



INTERNATIONAL CO-OPERATIVE ALLIANCE
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DOING BUSINESS WITH THE CO-OPERATIVES FROM CHILE



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SERIES: DOING BUSINESS WITH THE
 CO-OPERATIVES FROM LATIN AMERICA



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Doing business with the co-operatives from Chile

A practical guide for:

- Investors
- Business persons
- Co-operatives

1996



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1996



Développement International Desjardins

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Internacional Co-operative Alliance

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The International Co-operative Alliance represents over 700 million people organized in thousands of co-operatives from 90 countries. ICA brings together co-operative organizations from all economic sectors such as: Agriculture, Banking, Energy, Production and Services, Insurance, Fisheries, Housing, Tourism, Transportation, Consumer and others.

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- To elevate and defend the co-operative principles and values
- To facilitate the development of business exchange for mutual benefit of its member organizations
- To evoke the economic and social development of its members and their community.

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I. Introduction

Chile has drawn the world's attention with its rapid transformation process, ignoring debates over economic models and development strategies and producing some unquestionable results: continuous economic growth at very high rates, during a decade that was very difficult for the rest of the region, and the best international economic performance among Latin American countries for several years. This success has attracted many foreign companies, which have selected the country for their investments in the Southern Cone and the South American basin of the Pacific.

With this guide, the **Internacional Co-operative Alliance** seeks to present a sector with particular features that make it especially attractive to those considering business opportunities in the country: Chilean co-operative businesses. With their insertion in some of the country's main economic sectors, their degree of integration and the emerging benefits of this particular socio-economic organization, co-operatives have attracted special attention from those seeking to establish new commercial ties in Chile.

This publication represents a continual effort by the **International Co-operative Alliance** to encourage and promote the many opportunities for investment, trade, cooperation and exchange offered by the co-operatives of the Americas.

The document begins by presenting a list of some of the concrete advantages obtained by doing business with the Chilean co-operatives, and then offers a brief overview of the country's economy as well as a description of the general features of the current foreign investment framework. In Chapter IV, there is a presentation of some of the sectors in which co-operatives have a significant presence and where, consequently, the most attractive business opportunities are present. Then, there is a description of the different models available for doing business with Chilean companies in general and with the co-operative sector in particular.

The guide ends with general information about Chile on issues of major interest for those studying the possibility of establishing some form of business ties in the country. Also, there is a succinct presentation of the legal/political system, information on the history, geography, climate and infrastructure, as well as a more thorough description of the banking and finance system and the current tax and labor frameworks.



The goal of this document is to offer practical information at a basic or introductory level. For those who are interested in further information on a certain area covered or who want to investigate specific business opportunities, a list of key contacts from both within and outside the co-operative sector has been added at the end.

We would like to express our gratitude to all those organizations contributing to the production of this guide and, we especially wish to recognize the committed support of the **Swedish Co-operative Centre** and the **International Développement Desjardins** in fostering the efforts of the region's co-operatives to insert themselves in the new economic order.

*Juan Diego Pacheco
Regional Director
International Co-operative Alliance*

II. Why do business with the co-operatives from Chile?

Undoubtedly, in the last few years, Chile has become one of the preferred locations for those investors seeking to penetrate the region's market. With one of the lowest country-risk rates among developing economies, foreign investment exceeded US\$ 12.5 million, reaching the most diverse economic sectors and coming from all over the world, although mostly from North America and Europe. Just in 1994, foreign investment was US\$4.7 million, representing a 70% growth with respect to the previous year and more than 10% of GDP for that period.

A number of factors have contributed to this situation: an excellent macroeconomic performance--with continuous growth throughout the last decade at an average annual rate of 6% ; a modern and sophisticated financial system; the availability of a qualified labor force; a solid infrastructure for starting businesses and the enforcement of an attractive legal framework for the protection and promotion of foreign investment.

Within this framework, there is a sector, which in addition to these propitious factors, offers qualities not found in any other local actor: Chilean co-operative businesses. We will now present some of the particular characteristics which make co-operatives interesting potential partners for those studying investment options in Chile.

Table I.1
Main advantages of Chilean co-operatives

- Direct access to the country's most important sectors.
- Easy access to a broad regional market.
- Low costs of *intermediation and production*.
- High demand for capital goods and equipment.
- Idle capacity.
- High levels of integration.
- Recognition as organizations that contribute to economic
- democratization and the distribution of wealth.



Direct access to the country's most important sectors

There are currently 1000 co-operatives active in Chile from the most diverse sectors of production and service, distributed throughout the country. In some of the more important economic sectors, the participation of co-operatives is very significant: dairy production, wine, vegetable and fruit growing, housing construction, financial intermediation, health services, utility and potable water services, the production of *pisco* (a typical liquor), etc. In some of the areas mentioned, co-operative businesses occupy important market positions.

Easy access to a broad regional market

Due to its economic and geographical position, the quality of its infrastructure and the enforcement of a framework open to foreign capital investment, Chile has become a gateway to Latin American markets. Chile's trade sector and intraregional investment have shown rapid growth, due in large part to joint ventures with investors from the United States, Europe and Asia. Add to this the strong ties of collaboration and cooperation which Chilean co-operatives have with their counterparts in the region, and this factor becomes an even greater advantage.

Low costs of intermediation and production

Given their nature as organizations with both economic and social dimensions, co-operatives benefit from certain tax exemptions and reductions, which clearly reduces their operating costs. Furthermore, the levels of integration and solidarity among co-operative members allows for the establishment of economies of scale by way of joint purchases and contracts. Another important characteristic is that co-operatives do not pursue the maximization of profit shares as a primary goal and thus can more easily manage their costs structures.

High demand for capital goods and equipment

The co-operative sector is in permanent demand of machinery and equipment as a function of its need to modernize and improve productivity. Likewise, the incorporation of new production technologies is a constant concern of many businesses in the sector. The formation of agreements and associations that guarantee the supply of these goods from foreign counterparts is an area of interest to Chilean co-operatives.



Idle capacity

Many co-operative businesses have fixed assets for which they pay high maintenance costs without being able to fully take advantage of their capacity. Reaching complementary agreements that allow for increased production will bring a substantial improvement in prices offered.

High levels of integration

In many of the country's co-operative sectors, integrating organizations have been formed. Their role is to represent and defend the interests of businesses in the sector, and thus guaranteeing co-operatives an adequate relationship with the State and other private actors connected to their activities. Furthermore, in some cases, these integrating organizations have structures that offer specialized services for co-operative operations and have generated highly beneficial experiences in business alliances.

Recognition as organizations that contribute to economic democratization and the distribution of wealth.

Co-operatives enjoy wide recognition in Chile as organizations that contribute greatly to a more equitable distribution of economic benefits and to the humanization and democratization of the economy. Their guiding principles, which include self-help, solidarity, education, justice, and democracy and progress to the benefit of members and the entire community, make co-operatives an ideal instrument for implementing policies that seek to achieve successful macroeconomic indicators with an equitable participation of society as a whole in the benefits reaped. This gives co-operatives a favorable image and those actors which interact with them are positively received by the community.



III. The Chilean economy

For several consecutive years, Chile has revealed in first place in Latin America with respect to its global economic performance, boasting an average Gross Domestic Product (GDP) growth rate of 6% during the last decade, an accelerated growth in foreign trade and investment, balanced budgets (as a consequence of the privatization process and the implementation of deep reforms in the social security/health care system), a decreasing inflation rate reaching single digits and an open unemployment rate maintained at around 5%.

In Table III.1 the evolution of some of the main economic indicators can be seen:

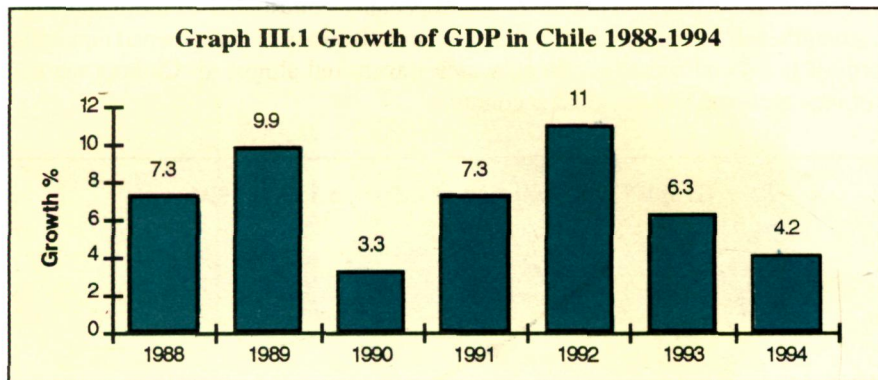
Table III.1 Chile: Economic indicators 1990-1994

Indicator	1990	1991	1992	1993	1994
GDP at constant prices (in millions of US\$ of 1990)	34.555	36.968	40.69	43.011	44.780
Annual GDP growth rate at constant prices (%)	3.3%	7.3%	11.0%	6.3%	4.2%
GDP per capita (in 1990 US\$)	2.623	2.762	2.992	3.114	3.193
Real growth rate in GDP per capita at constant prices (%)	1.6%	5.6%	9.3%	4.6/	2.7%
Inflation rate	27.3%	18.7%	12.7%	12.2%	8.9%
Exchange rate (pesos / US\$ at the year's end)	337.1	374.5	382.1	428.5	402.9
Variation in the exchange rate	13.3%	11.1%	2.0%	12.1%	-6.0%
Exports of goods FOB (in millions of US\$)	8.372	8.942	10.008	9.199	11.537
Imports of goods CIF (in millions of US\$)	7.037	7.354	9.236	10.181	10.878
Trade Balance (in millions of US\$)	1.335	1.588	772	-982	659
Total foreign debt (in millions of US\$)	19.227	17.947	19.134	20.637	20.884
International Reserves (millions of US\$)	6.710	7.638	9.742	10.252	13.740

SOURCES: *Instituto Nacional de Estadísticas, Banco Central de Chile, IDB, IMF, World Bank*

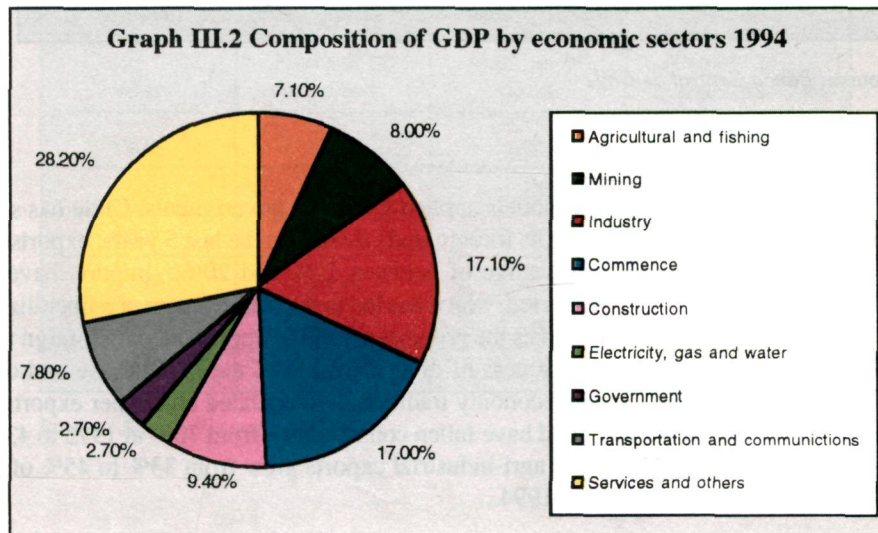
Level of activity and sectoral structure

As previously pointed out, the Chilean economy has experienced permanently high growth rates for the region in the last years, which can be seen in Graph III.1.



Source: *Banco Central de Chile*

The distribution of GDP by economic sector has been relatively stable in the last years. The values for 1994 are shown in Graph III.2.

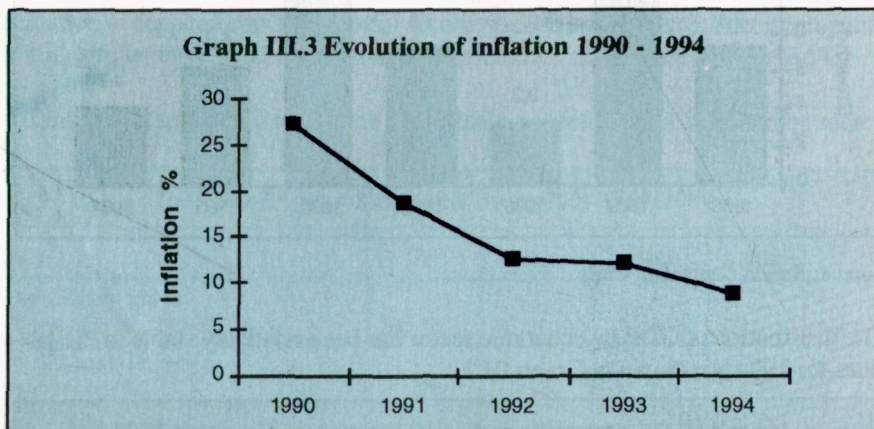


Source: *Banco Central de Chile*



Inflation

Inflation rates have consistently decreased since 1990. After reaching a peak of 27.3% that year, a significant fall can be observed in the following years until reaching 8.9% in 1994, the lowest level in 34 years. This factor has especially contributed to the balancing of the budget, strengthened by a significant number of privatizations of state-owned companies and the reform of the social security system, which transferred almost all Chilean workers to a system of capitalization in individual accounts.

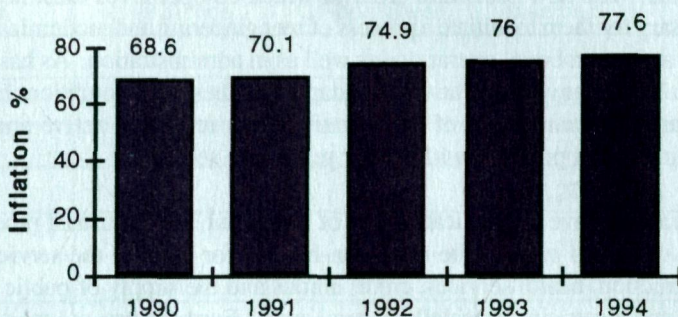


Source: *Banco Central de Chile*

Foreign trade sector

In accordance with the liberal models applied by recent governments, Chile has seen a dramatic increase in the importance of its foreign trade sector. In the last 5 years, exports have grown, in real terms by an annual average of between 15% and 20%. Imports have also significantly grown during the same period, which has led to the achievement of a liberalization coefficient in 1994 of 77.6%, measured as the proportion of GDP represented by foreign trade. At the same time, there has been a process of diversification of the export base and of the substitution of imports. The Chilean economy traditionally depended on copper exports, but in the last years the exports of this good have fallen considerably, from 70% in 1975 to 43% in 1994. Meanwhile manufacturing and agri-industrial exports grew from 33% to 45% of total exports in only 5 years, from 1990 to 1994.

Graph III.4
The Evolution of the liberalization coefficient in the Chilean economy
 Exports + Imports/GDP



Source: Banco Central de Chile

Table III.2
Indicators on Chilean exports

Year	Number of exporters	Number of goods	Number of markets
1975	200	500	50
1990	4.125	2.300	129
1991	5.347	3.275	143
1992	5.416	3.433	155
1993	5.469	3.507	151
1994	5.800	3.621	151

Source: Banco Central de Chile



The economic importance of the co-operative sector

The Chilean co-operative sector is in a period of recovery from a severe crisis. This recovery began after the country returned to democratic rule, bringing a framework of institutional normalization that permitted co-operatives to recuperate their positions within different sectors. The new economic order in which co-operatives must now maneuver has made it necessary for them to initiate a process of reengineering and modernization with respect to productive and commercial operations as well as in administration. As has happened in the rest of the continent, many co-operatives not adapting to these new conditions have disappeared. But there is an important group of co-operatives that remained active and in many cases maintained a important presence within their respective sectors.

Co-operatives have a significant share of important agri-industrial production in Chile, such as milk, wine and *pisco*. The same can be said for parts of the service sector such as housing construction, health services, credit unions and the supply of public services such as potable water and electricity, especially in rural areas. Furthermore, co-operatives are present in the following sectors: retail, public transportation and cargo, fishing, vegetable and fruit production, poultry, cattle, crafts and mining, among others.

