519-0263
PD-AAM-845

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete) — Amendment Number: 3 — DOCUMENT CODE: 3

COUNTRY/ENTITY: EL SALVADOR

3. PROJECT NUMBER: 519-0263

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Agrarian Reform Credit

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 84

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 80 B. Quarter 3 C. Final FY 84

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	380	9620	10,000	5,810	47,915	53,725
(Grant)	(380)	(120)	(500)	(1,595)	(30)	(1,625)
(Loan)	( )	( )	(9,500)	(4,215)	(47,885)	(52,100)
Other U.S. 1.						
Other U.S. 2.						
Host Country	-	3,500	3,500	-	23,300	23,300
Other Donor(s)	-	-	-	-	-	-
TOTALS	380	13,120	13,500	5,810	71,215	77,025

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1)	230	030	044	1,125	28,100	500	24,000	1,625	52,100
(2)									
(3)									
(4)									
TOTALS				1,125	28,100	500	24,000	1,625	52,100

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 055 | 011 | 031

11. SECONDARY PURPOSE CODE: 130

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	R	COOP	FOTY	PART
B. Amount	53,725	49,250	49,250	49,250

13. PROJECT PURPOSE (maximum 480 characters)

To increase the availability of agricultural credit to Phase I and Decree 207 agrarian reform beneficiaries as well as other small farmers who are clients of the Agricultural Development Bank (BFA) and to improve the capability of the BFA to provide such credit.

14. SCHEDULED EVALUATIONS: Interim MM YY MM YY; Final MM 01 YY 84

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [X] 941 [ ] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 72 page PP amendment)

To increase Development Loan Assistance by $24 million for: 1) Capitalization of the Integral Credit Line in the BFA to serve Phase I and Decree 207 agrarian reform beneficiaries and other small farmers ($23.30 million) and 2) procurement of hardware, software and system support for an upgraded computer facility in the BFA ($700,000); and to increase Grant Development Assistance by $500,000 for technical assistance to the BFA.

17. APPROVED BY
Signature:
Title: Martin V. Dagata, Director
Date Signed: MM 03 DD 29 YY 83

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

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A. Logical Framework

B. Statutory Checklist

C. Borrower Request for Assistance

D. 611(e) Certification

E. Guidance Cable

F. Original Authorization and Amendment No. 1 and No. 2

G. Operational Procedures for BFA Integral Line of Credit

H. Draft Project Authorization for Supplement

I. BFA Financial Tables

Unattached:

J. Análisis Institucional del Banco de Desarrollo Agropecuario de El Salvador, 9 de Noviembre de 1982, by Servicios Técnicos del Caribe, STC.

K. Evaluación del Banco de Fomento Agropecuario de El Salvador, 15 de Noviembre de 1982, by Contracting Corporation of America, CCA.

L. The Socio-Economic Profile of the Decree 207 Beneficiary Population, December 1982, by the Office of Planning and Evaluation of the Agrarian Reform, PERA, in MAG.

M. Agrarian Reform in El Salvador February 1983, by Mike Wise

N. Agrarian Reform in El Salvador, Process and Progress, February 1983, by the Office of Planning and Evaluation of the Agrarian Reform, PERA, in MAG.

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I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

USAID/El Salvador recommends approval and authorization of a $24 million increase in Loan Funds and a $500,000 increase in Grant Funds for a third supplement to the Agrarian Reform Credit Project. The Project was authorized June 28, 1980, at the level of $9.5 million of Development Loan, $500,000 of Development Grant funds, and $3.5 million of GOES counterpart contribution. The authorization was amended on June 11, 1981, to increase Development Loan assistance by $1.6 million, and again on December 30, 1981 to increase Development Loan Assistance by $17 million, Development Grant Assistance by $625,000, and GOES counterpart contribution by $6.8 million. Total Life of Project Cost thus stands at $39.525 million (GOES: $10.3 M; A.I.D.: (L) $28.1 M; (G) $1.125 M). With the present supplemental assistance and an additional GOES counterpart contribution of $13.0 million, the authorized Life of Project cost will total $77.025 million (GOES: $23.3 M; A.I.D.: (L) $52.1 M; (G) $1.625 M).

USAID/El Salvador further recommends that the authorized Project Assistance Completion Date (PACD) be extended from December 31, 1983 to December 31, 1984.

Also, USAID/El Salvador recommends that, due to the continuing economic crisis resulting from prolonged civil strife in El Salvador, the Loan be authorized under the most concessional lending terms, i.e. that the Government of El Salvador should repay the loan to A.I.D. in United States Dollars within 40 years from the date of first loan disbursement, including a grace period of not to exceed ten years, and that the rate of interest be 2% during the grace period and 3% thereafter.

B. Borrower/Grantee

The Government of El Salvador will continue to be the Borrower/Grantee. The major implementing agency will continue to be the Agricultural Development Bank (BFA). The GOES will use the A.I.D. loan to provide a capital contribution to the BFA for the purposes described below.

C. Project Supplement Summary

The Project is designed to maintain agricultural production and earnings by responding to the need for agricultural credit, its timely delivery, and its effective use in the agrarian reform and traditional small farm sectors. To this end, the Project's purpose is two-fold: to increase the availability of credit to the agrarian reform sector and small farmers who are clients of the BFA and to improve the capacity of the BFA to deliver such credit.

The assistance provided by this supplement will be used to provide the BFA with additional financial resources to meet the credit needs of the agrarian reform beneficiaries and other small farmers clients of the BFA. At the same time, the BFA will continue to reorganize both its management structure and institutional strategy toward increased responsibility to and support of field level operations. This strategy will be realized through the completion of a management reorganization, installation of an improved financial records and reporting system, and increased support, both operational budget funding and personnel staffing levels, to the field agencies and to key centrally located units. The BFA will work closely with ISTA to: 1) improve management at the farm level; and 2) develop and implement realistic financial plans for the cooperative farms. Technical assistance will be provided to the BFA to attack specific financial, personnel and management problems identified in recent evaluations of BFA performance. In addition, continued support will be provided for the Integrated Pest Management activity.

In summary, Supplemental Assistance includes $24 million in Development Loan funds, which will be used to: 1) further capitalize an Integral Credit Line established in the BFA for integrated lending to agrarian reform beneficiaries and other small farmers ($23.3 M), and 2) finance the procurement of a computer system and the necessary installation and training for the BFA ($700,000). To further strengthen BFA effectiveness in credit delivery and supervision, the Project Supplement includes $500,000 of Development Grant funds for an additional 60 person/months of technical assistance in the areas of auditing (12 p.m.), credit collections (12 p.m.), data processing (10 p.m.), organization and methods (9 p.m.), farm credit (5 p.m.), manpower development (4 p.m.) accounting (4.75 p.m.) and financial analysis (3.25 p.m.).

GOES counterpart derived from PL-480, local currency generations with total $13.0 million, or 35 percent of supplement project costs.

TABLE I. 1

SUMMARY FINANCIAL PLAN

($ 000)

	PROPOSED SUPPLEMENT			TOTAL		
	AID Grant	AID Loan	GOES	AID Grant	AID Loan	GOES
1. BFA Credit	--	23,300	12,800	--	50,600	16,700
2. BCR Investment Credit Line	--	--	--	--	--	3,900
3. Vehicles and Equipment	--	700	--	--	1,230	--
4. Technical Assistance	500	--	--	1,625	--	--
5. Operational Support	--	--	--	--	--	2,500
6. Integrated Pest Management	--	--	200	--	200	200
7. Contingency	--	--	--	--	70	--
TOTAL	500	24,000	13,000	1,625	52,100	23,300

II. BACKGROUND

A. Project Results to Date

Prior to the implementation of the agrarian reform, few of the beneficiaries either had access to, or availed themselves of, institutional credit. The Phase I beneficiaries were primarily wage laborers on the large haciendas. The previous owners of these haciendas received production loans from the commercial banking system. Longer term loans were obtained most often from either the haciendas own capital resources or external loans. The Decree 207 beneficiary who rented his land had access to BFA credit through a note provided by the owner of the rental property certifying the type of crop produced and the total hectarage to be planted. As a result of the agrarian reform, the affected Phase I properties lost access to their traditional credit channels and more and more Decree 207 beneficiaries were expected to use institutional credit sources. This project was developed to supply the BFA with the necessary institutional and financial resources to supply the credit demand of the agrarian reform beneficiaries.

1. Credit Component

At the time of implementation of Decree 153, the primary concern of the GOES was to maintain production from the affected properties. ISTA was assigned the responsibility to organize the beneficiaries as a functioning production unit and to supply the properties with sufficient production credit to continue farm operation. Prior to year end 1980 $47.2 million in emergency credit was disbursed by the BFA through ISTA to the Phase I cooperative farms.

As a first step to the creation of a formal relationship between the cooperative farms and the national banking system, the GOES divided responsibility for providing credit between the various banking institutions in August 1980. The BFA was assigned 92 (currently 94) of the then 263 Phase I cooperative farms. In recognition of the additional financial and administrative burden assumed by the BFA, USAID authorized an initial $9.5 million in Loan funds to be disbursed to the cooperative farms through a Special Line of Credit, and an initial $500,000 in Grant funds to provide technical assistance for the development of policies and procedures relevant to the new responsibilities of the BFA. An additional $1.6 million in loan funds for credit was authorized in June, 1981, to meet higher than expected demand for credit. A calendar of disbursements of USAID funds is presented in Table II.2.

In response to the increased demand for credit resulting primarily from the implementation of Decree 207 and the continued need for technical assistance, USAID authorized supplemental assistance of $17 million in Loan funds ($16.2 million allocated for BFA credit) and $625,000 in Grant funds. Based on the lessons learned

from the implementation of the first tranche of the project, the supplement addressed specific constraints encountered in meeting the Project goal and purpose. The Project Supplement contained the following elements:

a. The Creation of an Integral Line of Credit

An Integral Line of Credit was established in the BFA with $16.2 million in supplemental assistance and the balance of loanable funds available in the previously established Special Line of Credit. The full amount of Loan funds authorized for credit ($27.3 million) has been obligated and disbursed. As a result, over 48,000 sub-loans, the majority of these to Decree 207 beneficiaries and other small farmers, were disbursed to support the cultivation of over 105,000 hectares of land in Phase I and Decree 207. Approximately 76 percent of the funds were used for production credit and 24 percent for investment credit. BFA lending through the Integral Line of Credit conforms to historic cropping patterns for BFA clients; approximately 50 percent of the credit was used to finance agricultural inputs for the production of basic food grains, principally rice and corn. The longer term credit was used to purchase livestock or for improvement of farm infrastructure. The remainder financed the production of the major export crops: coffee, cotton, and sugar cane. Therefore, the major impact of the project has been to maintain domestic food production and to provide consequent sources of income to maintain an adequate standard of living for the rural population. (See Table II.3).

b. The Development of Integrated Farm Plans

The BFA initiated a concerted effort this past year to provide each one of its Phase I cooperatives with an integral farm plan and a sound financial plan which facilitated the realization of production potential. The strategy was, first, to assure that adequate credit was made available for current production needs and, second, to start identifying new productive uses with available resources. The BFA stands ready to finance new activities if they are properly identified and their viability - technical, administrative, and economic - established. To assist cooperatives to achieve this the BFA has hired field agents who work exclusively with Phase I cooperatives. The BFA is also strengthening field work coordination with ISTA. ISTA, under its co-management responsibility of Phase I cooperatives, is currently installing a program geared to strengthening cooperatives management by assisting them to hire managers and accountants -offering a 3-year declining subsidy- and providing them with technical assistance to adopt sound internal controls and adequate accounting system.

c. The Acquisition of Additional Field Agents and Vehicles.

An additional 100 new technicians were hired during the nine months between April 1982 and January 1983. The

jeeps and motorcycles have been delivered and are being utilized for visits by field agents to BFA clients. The increase in technical staff will allow the BFA to service an additional 20,000 Decree 207 beneficiaries and other small farmers. The BFA will move further toward the goal of decentralized bank operations; currently 84 percent of the BFA professional and technical personnel work outside the central office, significant increase over 1981 when only 67 percent worked in regional or field offices. The distribution of BFA personnel is shown in Table II.2.

d. The Creation of an Investment Line of Credit

The investment line of credit was established in the BCR in 1982 with $3.9 million from GOES counterpart contribution as required in Amendment No. 2 to this project. However, to date only $600,000 has been approved by the BCR for on-lending to Phase I cooperatives, and only a fraction of this amount has actually been disbursed. Since the initiation of the investment line of credit, few applications have been submitted to BCR by the commercial banks. One reason for their lack of interest is that medium and long-term loans are considered high risks, especiall if the cooperative is having difficulty paying back yearly productio credit. The interest rate spread offered by the BCR to the commercia banks for this credit line is 2 percent, which apparently is not sufficient to overcome the risk perception of the commercial banks. BCR analytical and documentation procedures are cumbersome and time consuming which also reduces the attractiveness of this credit line. AID will work closely with the BCR to modify the operation of the Investment Line of Credit to make it more attractive to the commercial banks and thereby increase the disbursement rate of the credit line. A covenant has been included to that end.

