.S. DEPT OF STATE, EL SALVADOR: CREDIT UNION DEVELOPMENT (FEDECACES) (May 15, 1970) (Capital Assistance Paper).

156. *Id.* at i.

157. *Id.*

158. *Id.*

159. *Id.*

160. *Id.*

in form and substance satisfactory to AID, backing this loan with the full faith and integrity of their credit union system and attesting to the moral obligation to repay the loan,"<sup>161</sup> is in the spirit of the credit union movement's self-imposed disciplines, going back to the unlimited liability concepts of the Raiffeisen societies.<sup>162</sup>

Credit unions have what appears to be an excellent record of repaying their obligations to outside creditors, both in the United States<sup>163</sup> and the countries of Latin America.<sup>164</sup>

The extended repayment terms might be difficult, if not impossible, for United States credit unions to match, but long-term money would not be essential since the money is being used mostly for short-term or intermediate loans (1-5 years).<sup>165</sup> Likewise, low interest rates and grace periods, while understandably advantageous to the borrowers, are not essential to people who are accustomed to paying as much as 20 percent daily interest for whatever financing is available to them.<sup>166</sup> AID-guaranteed credit union loans are expected to deliver 12 percent money to the small overseas farmer or businessman. If credit union interlending without a government guaranty can do substantially the same (and there is good reason to anticipate this from the experience in Latin America), both channels should be active and quite useful.

Many of the overseas credit unions would probably prefer an assured credit union source of the loan capital they need so desperately, to an occasional concessional United States Government loan. So long as rates and terms are reasonable, private sources of credit are advantageous to non-governmental organizations. The federations and their member credit unions might substitute their own safeguards for government guaranties.

Other Government financing<sup>167</sup> and investment insurance<sup>168</sup> programs are available to U.S. private sector institutions for investments abroad. At the very least they may prove to be valuable for opening up other investment outlets for cooperatives, including credit unions, by encouraging their participation in overseas investments with the International Cooperative Bank Co., national cooperative banks, and other overseas co-op financial institutions.

---

161. *Id.* at v.

162. J. DUBLIN, CREDIT UNIONS—THEORY AND PRACTICE 143-44 (1966).

163. See 1964 BUREAU OF FED. CREDIT UNIONS FED. CREDIT UNION PROGRAM ANN. RPT. 37.

164. H. WEGNER, A SUGGESTED APPROACH TO THE DEVELOPMENT OF FINANCE IN SUPPORT OF THE DEVELOPMENT OF MARGINAL SOCIOECONOMIC POPULATIONS IN LATIN AMERICA 2 (1970) (CUNA Int'l, Inc. publication).

165. AGENCY FOR INT'L DEV., U.S. DEPT OF STATE, EL SALVADOR: CREDIT UNION DEVELOPMENT (FEDECACES) 4 (May 15, 1970) (Capital Assistance Paper).

166. *Id.* at 1.

167. See FINANCING HANDBOOK (1970) (Overseas Pvt. Investment Corp. [OPIC] publication).

168. See POLITICAL RISK INVESTMENT INSURANCE HANDBOOK (1971) (Overseas Pvt. Investment Corp. [OPIC] publication).

The Overseas Private Investment Corporation (OPIC),<sup>169</sup> a new federal agency that has taken over the AID investment insurance and guaranty programs described above, was created by the Foreign Assistance Act of 1969 (PL 91-175, Part I, Title IV) to further United States foreign policy by "undertaking to encourage and support private investments in less-developed friendly countries and areas which . . . are sensitive and responsive to the special needs and requirements of their economies, and contribute to the social and economic development of their people."

Cooperatives of the United States are represented on OPIC's board of directors, as provided in the enabling legislation, and they are expected to participate with other private enterprise institutions in using OPIC's services to reach their international objectives.<sup>170</sup>

There are investment opportunities for consortiums of cooperatives, foundations, and similar organizations who wish to share in non-profit overseas development work. A 1970 field study made in five Latin American countries by the Pan American Development Foundation<sup>171</sup> for the Inter-American Development Bank (IDB) reported that within three years, the cooperatives and similar private development groups, could match \$20 million in IDB loans with an equal amount of their own money.<sup>172</sup> The amount needed by all of the Latin American countries for these institutions was estimated at \$100 million.<sup>173</sup>

### *Conclusion*

This brief resume of our foreign assistance program is the prelude to a new chapter on cooperative development that is now unfolding. As the cooperatives of AID-assisted countries continue to develop and improve their operations, their potentials both in terms of services and needs for both technical and capital assistance are multiplying rapidly.<sup>174</sup> Viable and credit-worthy projects are being discovered with increasing frequency at the low-income levels of both rural<sup>175</sup> and urban areas, where

---

169. See *id.* at 1-4, 47-56, for a discussion of OPIC, and the law creating it.

170. See *Financing Cooperatives—1970 and Beyond*, address by Howell Hughes, Vice Pres., Springfield Bank for Cooperatives, 13th Ann. Institute for Cooperatives, Dec. 8-11, 1970, at 4-6.