A new General Law on Co-operatives is currently under discussion in the Chilean Parliament and will surely be approved in 1996, providing a more appropriate legal framework than that currently in effect for co-operative business development. The proposed law eliminates some legal restrictions that limit co-operatives' access to certain forms of operation and association with third parties. This will help support the transformation and modernization process initiated by many co-operatives.

Finally, it should be pointed out that, as shown in Table III.3, there were more than 640,000 individual co-operative members in December, 1994, which represents more than 4.5% of the total population and almost 13% of the nation's employed work force. These data say a lot about the impact of the co-operative sector on the national economy.

Table III.3
Number of co-operatives and their members in Chile by sector
(December 31, 1994)

Type of co-operative	Co-operatives in existence	Active Co-operatives	Number of members	% of total
Agricultural	191	54	18.618	2.90
Potable water	150	111	28.977	4.52
Credit union	113	92	205.034	32.00
Small farmers	292	155	11.278	1.76
Consumer	103	19	95.232	14.85
Electricity	17	15	75.332	11.75
Fishing	54	32	1.699	0.26
Production/Workers	69	40	8.673	1.35
Health services	3	3	66.124	10.31
Transportation	32	18	4.693	0.73
Housing	872	343	92.125	14.37
Others	145	89	33.469	5.22
Totals	2.041	971	641.254	100.00

Source: *Departamento de Cooperativas*

Foreign investment framework

Chile offers a legal framework widely favoring foreign investment activity, which, as mentioned in the previous chapter, has led to a permanent growth in those related indicators. Some of the more important features of this framework are outlined in Table III.4.

According to current legislation in Chile, foreign investors will receive the same exact treatment as nationals in the application of the normal legal framework. The strength of the enforcement of the non-discrimination principle is such that if foreign investors feel that a regulation discriminates against them, they may appeal to the Foreign Investment Committee, which must reach a conclusion within 60 days.



Table III.4
Main features of Chile's foreign investment framework

- Enforcement of the non-discrimination principle
- Quick and easy system of contracting with the Chilean government
- Guarantees on the repatriation of capital
- Guaranteed access to the formal exchange market for capital repatriation
- Possibility of enjoying fixed tax benefits
- Promotional framework in some sectors (mining, fishing, industrial)
- Enforcement of several international accords for investment protection
- Enforcement of several international accords to prevent double taxation.

The majority of foreign investment in Chile is carried out under the framework established by Decreed Law 600 (1974) and its subsequent modifications, known as the Statute on Foreign Investment. This mechanism consists of the signing of a contract between the investor and the Chilean government, categorized as a Contract Law and which can only be modified by agreement of both parties.

As in all contracts, the rights and obligations of each party are laid out. The investor is obligated to invest capital promised to the firm, which could include currency, physical goods, technology, loans associated with the investment and the capitalization of loans or dividends.

The firm's main rights emerging from the contract are: the possibility of repatriating capital one year after its initial investment (profits and interests are not subject to any type of repatriation period); the possibility of opting for a fixed tax regime that allows it to enjoy a fixed tax rate for a period of 10 years (see Chapter VII referring to the tax system); and guaranteed access to the Formal Exchange Market to carry out repatriation activities, giving it the most favorable exchange rate available from authorized entities operating in said market.

The government, meanwhile, must guarantee these rights to the investors and has the right to demand compliance with all that established by the Contract Law.

Application procedures for foreign investment

The foreign investor transferring his/her capital to Chile under the current investment regime (DL 600) must present an application to the Office of the Executive Vice President of the Foreign Investment Committee, which is the only government entity in charge of authorizing the entry of such funds. The minimum amount of each application is US\$25,000.00.

The application must be presented by the investor him/herself or by a legal representative, signed before a notary public and include two copies and all the additional documentation required. The application form can be picked up at the Office of the Executive Vice President.

The application should name the investor and his/her legal representative and briefly describe the project, indicating the amounts and form of investment to be made. The Office of the Executive Vice President receives the application and stamps it with a number and date. The investor is now authorized to invest funds in Chile through the Formal Exchange Market. In case the investment consists of physical goods, a signed contract between the parties is required in order to import such goods.

Once the application is approved, the investor or his/her legal representative will receive a draft of the foreign investment contract entered into with the Chilean government. A formal legal public document will then be published. This document contains all the rights and obligations laid out in DL 600 and can only be modified by agreement of both parties.

The procedure for this process from the submittal of the application to the signing of the public document containing the respective contract takes approximately 20 days. The investor may solicit the modification of the contract at any time, be it to increase his/her investment, change the purpose, or even yield the rights under the contract to another foreign investor.

If the investor is a legal entity, the application should include an official copy of the by-laws, with an unofficial translation in Spanish or English in case the original document is in another language. In addition, a certificate of registration or incorporation and a copy of the legal document granting power of attorney to its legal representative should also be presented.

If the investor is an individual, he/she should include a photograph from an authorized passport or other document certifying nationality, or if being represented by an agent, a copy of the legal document granting the corresponding power of attorney.

International accords

Chile has signed investment protection agreements with Argentina, Spain, Germany, Switzerland, France, Belgium and Malaysia and is currently negotiation with the United Kingdom, Italy, Holland, Sweden, Finland and Venezuela, among others. It has also signed an agreement with Argentina to prevent double taxation.



IV. Key sectors: business opportunities with chilean co-operatives

In this chapter, a general overview will be presented of those sectors in the Chilean economy whose characteristics and potential make them especially interesting for those considering business alternatives in the country. Those areas where co-operatives have achieved a greater level of development and show a significant presence, in particular, will be highlighted, offering concrete options for doing business.

Sectors included in this chapter:

Agribusiness Sector	Page
<i>Agricultural Dairy Co-operatives</i>	14
<i>Agricultural Pisco-Producing Co-operatives</i>	18
<i>Agricultural Wine-Producing Co-operatives</i>	21
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<i>Fishing Co-operatives</i>	34
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The agribusiness sector

Dairy co-operatives

Chilean dairy co-operatives are very important at the national level, both in terms of milk production and in the processing and production of derivatives. Six dairy co-operatives currently operate in the country, distributed throughout four regions and uniting 3,000 producers. Their production represents one-fourth of total national production.



Table IV.1
Participation of co-operatives in milk production
and processing in 1994

Area	Liters of milk	Percentages
National production	1.21.,426.700	100.00%
Co-operative production	202.455.800	16.71%
Co-operative production and processing	287.927.000	23.76%

Source: FENALECHE

Four dairy co-operatives have their own plants, while the rest, despite not having plant facilities, control all their producers' milk, selling it generally to a private company, SOPROLE, with which it negotiates the price paid to the producers' group. Three of the co-operatives (COLUN, CHILOLAC and CAFRA) currently process the entire production received from their members in their own facilities.

Table IV.2 shows that co-operative businesses are responsible for the production of more than one-third of the country's cheese, whey powder and *manjar* (a typical Chilean dairy spread). They also control a significant share of the production of butter and powdered milk. COLUN, the largest of the co-operatives in the dairy sector, was the largest producer at the national level in 1994 with respect to the production of cheese and *manjar*, concentrating 27.47% and 32.1% respectively.

In past decades, Chilean co-operatives' share of milk production was even higher than their current share. In recent years, a number of companies, representatives of some of the largest dairy transnationals in the world, have tried to enter the market, making significant investments. Nevertheless, co-operatives have maintained an important share due to the fact that they pay the best prices to producers, provide profit-sharing to members and offer a series of high quality services to their members, such as: veterinarian and agricultural inputs; fuels; agricultural and veterinarian technical assistance; technology transfer; artificial insemination; laboratory analysis and quality control of water, etc. Furthermore, the amount of milk received by co-operatives, in terms of volume in liters, has grown continuously as shown by Graph



Table IV.2
Participation of Chilean co-operatives in the national production of milk and dairy derivatives in 1994

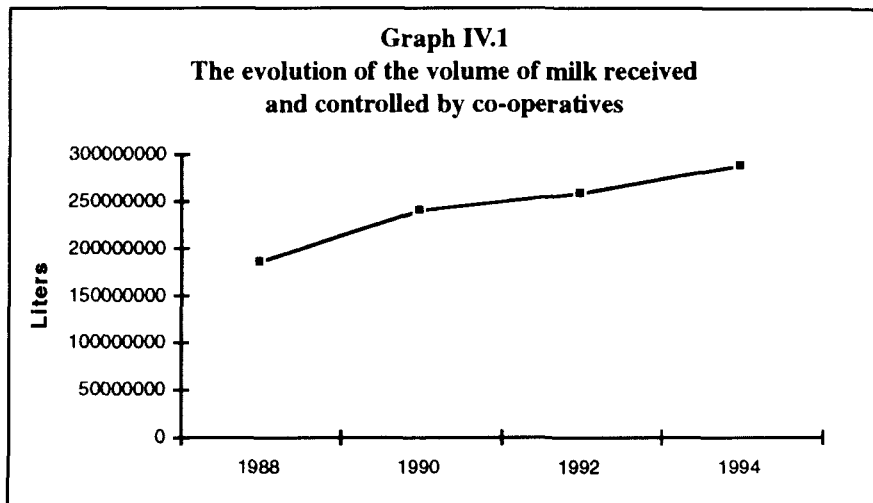
Area	National total	Co-operative totals	Percentage of participation
Milk production (thousands of liters)	1.211.427	202.456	16.71%
Fluid milk (thousands of liters)	138.900	2.952	1.56%
Powdered milk (tons)	53.594	5.429	10.12%
Quesillos -a type of fresh cheese- (tons)	6.941	338	4.75%
Cheese (tons)	37.899	14.843	39.16%
Yogurt (thousands of liters)	66.607	1.639	2.46%
Cream (tons)	10.959	289	2.64%
Butter (tons)	8.115	1.437	17.7%
Whey powder (tons)	6.113	2.225	36.4%
Manjar (tons)	15.776	5.310	33.66%

Source: FENALECHE

To obtain more information on Chilean dairy co-operatives contact the offices of the *Federación Nacional de Cooperativas Lecheras* (FENALECHE), which can be found in the list of key contacts at the end of this guide.

Cooperativa Lechera La Unión (COLUN)

This dairy co-operative, located in the locality of La Unión, began operations in 1949 with 127 members delivering 1,400 liters of milk a year. COLUN is currently the third largest dairy company in the country, behind the transnational companies Nestlé and Soprole. It has some 1,000 members, who together own some 45,000 milking cows and employ some 800 workers. In 1994, the co-operative received and processed a total of 145 million liters of milk, which represented 50% of the total production of the dairy co-operatives and approximately 12% of the national total.



Sources: ODEPA-FENALECHE

COLUN has its own plant and its main area of production is fluid milk, fresh products, cheese, powdered milk, casein, *manjar*, butter, whey powder, etc. In 1994, it occupied first place in national production of cheese (with a volume of 10,414 tons, representing 27.47% of total national production) and *manjar* (5,065 tons and 32.1% of total national production). In the last years, the co-operative has also been in first place at the national level in the production of butter and whey powder and has exported different products, especially cheeses, to various countries, including Peru, Brazil, Bolivia and Japan.

At the end of the 1980s, COLUN entered into a joint venture with a French company for the production of Camambert-style cheese. A special plant was built to process cheese under the technological control of the French company, and it is currently being exported to several countries in Latin America, Europe and North America.

Cooperativa COLUN
Esmeralda 641, La Unión, X Región, Chile
Telephone: (56) 64 322041
Fax: (56) 64 711073
Contact: Sr. Eduardo Carrasco (Manager)



Cooperativa Agrícola Lechera de Santiago (CAL S)

CALS, which operates in the metropolitan region of the country's capital, was founded in 1935. It currently has more than 150 members and 200 workers. Since 1988, the co-operative has had its own plant, although it currently only processes a part of the milk received from producers with the rest sent to other dairy plants operated by private companies.

In 1994, CALS received almost 50 million liters of milk from its producers, which represents more than 4% of the total national production and 17.24% of the total production from co-operatives. More than 40% of this volume was processed by the co-operative plant and the rest was delivered to other dairy factories.

In March, 1995, the co-operative signed an important joint venture agreement with a French dairy transnational called Borngrein, which is present in more than 140 countries, for the production and export of cheese. This was seen as a way to improve its share in both the domestic and foreign market.

Cooperativa CALS
San Borja 1305, Santiago
Telephone: (562) 6834202 - 6864818
Fax: (562) 6834783
Contact: Sr. Mario Mirosevic (Manager)

Agricultural "Pisco-producing" co-operatives

Pisco is a typical brandy-type alcoholic beverage in South America, made from grapes specially produced in the Northern provinces of Atacama and Coquimbo. The product has a high level of consumption both nationally and in other countries of the region. The Chilean product has shown to be highly successful when presented at international festivals and events, and thus has consolidated itself in some export markets.

Since the early 20th century, *pisco* has constituted an important part of the regional and local economies in the highlands of the Northern valleys of Chile. During some periods, there were many small businesses with their own cellars, producing for different brands directed at the incipient national market. During the crisis at the beginning of the 1930s, *pisco* production was seriously affected as were many other emerging agribusinesses during that era. In order to confront this situation, the idea of association arose and the so called "Embotellación Unica" association was formed. All the small *pisco* producers joined and it continued to operate even

after the crisis was over, becoming a tool for development and consolidation of the sector. In 1931, this association of *pisco* producers gained legal recognition under the government standards *Denominación de Origen Pisco*, which protected the liquor from falsification through the identification of "guidelines for the quality of raw materials" and the establishment of defined production procedures.

In December, 1994, there were 3 *pisco*-producing co-operatives operating, with more than 2,000 member producers located in Regions III and IV of the country and representing more than 95% of the national production. The export of *pisco* is still in an experimental phase although, as previously mentioned, the results are promising since the exhibition of the product has shown favorable results. Up until now, less than 1% of total production has been exported. However, it is necessary to point out the difficulty of introducing new alcoholic products into some foreign markets, particularly in developing countries. This situation justifies joint action or joint ventures with foreign companies to facilitate the introduction of the product in their markets.

Cooperativa Agrícola Control Pisquero de Elqui y Limarí Ltda. (Pisco Control)

This *pisco*-producing co-operative was founded in October, 1993, as an outgrowth of the "Embotellación Unica" association. Later, as a consequence of the passing of the government decree recognizing *pisco* standards (*Denominación de Origen Pisco*) the association expanded into the area of quality control.

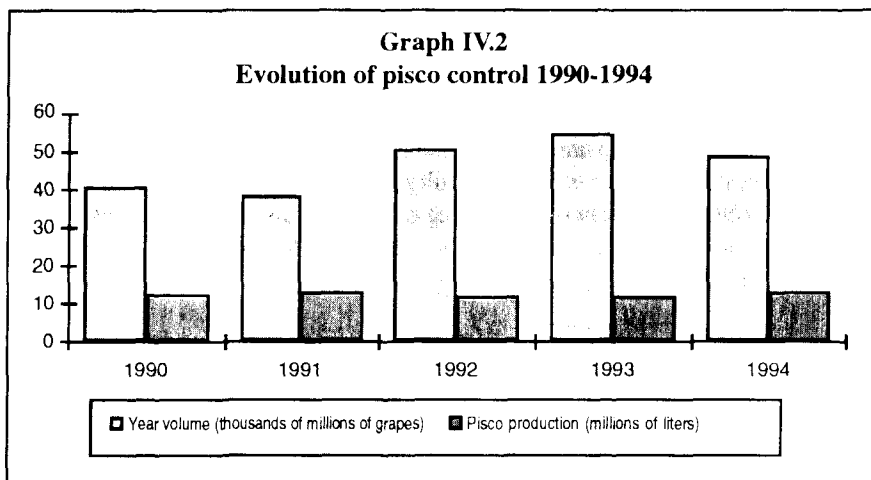
Table IV.3
Evolution of pisco control during the period 1990-1994

Year	Volumen (thousands of tons of grapes)	Pisco production (millions of liters)	Sales revenue (millions US\$)
1990	40.5	12.6	18.2
1991	38.2	12.8	23.4
1992	50.7	11.7	28.7
1993	54.5	11.6	24.4
1994	48.6	13.2	33.2

Source: Internal data from Pisco Control



Today Pisco Control has more than 1,000 producers and processes some 50,000 tons of grapes annually, with which it produces around 12 million liters of bottled products (average for the last three years). Table IV.3 and Graph IV.2 show the evolution of the production and sales in the last five years. It should be pointed out that during 1994 the *pisco*-producing region suffered a serious drought that affected grape production in general.



