

AIRGRAM
CONTINUATION

DEPARTMENT OF STATE

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AIRGRAM
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70-116-432-A1

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PROJECT EVALUATION SUMMARY
(Submit to MO/PAV after each project evaluation)

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1. Mission or AID/W Office Name USAID/PARAGUAY	2. Project Number 526-0107
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3. Project Title
RURAL ENTERPRISES LOAN (Loan 526-T-028)

4. Key project dates (Fiscal years)	5. Total U.S. funding life of project \$2,500,000
a. Project Agreement Signed 11/9/76	b. Final Obligation 3/9/80
	c. Final input Delivered

6. Evaluation number as listed in Eval. Schedule 78/3	7. Period covered by this evaluation From: 11/9/76 Month/Year	To: 4/30/77 Month/Year	8. Date of this Evaluation Review June 16, 1978 Month/Day/Year
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9. Action Decisions Reached at Evaluation Review, including items needing further study (Note: this list does not constitute an action requests to AID/W. Use telegrams, airgrams, SPARS, etc., for action)	10. Officer or Unit responsible for follow-up	11. Date action to be completed
a. Revise subproject selection criteria, including revised definition of eligible agroindustries, and revised definition of target group.	SDF - USAID/CDO	July 15, 1978
b. Revise Project Information Form (sub-project application)	SDF - USAID/CDO	July 15, 1978
c. Ensure that Evaluation Unit of SDF collect project progress data on a continuous basis.	SDF - USAID/CDO	December 31, 78
d. Send Implementation letter spelling out USAID role in approval procedures under the implementation of new criteria.	USAID/CDO	July 31, 1978
e. Develop realistic targets at all planning levels.	SDF - USAID/CDO-PO	July 31, 1978
f. Central Bank and USAID should discuss future project funding.	Central Bank Manager - USAID/Assist. Director	July 15, 1978

12. Signatures:

Project Officer	Mission or AID/W Office Director
Signature <i>Michael H. Hirsh</i>	Signature <i>A. M. Peña</i>
Typed Name Michael H. Hirsh	Typed Name A. M. Peña
Date Jun 27, 1978	Date 6/25/78

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13. SUMMARY

The project has been financing agroindustrial projects at a much faster rate than anticipated. However, due to the broadness of the subproject selection criteria included in the Loan Agreement, some of the subprojects have been found to be of a relatively low potential impact on the target group. The evaluation has also disclosed that some institutional aspects of the project have not developed as contemplated in the design of the project. The Special Development Fund Unit (SDF) at the Central Bank has not been staffed as planned, has not yet conducted the seminars for banks or set up formal coordination mechanisms with other government agencies, and has not engaged in field promotion activities. Based on the evaluation there is some question to what degree these activities should be pursued during the remainder of the project. Nevertheless the SDF has established a good rapport with the commercial banks and has been able to obtain a wide participation. Financing procedures have been found to be generally adequate, with bureaucracy held at a minimum.

14. EVALUATION METHODOLOGY

This evaluation was performed in accordance with the Mission's Annual Evaluation Schedule and constitutes the first review of the project. In view of the short life period of the project, the review concentrated on institutional aspects of the project such as the effectiveness of the counterpart organization at the Central Bank, participation of the private banking sector, the adequacy of the subproject selection criteria, and compliance with all the conditions and covenants set forth in the Project Agreement. The review was carried out by a team composed of the Director and Project Analyst of the Special Development Fund (SDF) of the Central Bank, the Mission Assistant Capital Development Officer (Project Manager), the Capital Development Office IDI, the Mission Evaluation Specialist, and the Administrative Assistant of the Capital Development Office. The work was reviewed by the Mission's Evaluation Officer and the Mission Director. Final evaluation review meetings were held with the Assistant Director and key staff of the SDF.

The evaluation work included collection and analysis of data relevant to project progress at all planning levels. Field visits were made to 11 of the 21 sub-projects financed as of the cut off date of this report. As most of them were still in their inception stage, the team concentrated on examining the end-use of loan funds and in reviewing the potential impact of the enterprises on the target group.

15. EXTERNAL FACTORS

There were no changes in host country circumstances, policies, and priorities that affected the progress of the project. All assumptions made at input, purpose, and goal levels have proved to be realistic and valid. There were two assumptions, however, made at the output level that have not proven to be true.