2. Institution Building

During the past two years, the BFA has passed throug an extremely dynamic period where the complexity and size of the programs assigned to the Bank have gone well beyond the originally designed capacity of the institution. In addition, factors beyond the control of the BFA, such as low world prices for important agricultural crops and increasing violence in rural areas, have made adequate loan supervision and recuperation increasingly difficult. In spite of these difficulties, the BFA has been able to expand its operations and supply significantly increased amounts of agricultural credit.

AID institution building support has financed the provision of 147 person/months of technical assistance to the BFA in all phases of bank operation. The overall objective of this assistance has been to streamline bank operations and concentrate bank resources, both personnel and financial, to effectively carry the role assigned to the BFA by the GOES, which is to provide adequate and timely credit to Phase I cooperative farms and Decree 207 beneficiaries.

The AID-funded technical assistance was instrumental in allowing the BFA to accomplish the following management and operational modifications:

- The development and institutionalization of a periodic cash flow reporting, both actual and projected;

- The complete reorganization of the Finance Dvision which can now more effectively perform its function of reporting on credit operations and assuring an uninterrupted flow of funds for disbursement;

- The creation of the Credit Division headed by a manager with the responsibility and authority to coordinate all the credit operations of the BFA;

- The assignment of supervisory, consulting and training responsibilities to the Regional Offices along with an increased responsiblity and authority delegated to the field agencies; and

- The creation of a Personnel Office to coordinate all training and assignment actions for BFA employees.

The BFA loan portfolio has increased enormously during the last 4 years, from $56 million as of December 31, 1979, to $142.2 million as of September 30, 1982. The principal source of funds to permit this dramatic expansion in lending was increased utilization of BCR discount lines and AID and IDB assistance. Also, the BFA has been able to improve the loan recuperation rate since 1980 to increase available loan reflows for relending. Although still at an unacceptable low level the loan recuperation rate, which in 1980/81 stood at approximately 40 percent, has risen to an estimated 60 percent for 1982/83. In addition, the BFA negotiated two coordinated actions which reduced its debt burden with the BCR. The BFA was permitted to discount $36 million of its intermediate and long term loan portfolio with the BCR which had been accumulated since the agrarian reform began. The BFA also was permitted to sell to the Salvadoran Agrarian Reform Institute (ISTA) $30 millionof overdue short-term loan portfolio from 1980/81 belonging to the cooperative famrs assigned to the commercial banks in exchange for bonds paying a fixed rate of interest. The proceeds of these two transactions were used to cancel BFA overdue debts with the BCR. These actions significantly improved the BFA cash flow, thus providing an opportunity for the BFA to meet its own debt repayment schedule and to make available additional funds for relending.

Although notable progress has been made in reorganizing the BFA there are several constraints which still need to be addressed, such as loan recuperations, reduction in the average cost of funds, and improvement of the flow of information for management reporting and decision making, all of which will be

addressed by BFA management during the implementation of this supplement.

3. Creation of an Integrated Pest Management Activity

An integrated pest management activity was authorized on December 30, 1981, in the second supplemental assistance package. The purpose of this Project element is to expand research and information dissemination on improved pest control techniques. A pilot project has been established to conduct research and training activities for cotton. Technical assistance has been provided directly to eight cooperatives through short courses to technicians and farmers. Research has provided information for a series of technical bulletins which have been distributed throught the country.

4. Disbursement Status

As of February 28, 1983, $29,055,397 of AID funds had been disbursed, or 99.4 percent of the total authorized amount of $29,225,000. GOES Counterpart contributions have not been disbursed so rapidly primarily because of a low utilization of the Investment Line of Credit. For a complete description of the status of A.I.D. Loan disbursements see Table II.2.

B. Complementary A.I.D. Assistance

Other A.I.D. assistance provided to the agrarian reform sector has been channeled through various on-going projects. They are briefly described below:

- The Small Producer Development Project (No. 519-0229) provides $9.750 million (Loan $9 million; Grant $750,000) as capital to FEDECACES and FEDECCREDITO for relending to individuals and cooperatives. FEDECCREDITO is currently servicing 18 Phase I cooperatives and many of the small farmers participating in this project will be Decree 207 beneficiaries.

- The Public Sector Employment Project (No. 519-0256) finances irrigation system, rural water reservoirs, reforestation and soil conservation activities in rural areas which, in many cases, include the agrarian reform sector. A.I.D. assistance to this Project has totalled $40.505 million to date.

- The Small Farm Irrigation Systems Project (No. 519-0184) is providing $2.3 million in tandem with the Public Sector Employment Project to finance the construction of irrigation sub-projects in the agrarian reform sector. Twenty-one sub-projects have been completed to date, an additional 8 are underway and 8 are in the planning stage.

- The American Institute for Free Labor Development (AIFLD) has received $3.598 million to support Union Comunal Salvadoreña (UCS) agrarian reform activities, including small farmer

training and organization. The grant will be increased by $1.6 million in FY 1983.

- The Rural Small Enterprise and Cooperative Development Project (No. 519-0286) OPG to Technoserve is providing support to strengthen farm cooperatives and enterprises, primarily those in the agrarian reform sector, and to develop the newly formed Salvadoran Federation of Cooperatives of the Agrarian Reform (FESACORA).

- The Agrarian Reform Organization Project (No. 519-0262) and the proposed Agrarian Reform Support Project (No. 519-0265) provide complementary assistance through their support of the implementation of the Agrarian Reform Program in El Salvador. The Agrarian Reform Organization Project has provided $13.775 million to date for financing of farmer organization and training activities, institutional development, and support of GOES entities directly responsible for agrarian reform implementation, planning, and evaluation. The follow-on Agrarian Reform Support Project will provide financial and technical assistance to the GOES over a three year period. The project has three components, each designed to support and complement the agrarian reform. The land transfer component assists the GOES agencies responsible for completing the land titling and transfer process. The technology transfer component assures the availability of support services to the agricultural sector, especially reform beneficiaries. The rural enterprise development component expands private sector investment in enterprises which directly or indirectly support the agrarian reform and its beneficiaries.

C. Other Donor Assistance

The Interamerican Development Bank (IDB) is providing a substantial amount of credit assistance to the BFA for the agricultural sector. The IDB has three active loans directed specifically at the beneficiary group supported by this project, Loan No. 605 ($16.5 million), No. 642 ($40.4 million) and No. 124 ($4.45 million).

Loan No. 605 was signed on September 11, 1980, to provide credit to small farmers including 207 beneficiaries. The BFA has lent approximately $11,579,000 to date from Loan No. 605, leaving a balance of $4,920,000 to be disbursed before September 1984, the expiration date of the loan. Of the total balance remaining under this loan, the BFA can disburse in the following manner:

$2.4 million to purchase fertilizers,
$1.1 million to purchase livestock,
$1.2 million for agro industrial projects, and
$0.2 million for administrative costs to inspect and supervise loans.

During the present crop year, the BFA has sufficient demand to disburse all the funds available for the purchase of

fertilizer and more than half of the amount remaining for livestock. However, the agro - industrial component will not move at such an accelerated rate for several reasons. First, the demand for this type of credit among small farmers continues to be very limited due to the current political situation in the countryside. Second, the BFA did not have the administrative capability to promote and analyze these types of loans until very recently. The new BFA organizational structure includes a special unit to develop and promote agro - industrial projects with small farmers and Phase I cooperatives. With this new unit in place, the BFA expects all funds available in this component to be disbursed within the next two years.

Loan No. 642 was signed on December 22, 1980, to provide credit specifically to the Phase I cooperatives. The loan allows short-term credit to be extended to the Phase I cooperatives as production credit to purchase fertilizers (one year terms) and medium to long-term credit to purchase machinery and to make improvements in the property. To date the BFA has lent out $14,626,000 leaving a balance of $25,774,000 to be disbursed before January, 1985, in the following manner:

$9,544,000	to purchase fertilizers,
$7,887,000	to purchase insecticides and other chemical inputs,
$5,215,000	to purchase machinery,
$2,925,000	to improve property, and
$ 203,000	for administrative costs of supervising the subloans.

The BFA has had considerable difficulty disbursing this loan due principally to the administrative and operational difficulties resulting from the assignment of Phase I cooperatives among a variety of financial institutions. While the IDB loans is channeled directly to the BFA, only 94 Phase I cooperatives are assigned to the BFA, and the rest are distributed among other financial institutions. The present set of regulations covering the use of this loan is not sufficiently broad and flexible to generate enough interest in the other financial institutions to make use of these funds. The BFA is encouraged, nevertheless, following recent negotiations with the BCR and the presidents of the other financial institutions, that new arrangements will be approved to enable the BFA to disburse a substantial portion of the balance of this loan during this cropping year.

Loan No. 124 was signed on December 22, 1980. This loan is actually an integral part of the package including Loan No. 642. Loan 124 allows the BFA to extend medium and long-term credit to Phase I cooperatives for property improvements. To date, the BFA has not drawn down on this loan for the same reasons mentioned above for the machinery and property improvement components of Loan No. 642. The BFA is conducting a campaign to encourage the use of these funds with the mixed banks, but the BFA is not optimistic that demand for property improvements will pick up during

this crop year. The BFA will most likely have to renegotiate the uses of their loan with the IDB to disburse these funds before the January 1985 expiration date.

Summarizing the use of IDB funds for the 1983/84 crop year, the BFA Projects disbursements from all three loans of $22,928,000 which are broken down as follows:

TABLE II.1

Disbursements to Clients by Banking Institutions

IDB Loan No.	BFA	BFA/ Mixed Banks
605	3,224.4	-
642	11,303.6	8,400.0
124	-	-
TOTALS	14,528.0	8,400.0

These resources have been included in the credit supply and demand analysis developed as the basis for the supplemental request for assistance.

TABLE II.2

CALENDAR OF A.I.D. LOAN DISBURSEMENTS
TO THE BFA FOR CREDIT
(In $ Millions)

Date	Amount
October 21, 1980	3.0
December 4, 1980	1.1
December 30, 1980	1.6
February 18, 1981	1.1
March 20, 1981	1.7
May 6, 1982	2.6
June 18, 1982	4.8
October 22, 1982	7.6
December 22, 1982	3.7
February 3, 1983	.1
Total	27.3

TABLE II. 3

ADRIAN REFORM CREDIT - BFA

PROJECT AID 519-0263
($000)

Loans Available	Indicative Credit Line Crop Year 80/81* Phase I Crops	Crop Year 81/82 Phase I	Crop Year 81/82 Decree 207	Crop Year 81/82 Traditional	Crop year 82/83 Phase I	Crop year 82/83 Decree 207	Crop year 82/83 Traditional	Total	Crop Year 83/84 Phase I	Crop Year 83/84 Decree 207	Crop Year 83/84 Traditional	Total
Forjatto												
Grains												
Corn		32.94			343.56	544.83	5,809.13	6,730.46	1,356.80	3,862.00		5,220.80
Sorghum					20.80	22.95	285.16	328.91	241.20	650.80		892.00
Millet					94.82	141.77	1,238.28	1,474.87	408.40	1,029.80		1,437.20
Wheat					620.80	21.20	1,220.65	1,662.73	1,734.00	406.00		2,140.00
Fruits and Vegetables		1,974.85			87.75	18.43	266.96	2,347.19	502.00	268.80		770.80
Legume Crops												
Cotton		2,779.27			707.48	4.76	243.90	3,735.41	2,080.80	202.00		2,282.80
Sugar		1,562.48			542.54	11.07	279.25	2,395.34	1,321.20	139.20		1,460.40
Cattle		371.77			1,858.50		1,198.06	3,428.33	3,601.20			3,601.20
Other Crops		847.97			213.74	24.26	22.23	1,108.20				
Livestock		1,905.44			269.79	1.08	2,413.24	4,589.55	662.00	52.00	1,105.20	1,819.20
Other		1,953.50			1,146.59	6.70	491.50	3,598.29	3,583.60	92.00		3,675.60
TOTAL		11,427.42			5,706.37	797.13	13,468.36	31,399.28 1/	15,493.20	6,701.60	1,105.20	23,300.00

1/ Integral Credit Line:

	AID	TDRS	TOTAL
519-0263	27,300	1,500	27,300
519-0262	1,750	1,000	2,750
	29,050	2,500	31,950

(31,399) - 2,551 Available to BFA as of 12/31/82.

*Debits for yrs. 1980/81 reported in 1981/82 Bhumee study for loans was made available to the BFA in late 1980.