Source: Pisco Control

The co-operative is in the preliminary survey phase with respect to export destinations and is interested in making contact with foreign companies in order to reach trade agreements or to form some type of "joint venture" that facilitates the introduction of the product to new markets. Until now, exports have represented between 0.5% and 0.8% of production, reaching markets in the United States and Canada in North America, Argentina, Brazil and Ecuador in South America, and various countries from the European Union, especially France, the United Kingdom, Italy and Germany.

The following products are offered by Pisco Control:

- Muscatel wine (base for the distillation of alcohol used for *pisco*)
- Muscatel-type aromatic liquor (distilled from genuine wine and not from sub-products)
- *Piscos*: under the Control and Tres Erres brand and different types such as Traditional (30% alcohol), Special (35%), Reserved (40%), Gran Pisco (43%) and the "special" categories Control de Guarda in 46% and 36%.
- Pisco Sour Control: a *pisco* cocktail with lime and sugar, ready to consume.



Pisco Control has the following facilities:

- Central bottling and storage facility located in the city of La Serena where the co-operative's administrative headquarters are also located.
- Plant facilities where the grapes are received, fermented and distilled and which completely covering Regions III and IV (zones for the production of *pisco* grapes), located in Vallenar, Vicuña, Valle del Río Elqui, Tulahuén, Rapel, Monte Patria, Sotaquí, Huamalata and Salamanca.
- Sales Offices in Santiago and the principal cities of the northern and southern regions of the country

The co-operative offers a wide range of services to its members, including: technical assistance in agriculture; social services; delivery service of agricultural inputs; and legal assistance.

Pisco Control
Rengifo 240, Casilla 358, La Serena
Telephone: (5651) 224833
Fax: (5651) 211105
Contact: Sr. Elio Elorza Parada (Manager)

Wine-producing agricultural co-operatives

Wine-producing co-operatives have been backed by a special law since 1945. This is a growing co-operative sector in agriculture with operations at the national level. Today, this sector has an important share of national wine production, evolving from around 8% to the current 12% of the national total. Co-operatives in this sector are united by the *Federación de Cooperativas Agrícolas Vitivinícolas de Chile Ltda.* (FECOVIT). The following table shows the production of wine from the co-operative sector and contrasts it with national production.

Cooperativa Agrícola Vitivinícola de Cauquenes

This co-operative has produced an average of around 14 million liters during the last few years. The majority of this production is sold under the name "Lomas de Cauquenes" (around 80% of production).



Table IV.4
Production of wine-producing co-operatives

Yaer	No. Co-ops	Production (Millions liters)	Exports (Millions liters)	National Prod. (Millions liters)	Value Mill US\$
1988	4	33.5	0.5	390	670
1989	4	40.5	0.9	343	767
1990	4	37.5	1.3	320	937
1991	4	32.2	0.7	280	560
1992	4	32.7	0.8	300	600
1993	4	34.9	0.8	320	640
1994	4	35.4	0.8	325	650

Source: data from FECOVIT

The co-operative's installed capacity reaches 22.4 million liters, with sufficient machinery to process the production of all its 278 members. They also have the capacity to make their own bottles.

The co-operative were originally formed as a company supplying bulk wine, but over time it came to successfully place it's own brand in the national market. They later expanded their operations to some other countries in Latin America.

The co-operative has storage facilities in Osorno, Concepción and Santiago. Its wines are sold in 5 liter carafes, and 1 liter and 700 milliliter bottles. In urban areas, especially in Santiago, the "Lomas de Cauquenes" can be bought in the major supermarket chains.

In 1991, the co-operative initiated an investment plan whose aim is to produce a higher quality wine, with which they can access international markets more competitively. As part of these efforts, they have renovated machinery such as pumps, presses, refrigerators, and carried out epoxic recovering of cement containers. As part of the renovation process, incentives have been given to members to plant noble strains, such as cabernet-sauvignon-blanc, pinot and chardonnay. For this same purpose, the co-operative has started a nursery with these strains so that those interested can receive certified plants at a low cost.

Another service offered to members is technical assistance in the planting of new vines and in areas such as the selection of the area to be planted, the type of strain to be used, the

amount of water to use in irrigation, the distances between the plants, conduction systems and other relevant issues.

The co-operative has 115 people working permanently between the headquarters and branches, with an extra 50 working during the grape harvest.

The service sector

Electricity distribution co-operatives

These co-operatives began to operate in the 1940s as a result of various programs carried out in agreement with international organizations. The government encourage in various ways the formation of these co-operatives to supply electricity in rural areas.

The government channeled the necessary resources, which once invested were transferred to the co-operatives as investments of a subsidized, development credit nature.

The birth of this group of co-operatives occurred in areas where electricity companies did not have the capacity or interest to offer this service. In the formative stages of the co-operative, the people associated provide capital and labor in order to later become intermediaries between members and the energy-producing companies.

There are currently 14 co-operatives active in this sector joining more than 65,000 members. This group offers services in Regions IV and X. Total sales reached CH\$20 billion (some US\$46.7 million) in 1993. The total distribution of electricity to members was 270 million kwh in this same year.

Electricity co-operatives represent approximately 20% of high-voltage installations found in rural areas. They also constitute approximately 12% of the low-voltage installations found in rural areas nationally.

Cooperativa de Consumo de Energía Eléctrica de Chillán - COOPELEC

This co-operative was founded in 1951 by a group of farmers from Ñuble, Region VIII, in response to the efforts of ENDESA (the National Electric Company), which at the time was in charge of carrying out a rural electrification plan in Chile.



The co-operative began with 57 members and 182 miles of high-voltage lines. Later in 1955, the decision was made to merge with the co-operatives forming in other cities such as San Carlos and Bulnes.

From the beginning, operations were successful. For example, a post factory was opened in Nueva Aldea and later transferred to Chillán, and loans were obtained from the Inter-American Development Bank (BID) to expand operations. At the end of the 1970s, the co-operative's commercial area was consolidated to increase services to members and offer easy financing. During the 1980s, a building was bought to house the co-operatives main headquarters.

Currently, the co-operative distributes electricity both to homes and industry. The co-operative has more than 15,000 members located in the rural areas of the province of Ñuble and the area of Florida, and offices, in addition to its headquarters in Chillán, in San Carlos, Coelemu, Florida, Nueva Aldea, Quinchamalí and Recinto.

The co-operative has operations in other related areas, such as electricity projects; design and construction of high and low voltage electrical plans; sale of electrical appliances and furniture for the home; the distribution of Toyota vehicles, a mechanics shop, the sale of parts and fuel for its members; and an agricultural area in which agricultural inputs and machinery are sold. Its administrative area has a strong computer network.

Rural potable water co-operatives

This type of co-operative emerged at the beginning of the 1960s, when the National Health Service initiated a plan to install potable water in various rural communities, with a population of between 200 and 1,000 inhabitants each, in different provinces in the center of the country. The program, financed by the Inter-American Development Bank (BID), the Chilean government and the beneficiaries themselves, established potable water service through the creation of integrated service co-operatives by the members of the beneficiary communities.

This sector has had an interesting evolution over time, especially in Regions V, VI, and VII of the country, through additional support from its members. In December, 1994, 111 potable water co-operatives were active in Chile, representing almost 29,000 individual members according to Table IV.5.

Currently, the co-operatives in this sector provide potable water to members and third parties for residential use, with a service that includes capturing water at its natural source, elevating and regulating it and installing the service network and residential connection.

Administrative region	Active co-operatives	Number of members
IV	2	722
V	30	9.082
Metropolitan	9	2.798
VI	27	7.356
VII	35	7.124
VII	8	1.895
Totals	111	28.977

Source: *Departamento de cooperativas*

Each co-operative's income is derived from the fees for the members' water consumption, while its costs correspond to administrative expenses and maintenance (fuel, chlorine, purifiers and parts, etc.) Generally, the co-operatives hire workers for the operation, repair and maintenance of machinery. Each co-operative has an important sum of accumulated reserves in bank accounts, to be relied upon in case of major repairs.

This co-operative sector is confronting a situation that has forced it to adopt very important reforms in the short-term. Until now, the co-operatives have been under the regulation of the state company *Obras Sanitarias*, which also offers permanent technical assistance and support. With the privatization of this state company, the potable water co-operatives are in a stage of defining new strategies for which they have proposed the reactivating of instruments for joint lobbying and business ventures.

Credit unions

The first Chilean credit union dates back to the year 1949. From then until 1973, the number of co-operatives of this type grew slowly but consistently until reaching a peak of 270 active entities. During the period of the military dictatorship, the sector's activity strongly declined, resulting in the liquidation and closing of a good number of co-operatives. Since the



mid-1980s, the sector has bounced back--especially with the influx of an important and accelerated growth of dynamic, successful entities--and by the end of 1994 there were 92 active co-operatives with more than 205,000 members.

According to the data in Table IV.6, the credit union system as a whole had assets of US\$76.5 million and equity of US\$57.3 million in December, 1993. The sector's operations, meanwhile, resulted in the generation of US\$7.1 million in profits for 1993.

Table IV.6
Situation of Chilean credit unions, December 1993
(in thousands of Chilean pesos)

Regions	Total assets	Total equity	Volume of operations
II	10.487.9	2.670.7	126.4
III	19.0	18.8	0.7
IV	209.9	205.7	19.3
V	2.760.1	5.213.7	484.1
R. Metrop.	45.442.7	34.934.7	5.00.2
VI	8.0	7.7	-
VII	13.332.8	12.937.6	1.352.3
VIII	1.088.4	1.0828	99.6
IX	326.9	304.5	23.1
X	146.0	138.0	18.6
Totals	76.821.7	57.514.4	7.124.5

Source: *Departamento de Cooperativas*

But the internal composition of the sector is not homogeneous. As pointed out, there is a small group of co-operatives that outperformed the rest, reaching levels of capitalization that in some cases exceeded the minimum required for establishing a bank. Table IV.7 offers information on the situation of the 11 largest co-operatives to December 31, 1994.

Table IV.7
Assets and members of the largest credit unions,
December 1994 (US\$)

Co-operative	Total assets	Number of members
Coopeuch	33.936.383	86.466
Oriencoop	17.467.761	42.454
Coocretal	9.876.155	33.499
Unión Aérea	4.398.528	8.942
Liberación	3.960.174	2.359
Unión y Patria	2.741.978	2.860
El Loa	2.606.146	4.394
Credumontt	2.062.940	7.542
El Detallista	2.002.477	5.443
Los Andes	1.663.559	5.789
O'Higgins	1.620.246	3.189
Totals	82.336.347	202.933

Note: the exchange rate used was 400 Chilean pesos = 1 US\$

Source: *Departamento de Cooperativas*

Due to the level of activity reached by some credit unions, the proposed General Law on Co-operatives includes a clause which requires that those co-operatives reaching a certain volume of assets must be brought under the regulation of the nation's banking authority (*Superintendencia de Bancos e Instituciones Financieras*). This has already been the case of Coopeuch and Coocretal.

Credit union members are mostly people of medium- and low-income. Therefore, credit unions fulfill an important social aim of serving a sector of the population generally not served by the rest of the financial system. The design of financial products that meet the needs of this population sector is a good part of the secret to the success of many credit unions.

To obtain more information on co-operatives in this sector, you may contact the *Federación de Cooperativas de Ahorro y Crédito de Chile (FECRECOOP)* which can be found in the list of contacts at the end of this guidebook.



Cooperativa del Personal de la Universidad de Chile Ltda. (COOPEUCH)

COOPEUCH, the University of Chile's employees' credit union, is the largest co-operative of its kind in Chile. At the end of 1994, it had more than 86,000 members throughout the national territory and had assets of nearly US\$34 million annually. With its volume of operations, the co-operative largely exceeds the activity of various financial entities of other types which operate in the Chilean credit market. Table IV.8 and Graph IV.3 clearly show the strong tendency of growth experienced by COOPEUCH in the last five years of operation.

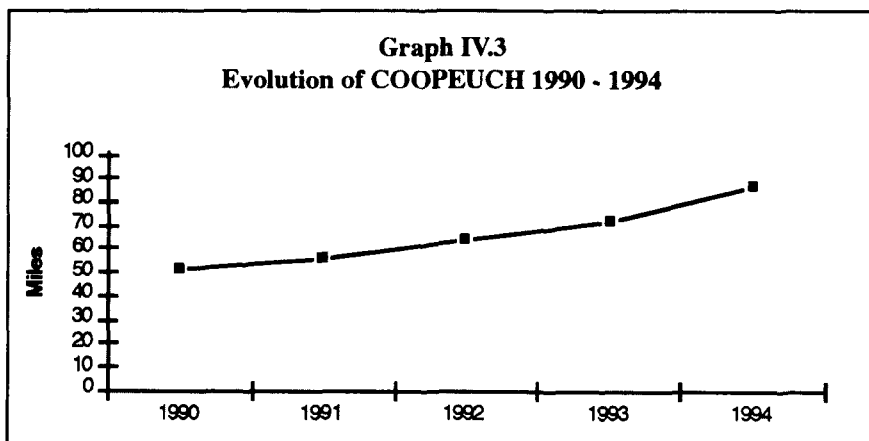
Table IV.8
Evolution of COOPEUCH 1990-1994

Year	Number of members	Loans (constant US\$ 31/12/94)	Capital & Reserves (constant US\$ 21/12/94)	Deposits (constant US\$ 31/12/94)	Profit surplus (constant US\$ 31/12/94)
1990	51.112	10.165.021	6.110.164	1.908.874	1.004.425
1991	56.367	12.127.855	7.712.501	1.441.069	1.794.352
1992	63.737	15.304.792	9.969.829	1.562.383	1.465.383
1993	71.988	21.004.470	12.711.851	1.623.768	1.837.375
1994	86.466	31.841.980	15.686.330	2.056.509	3.324.785

Nota: Exchange rate used was 400 pesos chilenos = 1 US\$

Source: COOPEUCH

Graph IV.3
Evolution of COOPEUCH 1990 - 1994



Source: COOPEUCH

COOPEUCH has a wide network of offices covering 22 cities and towns throughout the country and employs 225 people between administrative staff and commissioned sales persons. In 1994, COOPEUCH issued 74,714 new loans, an average of 300 daily. Their percentage of delinquent loans is less than 10%, but those overdue payments exceeding 30 days represent only 3% of the loan portfolio. Meanwhile, non-collectable loans represent but 0.7%.

The financing sources of loans issued in 1994 consisted of bank loans (38.69%), deposits (7.11%) and reserves (54.20%). Even still, the capital balance increased by 23.40% in real terms with respect to 1993.

The fact that COOPEUCH has maintained significant levels of growth in a highly competitive and dynamic market is noteworthy, as are its consumer loans. Financial institutions with a higher volume of resources to loan obviously benefit from emerging economies of scale, even more so when they combine this type of clientele with those who demand much higher amounts of credit, and thus represent superior profit margins.

The co-operative offers a variety of different services to its members:

- Loans by agreement, consist of loans issued to workers from companies that have a signed agreement with the co-operative to deduct loan payments directly from the worker's salary.
- Direct payment loans, are for those members whose employer does not have an agreement with the co-operative or those that have completed their deduction limit according to that established by law.
- Special loans for health, education and housing.

The co-operative also offers support for college scholarships for the children of members, assistance in home-buying, financing of planned savings for housing, discounts at dental and optical centers and stores.

COOPEUCH

Avenida Libertador Bernardo O'Higgins 301, Santiago

Telephone: (562) 6394168

Fax: (562) 6332876

Contact: Claudio Ramírez Hernández (Commercial Manager)



Health co-operatives

According to statistics from the Department of Co-operatives, on December 31, 1994, there were three co-operatives in Chile providing health services, all of them located in the metropolitan region of Santiago and representing more than 66,000 individual members.

Cooperativa de servicios de protección médica particular (Promepart Ltda.)

Promepart initiated its activities in 1968, working under a self-help model for providing health services called *Servicio de Bienestar*. These were worker organizations, generally from the private sector and the same employer, which formed for the purpose of obtaining better medical services for their members and their families. Promepart brings together workers from different companies and in some cases includes the employers themselves. In the beginning, the payment dues were paid voluntarily by workers, and in some cases also by the companies. The co-operative negotiated preferential rates from medical professionals and attention centers, and generated reserves to subsidize more costly services such as a hospitalization.

With the reform of the Chilean social security system in 1981, the *Instituciones de Salud Previsional* (ISAPRES) were created. These are the private health care institutions which were authorized to participate in the new social security system and were to receive the 7% mandatory payment deducted from the salaries of workers belonging to the system. The co-operative was authorized to operate in this market from the beginning in July, 1981, and *Promepart Isapre* was born.

