526-802

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AID 1020-25 (10-70)

REPORT U-446

PAGE 1 PD-AAB-359-A

PROJECT APPRAISAL REPORT (PAR)

1. PROJECT NO.	2. PAR FOR PERIOD:	3. COUNTRY	4. PAR SERIAL NO.
5260802 526-24-920-063	7/1/74 TO 12/31/75	PARAGUAY	76-4 Sp.

5. PROJECT TITLE

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (COMDESA) - AID Loan No. 526-L-025

6. PROJECT DURATION: Began FY 1974 Ends FY 1976	7. DATE LATEST PROP	8. DATE LATEST PIP	9. DATE PRIOR PAR
	-	-	1/14/75

10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: $5,600,000	b. Current FY Estimated Budget: $ -	c. Estimated Budget to completion After Current FY: $ -

11. KEY ACTION AGENTS (Contractor, Participating Agency or Voluntary Agency)

a. NAME	b. CONTRACT, PASA OR VOL. AG. NO.

I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION (X) USAID	AID/W	HOST	B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
X			1. Write a letter instructing COMDESA to discontinue financing livestock production after all pending requests received as of 1/31/76 are processed.	March 31, 1976
X			2. COMDESA will be reminded that the amount of $50,000 is available only for small enterprise projects.	Open
X		X	3. COMDESA should prepare a long-term financial projection.	March 31, 1976

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D. REPLANNING REQUIRES REVISED OR NEW: ☐ PROP ☐ PIP ☐ PRO AG ☐ PIO/T ☐ PIO/C ☐ PIO/P

E. DATE OF MISSION REVIEW: 30 January 1976

PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE: Henry L. Miles

MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE: Oliver L. Sause

EVALUATION SUMMARY REPORT

AID Loan No.526-L-025

COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (COMDESA)

For the Period July 1, 1974 through December 31, 1975

A. PROJECT BACKGROUND

COMDESA was established in August 1970 under AID's sponsorship with an initial loan of $2.6 million (L-019). The rest of its capital was obtained from a GOP Loan of $0.4 million, and $1.0 million from private sources. COMDESA demonstrated its ability to build up a sound portfolio and when the first loan was fully committed, a second loan was made to provide additional resources to expand COMDESA's lending capability. The second loan for $3.0 million was signed in August 1973, and is the subject of this report.

B. PERFORMANCE EVALUATION

The capital assistance paper for loan 526-L-025 was prepared in May, 1973, before the logical framework methodology became mandatory for capital projects. Therefore, targets for planning levels have not been properly established. The first evaluation, which covered the period July 1973 through 6/30/74 was performed in November 1974, following the standard framework for evaluation of A.I.D. assisted development banks in Latin America contained in the CAP. No attempt was made at that time to fit the project into the logical framework matrix. During the present review, since the project is now nearing completion, it was decided to use evaluative elements already available, in order to assess progress against the general objectives listed in Annex A of the Loan Agreement and to measure performance utilizing the goals expressed in the AID M.O. on development banks. In addition, for reporting purposes, a purpose and goal statement have been extracted from the CAP.

C. THE PROJECT PURPOSE

Assistance provided under the second loan was to provide COMDESA with additional resources to continue its lending and financing activities, and to sustain its expanded development banking role. The following conditions were planned to exist when the project had achieved its purpose:

1. Consolidation of COMDESA as a sound financial institution able to provide development as opposed to collateral financing to the private sector.

2. COMDESA investment promotion and technical assistance to its clients.

3. Increased domestic savings for productive enterprises, both directly in sub-projects and through private financial participation in COMDESA.

4. COMDESA providing medium and long term development credit needs to private sector of Paraguayan economy.

Although not specifically stated in the project's planning document, the most critical assumptions underlying achievement of project purpose are:

1. No serious collection problems. Delinquency, if any, will be of short duration,

2. COMDESA would contract sufficient personnel and provide them with adequate training,

3. COMDESA would be able mobilize domestic savings, and

4. COMDESA would be willing to operate as a development bank.

D. PROGRESS TOWARDS ACHIEVEMENT OF PURPOSE

A sharp unexpected drop in foreign demand for Paraguay's basic export items during the last year has caused a sudden decline in domestic activities oriented toward external markets. The slump has affected mainly the production of beef and lumber, the two activities to which COMDESA has directed a significant portion of its lending operations. The effect of this is that, in spite of its efforts, COMDESA is now experiencing difficulty in the collection of subloans. As of December 31, 1975, delinquent accounts amounted to the equivalent of $232,350. In addition, COMDESA has extended other delinquent loans in the total amount of $108,300.