TABLE II.4

CLASSIFICATION OF PERSONNEL EMPLOYED BY JOB AND ACADEMIC LEVEL IN THE CENTRAL OFFICE, WAREHOUSES, REGIONS AND AGENCIES AS OF DECEMBER 31, 1982.

CENTRAL OFFICE AND REGIONS	PERSONNEL				TOTAL
	UNIVERS.	ADMINIST.	FIELD TECH.	SERV.	
CENTRAL OFFICE					
PRESIDENCY	26	149	1	2	178
OPERATIONAL LEVEL	24	130	6	94	254
OTHERS	1	13	-	-	14
WAREHOUSE	-	57	-	120	177
CENTRAL REGION	7	33	11	5	56
AGENCIES	2	77	74	15	168
EASTERN REGION	4	10	6	7	27
AGENCIES	-	36	74	14	124
WESTERN REGION	3	15	13	11	42
AGENCIES	-	36	58	9	103
PARACENTRAL REGION	1	19	7	2	29
AGENCIES	-	30	51	7	88
TOTAL	68	605	301	286	1260

SOURCE: DETAIL STATISTICS OF EMPLOYED PERSONNEL

TABLE II.5 A.I.D. Project No. 519-0263

STATUS OF FINANCIAL PLAN

A) AID as of February 28, 1983 - Million of US$

		Obligations	Disbursements	Balance
-BFA Special Cooperative Credit Line	(L)	11,100,000	11,100,000	0,000
-BFA Integral Credit Line	(L)	16,200,000	16,200,000	0,000
-BFA Vehicles and Equipment	(L)	530,000	496,740 1/	33,260
-MAG Integrated Pest Management	(L)	200,000	133,666 2/	66,334
-BFA Technical Assistance	(G)	1,125,000	1,124,991 3/	9.
-Contingencies	(L)	70,000	0,000	70,000
Sub-Total A)		29,225,000	29,055,397	169,603

B) GOES as of February 28, 1983 - Million of US$

	Committed	Disbursed	Balance
-BFA Special Cooperative Credit Line	3,900,000	3,900,000 4/	0,000
-BCR Investment Credit Line	3,900,000	3,872 5/	3,896,128
-BFA Institutional Support	2,500,000	197,952 6/	2,302,048
Sub-Total B)	10,300,000	4,101,824	6,198,176
TOTAL (A+B)	39,525,000	33,157,221	6,367,779

1/ Cost of 40 jeep CJ7; 60 motorcycles and 2 cherokee jeeps, for the Project.

2/ Includes a net advance outstanding of $76,615.40

3/ Includes $1,082,274 for the new STC/AID contract; a J. Font PIO/T for $5,534; $27,000 for a BFA assessment; and a $10,183 contract to hire an agricultural machinery technician.

4/ Credit funds disbursed to beneficiaries as reported by BFA.

5/ Credit funds disbursed to beneficiaries as of January 31, 1983.

6/ Salaries paid to 100 BFA technicians during the period April 1982 to January 1983

TABLE II.6

A.I.D. Project No. 519-0262
(Credit Component)

STATUS OF FINANCIAL PLAN

A) AID as of February 28, 1983 - Million of US$

		Obligations	Disbursements	Balance
-BFA Campesino Group of Credit	(L)	1,750,000	1,750,000	0.00
-BFA Institutional Support	(G)	125,000	25,000 1/	120,000
Sub-Total A)		1,875,000	1,775,000	120,000

B) GOES as of February 28, 1983 - Million of US$

	Committed	Disbursed	Balance
-BFA Campesino Group Credit	1,000,000	563,946	436,054
Sub-Total B)	1,000,000	563,946	436,054
TOTAL (A+B)	2,875,000	2,338,946	556,054

1/ Includes an advance of funds for $25,000.

2/ Credit funds disbursed to beneficiaries as reported by BFA.

III. PROJECT SUPPLEMENT RATIONALE AND DESCRIPTION

A. Project Supplemental Rationale

1. Agricultural Production and Credit

The provision of an adequate supply of credit to support agricultural production in the agrarian reform continues to be a vital element in the stability of the Salvadoran economy, because of its important relationship to agricultural production and employment. In 1982, the 178,530 direct beneficiaries (including family members) of Phase I cooperatives produced 14 percent, 34 percent and 37 percent, respectively of the total quantity of production of coffee, cotton and sugar. Exports from the entire agricultural sector generated 65 percent of annual foreign exchange receipts which are used for the purchase of vital industrial raw materials imports and other imported goods and services. In addition, agricultural production in the agrarian reform sector is the principal link in the system of cash crop production, exports, foreign exchange inflows, imports, industrial and agricultural production, GNP performance, income, savings and investment, and government tax revenue.

A number of factors have combined during the past three years to depress the entire agricultural sector, including agrarian reform sector, and hence, the economoy as a whole. Some of these factors are exogenous to El Salvador, such as continued low world market prices for the major cash crops and isolation from access to foreign credit. Some of the factors are related to conditions existing in El Salvador, such as continued high level of rural violence, dislocation resulting from agrarian and banking reform, and a series of natural disasters, which reduced the harvest of the most major crops in 1982. Several analyses financed by USAID indicated that planting and production will increase in 1983/1984. However, domestic financial resources are not sufficient to provide the necessary production credit. The availability of external financial resources to meet the demand for such credit during the 1983/1984 crop year continues to be crucial for the production of additional cash crops to generate vital foreign exchange. In addition, the agricultural sector will reach the point soon where further increases in production can be realized only through improvements in farm infrastructure and machinery, which will have to be financed by medium and long-term loans from external sources of funds.

2. Agricultural Credit Demand

A recent study of agricultural credit situation in El Salvador by the BFA, with STC assistance, estimates overall credit demand for the 1983/1984 crop year will be $350.0 million based on the following production estimates for the year (1981/1982 and 1982/1983 crop year production figures included for comparison purposes).

TABLE III. 1

AREA PLANTED BY CROP YEAR

(In Hectares)

COMMODITIES	1981/1982	1982/1983 (Estimated)	1983/1984* (Forecast)
Basic Grains	455,560	424,700	455,000
Corn	276,500	238,700	280,000
Beans	49,700	55,580	50,000
Rice	13,860	11,200	15,000
Sorghum	115,500	119,000	110,000
Export Commodities	268,100	265,426	267,000
Coffee	185,990	185,990	186,000
Cotton	52,500	47,600	49,000
Sugar	29,610	31,836	32,000

Table III. 1 shows that the planting of almost all major crops is expected to increase in the 1983/1984 planting season. The increase is particularly large when compared to the 1982/1983 planting season. However, as shown in Table III. 4, total production fell below expected levels during 1982/1983 due to drought conditions followed by heavy rains. Of the total demand for BFA credit projected for 1983/1984 by the agricultural sector $98.5 million is expected to be used by the agrarian reform sector or approximately 28 percent. Within the agrarian reform $11.6 million will be used by Decree 207 beneficiaries and $86.9 million by Phase I cooperatives farms. Because of the small size of the holdings worked by Decree 207 beneficiaries and their consequent reliance on the BFA's development function, the majority of credit for this group ($9.9 million) is expected to be financed by the BFA. In addition, the BFA is expected to lend 43 percent of the credit projected for the Phase I cooperative farms, or $38.4 million. The ramainder $51.2 million, will be made available through other financial institutions.

* Source of Data: Ministry of Agriculture and Livestock (MAG), INCAFE, INAZUCAR, COPAL as reported in El Salvador-Agriculture Situation Report, ES-3001, January 26, 1983.

TABLE III. 2

PROJECTED AGRICULTURAL CREDIT FOR 1983/1984*

(In $000)

SOURCE	Traditional Sector	Phase I	Decree 207	TOTAL
BFA	80,600	38,400	9,900	128,900
Commercial Banks and Other Financial Institutions	170,900	48,500	1,700	221,100
TOTAL	241,600	86,900	11,600	350,000

3. Demand for Credit from the BFA

The analysis of the total credit required for BFA clients, made by the BFA and supported by independent analyses of consultants from STC, concludes that demand for loans will reach $128.9 million during CY83 for both the traditional ($80.6 million) and agrarian reform sectors ($48.3 million)

The following table shows the BFA/STC estimates by sources of funds (In $ millions).

TABLE III. 3

1983/1984 CREDIT DEMAND

(In $ millions)

Source	BFA/STC Projected
BCR Discount Lines	42.3
BFA Reflows	36.3
IDB Loans	14.5
SUB-TOTAL Funds Available	92.8
CREDIT DEMAND	128.9
UNFINANCED GAP	36.1

The GOES recently concluded negotiations with the International Monetary Fund (IMF) to determine maximum levels of public and private credit in the monetary program for CY83. Of the total amount of public sector borrowing approved for the CY83, $42 million in production credit will be supplied to the BFA through lines of credit form the BCR for on-lending to the agricultural sector. The BFA expects to utilize $14.5 million of IDB

* Source: BFA Estimates.

TABLE III. 4

El Salvador Basic Grains and Export Crops Production and Head of Cattle
(Thousand of Metric Tons)

Basic Grains	National Average 1975-1980	1979-1980	1980-1931	1981-1982	Estimated 1982-1983	Projected*** 1983-1984
Corn	433.0	516.0	520.4	494.0	407.7	476.7
Beans	40.1	46.0	39.4	37.8	37.6	36.3
Rice	47.1	57.6	60.0	49.5	34.9	45.4
Sorghum	159.0	158.4	138.2	134.1	122.3	122.5
	679.2	778.6	758.0	715.4	602.5	680.9
Export Crops						
Coffee	155.1*	173.9*	143.3	139.4	154	154.3
Cotton	188.9	183.9	115.5	112.0	101	104.4
Sugar Cane	260.5	199.5	180.3	192.5	226.5	226.5
	604.5	557.3	439.1	443.9	481.5	485.2
Cattle (Thousands)**	—	1,440.2	1,210.7	1,105.7	1,000	1,000

* Calculated from data on area cultivated and estimated average yields.
** Yearly surveys as of October 1.
*** USAID estimates based on original projections for the 1982-83 crop year.

Source: 1. MAG/DEA "Anuario de Estadísticas Agropecuarias" 21st edition, August 1982.
2. 1981/82 coffee production provided by PERA.
3. 1982/83 estimates as of January 1983 from MAG/OSPA.

TABLE III.5

CROP YEAR 83-84

BFA PRODUCTION AND INVESTMENT CREDIT PROGRAM

BY SOURCE OF FUNDS

	Banking Window	Development Window 1/	Decree 207	Phase I	TOTAL
Central Bank-Production	9,910.20	3,458.51	730,29	90.00	14,189.00
Central Bank-Fertilizer	2,811.00	9,599.49	2,078.51		14,489.00
BCR-Dev. Fund	1,132.40	790.00	77.60		2,000.00
BCR Livestock	28.40			1,293.60	1,322.00
AID-263 Supplement		1,105.20	6,701.60	15,493.20	23,300.00
AID-(Counterpart GOES)		12,700.00	100.00		12,800.00
IDB-605		3,175.20	49.20		3,224.40
IDB-642-Fertilizer				7,268.40	7,268.40
IDB-642-124 Improvements				2,035.20	2,035.20
IDB-Machinery				2,000.00	2,000.00
BCR-Refinancing				10,000.00	10,000.00
BFA	11,178.80	12,587.20	108.00	236.00	24,210.00
AID-Reflows		12,110.00			12,110.00
T O T A L	23,584.80	57,001.60	9,945.20	38,416.40	128,948.00
	18.3	44.2	7.7	29.8	100

1/ Other small farmers.

funds during 1983/1984 crop year. (For additional details refer to Chapter III, Section C.). An estimated $36.3 million will be available for short-term production loans form reflows generated by BFA operations.

If the total resource pool of $92.8 million from BFA reflows and other sources is realized, the unfinanced gap between supply and demand for loanable funds will stand at $36.1 million. AID resources, both direct and PL-480 local currency generations, remains the only untapped source of funds which can supply the resources required to meet the demand for agricultural credit. Without adequate agricultural credit the other efforts of both the GOES and AID to establish the bases for self-sustaining growth of production and income in the agrarian reform sector will be severely affected.

4. Loan Recuperations

The BFA was created in 1973 for the principal purpose of providing credit to small and medium-sized farmers with limited resources. In addition to serving this function, the BFA has been assigned a major role of providing funds for the credit needs of the agrarian reform beneficiaries: 94 Phase I cooperatives and all Decree 207 beneficiaries. As a result, the volume of BFA credit has expanded rapidly. For example, in 1975 total credit disbursed amounted to $29.6 million; by 1983 credit disbursment are expected to reach $128.9 million, a four fold increase in 8 years.