Promepart Isapre currently has more than 180,000 contributors, who along with their families represent a covered population of approximately 400,000 people, all of whom reside in the Metropolitan Region of Santiago and Region V. In the two regions in which it operates, the co-operative is the *Isapre* with the largest number of members and it is third among the 30 entities of this type that operate at the national level. The membership consists of people from all socio-economic levels, although there is a predominance from low-income sectors. The members of the *Isapre* who are also members of the co-operative receive additional services, generally related to special costly medical procedures.

The co-operative has 3 clinics with 200 hospital beds located in Santiago: Clínica Las Lilas in Providencia, Clínica Cordillera in Las Condes and Clínica Maternidad in Las Violetas. These facilities offer all types of medical services including surgery, obstetrics, gynecology, emergency, trauma, kinesiology, x-ray and lab testing, dental, electrocardiology, maternity, gynecological surgery and pharmacy, among others.

It also has 9 medical-dental facilities: Merced, San Bernardo, Amunategui, Maipú, Providencia, Panorámico, El Llano, Santiago Centro and Viña del Mar; as well as 13 offices for medical orientation and coordination.

At the end of December, 1994, the co-operative's assets were in the range of US\$48 million, while its equity exceeded US\$26 million. Operational revenue for 1994 was more than US\$73 million.

As a result of its strategy for developing a decentralized administrative structure, at the end of 1994, the co-operative had majority ownership in 8 companies that function as affiliates of the *Promepart Isapre* system and perform specific functions within the system of services offered to members:

- Unilab SA: Company in charge of offering laboratory test services, using high-level technology and specialized personnel, and which Promepart controls 60% of the stock.
- Clínica Las Lilas SA: Company owning the clinic of the same name, of which the co-operative controls 98.5% of the stock.
- Unison SA: Company created to develop activities related to radiography and ultrasound. Promepart has 60% ownership.
- Viamed SA: In charge of home health services to members 24 hours a day. The co-operative controls 98% of the stock.
- Cordyal SA: Handles optical services and pharmacies. Promepart controls 92.2% of the stock.
- Presalpart SA: Responsible for the development of the institution's infrastructure through the development of construction projects, the supervision of works, and the maintenance of the medical and operational structure of Promepart, which controls 98%.
- Clínica Cordillera SA: Owner of the clinic by the same name. Promepart owns 99.9% of the company.
- Isapre Génesis SA: Originally an independent institution, whose stock the co-operative began to buy in 1993. Promepart currently owns 64.5% of the stocks. Its operations are currently being coordinated with that of Promepart.

Promepart Ltda.
Merced 280 Piso 1, Santiago
Telephone: (562) 2505000
Contact: Sr. Reinaldo Flen Cuadros (Manager)



Housing co-operatives

During the 1950s and with the creation of programs to promote and finance housing construction, the first housing co-operatives in Chile were formed. With the creation of the Housing Corporation (CORVI), the activity of these co-operatives became focused and they slowly gain the public's confidence. Also during this period, the federation of Chilean housing co-operatives was formed (*Federación Chilena de Cooperativas de Vivienda*) and became the guiding organization for these co-operatives.

During the 1960s, the sector had more than 1,300 co-operatives, with more than 91,000 families affiliated throughout the national territory, representing a total population of more than 450,000 people. Although from 1970 to 1990 there was a tendency for co-operatives in the housing sector to dissolve, there were a total of 947 co-operatives existing during this period, of these 926 were closed co-operatives and 21 were open co-operatives. Nevertheless, it is estimated that only 670 co-operatives were fully active during this time, of these 656 were closed co-operatives and 14 were opened co-operatives. In total, they represented some 110,000 members.

In 1990, the debts of 191 housing co-operatives were acquired by banks and financial institutions due to a severe crisis in the sector caused by the increased requirements for mortgage loans.

In Chile, the government offers a significant housing subsidy to families interested in owning their own home. This is done through the Housing and Urbanization Service (SERVIU). Housing co-operative members from both rural and urban areas qualify within this system. An estimated 29% of the total beneficiaries in rural zones and 22% in urban zones are from co-operatives.

Cooperativa de Viviendas BIO-BIO

This co-operative was created in 1986 as an initiative of a group of workers from the company *Ingeniería y Construcción Valmar Ltda.*, but it has open membership. As workers in construction, an activity that is of a transient and temporary nature for a large number of people, they sought to form an organization which was both a source of employment and thus gained a certain job security as well as a way to gain access to a source of home financing. In addition to being of an open nature, the group is not captive to a specific group of members but offers services to any interested party. It has therefore opened itself up to a greater market within Region VIII of Bio Bio. Until now, the co-operative has offered housing solutions to more

than 500 members through the development of three housing developments in the city of Concepción.

Small farmer (*Campesina*) Co-operatives

One of the sectors most affected by the change in orientation of the Chilean government was the small farmer co-operative sector. Almost 100 co-operatives were dissolved between 1970 and 1989 in this sector. Nevertheless, in 1990, there was a resurgence of these co-operatives with a total of 32 new co-operatives forming by December 1991 and a total of 17 that were reactivated during this period.

Cooperativa Campesina Regional AYSÉN LTDA

The *Cooperativa Campesina Regional AYSÉN Ltda.*, which has functioned since 1970, is an example of a small farmer co-operative. Its main area of activity is cattle breeding and raising. Today, it has ranches that were acquired from the government agency *Bienes Nacionales* some years ago and this is where its cattle activities are carried out. It is the only active co-operative of seven existing co-operatives in Region XI. The co-operative has 102 members and is an example of the type of co-operative in this sector.

Cooperativa Campesina Intercomunal Peumo Limitada (COOPEUMO)

COOPEUMO was founded in July, 1969, by small agricultural producers in Pichidegua, Peumo, Las Cabras and San Vicente de Tagua in Region VI. Its main activity is corn production, having reached a volume of 860 metric tons in 1994. The co-operative also produces wheat, rice and *poroto*, a South America tuber.

Among the services the co-operative offers to its members are: technical assistance, training in business administration, advance payments for produce, harvesting schedule coordination, and machinery and truck services. The co-operative also gives periodic awards for production quality. COOPEUMO has assets of nearly US\$2 million, 6 sales locations and a staff of 37, including various professionals and technicians.

COOPEUMO

Sarmiento Nº 10, Peumo, VI Región

Telephone: (56) 561596 - 561591

Contact: Sr. Manuel Soto González (President)



Other types of co-operatives

There are other types of co-operatives in Chile which by themselves do not constitute a large group but which have carried the co-operative model to activities that could be defined as non-traditional for the country. This is the case of the fishing and artisan co-operatives. Some examples follow.

Cooperativa de Pescadores CALETA DIEGO PORTALES

The activities of this fishing co-operative, located in Region V, initiated in 1955. Since early on, thanks to the collective efforts of its members, with facilities for offices, buildings for fish processing, a store for fish sales and a room exhibiting all types of products from the sea.

Today, the administration consists solely of fishermen, who also work actively in fishing. They supply every type of material needed for fishing to their members and the trade in general. They sell their products, such as *merluzas*, *jureles*, *jibias* (fish varieties found in Chile) as well as all types of fresh seafood to businesses and various institutions.

The co-operative has made a great effort to integrate their activities with a direct consumer sales operation, without having to depend on retailers, which raises prices. To this end, it has bought thermally-equipped trucks with freezers for both its port facilities and operations in Santiago.

Cooperativa de pescadores de ACNUD

This fishing co-operative is located in Los Lagos, Puerto Montt, in Region X. Established in 1960 by 60 fishermen, it has come to sell its own products directly to factories and companies. These products are sold fresh or industrialized, salt-water or smoked, by which they minimize intermediation and thus benefit the final consumers of their products. By obtaining credit, they have constructed breeding facilities for seafood and oyster farms in Quetalmahue and Guapilacuy.

The co-operative currently has 186 active members along with a unspecified number of people who enjoy the status of inactive members, retired or withdrawn for reasons of age or health.

Within the co-operative organization, there is a health committee, a loan committee, and working committees dedicated to the care and planting of seaweed. They sell of mussels,

culenes and seaweed, which are used as fishing bait, as well as diving suits, masks, fins, patches, talc and other fishing implements are sold to members with special financing arrangements so that they can satisfactory carry out their daily work.

The co-operative has an artificial seaweed park, with an area of 376,737 square feet in Las Cuevas, a beach-front concession in the southern shore of the Pudeto river, two 20-foot boats and offers social services to more than 120 members.

Cooperativa de servicios para pequeños industriales y artesanos de Villarrica Ltda.

This service co-operative for small artisan and industrial businesses began as a movement uniting 32 small industrialists and artisans from Villarrica and Loconche, who required assistance in guaranteeing the supply of raw materials needed for the operation of their workshops.

Its fundamental objective is to improve the economic, financing, technical and social conditions of its small industrial business members from the woodworking, metalworking, chemical, food and leather-working sectors. The form of operation is the acquisition of raw materials, materials, tools and instruments, parts and accessories and other goods required for their industries. In addition, relevant technical services are offered, and simultaneously, distribution services and the sale of members' products are provided.

The co-operative has a central supply center in Villarrica offering the above listed services to its members. Assistance in the paying of taxes, including the annual payroll tax, and the production of financial statements, annual sales tax reports, etc. are also provided. Another service to members is the sale of groceries where members enjoy a special discount.

In the locality of Villarrica there is a permanent exhibition with 37 stalls in which co-operative members participate to exhibit and sell their products.



V. Models for investing and doing business with co-operatives in Chile

There is a variety of options available for establishing business ties with Chilean companies in general and with businesses from the co-operative sector in particular. The open-market economic regime, in place for the last twenty years in the country, as well as foreign trade and investment policies offer an advantageous framework for developing all types of investments and business agreements. The noteworthy presence of co-operatives in some of the country's most dynamic economic sectors added to the changes currently underway in the legislation regulating co-operatives--directed at favoring their development as companies and giving them better tools for positioning themselves in the current economic context--make co-operatives a singularly attractive option when considering business options in Chile.

Table V.1
Some models for investing and doing business with Chilean co-operatives

- Import and export of goods and services
- Strategic alliances
- Formation of new companies
- Cooperation between co-operatives from different countries

In the following section, some of the main models that exist for establishing business ties with Chilean co-operatives are briefly presented. The general characteristics of the country's investment framework, discussed in Chapter III, should also be taken into consideration.

Import and export of goods and services

Naturally, one of the most concrete options for establishing a business relationship with co-operative businesses in Chile is through the establishment of foreign trade operations, the buying and/or selling of goods and services.

Chilean co-operatives can offer a wide variety of products at a very high quality, as shown in the previous chapter. As previously noted, co-operatives have a significant presence in many of the country's most important areas of production, many of which factor heavily in the country's export sector, such as: fruits and vegetables, wine, dairy products, *pisco*, prepared foods, honey, poultry, fish and its derivatives, etc.

At the same time, this sector represents a significant demand for imports, especially with respect to machinery, industrial equipment, vehicles, medical equipment, seed, sanitation inputs, and fertilizers, just to name a few. The co-operative contacts found at the end of this book, as well as the references made in the previous chapter, can serve as a guide in searching for opportunities in conducting export-import activities.

For specific information on current regulations governing foreign trade, consult those specialists who know about the different formalities involved in importing or exporting good. Such authorities dealing with foreign exchange rules are the National Customs Service (*Servicio Nacional de Aduanas*) and the Central Bank. Specific information can be found in the written rules and regulations issued by these authorities, such as the *Ley Orgánica y Compendios de Normas de Exportación e Importación del Banco Central* (Central Bank regulations on import and export operations), *la Ordenanza de Aduanas* (customs regulations) as well as special rules related to export promotion.

Table V.2
Main characteristics of Chile's foreign trade policy

General principle: free trade

Export Promotion Rules:

Rebate system for minor non-traditional exports

Custom fee rebates and deferred payment system

Value-added tax rebate system

Special guarantees fund for minor non-traditional exports

Information can also be obtained in the offices of the *Dirección General de Relaciones Económicas Internacionales-Prochile* (foreign trade agency) and the *Comité de Inversión Extranjera* (Foreign Investment Committee) which can be found in the list of key contacts in Chapter XI.



Strategic alliances

This is a possible type of business association between Chilean co-operative businesses and those companies interested in signing specific trade agreements. It is not necessary to point out the virtues of this business model, which has been notably popular these days given the facilities it offers in quickly accessing new markets and technology without entering into a permanent relationship.

There are numerous co-operatives that could be interested in establishing strategic agreements with foreign companies be it for the joint exploitation of a market or for signing agreements for the distribution of their products in foreign markets. In this last case, more long-term agreements could be reached using some of the legal frameworks existing in Chilean trade legislation.

Forming new companies

Forming a new company would be the most appropriate way to establish a more long-term business relationship and involves some form of capital investment by the foreigner in Chile. In light of the fact that co-operative principles and the current legal framework do not allow partners acting exclusively as investors to be incorporated into co-operatives, the establishment of a new legal entity, in which the co-operative has a share, is the tool that allows co-operatives to develop large projects that could otherwise not be assumed without outside resources. Some examples of such projects already carried out were presented in the previous chapter.

The laws governing co-operative activity establish some limitations on the use of this type of instrument. This is due to the fact that these laws were passed many years ago when co-operatives were very different. Nevertheless, the proposed General Law on Co-operatives, soon to be approved, eliminates this type of restriction, in recognition of the growing importance of co-operatives as business entities, and creates a new legal framework that specially recognizes and regulates this type of situation and grants wide flexibility to co-operatives for the establishment of new companies.

The current legal framework for corporations in Chile

Chilean laws recognize a variety of legal associations that generally follow along the same lines as those found in most modern commercial legislation: stock companies (*sociedades anónimas*), limited liability companies (*sociedades de responsabilidad limitada*) *socieda-*

des en comandita (a special type of corporation formed by individuals), *agencias de sociedades anónimas extranjeras* (foreign subsidiaries) and, of course, co-operatives in all their different forms.

In the following section, some of the more important features of each of these types of companies will be presented. For more in depth information on how each is formed and operated, we recommend consulting with a specialized professional.

Stock companies (Sociedades Anónimas-SA)

Stock companies (SA) are regulated by Law 18.046 (1981). The law distinguishes between two types of stock companies: open, those which publicly offer their stocks and which have more than 500 stockholders or in which at least 10% of subscribed capital belongs to at least 100 stockholders; and closed, those which do not meet any of the above criteria. While the regulations governing both types of stock companies are similar, the fundamental difference is that the open stock companies are subject to much stricter regulation by the government through the *Superintendencia de Valores y Seguros*.

At least two partners are required to form a stock company with no established maximum limit. The law establishes a series of requirements for the establishment of a company, including registration at the *Registro de Comercio* (Commercial Registry). The company is administered by a Board of Directors with a minimum of 3 members for a closed company and 5 for an open company. The Board members should be wholly elected by the General Assembly of the stockholders and serve for a period of no more than 3 years with the possibility of indefinite reelection. The law does not require that the Board members be stockholders nor of Chilean nationality.

The amount of capital should be expressly fixed in the company's by-laws and at least one-third of this amount should be subscribed and paid at the time of the company's constitution with a maximum period of 3 years given for the payment of the balance. The law does not set a minimum amount of capital needed to establish a company, except in the case of those companies dedicated to certain activities. The responsibility of the partners is limited to the amount of capital they have contributed.

Open stock companies are required to distribute cash dividends of at least 30% of annual profits, unless previously agreed upon with the stockholders. This minimum percentage could be set at a higher value in the company's by-laws. Closed stock companies are not governed by this rule and should follow that laid out by the company by-laws.



The law also addresses the creation or acquisition of *filiales* (those cases in which more than 50% of a company's capital is controlled by the corporation) or *coligadas* (when this percentage is 10% or more.)

Limited Liability Companies (Sociedades de Responsabilidad Limitada-SRL)

This type of company is regulated by Law 3.918, which also lists a series of requirements of announcement and registration for its formation. The minimum number of partners for a limited company is two and the maximum is set at 50.

With respect to the administration of the company, this could be exercised by one or more administrators, either partners or third-parties, or it can even be overseen by a type of panel similar to the Board of Directors of the stock company. In case the by-laws do not cover the area of administration, it is presumed that it is exercised by all the partners either directly or through a representative.

