

PD-AAA-791-A1

5190153 (3)

~~519-0153~~



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY
SAN SALVADOR, EL SALVADOR, C. A.

519-153

? What Proj

July 14, 1977

5190153006801

TO: Mr. Marshall Brown, LA/DR
FROM: Edwin A. Anderson, DOM *ce*
SUBJECT: Loan Completion Review Report

Enclosed please find the Loan Completion Review Report for loan 519-L-016.

w/enc.
c.c.: H. Bassford, LA/DR

EL SALVADOR

LOAN COMPLETION REVIEW: A.I.D. Loan 519-L-016 - Credit Union Development

I. Achievement of Loan Purpose

A.I.D. Loan No. 519-L-016 (the Loan) to the Federación de Cooperativas de Ahorro y Crédito de El Salvador (FEDECACES) (the Borrower) was executed on October 15, 1970. The Loan was made to assist the Borrower in financing sub-loans to "Eligible Unions" for the following purposes: a) relending for fixed and working capital loans to small farmers, artisans, industries and commercial enterprises; b) relending for personal loans; and c) financing improvements in the offices, equipment or management of the eligible unions themselves.)

The original Terminal Commitment and Disbursement Dates were December 31, 1973 and June 30, 1974, respectively. However, these dates were extended to April 30, 1975 and June 30, 1975. The authorized Loan amount was \$2,000,000 and the total amount was disbursed by July 16, 1975. \$817,912 was provided for production loans; \$1,140,566 for consumption loans; and \$41,522 for goods and services.

The purpose of the Loan was to assist in (financing local currency costs of sub-loans by FEDECACES to member unions and thereby to assist in the development of a self-sustaining private cooperative federation.) The Loan was to involve large numbers of persons in the development, organization and administration of free voluntary associations; to provide seed-capital to accelerate the development and reorientation of an existing private federation of credit unions and to help it become self-sustaining; to make credit available to rural dwellers ordinarily without access to credit; and to establish a system for the formation of capital to add to and complement present credit resources.

In order to assess the achievement of its purpose, two audits of the Project were performed: one by the Area Auditor General in December 1970, and another in January 1974 covering the period from November 1, 1970 to October 31, 1973 (No. 1-519-74-45). In addition, an independent team (Salas/Santos) performed a study of FEDECACES' capability, as did the Regional Financial Analyst (RFA) in ROCAP. These evaluations found that the baseline data in the Capital Assistance Paper (CAP) had been erroneous and overstated, and they provided USAID/ES with more realistic and accurate benchmarks against which to measure FEDECACES viability and progress.

The loan to FEDECACES has been relatively successful in achieving its purpose, even if not to the extent originally anticipated in the CAP. The purpose of "lending to eligible cooperatives" is being met as evidenced by the fact that in 1975 a total of \$3,272,342 was disbursed for the various cooperatives considered eligible. Furthermore, FEDECACES

has operated at profit for the last 2 years and has projected that its financial viability will continue even after it begins to repay the AID Loan. The Mission believes that the latter is a reasonable expectation in view of the results of the RFA and the Salas/Santos evaluations.

II. Eliminated Conditions and Covenants

Upon termination of the Project, the following conditions and covenants, which were written into the Loan Agreement to insure completion according to A.I.D. criteria, became unnecessary and are to be eliminated from the Mission's monitoring scope:

A. Under Article III, Conditions Precedent to Disbursement, all sections including:

- i) Section 3.01 Conditions Precedent to Initial Disbursement, including sub-sections (a), (b), (c), (d), (e), and (f);
- ii) Section 3.02 Conditions Precedent to Disbursement of More than \$750,000; and
- iii) Section 3.03 Conditions Precedent to Disbursement for Technical Services.

The Borrower fulfilled the requirements of Sections 3.01 as stated in Implementation Letter No. 2, Section 3.02 as stated in Implementation Letter No. 8, and Section 3.03 as stated in Implementation Letter No. 13.

B. Under Article IV, General Covenants and Warranties, the following covenants and sections:

- i) Section 4.01 Execution of the Project, including (a) and (b);
- ii) Section 4.04 Management;
- iii) Section 4.06 Utilization of Goods and Services, including (a) and (b);
- iv) Section 4.08 Commissions, Fees and Other Payments, including (a) and (b); and
- v) Section 4.10 Reports.

The Borrower has complied with the terms of the above sections of the Loan Agreement.

C. Under Article V, Special Covenants and Warranties, the following section:

- i) Section 5.01 Covenants, including (a) through (r).

The Borrower has complied with the terms of the above section of the Loan Agreement.

D. Under Article VI, Procurement, all covenants and sections including:

- i) Section 6.01 Procurement from Other Western Hemisphere Countries;
- ii) Section 6.02 Procurement from Member Countries;
- iii) Section 6.03 Eligibility Date;
- iv) Section 6.04 Goods and Services Not Financed Under Loan;
- v) Section 6.05 Reasonable Price;
- vi) Section 6.06 Shipping and Insurance, including (a), (b), and (c);
- vii) Section 6.07 Notification to Potential Suppliers; and
- viii) Section 6.08 Information and Marking.

The above covenants and sections are to be eliminated since all Project-related procurement has been completed.

III. Monitored Covenants

The Mission will continue to monitor the following covenants to ensure that the execution of the Project continues in an acceptable fashion:

- A. Section 4.02 Funds and Other Resources to be Provided by Borrower. The Borrower shall provide promptly all funds and other resources required for the punctual and effective carrying out of the Project, and shall endeavor to cause its share capital and that of its member credit unions to grow as rapidly as feasible. Monitoring of these provisions will be continued by the Mission Controller's and Capital Resources Development Office.

- B. Section 4.05 Taxation. The Borrower shall pay all identifiable taxes and fees imposed by Salvadoran law and will reimburse contractors or commodity procurement transactions not exempt from such taxes, with other than Loan funds. Reports in response to this covenant will be monitored by the Office of the Controller when received by the Mission.
- C. Section 4.07 Disclosure of Material Facts and Circumstances. The Borrower shall promptly inform A.I.D. of any facts and circumstances that may hereafter arise that might materially affect, or that is reasonable to believe might materially affect the Project or the discharge of the Borrower's obligations under this agreement. Reports in response to this covenant will be monitored by the Office of the Controller when received by the Mission.

IV. Other Retained Covenants

The remaining covenants grant rights to A.I.D. and will therefore be retained. However, they require no specific monitoring by the Mission. These covenants include the following:

- A. Section 4.03 Continuing Consultation. The Borrower and A.I.D. agree to cooperate fully to insure that the purpose of the Loan will be accomplished. This part of the covenant is maintained in the eventuality that future discussions between the Borrower and A.I.D. regarding the Project are necessary.
- B. Section 4.09 Maintenance and Audit of Records. The Borrower and its member credit unions shall maintain books and records relating to the Project that will show: a) receipt and use made of goods and services; b) nature and extent of suppliers of goods; c) status of all sub-loans; and d) progress of the Project. These records shall be maintained for five years after the date of the last Loan disbursement (i.e. until 7/16/80) or until all sums due A.I.D. are paid, whichever shall first occur.

C. Section 4.11 Inspections. A.I.D. has the right to inspect the Project and all records, documents, goods and services associated with it.