The large increase in lending activities has strained the management and administrative machinery of the BFA. In order to obtain the financial resources to meet the demand for credit, the BFA has increased his use of external sources, such as discount lines of the BCR and concessional loans from international donor organizations. At the same time, the rate of sub-loan recuperation fell substantially during 1980 in comparison to previous years. The loan recuperation rate for 1980 was approximately 40 percent. Improvement has been made during the last three years. The loan recuperation rate is estimated to be 60 percent for the 1982/1983 crop year. The improvement is the result of increased supervision and control following the emergency disbursement of credit during 1980/10981.

Further improvements in loan recuperation performance is needed. This task must be approached at two levels. The BFA with technical assistance to be provided in this supplement, will continue to analyze the problem and develop policies and procedures to improve the rate of loan recuperations. Operationally, the BFA will consolidate all credit functions within a new Credit Division. In addition, the BFA will increase field level personnel and support dedicated to improved lending and collection practices. However, loan recuperations are inextricably linked to the financial condition of the farm enterprises being financed, particularly the Phase I cooperative farms, which compose 30 percent of the BFA loan

portfolio. The ability of the BFA clients to repay loans outstanding is a function of production, earnings, and costs, including costs of credit. Other GOES activities are being planned to directly assist Phase I cooperatives to increase production and income through improved management and technology use.

5. Institution Building

Although the BFA has made significant progress in streamlining its banking operation to meet the challenge of the new burdens and responsibilities created by the agrarian reform, the restructuring process is not yet complete. The objective of the BFA as an institution is to provide credit to small and medium size farmers and 94 Phase I cooperatives on a timely basis. In order to reduce the need for external funds the BFA must continue to address two major operational constraints: (1) insufficient rate of loan recuperations and (2) high operating costs.

The BFA made significant progress toward improving the rate of loan recuperations which stood at 40 percent in 1980. However, the loan recuperation rate for 1983/1984, which is projected to be 76 percent, is still too low to assure the future financial stability of the BFA. An independent analysis of the BFA concluded that the bank was seriously underestimating its overdue loans and loan installments as well as over estimating interest earnings. If the balance sheet of the BFA was adjusted to reflect the overdue accounts equity capital would have to be reduced by $48.4 million, which would leave equity capital at $46.8 million. Obviously, this situation cannot be allowed to continue. The BFA with AID assistance is planning to raise the recuperation rate for new credit by improving accounting and financial information and reporting, increased personnel and financial resources dedicated to loan supervision and control, and development of an action oriented program for write-offs of bad debts and prompt collection of loan repayments.

The administrative and financial costs of BFA have grown as the loan activity of the bank has increased. The major costs incurred in BFA operations are administrative and financial. BFA administrative costs have increased by 43 percent since 1979/1980, from $6.2 million to $8.8 million. The financial costs of the BFA banking operation has risen at an even faster rate of 250 percent over the same period, from $3 million to $10.6 million. Although the number of loans contracted per year has also risen, the average administrative cost per loan has increased from $144 in 1979/1980 to $192 in 1981/1982. In order to obtain loanable funds in sufficient amounts to meet the demand for credit, the BFA has been forced to greatly increase its use of relatively high cost BCR discount lines, which yield an average 2 percent spread. (This has recently been increased to 4 percent). Total BFA borrowing from BCR discount lines has rose from $38.6 in 1979/1980 to $111.9 million in 1981/1982. As a result of reduced demand for credit in 1982/1983, increased loan recuperations, and increased assistance for AID and the IDB, BCR borrowings shrunk to $61.2 million.

Additional AID support for the BFA is needed to complete the institution building activities initiated in 1980. This assistance will help the BFA streamline information and decision flow through the bank to reduce response time and operating costs, analyze the BFA's bad debt position, develop a program for improving loan recuperation and investigate new sources of funds to lower the cost of capital.

B. Project Supplemental Description

1. Project Goal and Purpose

The Project purpose is to increase the availability of agricultural credit to Phase I and Decree 207 agrarian reform beneficiaries as well as to small farmers clients of the BFA and to improve the capacity of the BFA to provide such credit. Achieving the project purpose will contribute to the program goal of improving the economic and social well-being of the agrarian reform beneficiaries and other small producers through increased agricultural production and employment.

2. Project Elements

The Agrarian Reform Credit Project was designed in the early months of the agrarian reform in response to an identified high priority need of providing Phase I cooperative farms with access to credit resources to finance credit needs. The Project has provided credit for purposes complementary to the credit available from BCR discount lines, and it has supported development of the BFA's institutional capacity to administer this kind of credit.

Analysis of the implementation experience to date confirms the validity of the original Project concept. However, continued resource needs and institutional constraints must be addressed if the project is to fully achieve its purpose. Supplemental assistance proposed in the supplement will be used for two major purposes: 1) providing for immediate agricultural credit needs, and 2) strengthening the BFA capacity to deliver available credit. The specific project elements are more fully described below.

a. Credit

The supplemental assistance proposed for this project will continue to provide the BFA with funds to meet the demand for credit from their clients who are agrarian reform beneficiaries and small farmers. AID funds will be channeled by the GOES directly to the BFA as an addition to capital. The funds will be available for on-lending through the Integral Line of Credit established in 1982 with funds available from the previous supplement to the project. The eligibility criteria and procedures for disbursement will remain as originally established (See Annex G. for complete description of procedures). The table on the following page contains a full description of the proposed type of credit, use of credit, and terms of credit for AID and GOES counterpart funds.

AID SUPPLEMENT AND GOES-AID COUNTERPART
BY USE, SECTOR AND TIME PERIOD
($ 000)

TABLE III.6

	A.I.D. SUPPLEMENT (DFA)					GOES-AID COUNTERPART				
	Traditional Sector	207	Phase I	TOTAL	Time Period	Traditional Sector	207	Phase I	TOTAL	Time Period
USES										
Corn		2,863.	1,358.00	5,220.00	Short Term	4,507.20			4,507.20	Short Term
Sorghum		658.00	341.20	882.00	• •	1,634.00			1,634.00	• •
Beans		1,630.00	488.00	1,437.20	• •	2,512.00			2,512.00	• •
Rice		406.00	1,734.00	2,140.00	• •					
Vegetables		260.40	452.00	713.20	• •	979.20			979.20	• •
Fruits		8.40	49.20	57.60	• •	99.00			99.00	• •
Cotton			3,601.20	3,601.20	• •					
Sugar Cane - Crop		88.00	631.20	720.20	• •					
Sugar Cane Maintenance		51.20	670.00	721.20	• •					
Coffee		382.00	2,080.00	2,262.00	• •					
Agro-Industry			1,051.20	1,051.20	Medium Term					
Livestock			520.00	520.00	• •	2,934.00	100.00		2,934.00	• •
Other Livestock	1,105.20	52.00	134.00	1,291.20	• •	134.00			134.00	Medium Term
Forage		13.60	332.00	345.60	• •					
Pasture		62.40		62.40	• •					
Farm Improvement		16.00	400.00	416.00	• •					
Administrative Expenses			1,800.40	1,800.40	Short Term					
TOTAL	1,105.20	6,701.60	15,493.20	23,300.00		12,700.00	100.00		12,800.00	

Time Period

Short Term	19,605.60		12,666.00
Medium Term	3,694.40		134.00
	23,300.00		12,800.00

b. Information Processing

In order for the BFA to efficiently and rapidly carry out its responsibilities as a credit institution, it must have available a data processing system which can process large amounts of data, produce analysis and reports, and be flexible enough to permit rapid additions and modifications to the software. The computer system which the BFA currently use was manufactured in 1972 and in comparison to more modern computer systems has: (1) limited accessible memory; (2) cumbersome I/O procedures; and (3) no interactive programming capability.

A study of the BFA information processing requirements conducted by a computer expert under contract with Servicios Técnicos del Caribe (STC) proposes that the current computer system (NCR Century 151) be replaced by the latest generation computer system which will eliminate the above ocnstraints. The study suggests that the BFA procure an NCR 9040, or equivalent, which would increase available memory by 4 times, improve the cycle time of program execution, provide for additional remote access, multiprogramming an interactive processing. The study was reviewed by a representative of SER/DM who concluded that the current computer system is obsolete and produces such untimely and inaccurate results that it has no management utility for the BFA.

AID Loan funds will be used to conduct a thorough systems analysis, procure and install the new computer system and provide for the training of operators and programmers. The computer system will be integrated directly into the accounting and financial information processing activities which are scheduled to receive substantial technical assistance from this supplement.

c. Institution Building

The BFA has developed a set of ambitious targets for improved bank operations to be reached by the end of CY83.

(1) Conversion of the Regional Offices from to supervision, consulting and training units. The goal is to eliminate loan processing responsibility, reduce personnel at this level, and allow remaining professional staff increased flexibility to supervise field agency performance and offer specialized training and assistance when needed.

(2) Increase of the personnel assigned to the newly created office of Portfolio Management which, when fully staffed, will have 8 persons in the headquarters office and 54 at the field agency level (2 persons per field agency). This office will be directly responsible for supervising loan recuperations and taking corrective action when necessary.

(3) In order to assure an accurate and rapid flow of information within the BFA, the management of the accounting

and ADP offices will be joined together under a chief of Information Management who will report to the Financial Manager. Both the ADP and accounting offices will be restructured, reequipped, and training programs will begin to improve the skills of existing personnel.

(4) Implementation of job classification plan together with an established system of performance evaluation and motivation. The job classification plan will be reinforced with a large-scale, intensive training program.

(5) The auditing function within the BFA will be expanded to include the management audits at the field agency level.

(6) Completion of the BFA management reorganization and an up-grading of the Office of Organization and Management. A training program will be designed and implemented in O&M skills for office personnel. A manual of BFA operations and a system of administrative notices will be developed.

(7) Attainment of a set of financial targets by the end of calendar year 1983:

- Increase in adjusted capital from $46.8 million to $87.2 million.

- Increase in liquidity ratio from 2.5 to 4.2.

- Increase in working capital from $61.2 million to $86 million.

- Increase loan recuperations from $65.7 million to $76.2 million.

- Medium term, low interest refinancing for the overdue debt accumulated by BFA clients form 1980/1981 to 1982/1983.

Attainment of the targets described above is a function of the ability of BFA management to implement a reorganization of the structure of the bank begun in 1982. To the extend to which the reorganization is made operational, the BFA will be able to develop policies and procedures to implement activities required to meet the financial targets listed in c. (7) above. AID will contract for additional technical assistance services for the BFA to assist in the attainment of these targets.

d. Integrated Pest Management

MAG will use the experience obtained during the design and implementation of the IPM program for cotton to attack similar pest infestation problems with other crops, including corn.

The National Center for Agricultural Technology (CENTA), the implementing agency for this component, recently initiated field level reserach programs for other crops. The results of this research will be used to design and implement demonstration type pilot projects on selected Phase I cooperatives to be used for information gathering and dissemination and as sites for training technicians and farmers in pest control techniques.

C. Project Supplement Inputs

1. AID Financed

a. Loan Funded

(1) The balance of funds available in the Integral Line of Credit of the BFA will be increased by $23.3 million for agricultural credit to the agrarian reform beneficiaries and other small farmers during 1983/1984. AID will make the funds available directly to the BFA as an interest free capital injection from the GOES.

(2) The BFA will use $700,000 to finance the costs of a new computer system to meet the information processing needs of the bank. The funds will be used to procure hardware, software, installation, and training.

b. Grant Funded

The BFA will use $500,000 to provide 60 person/months of technical assistance in the following areas:

(1) Financial Analysist (3 1/4 pm)

The consultant will assist the Office of Financial Management to develop a system of periodic financial reports for management and the Planning Unit to develop a realistico three year financial plan for sources and uses of funds.

(2) Manpower Development Advisor (4 pm)

The consultant will assist the Human Resources unit in completing job analysis and classification of BFA personnel and designing a permanent training program.

(3) Farm Credit Advisor (5 pm)

The consultant will continue to strengthen the Agrarian Reform Unit in the Credit Division, so that it can design and implement integrated credit plans, which conform to the production and repayment capabilities of both Phase I cooperatives and Decree 207 beneficiary borrowers.

(4) Credit Services Advisor (Collections) (12 pm)

The consultant will assist the BFA in the design and implementation of an in-depth portfolio analysis with recommedations to improve repayment of loans.

(5) Accounting Advisor (4 3/4 pm)

The consultant will assist the BFA in the completion and implementation of a reliable accounting system to interface with the ADP system.

(6) Auditing Advisor (12 pm)

The consultant will assist in the implementation and supervision of the recently introduced system of management audits. Expanding coverage where necessary.

(7) Data Processing Advisor (10 pm)

The consultant will assist in the design and implementation of an integrated ADP system for BFA, including assistance in the installation and operation of the ADP equipment to be procurred.

(8) Organization and Methods Advisor (9 pm)

The consultant will assist the BFA in the review of policies and procedures. An operations manual will be developed to reflect the recent reorganization of bank management.