The law does not establish a minimum amount of capital for the limited company and allows for the possibility of contributions in the form of labor or industry. The responsibility of the partners is limited to the amount of his/her contribution. The mechanisms for the distribution of profits should be established by the by-laws.

There are no legal limitations to the limited company participating in the capital or administration of other companies, which thus allows them to establish subsidiaries or affiliates.

Sociedades en comandita

These are companies which are comprised of two types of partners: *comanditarios* or capital partners-those who contribute capital to the company and who are responsible up to the amount of their contribution-and *gestores* or working partners, those who contribute labor, are exclusively in charge of running the company, and their responsibility is limited to their own equity in the company.

The law distinguishes between two types of *sociedades en comandita*: simple and stock. The first are those companies in which all the capital is contributed by the capital partners, and the second are those companies in which the capital is divided into stock.

Agencias de sociedades anónimas extranjeras

The legislation provides for the foreign company subsidiary model, which thus permits foreign companies to operate in Chile. To establish a subsidiary the foreign company must provide evidence that it is legally registered in a foreign country, present a copy of its current by-laws and grant power of attorney to its representative in Chile. All of this should be formalized by a document signed by a notary from the new subsidiary's place of residence.

The subsidiary should register with the *Registro de Comercio* (Commercial Registry) within two months after being formally opened and must publish their annual balance statement in a local newspaper in the quarter following the respective fiscal period.

Cooperation between co-operatives from different countries

The co-operative movement shows a growing level of integration at the regional and global level. The common principles and values of solidarity and the commitment to the defense of the co-operative model contribute to the strengthening of these ties, which is difficult to find in other sectors. This situation should be capitalized upon through the creation of international co-operative consortiums, comprised of co-operative businesses from different countries dedicated to the same activity or activities that are complementary or which can be integrated in order to take full advantage of comparative advantages existing in each country. The tendencies toward market liberalization and globalization make this type of business option innovative and interesting for those sectors in which its application appears to be viable.



IV. Chile: General information

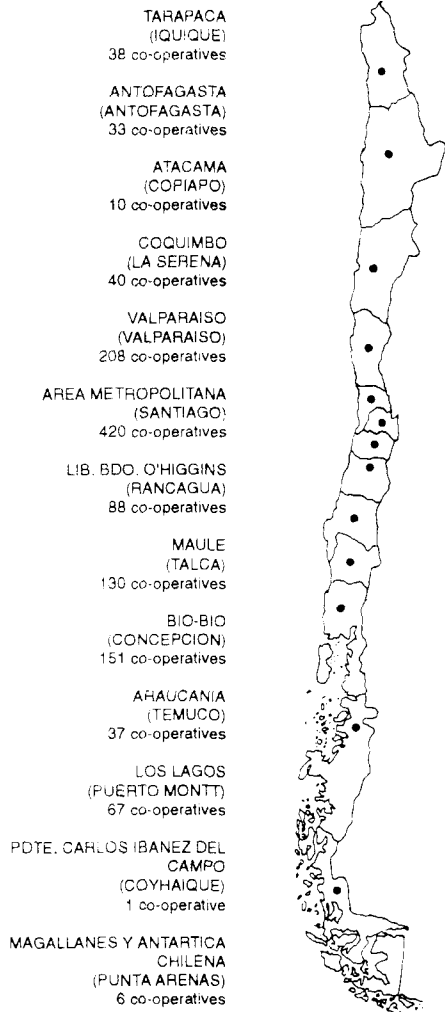
History

Before the arrival of the Spanish, Chilean territory was inhabited by a variety of indigenous peoples from different ethnic groups. In fact, the Incan Empire expanded its domain around the year 1500 and occupied a good part of what is today Chilean territory. Half a century after the arrival of the Europeans to the American continent, the conquest of Chile began with the expeditions of Diego de Almagro.

After a long process initiated in 1811, Chile gained its independence with the definitive defeat of the Spanish troops at Maipú in 1818. In the mid-nineteenth century, the new republic had consolidated an export economy based on the potassium nitrate mines in the northern part of the country. A dispute regarding the ownership of these mines resulted in an armed conflict with Bolivia and Peru, which lasted from 1879 to 1883 and resulted in Chile expanding its territory by one-third and consolidating its control over the disputed lands, rich in potassium nitrate and copper.

At the end of World War I, the first great economic crisis hit the country due to a sharp fall in exports resulting from an increase in the production of synthetic potassium nitrate in Europe. This situation became worse in the

CO-OPERATIVE MAP FROM CHILE (Actives Co-operatives)



following years, especially after 1929 as a consequence of the economic crisis in the capitalist countries of the North, and affected every economic sector in the country. In the mid-1930s, a long period of political stability and economic growth began in which the basis of the modern Chilean state was formed.

In 1970, President Salvador Allende initiated a process of deep economic reform, nationalizing copper, private banks, and foreign trade and initiating an agrarian reform process. In 1973, there was a coup d'etat and the reforms introduced were reversed in the subsequent period. Two years later, a new reform program guided now by the application of the model of the free market economy and privatizations, which has been continued by the democratic governments restored in 1990.

Geography and climate

Chile is a tricontinental country with territory in the continents of the Americas, Antarctica, and the Oceanic. Its continental surface extends 272,134 sq. mi., including Easter Island and the rest of the islands of the Chilean coast, while the Antarctic area is around 482.626 sq. mi.

The continental territory consists of an extensive and thin strip, enclosed by the Andean mountain range and the Pacific Ocean and with a length of 2,610 miles and an average mean width of 110 miles and a maximum width of 236 miles. It is bordered to the north by Peru, to the east by Bolivia and Argentina and to the west and south by the Pacific Ocean.

From east to west, the continental territory shows three main types of geographical features: the Andean range, the middle valley and the coastal range. The relief is very abrupt and mountainous and only 20% of the surface is level.

The continental strip extends from 17° to 56° latitude south, giving the country many different types of soil and climates. In the North, desert soils, rich in minerals (especially copper) predominate; in the Central region the soil is fertile and apt for agricultural and cattle activities; and in the South, there are large tracts of natural forest.

In sequence from the North to the South, in terms of general features, there are the following types of climate: desert, steppe, mediterranean, warm temperate, wet temperate, cold arid, tundra and polar. The great variety of climates and soil allow for the development of practically any type of economic activity exploiting natural resources. In agriculture, for example, not only can you obtain a great diversity of species but you also have the same variety available for several months ensuring a constant supply for a good part of the year.



Population and living conditions

Chile has a population of more than 14 million inhabitants, of which 85% live in urban zones and almost 40% live in the metropolitan area of the capital city Santiago.

Table VI.1
General data on the Chilean population

Total Population (1994): 14,026,200 inhabitant
Annual Population Growth Rate (1982-92): 1.64%
Urban Population (June 1994): 85.53%
Infant Mortality: 14.3 per thousand
Life Expectancy at birth: 72 years
Literacy Rate: 95.5%
GDP per capita (1994): US\$3,193

Sources: *Compendio Estadístico 1994 (Instituto Nacional de Estadísticas)* and *Banco Central de Chile*

The Chilean population is relatively young. Some 48% of the population is under 25 years old, 42% is between 25 and 59 and only 10% is older than 60. It is estimated that there are 3 million families with an average of 4.5 members each.

While there is still a significant level of poverty, it has fallen gradually in the last years. Indicators for the population's living conditions are superior to those of many other countries of the region, some of which can be seen in Table VI.1.

Education is mandatory in Chile until the age of 14. Some 45% of the population older than 14 have secondary studies and 19.8% of men and 14.2% of women have some post-secondary or university education. Chilean professionals are highly qualified due to the high quality university education available in the country and the large number of persons who have obtained academic degrees in Europe and the United States. Chile has 70 universities, 25 of which are public and the rest private, in which some 51,000 students register annually.

Infrastructure, transportation and telecommunications

The country has a solid infrastructure with quality services in all areas required for the adequate development of business activities that involve contact with the outside. In the same

respect, the last government administrations have placed special emphasis on improvement plans with an active participation of private enterprise.

Chile has 80,000 miles of highways, half of which can be used year round without any difficulty. The main artery of this system is the Pan-American Highway which runs from the Peruvian border in the north to the city of Puerto Montt in the south. The Trans-Andean Highway which unites the city of Valparaíso, the country's main port, and the city of Mendoza in Argentina is of fundamental economic importance.

The railway system administered by the state company, *Ferrocarriles del Estado*, consists of 5 lines that total more than 5,593 miles of railroad linking the country to Peru, Bolivia and Argentina. The capital Santiago has a modern subway system that quickly links a good part of the city.

There are 30 commercial airports distributed throughout the national territory. The most important ones are: Santiago, Concepción, Copiapó, Temuco, Antofagasta, Arica, Iquique, Puerto Montt and Punta Arenas; where the most important international airlines operate with frequencies that allow for transfer to almost anywhere in the world. In 1993, an improvement and modernization plan was initiated in 25 airports. The four national airlines cover more than one-third of the international passenger traffic.

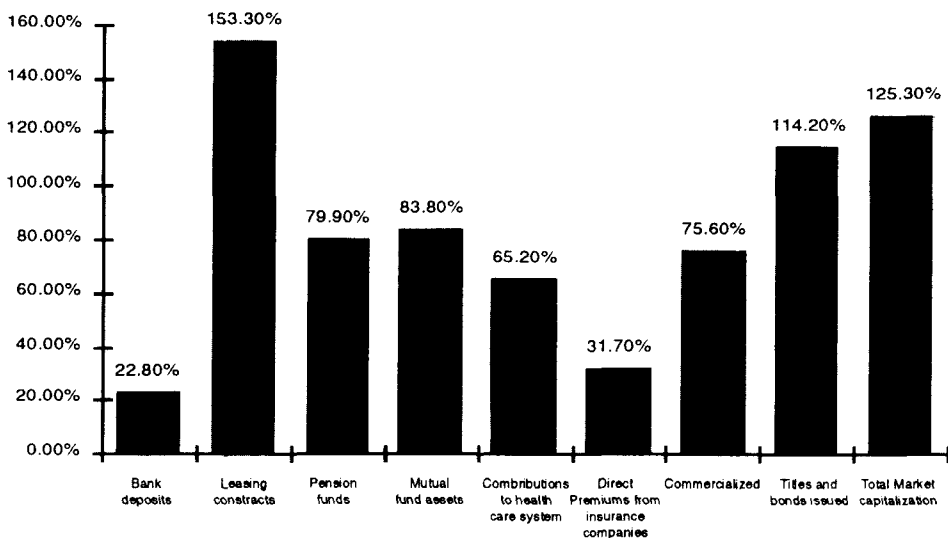
The telecommunications sector has experienced one of the largest growths within the Chilean economy in the last few years (between 20 and 25%). Between 1988 and 1992, the number of telephone lines doubled and currently exceeds 1,500,000. Furthermore, Chile has been the first country in the world to achieve a 100% digitized telephone system. Advanced technology is available and widely disseminated in the area (cellular telephone and computerized communications).



VII. Banking and finance system

The financial service sector in Chile has reached a very significant level of development. The last few governments' economic policies have assigned the sector an active role within development strategies. Between 1975 and 1981, the Chilean banking system experienced a process of progressive liberalization, which permitted it to grow at a higher rate than the rest of the economic sectors. Nevertheless, weaknesses in the legislation in force during those years allowed for a policy of excessive investments and risky credit practices on the part of some institutions, which led to a pronounced crisis of the financial system in 1982 and 1983. As a consequence, the government intervened in or liquidated 22 institutions, which together represented 60% of private bank deposits.

Graph VII.1
Average annual growth 1987 - 1993
of selected variables (in US\$)



Source: *Comité de Inversión Extranjera*

In 1984, a process of recovery was initiated and has lasted for more than a decade. The banking and financial services sector in Chile has experienced rapid growth in practically every area, accompanied by constant innovation with respect to the variety of financial products offered in the market and an important increase in the sector's level of competitiveness. Graph VII.1 shows the average annual growth in the main variables related to financial activity in the country in the last years.

Structure of the financial sector

The Chilean financial sector today is dynamic with an attractive level of sophistication and specialization, taking into account the entire dimension of the country's economy. Services can be found in Chile that are not very common in other markets of the region. The group of financial entities operating in the sector is varied, as seen in Table VII.1.

Table VII.1
Main financial service entities in Chile

Banks
Finance companies
Life insurance companies
General insurance companies
Leasing companies
Pension fund administrators (AFP)
Health services institutions (ISAPRES)
Mutual funds
Investment funds
Foreign capital investment funds (FICE)
Stock markets
Stockbrokers
Securities firms
Credit card companies
Credit unions

Source: *Comité de Inversión Extranjera*



Banks and finance companies

The Chilean banking system consists of 36 banks and 4 finance companies. With respect to ownership: 13 banks and the 4 finance companies have a majority of private Chilean capital; 21 banks are owned by foreigners; one is state-owned and the rest are part-owned both by foreign and national capital. The activity of all of these companies is regulated by the government authority *Superintendencia de Bancos e Instituciones Financieras*.

The market is highly competitive. For example, in 1992, the *Banco del Estado*, the largest banking institution in the country, represented only 15% of the loan market, while the 7 largest banks (all with majority national capital) together had a 62% share of the market. That same year, the largest foreign bank had a share of less than 5% of the total loans issued by the market.

Finance companies are mainly dedicated to consumer credit. As opposed to banks, finance companies cannot receive deposits in checking accounts nor participate in foreign trade activities. Their levels of permitted debt are more limited, but is compensated with lower minimum capital requirements.

Both the banks as well as the finance companies must be established as stock companies and the law establishes a detailed set of requirements for their formation.

Consumer credit has grown significantly in the last few years, permitting an important expansion by credit unions (as mentioned at the end of this chapter) and by 4 existing finance companies. In order to compete in this area, several banks have recently created specialized departments with consumer credit services.

The existing legislation safeguards banking privacy, which means that banks are prohibited from offering information on the banking transactions of individuals to third parties unless expressly authorized by the owner of an account or his/her representative. Foreign banking institutions enjoy the same rights as similar national institutions and are subject to the same laws and regulations.

Stock market

There are 3 institutions in Chile authorized to commercialize private and public stocks and bonds. The *Bolsa de Comercio de Santiago*, created in 1983, has the largest volume representing 90% of the country's stock market activity. The other two are the *Bolsa Electrónica*

nica de Chile, created in 1989 and which has continuously assumed a greater share of the activity, and the *Bolsa de Valparaíso*, which was reopened in 1988 and has a marginal volume of transactions. The volume of operations has been growing in the last few years, reaching some US\$100 billion among the three institutions just in 1994.

The majority of transactions correspond to short and medium-term bonds. In the three exchanges combined, more than 300 companies participated in 1994 and the volume of operations in trading these stocks and bonds reached US\$4 million that same year.

Some products and institutions from the Chilean financial sector

Mutual funds

Mutual funds have seen a sustained growth in the last years. For example, the number of investors in this area grew from 13,000 in 1984 to more than 64,000 in 1993. In August, 1995, there were 15 investment companies with a total of 59 mutual funds in operation, of which there were three types: short-term fixed rate, medium-and long-term fixed rate and variable rate. The wide majority of these companies are in reality subsidiaries of foreign banks. Mutual fund activity and companies are regulated by the government authority *Superintendencia de Valores y Seguros*.

Foreign investment capital funds

These instruments were created by a special law (Law 18.657 in 1987) and were partially modified in 1993. They consist of equity funds formed with contributions from individuals or legal entities outside the country for the purpose of investing in public bonds issued in Chile. The investor signs a contract with the Chilean government to abide by the rules of Foreign Investment.

The administration of these funds are carried out by a Chilean company at the risk of the investor. Resources can only be invested in those instruments designated by law and certain legal rules of diversification and guided concentration must be followed. The activity of these funds is regulated by the *Superintendencia de Valores y Seguros*.

The repatriation of capital cannot be carried out for a period of 5 years. All capital repatriated as interest from the investment fund is subject to a single income tax of 10% and is exempt from any other type of tax. This tax arrangement is part of the foreign investment contract and has a guarantee of invariability for the length of duration of the fund.



Pension funds

These funds were created in 1981 after the reform of the Chilean social security system and the transition to a mandatory individual savings system. Information on the way in which this new system functions can be found at the end of Chapter IX on labor policy.

The level of development achieved by these funds and the features provided for their functioning have made it one of the main motors in the process of significant growth and sophistication experienced by the Chilean capital market in the last few years.

The number of individuals affiliated to the new system has grown consistently until reaching nearly 5 million people and US\$20 billion in deposits at the end of 1995.