171. 117 CONG. REC. NO. 17 (daily ed. Feb. 17, 1971) (remarks by the Hon. F. Bradford Morse).

172. PAN AM. DEV. FOUNDATION, CREDIT FOR MARGINAL GROUPS 12 (1969) (study of the principal private sector credit institutions providing loans to marginal groups in the countries of the Dominican Republic, Chile, Ecuador, Colombia & Guatemala).

173. *Id.*

174. See Zegge, *Mobilizing Rural Savings Through Savings and Credit Societies in Tanzania*, MBIONI, Vol 6, No. 1, at 25 (published by Kivukoni College, Dar es Salaam, Tanzania).

175. Paul, *Credit's Role in Agricultural Development in Asia*, 2 REV. OF AGRICULTURAL ECON. 23, 28-30 (1968) (publication of Malaysia Fed. Agricultural Marketing Authority, Ministry of Agriculture & Cooperatives, Kuala Lumpur).

government-to-government assistance funds are slow to trickle down.<sup>176</sup>

More money is not in itself the solution to this problem. More AID assistance or new and additional development bank or World Bank loans ear-marked for cooperative development through government channels would not necessarily assure that the Congressional directives to provide help at the grassroots level were being fully addressed. Our best hope for helping the people of other countries build and participate in viable cooperatives is through the human and financial resources of the cooperatives themselves, here and abroad. Fortunately, United States cooperatives have become more aware of their own capacities, in part through their partnership with AID over the past years, and in part because of their own needs for improved financing resources,<sup>177</sup> and international trade.<sup>178</sup>

What began as an altruistic donation of United States expertise to the people of other countries who were attempting to establish their own cooperatives is maturing into a responsible, reciprocally beneficial institutional relationship. It will require courage on the part of the leaders of the United States cooperative movement to enter into this new era of business and foreign assistance. In addition to facing the risks of economic loss inherent in these ventures, they must be able to successfully meet the human problems which are associated with the possible conflicts between their own personal pride and that of their counterparts abroad, and the possible questioning of their motives in making such investments. Additionally, legislative changes in the area of government guarantees may be required. There are substantial rewards for meeting these challenges, however, the greatest of which lies in the fact that cooperatives may well be the principal "tool" by which United States foreign assistance can be advanced to its next logical stage -- a mutually productive sharing of world resources with the world's people on a true people-to-people basis.

---

176. D. ADAMS, *AGRICULTURAL CREDIT IN LATIN AMERICA: EXTERNAL FUNDING POLICY* 21-22 (April 15, 1970) (Economics and Sociology Occasional Paper No. 9, Dep't of Agricultural Economics and Rural Sociology, Ohio State Univ.).

177. Credit unions are not the only cooperative to feel the need for new financing institutions. United States rural electric cooperatives, attempting to solve the "capital gap" of inadequate government funding on which they have traditionally relied, have organized the National Rural Utilities Cooperative Finance Corporation (CFC), which recently made its first two loans. *CFC Gets Ready*, *RURAL ELECTRIFICATION*, Jan. 1971, at 10. CUNA was an early supporter of the CFC. *BRIEFS*, March 5, 1971, at 3 (CUNA Inc. publication).

On March 13, 1971 the National Association of Canadian Credit Unions (NACCU) Executive Committee decided to undertake a feasibility study of a "movement controlled banking facility to serve credit unions and coops." *NAACU BRIEFS*, March 19, 1971 (Nat'l Ass'n of Canadian Credit Unions publication).

178. The "ideal cooperative in 1980," as described by a cooperative leader recently, will have its largest outside investment in a multinational cooperative which will provide over 60 percent of the basic ingredients needed by its supply division. *Financing Cooperatives—1970 and Beyond*, address by Howell Hughes, Vice Pres., Springfield Bank for Cooperatives, 13th Ann. Institute for Cooperatives, Dec. 1970, at 6.