2. GOES Counterpart Contribution

a. The GOES will make available the local currency equivalent of $12.8 million in PL-480 local currency generation as a capital contribution to the BFA for credit to agrarian reform beneficiaries and other small farmers through the Integral Line of Credit.

b. The GOES will contribute the local currency equivalent of $200,000 to support the continued activities of the Integrated Pest Management Program. The funds will be used to finance the cost of salaries, materials, and equipment.

IV. PROJECT SUPPLEMENTAL FINANCIAL ANALYSIS

A. Financial Analysis

The BFA's current financial condition, while weak and vulnerable, has improved measurably since a critical point in 1980 when its liquidity ratio, as compared to 1978 operations, decreased from 1:1 to 5:1. Over the same period, the Bank's reserve for bad debts as a proportion of its loan portfolio declined from 3.7 percent to 2.3 and working capital declined from a positive $2 million to a negative $54.8 million. At the end of 1980, the BFA's debt with the BCR amounted to $94 million, of which $64 million was past due from the previous crop year. In the period from 1978 to 1981, the BFA's short-term debt with the BCR had increased by nearly five fold, while the ratio of short-term debt rose form 1.5:5 to 2:1. In brief, the BFA's financial condition, especially its liquidity position, was desperate. Short-term debt, contracted at high interest rates, was increasing while outstanding loan recuperations were declining to unacceptable levels.

An analysis covering BFA's financial operations during the three year period from 1979 to 1981 completed in October 1982 indicates that the BFA's financial deterioration reached its nadir in 1980. The report attributes a large portion of the BFA's problems to the civil strife in many areas of rural El Salvador which negatively affected agricultural production and restricted the Bank's ability to adequately supervise its program. Complicating matters was the BFA's early involvement in the financing of the production activities of the agrarian program at a time when funding was limited and a system of adequate controls and loan supervision for the newly formed agrarian reform cooperatives had yet to be established.

In July 1980, AID executed a loan agreement with the GOES capitalizing the BFA's agrarian reform credit line. That, coupled with grant financed technical assistance contract with Servicios Técnicos del Caribe initiated a major effort to stabilize and rehabilitate the bank's financial condition by focusing financial and staff resources on clearly defined priority operations. One of the fist activities conducted by STC's technical experts was the preparation of a detailed financial assessment of the BFA. The assessment was presented to the BFA and USAID in early 1981. Recommendations included negotiating a reduction in the BFA's outstanding debt with the BCR, contracting additional agents to improve the supervision of field operations, and increased utilization of farm plans in the loan approval and repayment scheduling processes. The assessment concluded its recommendations with a set of proposed procedural changes strengthening the BFA's fiscal, accounting and credit management controls. Following presentation and discussion, BFA management accepted the recommendations as presented and proceeded to implement them.

In the time since the recovery program's initiation, the BFA's overal financial position has improved. In August 1982, the

BFA was able to report that it had achieved a liquidity ratio of 2.6:1. The reserve for bad debts had increased from a low of $4.2 million in 1980 to $13.3 by the close of operations in 1982. Following up on the recommendations contained in the STC assessment, the BFA successfully negotiated a reduction in its outstanding short-term debt with the BCR from the high of $94 million recorded in 1980 to a more manageable $6 million in 1982. Working capital, which was a negative $54.8 million in 1980, increased to a positive $29.2 million in 1982.

Table IV.1 compares the BFA's performance over the three crop years from 1980/81 through 1982/83 using the indicators discussed here.

TABLE IV.1

Comparative Indicators of BFA Financial Performance

Indicator	Crop Year 1980/81	1982/83
Liquidity Ratio *	.5:1	2.6:1
Reserve for bad debt	$ 4.2 million	$ 13.3 million
Outstanding Short-term debt with the BCR	$94 million	$ 6 million
Working Capital	($54.8 million)	$ 29.2 million

* The ratio of current assets to current liabilities

Problems remain, of course. There is concern about the BFA's relatively high administrative and financial costs and its level of delinquent and uncollectable loans. The BFA is an agricultural development bank and, as such, is mandated to service the credit needs of a clientele that consists to a large degree of high risk, marginal, and small producers. Servicing a clientele of that nature requires considerably more supervision than those of commercial banks, which enjoy much more latitude in the selection of clients and the types of activities that they elect to finance.

Delinquent and uncollectable loans as a percentage of the total loan portfolio have presented the BFA with serious financial management problems. The BFA does not have a write-off policy and its uncollectable debt is listed on the books as overdue. A sizeable portion of the lending made by the BFA to its clients cooperative farms under emergency conditions in the 1980/81 crop year is listed as overdue. Table IV.2 presents on a regional basis an ageing accounts for the BFA as of September, 1982. Of an outstanding balance of $128.7 million, $22.9 million or 18 percent is more than 360 days overdue.

TABLE IV.2

BFA AGE OF ACCOUNTS

(In $ millions)

Region	West	Central	E.Central	East	Total
Outstdng Bal.	33.2	37.2	21.9	36.4	128.7
Balance due	23.7	24.8	12.4	22.3	83.2
Balance paid	14.2	12.4	3.0	8.3	37.9
Overdue Bal (Days 1-60)	0.1	0.4	0.1	0.2	0.8
Overdue Bal. (Days 61-120)	0.1	0.2	-	0.5	0.8
Overdue Bal. (Days 121-360)	4.3	5.3	5.6	5.6	20.8
Overdue Bal. (Days 360+)	5.0	6.5	3.7	7.7	22.9

The above figures represent only those overdue repayments for loans which are due or past due.

The BFA's loan recovery situation, however, is improving. The repayment record for lending under the A.I.D. financed Integral Line of Credit is particularly encouraging. As is shown in Table IV.3, only $2.8 million of the $25.9 disbursed under that line was reported overdue as of October 31, 1982. The relatively high repayment rate of the Integral Line of Credit has been attributed to the BFA's assignment of its limited administrative and technical staff to the review of loan applications made for the line's credit and follow-up supervision of credit granted as well as the policy of requiring farm plans for its client cooperatives.

TABLE IV.3

R E G I O N S

(In $ millions)

ITEM	I West	II Central	III E. Central	IV East	TOTAL
(1) Sub-loan amount disbursed	8.3	8.2	3.9	5.5	25.9
(2) Repayments	1.2	2.1	1.5	1.4	6.2
(3) Overdue balance	0.7	0.8	0.7	0.6	2.8
(4) Balance to repay	6.3	5.3	1.8	3.6	17.0
(3): (3)+(4) Percentage Balance overdue	10	13	28	14	

The BFA, of course is not the only financial institution lending to the agrarian reform sector. For comparison purposes, Table IV.4 below compares the performance of BFA lending to the sector with other financial institutions and the nationalized commercial banks in terms of credit granted, delinquent payments, amounts refinanced and not-refinanced during the 1980/81 and 1981/82 crop years.

TABLE IV.4

Phase I Production Credit, Delinquent Payments, and Amounts Refinanced by Financial Institutions (In $Millions)

	Credit granted		Delinquent Payments		Amount Refinanced		Not Refinanced	
Institution	80/81	81/82	80/81	81/82	80/81	81/82	80/81	81/82
BFA	12.5	13.2	8.1	4.1	8.1	3.5	.02	.6
Bco. Hipotecario	12.3	13.1	2.7	5.4	.9	5	1.7	.4
INCAFE	13.6	14.5	0	.1	0	.1	0	0
Federación de Cajas de Crédito	.4	.9	.4	.5	.4	.3	.02	.18
Nationalized Commercial Banks	17.8	28.6	2.2	6.2	.8	4.5	1.3	1.7
TOTAL	56.6	70.7	13.4	16.3	10.2	13.4	3.04	2.9

The solvency and indebtedness situation of the cooperatives with respect to the lending institutions listed in the previus table is summarized for the 1980/1981 and 1981/1982 crop years in Table IV. 4

The BFA finances its operations primarily from earnings generated by its two principal activities; banking and the commercial sale of agricultural inputs. Since 1973, the BFA's loan portfolio has expanded by 166 percent, from $66.4 million to $176.4 million. However, as was mentioned earlier, a large portion of the growth has been financed by borrowing money from the BCR at normal interbank rates. In 1978, the BFA financed 42 percent of its loan portfolio by borrowing from the BCR. By 1981, that percentage had increased to 67 percent. The cost of that short-term borrowing increased from $1.1 million in 1978 to $10.6 million in 1981, a nine fold increase. During the same period, the BFA's income from interest earnings grew by slightly more than two fold. As a consequence of higher operating costs, both financial and administrative, net losses from banking operations increased from a negative $1.5 million in 1978 to a negative $3.5 million in 1981.

In spite of the losses incurred from its banking operations the BFA has reduced net losses from a total of $751,000 in 1978 to $210,000 in 1981. The additional net income covering banking losses came from the Bank's sale of agricultural inputs and a BCR profits

transfer. Total sales of inputs increased from $15.6 million in 1978 to $57.5 million in 1981. The BFA policy governing the sale of inputs is to market them at prices competitive with those of other suppliers. In many cases approved loans are disbursed to clients in kind, i.e., the borrower receives a certificate which enables him/her to acquire the inputs being financed at an agency of the BFA at a cost equal to the amount of the approved loan. This system has proven to be an effective tool in stimulating agricultural production, especially with commodities where improved seed and modern inputs are critical to improved yields.

A significant portion of the recent increase in commercia sales, however, is attributable to the BFA's access to foreign exchange through IDB loans enabling it to purchase and sell inputs that are no longer easily available to private sector distributors who do not enjoy the same access to foreign exchange. The BFA is obviously reluctant to reduce or disinvest itself of an operation that covers the losses produced by its banking operations. Nonetheless, the BFA has consented to conduct a feasibility study in 1983 to determine the appropriateness of returning the commercial distribution of agricultural inputs to the private sector.*

In order to reduce its over-reliance on commercial operations and to enhance its financial viability, the BFA's banking operation must become cost efficient. In calendar year 1981, for example, the BFA banking section was operating at a loss; the interest spread from its lending operation was a negative 1 percent and the profit margin was a negative 5 percent. The situation improved somewhat in calendar year 1982 as a result of an agreement with the BCR to refinance a portion of the overdue BFA loan portfolio at a lower cost and receipt of capital inflows from A.I.D. and IDB loans. The BFA has also initiated measures to control administrative expenses with management procedures requiring budgets to be cost monitored by actual expenses. Savings have also been realiz from reduced payroll costs resulting from a restriction on hiring. The BFA has projected that profit from its 1982 gross income will be approximately $800,000. Gross income from operations includes revenue from banking functions and commercial sales as well as the proceeds of a BCR profit transfer totalling $360,000.

As part of its program to improve the financial viabilit of its banking functions, the BFA is developing a reporting system which will track overdue installments facilitating a course of immediate action resulting in their recovery. The primary objective of this reporting system, currently in the final stages of preparation, is to provide bank management with timely information on the status of all outstanding loans and to indicate those which are overdue. Such supervision and control will prevent the loans from becoming uncollectable from lack of remedial action.

The bank is an active participant in ISTA's new cooperative mangement program, which will enhance the Phase I coopera-

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* This study has been incorporated into PL-480 Title I self-help measure program as a policy study to be undertaken in 1983.

tives' ability to plan and profitably manage credit supplied by the BFA and other banks servicing the reformed sector. This will be accomplished by reducing the direct role of ISTA co-managers and providing incentives for cooperatives to hire qualified and experienced managers and accountants to work full-time on the Phase I farms. The BFA has begun negotiations with the GOES and BCR to reschedule approximately $10 million in delinquent loans lent to Phase I cooperatives. The rescheduling will be at interest rates and terms to be determined on the basis of the cooperatives' ability to pay. As an incentive to the satisfactory conclusion of those negotiations, A.I.D. will include a condition precedent to the amended loan agreement requiring the rescheduling prior to disbursement.

The financial condition of the BFA is inextricably linked to the debt structure of the agrarian reform beneficiaries, particularly the Phase I cooperatives, and the ability of these farm operations to produce sufficient revenue to repay debt and retain earnings to provide income for members. The majority of Phase I cooperatives carry three kinds of debt.

(1) Agrarian reform debt, which for all Phase I cooperatives is estimated to be $300 million in compensation to the former owners for the value of the land, buildings, livestock, machinery and equipment on the properties at the time of expropriation. The payment schedules for these mortgages are twenty to thirty years depending on the type of bonds issued to the former owner and the debt bears interest charges of 9.5 percent per annum.

(2) The ISTA/BFA portfolio of loans totalling approximately $ 6 million was extended to the BFA client cooperatives during the 1980/1981 crop year for production and investment purposes at 8 percent interest for grains and 13 percent for export crops and investment. The repayment of these loans has not been satisfactory. At the time the loans were made, neither ISTA nor the cooperatives were sufficiently organized to optimally utilize the credit extended.