The funds are administered by companies called Pension Fund Administrators (*Administradoras de Fondos de Pensión--AFP*). The AFPs must invest in those instruments approved by the Risk Assessment Commission (*Comisión Calificadora de Riesgos*) which is made up of the AFP Superintendent, the Superintendent of Banks and Financial Institutions, the Superintendent of Stocks and Bonds, three representatives of the AFP and a Central Bank representative. In addition, there are a series of requirements with respect to the diversification of and limits to certain types of investments in order to offer more security the system's beneficiaries.

There are no barriers to entering the market for this type of fund. This means they are highly competitive and that workers can freely choose in which AFP to place his/her savings based on the profit indexes offered and the administration fees charged. In August, 1995, there were 17 Pension Funds operating in Chile, most of which were owned by majority national capital. However, three AFPs showed significant foreign capital influence.

Health Care Provider Institutes (Institutos de Salud Previsional (ISAPRES))

These institutions also originated with the reform of the social security system in 1981. Each worker may choose whether to place his/her mandatory health care deductions (7% of gross salary) in the so-called ISAPRE-private health care providers) or in the public health system by giving to the National Health Fund (*Fondo Nacional de la Salud--FONASA*). Workers belonging to an ISAPRE and their family members can choose among various health plans with differing costs and benefits.

There are currently more than 30 institutions of this type currently operating in Chile with more than one million payers and almost 4 million beneficiaries including dependent

family members. Annual payments into the entire system exceed US\$600 million. Most of those affiliated are dependent workers and their payments are collected through their employer, but independent workers and volunteers can also join.

There are two types of ISAPRE which show a significant difference in size: the open commercial institutes are open to the general public and the closed are restricted to a specific group generally connected to a company or other type of organization.

In order to form a ISAPRE it is necessary to contribute a minimum amount of capital and maintain permanent equity of not less than said amount. All the ISAPRE are regulated by the *Superintendencia de Instituciones de Salud Previsional*.

It should be especially noted that the third largest ISAPRE is the co-operative enterprise PROMEPART, which has participated in this system since its creation in 1981 and currently has more than 180,000 payers and 400,000 individual beneficiaries. This makes it the largest in terms of members in the two regions within which it operates (Metropolitan Region and Region V). A description of this co-operative's activities can be found in Chapter IV of this document.

Exchangem rate policy

There are two types of exchange markets in Chile: the formal market, which consists of banks and other entities authorized by the Central Bank to carry out international monetary transactions; and the informal market, which consists of another type of agent subject to the norms of common law. The law provides for the basic principle of "monetary freedom" authorizing that any person can freely carry out international exchange transactions. Nevertheless, certain types of transactions with foreign currency, established by law and in the rules and regulations expressly set out by the *Compendio de Normas de Cambios Internacionales*, can only be carried out in the formal market.

Three types of exchange rates generally operate in Chile:

- The so-called "dólar acuerdo," official dollar, which is the rate at which the Central Bank uses in its operations.
- The so-called "dólar observado," observed dollar, which is published daily by the Central Bank and corresponds to the rate used in the transactions of the formal market the previous day.
- The so-called "dólar libre," free dollar, which is the rate at which the dollar is bought and sold in the informal market according to supply and demand.



Credit unions

Co-operatives in the credit union sector play a fundamental role, capturing an important and significantly growing part of the market of small and medium-sized savings and demands for credit. The appropriateness of the financial products offered to meet the needs of this type of clientele, as well as the growing number of services offered have contributed to the accelerated growth in the number of credit union members and the volume of savings and total deposits of the system.

According to the *Departamento de Cooperativas*, by December 31, 1994 there were 92 credit unions with a total of 205,000 members distributed throughout the country. Some co-operatives have reached such a size in terms of members, assets and equity that the proposed General Law on Co-operatives, currently being studied by Parliament, calls for their regulation and control by the Superintendent of Banks and Financial Institutions. The assets of the 11 largest co-operatives in this sector reached 33 billion Chilean pesos (some US\$81.9 billion) by the end of 1994.

More information on the Chilean credit union sector can be found in Chapter IV which analyzes the most outstanding co-operative models in the country.



DEPOSITS

INVESTMENTS

TRUST FUNDS

ENDORSEMENTS

LOANS

TECHNICAL ADVICE

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VIII. Tax system

The Chilean Constitution consecrates four basic principles related to taxation:

- a) Legality of taxation: Taxes can only be created, modified or abolished by law. Such laws must originate from the President of the Republic.
- b) Equality of taxation: Establishes equality before the laws on taxation.
- c) Tax equity: Prohibits the establishment of disproportionate and unfair taxes, giving the courts of justice the power to determine the specific connotations.
- d) Non-specification of tax purpose: Everything collected by way of taxes goes to the country's general funds. A set purpose for a specific tax cannot be established.

In Chile there are basically two types of taxes, each of which is regulated by a special agency: Fiscal Taxes, which consist of both internal and external taxes, and Municipal Taxes. Internal fiscal taxes are those which are levied on operations and transactions carried out within the national territory and on wealth located in the country. The most important are the income tax and the value-added tax. These taxes are regulated by the Internal Tax System (*Servicio de Impuestos Internos*). External fiscal taxes are those levied on the international trade of merchandise and are regulated by the Customs Service (*Servicio de Aduanas*). Finally, municipal taxes are collected by the respective municipalities.

Income tax

The Income Tax Law (DL 824) establishes different types of taxes which can broadly be categorized into four areas:

- *Impuesto de Primera Categoría*, tax levied on income from capital, agriculture, mining, transportation and commerce.
- *Impuesto de Segunda Categoría*, tax levied on income derived from labor.
- *Impuesto Global Complementario*, tax that is complementary to the previous two taxes and paid by residents or individuals living in Chile.



- *Impuesto Adicional*, tax levied on the income of non-residents or people not living in Chile.

As a general rule, companies fall under the *Impuesto de Primera Categoría* with a rate of 15% over taxable liquid income. This taxable profit is determined by a special calculation established by law, which deducts revenue not considered income and establishes other deductions or additions.

A credit favoring companies is applied against the *Impuesto de Primera Categoría* and is equivalent to the Property Tax paid on real estate dedicated to the company's operations. In general, this tax is paid once a year.

Furthermore, those profits withdrawn, distributed among the partners or repatriated abroad are subject to the *Impuesto Global Complementario* if the partner is a resident of Chile or to the *Impuesto Adicional* if the partner is not a resident of the country. The rate for the *Impuesto Global Complementario* is variable, between 5% and 50%, while the rate for the *Impuesto Adicional* is fixed at 35%. In both cases, the taxes paid by the company under the *Impuesto de Primera Categoría* is deducted from this rate.

Payments made to non-resident companies or individuals for the use of trademarks, patents, technical consulting services or similar services as well as services given abroad are levied a one-time tax of 40%. Under certain exceptions, this rate rises to 80% when these services are deemed unproductive or unnecessary for the country's economic development. In the case of services for scientific, technical, cultural or sports activities given in Chile by non-residents, the rate is reduced to 20% during the first six months of residency.

The income of independent workers is subject to a one-time tax under the *Impuesto de Segunda Categoría* with a variable rate according to the amount of income. This tax should be deducted monthly by the employer.

Value-added tax (VAT)

As a general principle, the VAT is levied on the sale of goods within the national territory and for services provided within the country, whether paid in Chile or abroad. The rate in effect in August, 1995 was 18% across the board. The law establishes that this rate should be in effect until December 31, 1995 and then will be reduced to 17%, although the President of the Republic has the power to raise the tax to 18% or reduce it to 16% during 1996 and 1997.



In general, the tax is paid monthly and is collected by the person selling the good or providing the service, and can either be included in the price or not.

Among the transactions subject to the VAT of special mention are: imports, investments, rent or any other type of concession paid for the temporary use or enjoyment of goods, furnished real estate or with installations or machinery that allow for the following activities to be carried out: commercial, industrial, trademark, patent inventions and industrial procedures or formulas.

Since this is a fixed tax levied on the value added to a good or service, there is a fiscal credit and debit system by which the VAT paid on the sale of goods and services used in the company's operations is deducted from the VAT paid for the company's sales. Those balances favoring the tax payer are indefinitely applicable to future debits.

A very significant benefit, especially important for those companies initiating operations, is that related to the possibility of applying for a cash refund on the VAT paid on the purchase of fixed assets, including new buildings and machinery, within 180 days of their acquisition.

Among those situations warranting VAT exemptions are the import of certain capital goods received as part of a foreign investment under a signed foreign investment contract in accordance with DL 600. The exemption benefits the foreign investor as well as the recipient of the contribution.

Other taxes

Property Tax: Real estate is assessed an annual tax of 2%, which is calculated on its fiscal value. The tax is increased by an additional rate of 30% except on agricultural real estate and low-valued non-agricultural housing. The payment of the property tax is quarterly and may be deducted for the First Category tax, when the property is directly related to the company's operation.

Tax Seals and Stamps: Bills of exchange, promissory notes and any other document related to a monetary credit operation is levied a tax at a variable rate according to the loan period. The minimum monthly rate is 0.1% and the maximum monthly rate is 1.2%, and is applied to the amount of money borrowed. They are part of the tax on foreign credit except when this involves a multilateral financial organization.



Municipal Tax: This tax affects every profession, occupation, industry, commerce, art or other lucrative secondary or tertiary activity. Primary or extractive activities are levied when the activity includes some form of processing of materials which are consequently sold directly to the public. The rest of activities in the primary sector are exempt from the municipal tax. The rate varies between 2.5 and 5 per thousands of individual capital contributed.

Foreign investors

Foreign investors may fall under a special tax regime established by DL 600, which offers them the option of a fixed tax rate for a certain period of time for both the income tax and other indirect taxes.

With respect to the income tax, the investor has two alternatives: the normal tax regime, explained above, which implies being affected by eventual modifications to the tax system in the future; or this fixed tax system laid out by DL 600, which establishes a single tax of 42% for a period of 10 years from the establishment of the respective company.

This rate could be higher than that paid under the normal tax regime but the invariability of the rate for 10 years adds an ingredient of stability that could be appreciated by certain types of businesses. In this way, the fixed tax constitutes a sort of insurance that the foreign investor contracts with the Chilean government. By paying the difference between the two rates, the company is guaranteed not to be affected by any tax reform during the first 10 years of operation. This special tax regime is only for foreign investors and can only be renewed once.

In the case of indirect taxes, foreign investors also have the exclusive option of choosing between the normal tax regime and an invariable rate. In foreign investment contracts, it may be stipulated that the following taxes will remain invariable for the period of the investment: the VAT and the tax applicable to the import of equipment to be used in the project which is not produced in the country and not on the Ministry of Economy's list of excluded products. This fixed rate is transferred to the companies receiving the investment for the corresponding amount.

Co-operatives: tax exemptions and discounts

Co-operatives in Chile benefit from a series of tax exemptions and discounts under their condition as a socio-economic sector distinguished from traditional private companies. Such benefits can vary from one co-operative sector to the next, but the general rule granting the

exemptions (Article 54 of the current General Law on Co-operatives) establishes that co-operatives are exempt from the payment of:

- 50% of all contributions, taxes, tariffs and other fiscal tax levies, except for the VAT.
- All taxes on legal actions, contracts and procedures related to the co-operative's formation, registration, operations and legal procedures.
- 50% of all contributions, rights, taxes and municipal taxes, except for those related to the production and sale of alcoholic beverages and tobacco.

With respect to income tax, Article 17 of DL 824 applies:

- Co-operatives pay income tax like other companies on income derived from activities which are a part of their specific operations but which are carried out with third parties who are not members of the co-operative. Profits generated from activities with members do not constitute income and are tax-free.
- Those members whose activities with the co-operative form a part of their normal operations should include in their tax payments the profits and interests recognized by the co-operative as corresponding to the capital shares.

The proposed new Law on Co-operatives, currently under study by the Parliament, does not significantly alter this tax exemption and discount regime.



XI. Labor policy

The current labor rules and regulations in effect are established by the Labor Code sanctioned in 1987, as well as other complementary laws.

Labor contracts

There are two types of labor contracts in Chile: Individual and Collective. The individual contract is that where the worker and the employer establish a reciprocal agreement by which the worker offers personal services as a dependent and the employer pays a certain remuneration for these services. The legislation establishes a list of minimum clauses that must be included in an individual labor contract. As a general criteria, this contract does not have a specific period of duration. The law does specifically provide for fixed term contracts, by job or for services, for training and for contracts for agricultural harvest workers, port workers, and private home workers.

Collective contracts are those agreed upon between one or more employers with one or more unions or with workers united for collective bargaining, and deals with both working conditions and pay. These contracts are expressly regulated by Law 19.069 on unions and collective bargaining. Also in the case of collective agreements, the legislation provides a series of minimum clauses to be included mandatorily. This type of contract must be written and be for a minimum duration of two years. The stages of the collective bargaining process, previous to the signing of the contract, are expressly regulated by the above mentioned law.

Finally, we should mention those collective agreements that do not require a process of special collective bargaining but which do not provide for such prerogatives in the case of formal collective bargaining.

Remuneration

As a principle, worker remuneration should be paid in the Chilean currency unless otherwise specified by both parties, and the frequency of payments should be agreed upon, although in no case may exceed one month. Foreign workers may be paid in foreign currency, but this situation requires special authorization from the Central Bank since according to current legislation it is considered to be a foreign currency exchange operation.

The monthly salary of every worker may not be less than the Minimum Monthly Salary as fixed by law and periodically adjusted usually once a year. It is currently set at an amount of Chilean pesos equivalent to US\$150.

Workday

The law establishes a maximum work week of 48 hours or 6 days. Other special arrangements are provided for and used frequently: a 48-hour, 5-day work week and a bi-weekly work period for those activities which require continuous work due to the nature of the work carried out.

The time worked in excess of the set maximum periods requires the consent of the worker and constitutes overtime. This must be remunerated at a rate of 50% over the agreed amount for normal hours worked.

Cessation of labor contract

The law details those situations in which the labor contract may be terminated, those clauses which can be revoked, the procedures to be carried out and the possible recourse actions for both parties.

The justifications for the termination of a contract can be grouped into three basic categories. In the first place, the so-called justifications for termination which can be mentioned are: by mutual agreement of both parties; the expiration of the contract period; the conclusion of the work for which the contract was signed; the unilateral resignation of the employee; and for the company's requirements.

The justifications for dismissing a worker allow for immediate suspension without any indemnification. Such justification includes grave errors or omissions on the part of the employee, such as repeated unjustified absences, abandonment, dishonesty or actions which damage the company or compromise its security.

Finally, the legislation details a series of conditions attributable to the employer, including those situations in which the employer's actions or serious omissions affect the company's security or that of its employees. In these cases, the employee may request that his/her contract be terminated, leaving in tact the right to the corresponding severance pay.



Table IX.1
National Holidays

January 1:	New Year's
Two days in March or April:	Holy Week
May 1:	Labor Day
May 21:	Battle of Iquique
Thursday in June:	Corpus Christi
June 29:	St. Peter and St. Paul's Day
August 15:	Assumption of the Virgin Mary
September 11:	National Liberation Day
September 18:	Independence Day
September 19:	Army Day
October 12:	Day of the Race
November 1:	All Saints' Day
December 8:	Day of the Immaculate Conception
December 25:	Christmas

In the area of severance, there are various types of compensation depending on the circumstance under which the labor relationship was terminated. In general, workers whose contracts are terminated due to the needs of the company have the right to severance pay for those years worked. The amount is determined as one month's salary for each year worked for the company, with a minimum of 11 months and a maximum of 90 monthly salary units (*Unidades de Fomento*) as base pay. The so-called indemnification for lack of prior notice should be paid in those cases where the contract is terminated due to the needs of the company without the corresponding previous 30-day notice. In this case, the compensation is equivalent to the last monthly salary owed.

Annual leave

Every worker who completes one year of employment with the same employer earns the right to vacation leave equivalent to 15 working days and is paid for those days the same amount as if he/she had worked. Those workers with more than 10 years of service to the same company have the right to an additional vacation day for every 3 new years worked with a maximum number of 35 days.

Vacation should preferably be taken in the Summer or Spring and must be continuous, although by common agreement that amount in excess of 10 days may be taken separately.

Vacation days may be accumulated during two periods, but afterwards is lost. The law prohibits the exchange of vacation days for money, unless the labor contract is being terminated.