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It was assumed that the Central Bank and the commercial banks would be aggressive in their promotional efforts, and that the Central Bank would adequately staff the SDF. It was found that the SDF has not engaged in an aggressive promotional activity as planned in the project documents, fearing that by doing so it might be flooded with requests for rediscounts that it could hardly reject in view of the broadness of the selection criteria. Considering the rate at which subloan requests have generated, the aggressive promotional campaign envisaged in the project documents does not appear to be necessary. With regard to staffing, the SDF has only three professionals devoting full time to the project instead of the 5 contemplated in project paper. The Mission believes that SDF should establish an evaluation unit capable of assessing the impact of subprojects and has made its views known to the SDF. The Central Bank, however, believes that the present staff of SDF is adequate and is reluctant to increase it.

16. GOAL/SUBGOAL

The subgoal as stated in the logical framework is, "to relieve one or more of the identified farm level constraints to small farmers' income". Contribution towards the subgoal was not measured because most of the subprojects are still in the construction phase or have been in operation for less than two months. Moreover, no specific targets were established in the logical framework at this level. Therefore, the scope of the review was limited to a physical observation of certain subprojects and their locations in an effort to determine the potential for serving small farmers in their respective areas.

As of March 31, 1978, the SDF had approved for rediscount 21 subprojects.

Each project is directed to relieve one or more of the identified constraints to small farmers, as shown below:

<u>Number of Projects</u>	<u>Type of Activity</u>	<u>Constraints to be addressed</u>
2	Sugar cane mill	Stable and remunerative prices Incentive to increased land utilization
2	Manufacture of wooden boxes for fruits and vegetables	Stable and remunerative prices
1	Mint essence extraction	Stable and remunerative prices Create new markets
2	Processing of feed grains	Stable and remunerative prices
1	Fertilizer plant	Technology
2	Peanut oil press	Stable and remunerative prices Incentive to increased land utilization

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<u>Number Projects</u>	<u>Type of Activity</u>	<u>Constraints to be addressed</u>
1	Manufacture of horse drawn carts and storage sheds	Reduce marketing costs Stable and remunerative prices
1	Manufacture of agricultural implements	Technology
2	Wholesale storage facilities	Stable and remunerative prices
1	Land preparation services	Incentive to increased land utilization
1	Limestone plant (for use as soil amendment)	Technology
<u>5</u>	Silos	Stable and remunerative prices
21		

The application form for each subproject details just how the subproject will address the above constraints. In future evaluations a sample of these early subprojects will be visited and studied to determine the extent to which the constraints were actually addressed. One recommendation of this evaluation is that SDF collect on a continuing basis subproject progress data so that the impact of individual subprojects can be adequately measured.

One area of concern is the financing of grain silos, which seem to be of a relatively low impact on the target group. Silo financing accounts for about 40% of the funds rediscounted to date. The Mission believes that the selection criteria should be adjusted to allow financing only for subprojects with identifiable high impact on the target group.

The goal of the project, as stated in the logical framework, is, "to increase small farmer net income". Given the short life of the project, it is too early to attempt to measure any change in the income of small farmer beneficiaries. In later evaluations, the Mission and the SDF will attempt to determine the effects of specific subprojects on the incomes of beneficiaries.

17. PURPOSE

The purpose of the project as stated in the logical framework is to:
(1) promote the development of an agro-industrial infrastructure serving the small farm sector, and (2) establish an efficient rediscount mechanism for agroindustrial loans at the Central Bank.

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EOPS No. 1a. "All loan funds placed in rural agribusiness subprojects"

The cash flow projection contained in the PP estimated a total of \$500,000 in AID loan disbursements for the first year. However, as of March 31, 1978 (5 months after initiation of operations) the SDF has already financed projects that demanded a drawing against AID Loan funds of \$530,205.

EOPS No. 1b. "All subprojects serve the small farm subsector according to the preestablished selection criteria"

All the subprojects so far financed are in some way or another serving the small farmer. Some of them, however, are estimated to have a relatively low impact. The low impact is mainly due to the fact that many subprojects are located in areas of relatively low concentration of small farmers, i.e., colonization areas where land plots are usually more than 20 hectares. Also, the broadness of the subproject selection criteria enabled certain types of subprojects to be financed which may not have had as high an impact as other types. The Mission and the Central Bank have begun to revise the selection criteria so that more financing will be directed to subprojects in areas of high concentration of small farmers and which are of types which clearly are of high target group impact.