(3) Short-term production credit, which during the 1981/1982 crop year amounted to $71 million to finance the agriculture inputs, such as seed, fertilizer and pesticides, required to grow and harvest export crops and basic grains. In sum, since the start of the agrarian reform process on March 6, 1980, the Phase I cooperatives have received credit but production earnings have not been sufficient to halt a trend toward an ever increasing debt burden.

The effect of the debt burden is demonstrated by reference to the projected credit and income figures for the 94 cooperatives, serviced by the BFA during the most recent crop year, 1982/1983. The BFA estimates that these cooperatives will produce a harvest valued at approximately $16.3 million. This harvest, combined with the previous year's harvest in export crops, which are still in storage and valued at $2.6 million; will provide a total income of $18.9 million for expenses, salaries, and savings. Unfortunately,

the same 94 cooperatives have a total outstanding production credit debt for the year of $16.4 million. In addition, the cooperatives carry an unpaid production credit debt form 1981/1982 of $8.5 million for a total indebtedness, exclusive of their agrarian reform debt and ISTA/BFA portfolio debt, of $24.9 million. The next amount of delinquent repayments of short-term production loans by the end of the current crop year, March of 1983, could reach $6 million.

The Ministry of Agriculture and Livestock recently completed an analysis of the debt burden facing the Phase I cooperatives which highlights a number of factors explaining their short-term credit repayment difficultires. A primary problem for the cooperatives is the lack of effective management and record keeping which prevents the farms from realizing an potimal return on credit obtained. Complicatint the repayment problems of many cooperatives, particularly those producing export commodities, are depressed world prices for coffee, sugar, and cotton. In addition, the parastatal institutes that are the sole purchasers and exporters of coffee and sugar have been slow to liquidate the accounts of cooperatives and other producers. In many instances, cooperatives producing coffee and sugar have had to pay interest and penalties on production credit for commodities that have been produced and delivered. And, finally the technical and training so important for increased production and incomes has not been forthcoming from the GOES agencies responsible for research and extension.

A result of accumulated overdue debts is that banks are reluctant to continue granting production credit at levels required by the cooperatives. In most cases, banks refinance (roll-over) yearly production credit fa-ling due which reduces the amount of new money the cooperative can receive for the follwoing crop year. A cooperative's failure to pay all of its production credit each year also limits the amount of investment credit banks are willing to loan. The mounting production credit refinanced each year increases the debt burden leaving the cooperative little or no margin to consider payments for medium or long-term investment credit even when an investment credit may mean increased income and therefore increased repayment capability for the cooperative. Something must be done to relieve the debt burden on many cooperatives to encourage the banking system to approve investment credit and at the same time provide the cooperatives with the margin to be able to absorb and pay back this investment credit.

To address this problem, a covenant has been included in this supplement to require the BCR to refinance past due production credit balances of all Phase I cooperatives. Current estimates of the amount past due are approximately $10 million corresponding to BFA's cooperatives and $10 million corresponding to cooperatives assigned to other financial institutions. The terms and conditions of this banking system to base the payment schedule on the cooperatives' ability to pay as determined by individual farm plans.

B. Financial Plan

The following tables show the financial history of AID and GOES contributions to the project as well as those proposed in this supplement. Additional information related to disbursement is contained in Chapter II, Section A, and Chapter IV, Section B.

TABLE IV. 5

REFORMED SECTOR COOPERATIVES AND THEIR SITUATION OF SOLVENCY OR INDEBTEDNESS FOR 1980/1981 AND 1981/1982

CREDIT INSTITUTIONS	1980/1981					1981/1982				
	FUNDED	SOLVENT	INDEBT	REFI-NANCED	NOT-REFI-NANCED	FUNDED	SOLVENT	INDEBT	REFI-NANCED	NOT REFINANCED
1. Banco de Fomento Agropecuario	83	8	75	72	3	80	30	50	43	7
2. Banco Hipotecario	41	18	23	20	3	43	12	31	27	4
3. Instituto Nacional de Café	35	35	--	--	--	32	27	5	5	--
4. Federación de Cajas de Crédito	21	5	16	15	1	18	1	17	11	6
5. Bancos Comerciales Nacionalizados	81	55	26	14	12	85	37	48	35	13
TOTAL	261	121	141	121	19	258	107	151	121	30

TABLE IV. 6

Summary Cost Estimate and Financial Plan

(US $ 000)

Original Authorization

SOURCE	AID FX	AID LC	HOST COUNTRY FX	HOST COUNTRY LC	TOTAL
USE					
Development Loan Funds					
Credit					
- Special Line of Credit		9,500		3,500	13,000
- Integral Line of Credit					
- Investment Line of Credit					
Vehicle and Equipment					
Integrated Pest Management					
BFA Operational Support					
Contingency					
Sub-Total Loan		9,500		3,500	
Development Grant Funds					
Technical Assistance	380	120			500
Sub-Total Grant	380	120			
TOTAL	380	9,620		3,500	13,500

TABLE IV. 7

Summary Cost Estimate and Financial Plan

(US $ 000)

First Amendment

SOURCE	AID FX	AID LC	HOST COUNTRY FX	HOST COUNTRY LC	TOTAL
USE					
Development Loan Funds					
Credit					
- Special Line of Credit		1,600		400	2,000
- Integral Line of Credit					
- Investment Line of Credit					
Vehicle and Equipment					
Integrated Pest Management					
BFA Operational Support					
Contingency					
Sub-Total Loan		1,600		400	
Development Grant Funds					
Technical Assistance					
Sub-Total Grant					
TOTAL		1,600		400	2,000

TABLE IV. 8

Summary Cost Estimate and Financial Plan

(US $ 000)
Second Amendment

SOURCE	AID FX	AID LC	HOST COUNTRY FX	HOST COUNTRY LC	TOTAL
USE					
Development Loan Funds					
Credit					
- Special Line of Credit					
- Integral Line of Credit		16,200			16,200
- Investment Line of Credit				3,900	3,900
Vehicle and Equipment	530				530
Integrated Pest Management	200				200
BFA Operational Support				2,500	2,500
Contingency	35	35			70
Sub-Total Loan	765	16,235		6,400	
Development Grant Funds					
Technical Assistance	595	30			625
Sub-Total Grant	595	30			
TOTAL	1,360	16,265	-0-	6,400	24,025

TABLE IV. 9

Summary Cost Estimate and Financial Plan

(US $ 000)

Supplement

SOURCE	AID FX	AID LC	HOST COUNTRY FX	HOST COUNTRY LC	TOTAL
USE					
Development Loan Funds					
Credit					
- Special Line of Credit					
- Integral Line of Credit		23,300		12,800	36,100
- Investment Line of Credit					
Vehicle and Equipment	500	200			700
Integrated Pest Management				200	200
BFA Operational Support					
Contingency					
Sub-Total Loan	500	23,500		13,000	
Development Grant Funds					
Technical Assistance	500				500
Sub-Total Grant	500				
TOTAL	1,000	23,500		13,000	37,500

TABLE IV. 10

Summary Cost Estimate and Financial Plan

(US $ 000)

Life of Project

SOURCE	AID FX	AID LC	HOST COUNTRY FX	HOST COUNTRY LC	TOTAL
USE					
Development Loan Funds					
Credit					
- Special Line of Credit		11,000		3,900	15,000
- Integral Line of Credit		39,500		12,800	52,300
- Investment Line of Credit				3,900	3,900
Vehicle and Equipment	1,030	200			1,230
Integrated Pest Management	200			200	400
BFA Operational Support				2,500	2,500
Contingency	35	35			70
Sub-Total Loan	1,265	50,835		23,000	
Development Grant Funds					
Technical Assistance	1,475	150			1,625
Sub-Total Grant	1,475	150			
TOTAL	2,740	50,985		23,300	77,025

Table IV.11

PROJECTION OF EXPENDITURES FOR FISCAL YEAR 1983

(US$ 000)

SOURCE	A I D			Host Country	Total
	Loan	Grant	Total		
USE					
Credit					
- Special Line of Credit					
- Integral Line of Credit	20,711		20,711	5,943	26,654
- Investment Line of Credit					
Vehicles and Equipment					
Integrated Pest Management				100	100
BFA Operational Support					
Contingency					
Technical Assistance		190	190		190
TOTAL	20,711	190	20,901	6,043	26,944

Table IV. 12

PROJECTION OF EXPENDITURES FOR FISCAL YEAR 198:

(US$ 000)

SOURCE	A I D			Host Country	Total
	Loan	Grant	Total		
USE					
Credit					
- Special Line of Credit					
- Integral Line of Credit	2,589		2,589	741	3,330
- Investment Line of Credit					
Vehicles and Equipment	700		700		700
Integrated Pest Management				100	100
BFA Operational Support					
Contingency					
Technical Assistance		310	310		310
TOTAL	3,289	310	3,599	841	4,440

TABLE IV. 13

Costing of Project Outputs/Inputs

(In $ 000 or equivalent)

PROJECT OF INPUTS	Project Outputs								TOTAL
	a.	b.1	b.2	b.3	b.4	b.5	b.6	c.	
AID Appropriated:									
- Integral Line of Credit (DL)	23,300								23,300
- Vehicles and Equipment							700		700
- Technical Assistance (DL)		61	64	88	29	35	223		
Host Country:									
- Integral Line of Credit	12,800								12,800
- Integrated Pest Management								200	200
T O T A L	36,100	61	64	88	29	35	923	200	37,500

V. PROJECT SUPPLEMENT ANALYSIS

A. Economic Analysis

To provide an appraisal of the economic returns to be produced by the supplement, an abbreviated Cost-Benefit Analysis (CBA) was performed. The analysis consisted of an estimating a stream of incremental benefits by comparing situations of "with" and "without" project financing for the production of four commodities; corn, sorghum, beans and rice. The same procedure was repeated with respect to costs, to produce an incremental cost stream A Benefit-Cost Ratio was produced by comparing the present values of both the benefit and cost streams. The appraisal concludes with the presentation of the Net Present Value of the project's discounted bnefits minus its discounted costs, whcih in this analysis proved to be positive.

The four commodities mentioned above were selected for the purposes of this appraisal on the basis of the relative case with which their respective benefit and cost streams can be identified and subjected to quantitative economic analysis. With adequate information all the commodities and goods proposed for financing under this supplement could be economically appraised. However, at this juncture several of the commodities or goods are listed in the proposed financial plan under general nomenclatures like vegetables, fruits, farm equipment, farm improvements, etc. While this is certainly appropriate for the purposes of project planning, it is not conducive to systematic economic analysis. The commodities appraised represent 42 percent of the credit to be disbursed under the Integral Line of Credit during the 1983/84 crop year.

Prior to initiating the economic appraisal the following set of assumptions were made:

1. During the period under consideration, externalities such as weather and civil strife will not significantly impact upon the relevant benefit stream. This assupmtion is discussed in the sensivity analysis.

2. Prices and costs decrease or increase at such rates that over time the relative values of increasing or decreasing costs and benefits do not vary.

3. For the purposes of this analysis the distribution of credit among the basic grains crops will not vary during the period under consideration nor will productivity expressed in terms of yields. This is significant in that the benefits derived from purchased inputs and the concomitant increased in required labor are different for different crop mixes.

4. There is not a significant difference between the farm gate price expressed in terms of the Central American wholesale average price and the social costs of producing the commodities considered. As such, shadow prices were not calculated.

TABLE V. 1

NATIONAL AVERAGE COST AND BENEFITS FOR BASIC GRAINS 1980-81
(US $)

	CORN	SORGHUM	RICE	BEANS
Gross Benefits	513	249	1004	729
MT/Ha.	2.23	1.16	3.24	0.81
Average Price MT	$230	$215	$310	$900
Gross Costs	672	398	952	706
Inputs	201	98	349	237
Land Preparation	52	41	80	56
Planting, Harvesting	236	140	299	261
Administration	15	8	23	17
Contingency	26	14	37	29
Interest	33	18	49	37
Land Rental	86	69	92	57
Internal Transport.	23	10	23	12
Net Benefit or Loss()	(159)	(149)	75	23

Source: MAG/DGEA: Anuario de Estadísticas Agropecuarias

TABLE V. 2
GROSS BENEFITS PER Ha.
(US$)

Commodity	Wholesale Average Price/MT	Without Inputs Yield/MT Per Ha.	Without Inputs Gross Benefits per Ha.	With Inputs Yield/MT per Ha.	With Inputs Gross Benefits per Ha.
Corn	229.01	1.6	366	4.61	1,056
Sorghum	215.74	1.15	248	2.02	436
Rice	310.00	1.6	496	4.80	1,488
Beans	900.00	0.77	693	1.3	1,170

TABLE V. 3

PRODUCTION COSTS AND BENEFITS PER Ha.
(US $)

	CORN		SORGHUM		RICE		BEANS	
	Without	With	Without	With	Without	With	Without	With
Gross Costs	364	831	261	385	622	1171	482	725
Seeds	15	30	9	9	80	100	80	80
Fertilizer	—	150	—	65	—	250	—	150
Pesticides	—	27	—	16	—	42	—	40
Herbicides	—	57	—	—	—	70	—	—
Capital Cost	20	50	10	10	108	108	—	—
Land	85	85	70	70	120	120	60	60
Labor	220	330	130	176	280	357	280	318
Internal Transport	8	20	6	10	8	16	4	8
Contingency	16	37	11	18	26	48	22	34
Interest	-	45	—	11	—	78	—	35
(Credit)		(460)		(110)		(600)		(230)
Gross Benefits 1/	366	1056	248	436	496	1488	693	1170
Net Benefits	2	225	-13	51	- 126	317	211	445

1/ For derivation of estimates, see Table 4.