Other regulations

In case of sickness or accidents, the worker has the right to receive pay after the third day of absence and with a set limit of 60 work units (*Unidades de Fomento*). Pregnant women enjoy 9 weeks of prenatal leave and 12 weeks of postnatal leave, and receive 75% of their average pay for the last 6 months worked, covered through the social security system. During the leave period, the worker cannot be dismissed.

According to labor and social security legislation, the minimum work age is 18 and for retirement is set at 60 for women and 65 for men. Special rules permit early retirement.

The Labor Code requires that if an employer has more than 25 employees, 85% of these must be of Chilean nationality.

Social security system

Since the beginning of the 1980s, Chile has had a modern social security system which transformed the traditional model of state-delivery. The new system was based on individual capitalized accounts with a mixed administration giving priority to the initiatives of private institutions and decentralized public agencies, separate from the central government. Going beyond the debates regarding this model, the Chilean experience has become a mandatory reference in the discussion of social security reform in the rest of the region. due to the profound changes carried out, the speed at which they were implemented and the favorable results. for all parties involved, obtained up to now.

The system has a wide reach and coverage, including among its services: pensions for retirement, disability, and welfare; health and accidental work insurance; family stipends and single family subsidies; unemployment insurance; auxiliary pensions and minimum guaranteed pension, among others. The system's basic financing scheme provides for workers to contribute their resources for the pension and health programs, employers contribute for the accidental work insurance and the government for the subsidy, part of the medical expenses and the minimum pensions.



Benefit	Aportes del trabajador	Worker contribution	Budget Resources
Retirement Pension	10% of salary	No	No
Disability and welfare pension	Variable according to AFP Estimated: between 2,5% and 3,8% of salary	No	No
Health insurance	7% of salary	No	No
Work accidents	No	Variable according to the type of business Estimated: 1,5% of salary	No
Family support family	No	No	Yes
Single family subsidy	No	No	Yes
Unemployment	No	No	Yes
Guaranteed Minimum pension	No	No	Yes

As can be inferred from the above Table, one of the features of the social security system that stands out is the inexistence of employer contributions for the health and pension programs, which are wholly financed by the beneficiary worker. Companies are only required to provide insurance for work-related accidents at variable rates according to the degree of danger of the worker's activity, reaching an approximate value of 1.5% of the worker's gross salary.

Upon implementing the new system, workers were offered the opportunity to remain within the old system or to pass to the new system of individual capitalization. More than 85% of workers chose the new system. The *Instituto de Normalización Previsional* (INP) is the agency in charge of providing services to those workers who elected to remain in the previous system. After 1982, enrollment in the new system was obligatory and automatic for all those new workers entering the labor market.



The contributions of workers are made to the Pension Funds, which are administered by the Pension Fund Administrators (*Administradoras de Fondos de Pensión--AFP*), private companies whose sole function is to deposit these funds and provide the services and benefits established by the system. The law sets a minimum amount of operating capital for these companies based on the number of members and requires that they maintain a minimum reserve equal to 1% of the Pension Fund they administer. The AFP are authorized to charge its members commissions in exchange for services rendered and are regulated by the government through the Central Bank and the AFP Superintendent.

Each worker may decide which AFP he/she wishes to join and may not belong to more than one at the same time, but may change at any time by transferring his/her accumulated funds.



X. Legal-political system

This Chapter provides a general presentation on the current political system of the Republic of Chile, its public powers and the most notable features of its legislative system. At the end there is a description of certain legal aspects for some areas that could be of special interest for those looking to do business in the country.

Political system

Chile is democratic constitutional republic. As is traditional, the state consists of three independent powers: the Executive, the Legislative and the Judicial.

Executive power

The executive power is led by the President of the Republic whose is Chief of State and in charge of governing and administering the State. The President, elected by universal suffrage and by an absolute majority of votes, rules for a period of 6 years and cannot be reelected to a consecutive term. The Executive Power is, in the current system, a co-legislator as there are areas in which the executive has the exclusive right to initiate.

The President is assisted in the executive functions by the Ministers of State, whose numbers are established by law and of which currently exist 20 ministerial posts.

Legislative power

Legislative power is exercised by the National Congress, which is comprised of two chambers: the Chamber of Deputies and the Chamber of Senators. The Chamber of Deputies (the lower house) is composed of 120 members who are elected every 4 years on the basis of the *comunas*, or districts. The Chamber of Senators (the upper house) is made up of 38 senators elected by direct elections in the country's 13 regions. Some serve an 8-year term and are elected alternately every 4 years, and the others are "Designated Senators" chosen by the outgoing President among the authorities designated by the Constitution. Of this last group, some have the status of "Senators-for-life" while the majority serve for a period of 8 years.

There are two types of legislative periods. The Regular Period which runs from May 21 to September 18 each year and in which that legislation proposed by the Executive or by parliamentary motion is examined; and the Extraordinary Period which can be convoked by the President of the Republic within the 10 days before the end of the regular period for the handling of a specific issue or by the Congress itself through the President of the Senate during parliamentary recess.

Judicial power

The Ministers and prosecuting attorneys of the Supreme Court and the Court of Appeals and the "Learned Judges" are named by the President of the Republic from a list of candidates presented by the Supreme Court and the Court of Appeals to fill vacant positions.

Superior judges remain in their posts during good behavior. The rest of the functionaries cited serve for the period established by law in each case. All judges should resign before reaching the age of 75.

Finally, some important autonomous agencies that complete the Chilean institutional panorama should be mentioned: The General Controller's Office of the Republic, the National Security Council, the Elections Tribune and the Constitutional Tribune.

Political-administrative divisions

The country is divided into 13 regions, 51 provinces and 335 districts (*comunas*). Each region has an official called an *Intendente* who is assisted by a Regional Development Council and supported by the Regional Secretariat for Coordination and Planning. The provincial authority is the Governor who is assisted by a Technical Assistance Committee and a Provincial Council. Finally, each of the 355 *comunas* has a mayor, a Community Development Council and a Community Secretariat for Planning and Coordination. The Ministries work in a decentralized fashion through the regional secretariats.

Legal system

The Constitution is the founding, fundamental law of the Republic of Chile and all legal decrees must abide by its provisions. Therefore, no legal or administrative rule or regulation may violate its principles. The current Chilean Constitution went into effect on March 11, 1981, after being approved by the majority of the population in a plebiscite in 1980.



The Constitution guarantees the following: a legal system based on liberty and equality; individual rights and guarantees; and the propensity for the decentralization of power and the administration. In this way, the Constitution guarantees the protection of life, the equality of persons before the law, social justice, the authorities and public agencies, freedom to travel, of assembly, of association, of labor unions, of education, of religion, of opinion, of information, to work and do business, the right of property, the right to live in a pollution-free environment and the right to health and social security.

The legal body is also composed of a group of positive legal orders. First, there are laws, decreed laws, decrees with the force of law and treaties, and then in a lower category, there are simple decrees, regulations and administrative acts.

Some important areas have an ordered and systematic treatment in the body of laws called Codes, among which are: Civil, Commercial, Penal, Justice System and Civil and Criminal Procedures, Tax, Mining, Maritime and Aeronautics.

There are also some special laws that constitute the legal framework for certain important areas, generally of an economic nature, among which are: The Central Bank Law (18.840), the Decreed-Law for the Protection of Free Competition (DL 211), the Law on Corporations (18.046), the Law on the Stock Market (18.045), the Law on Fishing (18.892) and the Law on Mining Concessions (18.097).

Co-operative legislation

The general framework of the current legislation regarding the Chilean co-operative sector consists of the General Law on Co-operatives, part of Supreme Decree No. 502 of the Ministry of Economy, Development and Reconstruction which went into effect in November, 1978. There is also a group of laws and decreed laws which are complementary to the General Law or which establish special rules for certain types of co-operatives. These include Law 19.019 (1991) which introduces various modifications to the 1978 text, Decree with Force of Law No. 13 (1968) which regulates small farmer co-operatives and Decreed Law No. 1.320 (1976) on open housing co-operatives.

As was previously mentioned, the proposed new General Law on Co-operatives is being reviewed in Congress and will surely enter into effect in 1996 giving a complete legal framework for the entire co-operative sector. The proposed law under study eliminates some restrictions and limits from the current legislation, adequately recognizing the economic objective of co-

operatives and improving their ability to capitalize on the opportunities that currently exist for their development as businesses.

Current legislation in other areas of interest

Trademarks and patents

This area is regulated by the Constitution itself, which guarantees each individual industrial property rights for invention patents, commercial trademarks, industrial designs and innovative technological processes. It should be pointed out that current legislation does not distinguish between citizens or national and foreign companies in the granting of these rights. Laws 17.336 (1970) on Intellectual Property and 19.093 on Intellectual and Industrial Property establish the mechanisms for obtaining the corresponding protective rights.

The registration of a commercial trademark takes 10 days, counting from the date of registration in the respective registry. Trademarks may be renewed for equal periods of duration during the period they are in effect or 30 days after they have expired.

Invention patents are granted for a period of 15 years and are not renewable after this period has expired. In the case of inventions already patented in a foreign country or in the registration process in another country, the owner is granted priority for registration in Chile during a one-year period beginning from the moment the application was presented in the country of origin. However, in this case, the patent is granted only for the period of time remaining before the rights expire in the country where the patent was originally requested, not exceeding a period of 15 years. The patent owner is protected by exclusive rights for the production sale or marketing of the product in any form. Patents for industrial design privileges are granted for a non-renewable period of 10 years beginning from the date of application.

Free competition and private enterprise regime

In accordance with the importance that the last few government administrations have placed on the role of private enterprise as the main agent in their economic development model, current legislation grants freedom of enterprise and offers a special framework for the protection and defense of the free competition principle.

The Constitution itself, in Article 19, establishes the liberty of enterprise, understood as “the right to develop any economic activity that does not violate morality, public order or national security and respects the respective rules and regulations.” The Chilean government



and its agencies may not act as businesses without express authorization through a quorum law (an absolute majority of deputies and senators voting). Current rules are inspired by the principle of giving preference to private individuals or entities for the development of enterprise with state participation being an exception.

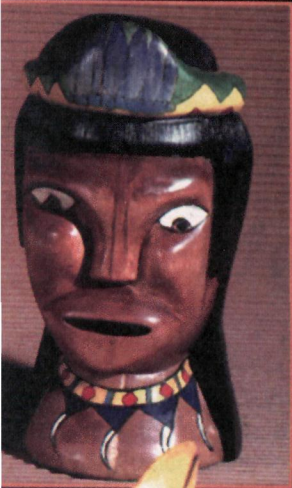
Free competition is especially protected under Decreed Law 211, which calls for sanctions against any act, action or agreement which seeks to eliminate, impede or restrict free competition. A number of agencies have been created to regulated these rules: a Central Prevention Commission at the national level; Regional Prevention Commissions in each of the country's administrative regions; and a Resolution Commission which acts as a court.

Trade agreements

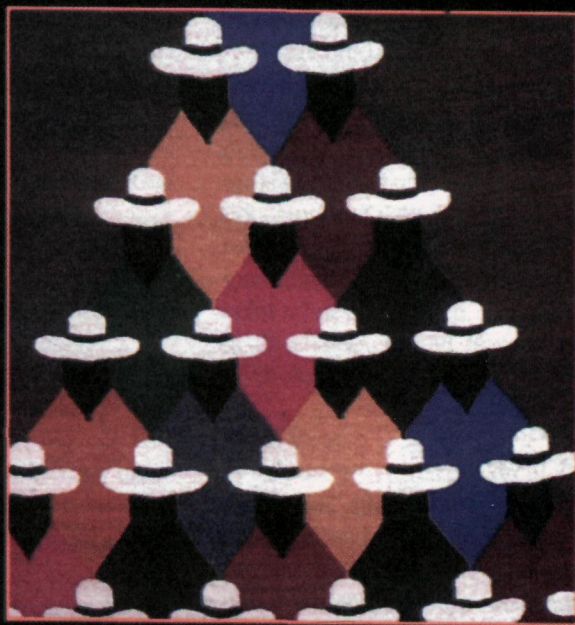
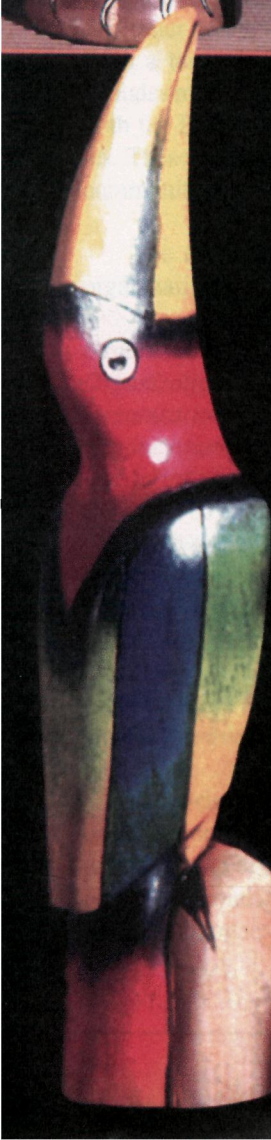
Chile is an active member of the General Agreement on Tariffs and Trade; is part of the Latin American Association for Integration (ALADI); and was signatory to the treaty creating the World Trade Organization. From 1969 to 1976, the country formed part of the Andean Pact, after which it withdrew due to differences regarding trade policies and treatment given to foreign investment.

Furthermore, Chile has signed Economic Cooperation Agreements with various countries by which sectorial programs to establish common external tariffs equivalent to 0% by a certain date. Agreements with Mexico, Colombia, Bolivia and Ecuador should be especially noted.

In recent years, Chile has made a persistent effort to join the two most important regional integration agreements: MERCOSUR and NAFTA, with variations ranging from the signing of special complementary agreements between Chile and the region to the entry of the country as a full member. At the time this document was under production, Chile's incorporation into MERCOSUR had already been approved for 1997 and negotiations had accelerated for its entry into NAFTA as the fourth member of this free trade agreement.



ARTESANIAS COMUNITARIAS DEL ECUADOR



MCCH



maquita cushunchico

FUNDACION MCCH: Barrio Turubamba (frente al estadio del Aucas), Calles Moro Moro y Rumichaca, esquina.

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MCCH Foundation

Maquita Cushunchic

Maquita Cushunchic, a Quichua expression, can be translated as "Lending each other a hand so as to market together". With a ten year history, this foundation includes more than 600 organizations from both the Ecuadorian countryside and cities. These organizations work in areas of community marketing and artisan training.

The foundation is divided into five organizations:

Organization of Women
Organization of Community Stores
Organization of Peasant Products
Organization of Solidarity Funds
Organization of Alternative Tourism

Each organization has its own internal structure and goals while at the same time working towards the necessary unity of the movement.

General Characteristics of the Arts and Crafts Production of MCCH

A brief description of this organization's arts and crafts products is given below. For those interested in a more detailed account of the merchandise, excellent catalogues are available and can be

requested by calling any of the telephone or fax numbers included at the end of this document.

Tapestries of the Salasacas

The Salasacas is an indigenous group from the Tungurahua region that has transformed textile mills into their current means of production. Originally these mills were used only for domestic production. Now, the Salasacas utilize these mills to convert lamb's wool and cotton thread into beautiful tapestries representing colorful scenes from their daily lives or fantastic characters and images from their mythology.

Wool Coats

In the provinces of Carchi, Imbabura, Pichincha, and Bolivar of southern and central Ecuador, as well as in the southern provinces of Cañar and Azuay, there are many women's groups that make handwoven wool sacks. Being an integral part of their daily lives, they combine this activity with their domestic labors. In this way, the knowledge of this tradition has been passed down from generation to generation. The 100% natural raw material used in this handicraft is wool sheared from sheep, llamas, and alpacas.

Textiles

MCCH has one of the most diverse arts and crafts textile industries. Women artisans put forth great effort to combine both art and economy in their attempt to produce beautiful and useful arts and crafts. These include macanas and sack clothes, needlework and clothing. The products are made by women groups from both rural and marginalized urban communities in the provinces of Pichincha, Imbabura, Azuay, and Esmeraldas.

Leather

Leather goods are produced by a women's group in Quito. They have mastered the skills and techniques of leather working, combining it with the production of macanas, tapestries, and other crafts. Ecuadorian leather is recognized for its quality, durability, and softness.