The Annex to the Project Agreement indicates that the Mission will have a period of two weeks to object to the financing of any particular subproject. The Mission, however, decided early in the implementation of the project to allow the SDF to have all responsibility for approving subprojects, with the Mission available for informal consultations in cases of doubt. The Mission now feels that it would be advisable for it to participate more closely in the approval process during the first stages of the implementation of the new selection criteria following this evaluation. Hence it will put into effect the procedure indicated in the Annex of the Project Agreement, at least for larger subprojects.

EOPS No. 2a. "SDF demonstrated capability to maintain its level of rediscounting"

With the heavy demand for financing of agroindustrial subprojects, the SDF will not be able to maintain its present level of disbursements after the AID loan funds are exhausted, unless the Central Bank decides to increase its contribution for capitalization of the SDF. The cash flow projection included in the PP assumed a three year disbursement period for AID funds. Should these funds be utilized in a shorter period, the reflows will be insufficient to cover the demand for funds in the subsequent years, and the Central Bank will be committed to seek additional funding in order to maintain the present level of its portfolio. The Mission has expressed its concerns to the Central Bank.

EOPS No. 2b. "A system of subproject identification and promotion established and functioning effectively"

The SDF has not engaged in any significant promotional effort and has made little

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progress towards establishing a subproject identification system. Because of the heavy demand for financing of subprojects, including ones of high impact, the SDF is reluctant to undertake large scale promotional activities at this time, and the Mission believes that at this time the issue should not be pursued.

In summary, the project has had mixed success in meeting its purpose. An efficient rediscount mechanism has been established within the Central Bank to finance agro-industrial activities. There has been good participation among the private banks and a good working relationship established between the banks and the SDF. On the other hand, the project has not been as successful as was anticipated in forming an agroindustrial infrastructure which addresses the constraints of the small farmer. A number of subprojects of lower positive impact than desired have evidently been financed, and the resources available in the program have proved not to be nearly adequate to address the needs existing in the sector. If the subproject selection criteria can be adequately modified and if the Central Bank will put additional financial and human resources into the SDF, the project will have a good chance of meeting its long-term institutional objectives.

18. INPUTS

AID inputs as set forth in the Loan Agreement consisted of \$2,500,000 of loan funds for capitalization of the SDF. The Central Bank committed to contribute amounts of not less than \$500,000 to capitalize SDF and \$350,000 for the operating costs of SDF. The Central Bank has allocated these amounts for use by the SDF. The \$500,000 has been used to finance subprojects against which AID reimburses the Bank so that each subproject is actually financed on a 5:1 pari passu basis. The operating expenses of the SDF are being financed from the \$350,000. However, the Central Bank on a number of occasions has seemed reluctant to undertake activities which should be taking place under the project (e.g., field visits, hiring of additional staff) evidently because of a desire to keep operating expenses at a minimum. Operating costs incurred by the SDF since project inception amount to \$101,500.

In terms of quantitative outputs, SDF has largely exceeded all planned targets, as can be seen in the table below:

	Actual after 5 Months of Operations	Planned for first Year
1) Total number of Projects	21	4
2) Total investment in 21 subprojects approved by Central Bank	\$3,219,164	
3) Total owners' contribution	1,329,045	
4) Total value of subloans made by operating banks	1,890,119	

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	Actual after 5 Months of Operations	Planned for first Year
5) Total value of rediscounts approved by Central Bank	\$1,134,071	600,000
6) Amount of item 5 disbursed by Central Bank	885,500	
7) Amount of item 5 to be financed with AID's loan funds	945,000	
8) Amount of item 5 to be financed by Central Bank	189,071	
9) Average amount of rediscounts	54,003	
10) Number of new subloans in process	7	12
11) New jobs created by 21 subprojects	244	
12) Estimated small farmers to benefit from subprojects, directly and indirectly	20,398	

19. UNPLANNED EFFECTS

No unplanned effects attributable to project impact have been noted during this evaluation.

20. CHANGES IN DESIGN OR EXECUTION

The main modification proposed in this evaluation is the modification of the sub-project selection criteria which are the key element to ensure the financing of high impact subprojects. After 5 months of operations and after reviewing 21 sub-projects, both the Mission and SDF have found that the selection criteria are too broad and lack precision as to the types of desirable subprojects to be financed. Only recently the Mission issued an implementation letter requiring some quantification of the benefits to the small farmers resulting from the subprojects, which should provide some help in restricting financing of low impact subprojects. A refinement of the selection criteria will be studied by the Mission and the Central Bank to direct the project towards a more precise, and if possible verifiable beneficiary.