Source: BFA and MAG/DGEA.

TABLE V. 4
ECONOMIC CASH FLOW
COSTS AND BENEFITS PER Ha.
(US $)

	CORN		SORGHUM		RICE		BEANS	
	Without	With	Without	With	Without	With	Without	With
Gross Benefits	366	1056	248	436	496	1480	693	1170
Gross Costs	254	704	171	315	482	1056	306	596
Seed	15	30	9	9	80	100	80	80
Fertilizers	—	195	—	85	—	325	—	195
Pesticides	—	28	—	16	—	42	—	40
Herbicides	—	57	—	—	—	70	—	—
Capital Cost	20	50	10	10	108	108	—	—
Land	85	85	70	70	120	120	60	60
Labor	110	165	65	88	140	179	140	159
Internal Transport	8	20	6	10	8	16	4	8
Contingency	16	37	11	18	26	48	22	34
Credit Delivery (8% of credit)	—	37	—	9	—	48	—	30
Net Benefits	112	352	77	121	14	432	387	574
Increased Benefits		690		188		992		477
Increased Costs		450		144		574		290
Cash Flows		240		44		418		187

Using the most recent data available, input prices and to quantify the cost stream were taken from a late 1980 report prepared by the Inter-American Bank on its Global Credit Program for the Reformed Agricultural Sector and from the yearly statistical report of the Office of Agricultural Development (DGEA). The former lists and compares the costs of producing the four commodities considered here in El Salvador under conditions of fertilizer application and non-application, the "with" and "without" situations needed to estimate incremental costs and benefits. With respect to recurrent costs, this appraisal uses the BFA estimate that it costs that institutions eight cents in administrative costs to deliver one dollar of credit.

The incremental benefit stream was estimated by calculating the increased physical output and value that would be produced by the purchase and application of improved or modern production inputs to be financed with credit from the Supplement's Integral Line.

The product prices used to estimate the incremental benefit stream were taken form published 1980 Central American average wholesale prices for each of the four commodities. The Central American average wholesale price was used to approximate a farm gate price and to account for market imperfections as well as the importance of these commodities, especially rice, in interregional trade in Central America.

To conclude the appraisal, a cash flow analysis was executed. Using the estimation procedures described above, the increased costs and benefits were determined and then compared to the yields that the National Agricultural Technology Center (CENTA) estimates are likely to be obtained without the use of agricultural inputs. The cots were reduced to labor, land, and the minimal expenses that can be covered by small farmers. The "with" situation was also based on CENTA's estimated yields obtained when using agricultural inputs. Costs were estimated to cover the input requirements to arrive at these yields, as reported by BFA and adjusted according to information provided by the Office of Agricultural Economics (DGEA), of small farmers costs obtaining yields similar to those proposed by CENTA.

Table V. 5 lists the amount of supplementary project funds available for basic grain production, projected financing for the following years based on 80 percent reflows, and the projected average loan per commodity per year. The amount available for the 1982/1983 crop year totals $9,690,000.

TABLE V. 5

BASIC GRAIN PRODUCTION CREDIT

(Thousands U.S $)

Commodity	Average Loan Per Hectar (in $)	CROP YEAR Year 1 1982/83	Year 2 1983/84	Year 3 1984/85	Year 4 1986/87	Year 5 1987/88
Corn	460	5,220.8	4,176.6	3,341.3	2,673.0	2,138.4
Sorghum	110	892.0	713.6	570.8	456.7	365.4
Beans	230	1,437.2	1,149.8	919.8	735.8	588.6
Rice	600	2,140.0	1,712.0	1,369.6	1,095.7	876.6
TOTAL		9,690.0	7,752.0	6,201.5	4,961.2	3,969.0

The area to be planted in basic grains with financing from the project supplement was estimated by dividing the amount scheduled for each of the commodities by average loan per hectar. The total area to be financed during the 1983/84 and following crop years, the latter set of estimates based on reflows of 80 percent, is presented in Table V.6.

TABLE V. 6

AREA PLANTED

Crop Year
(HA)

Commodity	1983/84	1984/85	1985/86	1986/87	1987/88
Corn	11,350	9,078	7,264	5,811	4,649
Sorghum	8,109	6,487	5,189	4,151	3,322
Beans	6,249	4,999	3,999	3,199	2,559
Rice	3,566	2,853	2,282	1,826	1,461
TOTAL	29,274	23,417	18,734	14,987	11,991

One caveat may be in order at this point. The yields projected in Table V. 2 are model, not mathematically expected yields. That is, they are the yields which will occur in a "normal" year. Projected yields should take into account

TABLE V. 7

PROJECT BENEFITS

(Thousands of U.S.$)

COMMODITIES	1983/1984			1984/1985			1985/1986		
	INCREMENTAL BENEFITS	INCREMENTAL COST	CASH FLOW	INCREMENTAL BENEFITS	INCREMENTAL COST	CASH FLOW	INCREMENTAL BENEFITS	INCREMENTAL COST	CASH FLOW
[illegible]	7,831.5	5,107.5	2,724.0	6,263.8	4,085.1	2,178.7	5,012.2	3,268.8	1,734.4
[illegible]	1,524.5	1,167.7	356.8	1,219.6	934.1	285.5	975.5	747.2	228.3
[illegible]	2,980.8	1,812.2	1,168.6	2,348.5	1,449.7	934.8	1,907.5	1,159.7	747.8
[illegible]	3,537.5	2,046.9	1,490.6	2,830.2	1,637.6	1,192.6	2,263.7	1,309.9	953.8
TOTAL	15,874.3	10,134.3	5,740.0	12,698.1	8,106.5	4,591.6	10,158.9	6,485.6	3,673.3

COMMODITIES	1986/1987			1987/1988		
	INCREMENTAL BENEFITS	INCREMENTAL COST	CASH FLOW	INCREMENTAL BENEFITS	INCREMENTAL COST	CASH FLOW
[illegible]	4,009.6	2,615.0	1,394.6	3,207.8	2,092.0	1,115.8
[illegible]	780.4	597.7	182.7	624.5	478.4	146.1
[illegible]	1,525.9	927.7	598.2	1,220.6	742.1	478.5
[illegible]	1,811.4	1,048.1	763.3	1,449.3	838.6	610.7
TOTAL	8,127.3	5,188.5	2,938.8	6,502.2	4,151.1	2,351.1

the reality of periodic crop failure, recognizing (a) that crop failures are seldom total, but (b) "improved" seed variations tend to be more sensitive to drought, insect infestation, etc., than are criollo or indigenous varieties. The probability of crop failure and the expected loss are unknown but probably sufficient to call for a modest reduction in the benefits shown on Table V. 7. The present state of civil unrest would increase this risk and call for a further reduction in the benefit estimates of Table V. 7.

For example, if one-half of the crop is lost every four years (and assuming that the loss is neutral between improved and traditional varieties), the level of benefits would be reduced by approximately 10 percent. If an addition, projected yiel estimates are overly optimistic, the effect on project feasibility will be substantial (although probably not decisive).

Even a cursory review of this project would demonstrate that strict measures of investment feasibility are inappropriate. Only a small portion of the funding programmed will be used for categories that could be considered investment. Project proceeds will be used to finance the purchase of production inputs during individual crop years. Consequently, the question of feasibility will depend on benefits exceeding costs. The conclusion presented in Table V. 10 indicates a Benefit-Cost Ratio of 5.1.

The present value of project benefits for each of the crop years comprising the benefit stream is listed in Table V. 8. Benefits were discounted at a rate of ten percent, which is an approximation of the rate of interest at which the GOES would have borrow captial.

TABLE V. 8

PRESENT VALUE OF PROJECT BENEFITS

(Thousands of U.S. $)

YEAR	Project Benefits	Present Value
1983/1984	5,740.0	5,218.2
1984/1985	4,591.6	3,794.7
1985/1986	3,673.3	2,759.8
1986/1987	2,938.8	2,007.2
1987/1988	2,351.1	1,459.8
T O T A L	19,294.8	15,239.7

The present value of the project costs were determined on the basis of the following factors; a loan principal of $9,690,000, a grace period of ten years with interest accruing at two percent and a thirty year repayment period at three percent annual interest. Biannual interest payments to paid during the grace period will amount to $96,000 and the biannual payments, to be made during the repayment period, will total $246,062.31. Table V. 9 presents the present value of project costs discounted at ten percent.

TABLE V. 9

PRESENT VALUE OF PROJECT COSTS

(U.S. $)

PERIOD	Annual Costs	Present Value
Grace Period		
10 years	193,800.00	1,207.588.18
Repayment Period		
30 years	492,124.62	1,795,777.64
T O T A L	685,924.26	3,003,365.82

As was mentioned above, a benefit-cost ratio of 5.1 was derived by comparing the present value of project benefits estimated at $15,239,700 to the present value of project costs estimated to be $3,003,400. Both benefits and costs were calculated on the basis of the ten percent discount rate. Table V. 10 summarizes the benefit-cost ratio.

TABLE V. 10

BENEFIT COST RATIO

(Thousands of U.S.$)

	Present Value
Project Benefits	15,239.7
Project Costs	3,003.4
Benefit Cost Ratio	5.1

To conclude the appraisal, a Net Present Value for the project was calculated by comparing the presetn values of project benefits and project costs. The resulting Net Present Value of $12,236,300 is presented below in Table V. 11.

TABLE V. 11

NET PRESENT VALUE

(Thousands of U.S.$)

	Present Value
Project Benefits	15,239.7
Project Costs	3,003.4
Net Present Value	12,236.3

B. Administrative Analysis

The Agricultural Development Bank of El Salvador (BFA) was founded in 1973 for the purpose of increasing the flow of credit to the agricultural sector, the majority of its clients were small farmers who previously had no access to institutional sources of credit at competitive rates of interest. During the years prior to the initiation of the agrarian reform in 1980 the BFA performed this function well. The capital position of the BFA was very strong. In 1978 the debt/equity ratio was 1.5 to 1 with a total loan portfolio of $26.4 million. Although the BFA lost $0.6 million on banking operations in 1978 this was more than made up for by the percentage of central bank net income contributed by the BCR. However, demand for BFA credit expanded enormously following the initiation of the agrarian reform.

The responsibility assigned to the BFA as the source of credit for the majority of the agrarian reform beneficiaries placed a heavy burden on the administrative capacity of the BFA. During 1980, the BFA was given responsibility for supplying credit to the newly created Phase I cooperatives. Unfortunately both the BFA, whose previous loan experience had been with small and medium size farms, and the cooperative borrower, whose management was inexperienced in financial and administrative matters, were unable to properly supervise the utilization of these loan funds. In August 1980, the Phase I cooperative farms were allocated among all of the financial institutions; the BFA was assigned specific responsibility for 94 of them. Shortly thereafter, the BFA was assigned responsibility for all Decree 207 beneficiaries, another large pool of relatively inexperienced borrowers. The BFA administrative structure and procedures have not been able to adapt fully to these new responsibilities and, as a consequence of this, and the socio-economic instability in some geographic areas which has prevented close loan supervision, the financial condition of the bank has suffered. Recuperation of loans has dropped from pre-reform performance; the BFA has been forced to seek more expensive funds from the BCR to meet new credit demand, thus lowering its average interest earnings spread; and administrative costs have almost doubled.

In spite of the rapid increase in demand for BFA credit, the bank has carried out its responsibility to supply the demand for credit during the past three years. BFA management has committed itself to a fundamental financial and administrative restructuring to enable it to continue to fulfill its function in the future. With A.I.D. assistance, the BFA has designed and implemented a major reorganization of management which will focus scarce bank resources, both financial and staff, on high priority areas, primarily agrarian reform beneficiaries. In addition, the BFA has begun to work closely with other GOES agencies, such as ISTA and FINATA, as well as the agrarian reform beneficiaries themselves, to assure that BFA loan funds are programmed for priority needs and used as programmed. Additional assistance to BFA management,

in the form of technical assistance and internal training program development, is required to institutionalize the reorganization, establish a system of short and long-term financial planning, complete the design and implementation of a realistic recuperation program, and participate in the design of a coordinated program of support services, credit, technical assistance and training to be supplied to the agrarian reform beneficiaries by the GOES.