Carved Balsa

Balsa is a very soft and light tropical wood. Its relatively short growth cycle (3 to 5 years) allows for its rapid replenishment. This noble wood is good for carving and is used by the artisans of amazonian region of Pastaza. With this wood they make representations of the animals and creatures that are constantly present in their everyday life. Such animals as parrots, snakes, armadillos, and various reptiles are notable examples. Their work is a tribute to the beauty and abundance of the forests in which the indigenous live.

Wood Carving

San Antonio de Ibarra is a small community in the Imbabura province, situated high in the Ecuadorian Andes. The inhabitants of this community are known for

their wood carving skills. Wood from the walnut tree is both the specialty of the artisans and a very typical tree in the region. The planting and care for the trees are responsibilities that are taken on by the same artisans who utilize it in their crafts.

Amazonian Ceramics

Quichua women (Canelos-Quiijos) from the Amazonian region produce very delicate artworks of ceramic. This delicate work is the result of a very long process that maintains the magic and mysticism of Amazonian rituals. The pieces used by the artisans are painted with natural colorings obtained from local stones and minerals and the paintbrushes are made from the women's hair.

Basket Weaving

The indigenous community of Chachis is located in the northwestern province of Esmeralda. It is an ancestral ethnic community that includes as well a small black population that dates back to the times of Spanish dominance. The groups of women involved in this craft weave their baskets with the Piquigua and Chocolatilla vegetable fibres that grow in abundance amidst the thick Ecuadorian vegetation of the region.

Toquilla Straw

The arts and crafts made from toquilla straw are the result of an ancient technique of the indigenous that populate the coastal region of Manabi. This technique has become popular amongst the inhabitants of the Azuay and Cañar provinces. The women involved in this craft have to carefully select those straws that can best serve their purposes. These straws are then

painted and converted into attractive and colorful products. As well, the women produce the traditional Ecuadorian "sombros" that are famous world wide for their fine texture and high quality.

Jewelry

Filigree is an important activity of the Chordeleg community of the Azuay province. This delicate art is the product of many years of experience. There are many groups of artisans (both men and women) that have dedicated their lives to the making of this elaborate jewelry. The jewelry is made from both silver and tagua, a plant known as the "ivory vegetable" for its beauty and quality. The tagua plant comes from the region of Esmeraldas, a region known for its hair-bands of coconut bark. Earrings and buttons from Tiqua, in the province of Cotopaxi, are other famous products marketed by MCCH.

Musical Instruments

The andean and afro-american cultures of Ecuador have provided the artisans of this country with a rich source of ethnic musical instruments. Such instruments as Quenas, Sicuris, Rondadores, Conunos, Marimbas, Guasá are completely hand-made. Their sounds nostalgically evoke the landscapes of the indigenous from the Ecuadorian Altiplano and the warm, cheerful rhythms of the afro-american community.

Masapán

The zone of Calderón in the province of Pichincha is known for its mazapan figurines. The small and colorful figures are made from flour and rubber. The treat-

ment, molding, and conservation of these handicrafts are well-kept secrets amongst the artisans of this region. They produce everything from Christmas decorations to indigenous scenes.

It is difficult to describe in this document the wide array of additional products marketed by MCCH. A short list of the other well-made arts and crafts marketed by MCCH might provide the reader with a better idea of the range and diversity of the merchandise: the traditional Shigras of cabuya from the region of Chimborazo; comfortable and durable hammocks; printed and embroidered cards; educational toys made from wood; dolls wearing traditional costumes from the various regions; and a great deal of other hand-made traditional crafts. The marketing of these products is complemented by two fundamental aspects: the standardization of quality, and the adaptation to the requirements demanded of the products by the international markets. Laboratories are constantly at work developing new models and transforming the existing ones. These things are required so as to take care of all the necessary details of the marketing process.

Agriculture

So as to avoid massive migration to the cities and create a source of work for those living in rural communities, MCCH has been involved in the diversification of the agricultural sectors of these communities. At the same time, MCCH works towards increasing the value of the agricultural goods produced in the differing regions. Technical advice and quality and hygiene standards are characteristic of this

process. The agricultural goods are 100% natural and reflect the "tastes" of Ecuador. Principles of quality, improvement of techniques, and the continual adaptation to the market are applied to the following products:

- Brown Sugar
- Dehydrated mushrooms from pine trees
- Various flavored marmalades: pineapple, orange, apple, mulberry guava, and Chamburo
- Chocolates filled with various flavors
- Honey taffy with peanuts
- Coconut sweets with brown sugar
- A variety of cookies

All of these products are presented in a variety of packaging materials with attractive designs to call the attention of the consumer. As well, the packaging preserves the goods according to the highest standards of quality.

The following is a list telephone numbers and addresses of this organization:

MCCH Foundation

Barrio Turubamba

(in front of Aucas stadium)

Calles Moro Moro y Rumichaca, corner

Tel (593-2) 670 925 - 670 926 - 670 927 -
671 373 - 671 374

Fax (593-2) 673 366

P.O. Box: 17-19-00010 M.M., Quito

Contact: Homero Viteri. Administrative
Director

Store in Quito:

Juan León Mera y Robles, corner

Tel (593-2) 552 308

Store in Esmeraldas:

Av. Sucre

(between Rocafuerte and Juan Montalvo)

Tel (593-2) 711 091

XI. Lista de contactos clave

1) Co-operative organizations

Confederación de Cooperativas de Chile
(CONFECOOP)

Av. Bulnes 107 Oficina 73, Santiago

Phone: (562) 6951856

Fax: (562) 6951856

Confederación Nacional de Cooperativas
Campesinas de Chile (CAMPOCOOP)

Lira 220, Santiago

Phone: (562) 2221677

Fax: (562) 2221677

Federación de Cooperativas Agrícolas
Vitivinícolas de Chile (FECOVIT)

Agustinas 1022 Oficina 712, Santiago

Phone: (562) 2127845

Fax: (562) 2110462

Federación Chilena de Cooperativas de
Trabajo (FECOT)

San Ignacio 177 Dpto. F, Santiago

Phone: (562) 6985576

Fax: (562) 6985576

Federación Chilena de Cooperativas
Eléctricas (FECCEL)

San Antonio 220 Oficina 703, Santiago

Phone: (562) 6397555

Fax: (562) 6337161

Federación Nacional de Cooperativas
Lecheras de Chile (FENALECHE)

Ahumada 312 Oficina 807, Santiago

Phone: (562) 6714115

Fax: (562) 6714115

Federación Chilena de Cooperativas de
Ahorro y Crédito (FECRECOOP)

Olivares 1492, Santiago

Phone: (562) 6961373

Fax: (562) 6972581

2) Government agencies

Ministerio de Economía Reconstrucción y
Fomento

Departamento de Cooperativas

Teatinos 120 Piso 11 Oficina 10, Santiago

Phone: (562) 6725522

Fax: (562) 6726040

Comité de Inversión Extranjera - Oficina
Santiago

Teatinos 120 Piso 10, Santiago

Phone: (562) 6984254

Fax: (562) 6989476

Comité de Inversión Extranjera - Oficina
New York

One World Trade Center, Suite 5151

New York, NY 10048

Phone: (212) 9380555

Fax: (212) 9380568



Comité de Inversión Extranjera - Oficina
Tokyo
Shin Kokusai Building No. 730
4-1 Marunouchi 3 - Chome
Chiyoda-ku, Tokyo 100
Phone: (03) 2178945
Fax: (03) 2871947

Comité de Inversión Extranjera - Oficina
Zurich
c/o UNIDO - IPS
Lowenstrasse 1, CH-0081, Switzerland
Phone: (411) 2212320
Fax: (411) 2114180

Dirección General de Relaciones
Económicas Internacionales (PROCHILE)
Avenida Libertador Bernardo O'Higgins
1315 Piso 2, Santiago
Phone: (562) 6960043 / 6994111
Fax: (562) 6960639

Ministerio de Hacienda
Teatinos 120, Santiago
Phone/Fax: (562) 6989191

Ministerio de Relaciones Exteriores
Morandé 441, Santiago
Phone/Fax: (562) 6982501

Ministerio de Planificación y Cooperación
(MIDEPLAN)
Paseo Ahumada 48, Santiago
Phone/Fax: (562) 6722033

3) Business chambers and associations

Asociación de Bancos e Instituciones
Financieras de Chile A.G.
Paseo Ahumada 179 Piso 12, Santiago
Phone: (562) 6717149
Fax: (562) 6988945

Asociación de Exportadores de Chile A.G.
Cruz del Sur 133 Piso 2, Santiago
Phone: (562) 2066604
Fax: (562) 2064163

Cámara de Comercio de Santiago A.G.
Santa Lucía 302, Santiago
Phone: (562) 6321232
Fax: (562) 6333395

4) Bi-National chambers of commerce and commercial offices

Cámara Chilena Belga de Comercio A.G.
Avenida Providencia 2594 Oficina 312,
Santiago
Phone/Fax: (562) 2311835

Cámara Chilena Norteamericana de
Comercio A.G.
Zurich 221 Oficina 11, Santiago
Phone/Fax: (562) 2343800

Cámara Chileno Alemana de Industria y
Comercio A.G.
Avenida El Bosque Norte 0440 Oficina
601, Santiago

Phone: (562) 2035320

Fax: (562) 2035325

Cámara Chileno Argentina de Comercio
A.G.

Agustinas 1022 Oficina 530, Santiago

Phone/Fax: (562) 6722071

Cámara Chileno Británica de Comercio
Avenida Suecia 155-C, Santiago

Phone/Fax: (562) 2314366

Cámara Chileno Israelí de Industria y
Comercio

Moneda 772 Oficina 212

Phone/Fax: (562) 6399336

Cámara Chileno Japonesa de Comercio e
Industria

Alcántara 772, Santiago

Phone/Fax: (562) 2087950

Cámara Chileno Peruana de Comercio

Lota 2267 Oficina 203, Santiago

Phone/Fax: (562) 2321152

Cámara Chileno Sudafricana de Comercio

José Miguel de la Barra 430 Oficina 61,
Santiago

Phone/Fax: (562) 6381606

Cámara Chileno Suiza de Comercio A.G.

Estado 10 Piso 15, Santiago

Phone/Fax: (562) 6338391

Cámara Chileno Uruguaya de Comercio

Avenida Pedro de Valdivia 711, Santiago

Phone/Fax: (562) 2258211

Cámara de Comercio de los Estados Unidos
de América en Chile

Avenida Américo Vespucio Sur 80 Piso 9,
Santiago

Phone: (562) 2083451

Fax: (562) 2086830

Cámara de Comercio Francesa

Avenida Providencia 2550 Piso 5, Santiago

Phone/Fax: (562) 2321775

Cámara de Comercio Franco Chilena

Marchant Pereira 201 Oficina 701

Phone/Fax: (562) 2255545 / 2255547

Cámara de Comercio Italiana de Chile A.G.

Avenida Luis Thayer Ojeda 073 Piso 12,
Santiago

Phone: (562) 2322618

Fax: (562) 2230973

Cámara Oficial Española de Comercio de
Chile A.G.

Carmen Silva 2306, Santiago

Phone: (562) 2330958

Fax: (562) 2337480

Embajada Argentina - Consejería
Económica

Miraflores 285, Santiago

Phone: (562) 6333785 / 6393653

Embajada de Brasil - Sector Comercial

Alonso Ovalle 1665, Santiago

Phone: (562) 6968622 / 6723869

Embajada de Canadá - Sector Comercial

Paseo Ahumada 11 Piso 10, Santiago

Phone: (562) 6962256

Fax: (562) 6960738



Embajada de Colombia
La Gioconda 4317, Santiago
Phone: (562) 2061314
Fax: (562) 2087007

Embajada de Costa Rica
Padre Mariano 103 Oficina 403, Santiago
Phone: (562) 2351869
Fax: (562) 2351326

Embajada de España - Oficina Comercial
Merced 186 Oficina 21, Santiago
Phone/Fax: (562) 6334513

Embajada de Estados Unidos de América -
Departamento de Comercio
Andrés Bello 2800, Santiago
Phone: (526) 3303705
Fax: (526) 3303710

Embajada de la Federación de Rusia -
Representación Comercial
Callao 3874, Santiago
Phone: (526) 2283931

Embajada de Finlandia - Departamento
Comercial
Monseñor Nuncio Sótero Sanz de Villalba
55 Oficina 71, Santiago
Phone: (562) 2336362
Fax: (562) 2336390

Embajada de Francia - Servicios
Comerciales
Carmencita 79, Santiago
Phone: (562) 2328888

Embajada de Italia - Oficina Comercial
Clemente Fabres 1050, Santiago
Phone: (562) 2040832
Fax: (562) 2232467

Instituto Italiano de Comercio Exterior
Avenida Providencia 2653 Torre A Oficina
1201, Santiago
Phone: (562) 2317300
Fax: (562) 2316683

Embajada de México
San Sebastián 2839 Piso 6, Santiago
Phone: (562) 2311054
Fax: (562) 2332500

Embajada de Perú - Departamento
Económico Comercial
Andrés Bello 1751, Santiago
Phone: (562) 2352356
Fax: (562) 2352053

Embajada de Polonia - Consejería
Comercial
Mar del Plata 2055, Santiago
Phone/Fax: (562) 2049332

Embajada de la República Popular China -
Oficina Comercial
Avenida Pedro de Valdivia 550, Santiago
Phone: (562) 2339886

Cancillería de Suecia
Avenida 11 de Septiembre 2353 Torre San
Ramón Piso 4, Santiago
Phone/Fax: (562) 2312733

Dear reader:

In order to obtain feedback about our program "Doing business with the co-operatives from Latin America", we want to know your opinion and your interest about the document that you just read. Please fill out the form and send it to our address (see below).

1. We have and are preparing guides about the following countries. Mark with an "x" the countries that you'd like to receive the correspondent guide:

- | | | | |
|--------------------------------------|------------------------------------|------------------------------------|----------------------------------|
| <input type="checkbox"/> Costa Rica | <input type="checkbox"/> Guatemala | <input type="checkbox"/> Argentina | <input type="checkbox"/> Perú |
| <input type="checkbox"/> El Salvador | <input type="checkbox"/> México | <input type="checkbox"/> Uruguay | <input type="checkbox"/> Bolivia |
| <input type="checkbox"/> Nicaragua | <input type="checkbox"/> Colombia | <input type="checkbox"/> Paraguay | <input type="checkbox"/> Ecuador |

2. Would you like to obtain a guide from another Latin American country not included above? If so, what country?

3. What topics not included in this issue would you like to read in future publications?

- Directory about information and co-operative commercial activities.
- "Who is who" in co-operative sector of each country.
- Other financial and production data about co-operatives.
- More "Case studies" about success co-operatives.
- Another topics (explain) _____

4. How did you get this guide?

5. Your personal data:

Name: _____ Mail address: _____
Zip code: _____ Country: _____ Fax: _____

Please send us the information requested to the following address:



International Co-operative Alliance
Regional Office ROAM
P.O. Box: 8-6310-1000
San José, Costa Rica





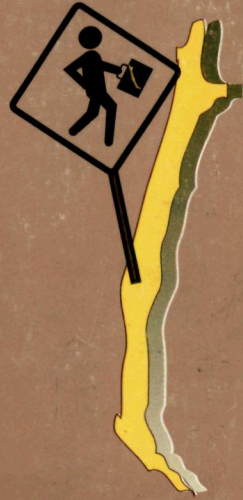
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S-104 25 Stockholm

Tel +46 (0)8 657 47 00
Fax +46 (0)8 657 85 15
E-mail swecoop@pns.apc.org

DOING BUSINESS WITH THE CO-OPERATIVES FROM CHILE



The document that you have in your hands is intended to be a practical guide for investor, businessmen and co-operatives interested in learning more about investment options in Chile, especially the numerous opportunities found in the co-operative sectors of this country.

Among the topics and information included in this manual of opportunities:

- * The most important advantages of beginning relations with Chilean co-operatives
- * An overview of the economy, incentives and benefits oriented towards the promotion of investment and exports, as well as the most relevant commercial accords.
- * Profiles of the most dynamic sectors and the opportunities with related co-operatives
- * How to do business with co-operatives: and explanation of potential modalities
- * Case studies: examples about business opportunities with co-operatives
- * General information about Chile:
 - History
 - Population and standar of living
 - Geography and climates
 - Infraestructure
- * A summary of the financial/banking system, and the opportunities with related co-operatives
- * A summary of the tax system, including the fiscal advantages of co-operatives
- * A summary of Chilean labor law
- * A summary of the political and legal systems of Chile
- * A list of key contacts for doing business with the co-operatives in Chile