Although all delinquent accounts are covered by sufficient collateral and the risk to COMDESA is minimal, the slow recuperation of loans might influence heavily future operations since it reduces funds available for new loans. During the next two or three months COMDESA will utilize fully A.I.D. loan funds and will, from that date on, operate with rollover funds and with its own capital. It is unrealistic to believe that COMDESA might be able to achieve a substantial increase in its paid-in capital. Therefore, the question whether COMDESA will be able to maintain an adequate level of subleending has become a critical issue during this evaluation. COMDESA agreed to prepare a long-term financial projection which will provide more conclusive data on its financial outlook (See action No. 3).

During the period of this evaluation COMDESA continued to respond remarkably well in helping to meet medium and long term development credit needs of private sector borrowers which account for 92% of the total value of loans granted.

One area of concern has been the sharp reduction in the number of loans to small firms. Conversely, the flow of loans to very large firms (with assets above $400,000) has increased considerably, amounting to 62% of the total value of loans granted during this period.

The planning documents do not establish specific targets for the percentage of funds that should flow to the small and medium sized industry, although the financing of projects which foster income redistribution and generate employment was listed as one of the priority activities under the second loan. Annex I of the Loan Agreement established that up to $200,000 (later reduced to $100,000) will be used to finance small enterprise projects through selected channels approved by A.I.D.

During this period COMDESA has granted only two loans to small enterprises (with assets less than $24,000) representing only 1% of the total value of loans granted.

Without exception, COMDESA performs a rough analysis of the viability of subproject proposals received. Although the quality of the analysis has improved when compared

with those performed under the first loan, it appears that collateral is the major element considered in awarding subloans.

It was assumed that COMDESA's customers would demand pre-investment studies and technical assistance in planning and administration. The loan agreement provided up to $300,000 for sublending in these two areas. This assumption has not proven to be valid. Local entrepreneurs have not requested loans for these types of studies and COMDESA has always found it difficult to place loans for these services. The $300,000 special fund was never established, and on October 31, 1975 the Mission reduced the level of the fund to $100,000. During this evaluation COMDESA requested that the requirement for this fund be dropped and the Mission agreed.

E. THE PROJECT GOAL

The goal of the project is to contribute to Paraguay's development by stimulating the growth of the private productive sector. No explicit goal targets were originally formulated for this project. Therefore, our attempt to measure the contribution of the project toward achievement of the goal was confined to an appraisal of the extent and effectiveness of COMDESA in financing those priority activities within the private sector which are likely to have a direct beneficial influence on Paraguayan economic development. These priority areas were listed in the CAP as follows:

1. production for export
2. processing of Paraguayan agricultural, mineral and forest production
3. processing, marketing and distribution of foodstuffs
4. employment opportunity and income distribution.

F. PROGRESS TOWARD GOAL ACHIEVEMENT

We concluded during this evaluation that in general COMDESA's operations were consistent with the development priorities of the Paraguayan economy, and that COMDESA has contributed effectively to supporting the productive growth of the private sectors.

Lending activities were generally directed toward the priority areas listed in the loan agreement. From a total of 72 subloans granted during this period, 39 were for projects producing for export and 24 were for activities involving the processing of agricultural, mineral and forest products. A shortfall has been noticed in the area of processing, marketing and distribution of foodstuffs, where COMDESA has made only three subloans. It should be recognized, however, that there are not many opportunities within this area, mainly due to the uncertainity of the small internal market which is constantly flooded with contraband imports from neighboring countries. In addition, COMDESA has not dedicated much effort toward the identification of new activities. It has relied more on individual entrepreneurs to develop projects and submit them to COMDESA than on undertaking promotion activities.

Total sublending during this period by COMDESA was $3,171,865 which represents an average of 34% of the total value of $9,479,840 of the projects undertaken. Local banks contributed 16% and the remaining 50% represents the subborrowers own investment, either in cash or kind.

CONDESA helped create 729 new jobs and contributed to the establishment of 32 new activities.

Although CONDESA is doing well with regard to directing lending to priority areas, it has not diversified its portfolio well. Financing of sawmills and livestock activities accounts for 12 and 35 percent respectively of the value of loans made during the last 18 months. At present, CONDESA has discontinued new loans for livestock and sawmills.