As of November 1982, the BFA employed a staff of 1,251 persons. Since 1979 the staff has increased by 289, or 30 percent. Of this total 596 are employed in the headquarters in San Salvador; the remaining 657 are employed in the regional offices or the field agencies. Professional and technical staff comprise approximately 43 percent of BFA employees. Included in this category are agricultural field agents (increased from 192 in 1979 to 294 in February 1983) who operate from the regional offices and field agencies, offering technical assistance to sub-borrowers and advising the BFA loan committees on credit applications. In response to the rapid increase in size and amount of sub-loans, the bank must further streamline its internal management policies and procedures with emphasis on the transfer of existing physical and staff resources to the field and improved backstopping in information processing and report generation, coordinated policy and procedural development, and management asssistance.

To accomplish this task, the BFA, with the assistance of Servicios Técnicos del Caribe (STC), has designed a program to reorganize its administrative and management structure. The primary objective of the reorganization is to consolidate the administratio of the BFA and direct additional resources into the credit related functions of the bank. Implementation of the reorganization will speed-up the BFA response to credit applications and increase the rate of loan recuperations. Offices with similar or related functio were folded into each other to facilitate the supervisory responsibility of management by reducing the span of control for each manager. As a result of the consolidation, a new Credit Division was created. The manager of this division is also responsible for the banking operations of the regional offices and field agencies.

In order to support the work of the newly created Credit Division, several previously independent operating units have been placed under its control and two new offices have been created; the Department of Agricultural Credit and the Agrarian Reform Unit. The former will analyze and develop a revised set of credit regulations to be applied to different categories of BFA clients and to participate in the preparation and administration of credit plans. The Agrarian Reform Unit will be strengthened and given increased responsibility to produce farm plans and corresponding credit plans for Phase I farms. These plans will be developed on the basis of an analysis of the productive capacity of each cooperative. The goal is to adjust the flow of credit to maximize short and long-term production and income. The unit will work closely with ISTA

management responsibility for Phase I farms from ISTA technicians to qualified, experienced farm managers and accountants contracted by the cooperatives themselves.

Although the creation of the Credit Division was the most important single step taken during the reorganization, several other important staff offices were also affected.

a. The Planning Unit will report directly to the Presiden of the BFA and will have the responsibility to analyse, make recommendations, and supervise implementation of bank policy through budget preparation and controls and economic analysis of the agricultural sector. The objective is to improve the medium and long-range planning capability of the band.

b. The Office of Administrative Management will absorb three new units which will be assigned increased reponsibilities. The Human Resources Unit will design and implement a training program to improve the quality of BFA personnel, in addition to its normal personnel office functions. The Organization and Methods Unit will receive technical assistance to design a training program for its own staff. This training will improve the qualifications of the unit staff so that it can then be responsible for the development of an operations manual which reflects the reorganized structure of the BFA. The budget and Cost Control Unit will assist each office to develop its own expense budget which will be consolidated into a global budget for the BFA. The objective is to create a bottom-up budgetary process for the BFA. as opposed to the current top-down budgetary process which reflects projected expenses by major functional areas rather than operating divisions and units.

c. The Office of Financial Management will supervise the computer processing and accounting units so as to facilitate the flow of information required to produce a series of financial reports for management decision making, such as cash flows, financial statements, loan recuperations performance, etc. Further analysis will be made of the work flow in the expanded Office of Financial Management to establish procedures and develop operations manuals and design a training program for personnel to improve the efficiency and quality of information produced and reported by this office.

The reorganization of the BFA is not expected to create the need for additional personnel or any accompanying increase in salary expenses. While new positions are being created, existing positions are being eliminated. Thus, existing personnel will be reassigned to these new positions. For example, the newly created Office of Portfolio Management (described in Chapter III, Section B.2.c) will be staffed with personnel to be removed from the Regional Offices. The staffing levels of the Regional Offices will be reduced substantially as result of the removal of the loan review and approval functions. In the future, the reduced Regional Office staff will be resposible for providing management assistance to the field agencies. In global terms,every effort will be made to match employee qualifications to new positions. However, a coordinated training program for employee development will be designed and implemented to assure a smooth transition.

TABLE V. 12

ORGANIGRAMA DEL BANCO DE FOMENTO AGROPECUARIO

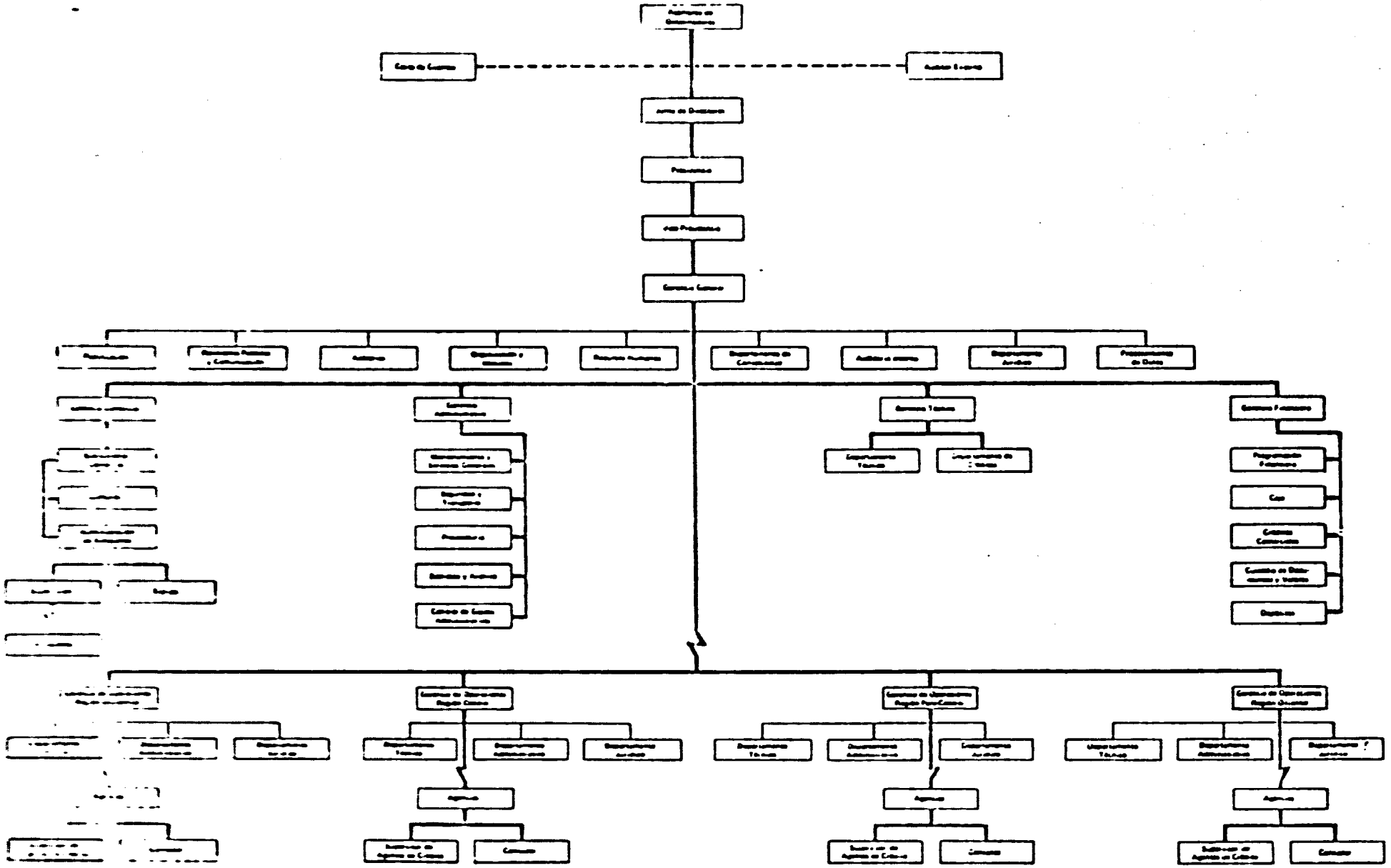
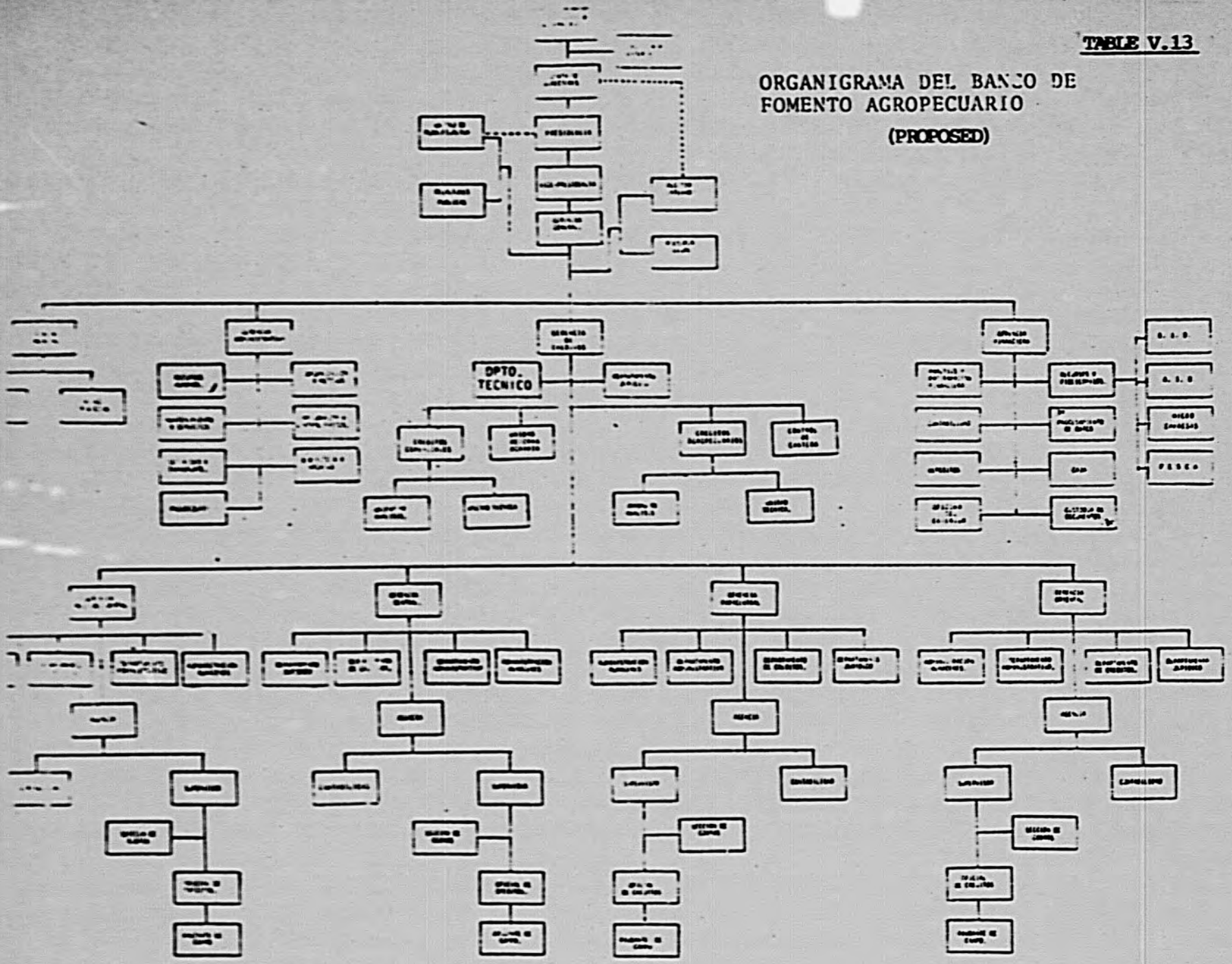


TABLE V.13

ORGANIGRAMA DEL BANCO DE FOMENTO AGROPECUARIO

(PROPOSED)



C. Social Soundness Analysis

The Agrarian Reform Credit Project's beneficiary population consists of 94 Phase I cooperative farms, actual and potential beneficiaries of Decree 207, and other small farmers. The agrarian reform beneficiaries became the focus of U. S. G. and GOES assistance in 1980, as a result of a series of GOES decrees that established the legal framework for the agrarian reform. The reform was instituted to promote greater income equity, expand rural employment, and increase and diversify agricultural production. As of March 1, 1983, the reform process has transferred control of 328 properties largen than 500 hectares to approximately 27,755 farm laborers and their families. Under the second active phase of the reform, Phase III or Decree 207, over 48,000 small farmers have applied for user rights to parcels they have been working as renters or sharecroppers. Of the farmers applying approximately 30,358 have received provisional titles which provide them with user rights. Of that group, 1,410 have received definitive titles. The land area affected by these two phases of the reform total 745,000 acres. The agrarian reform process has had, and will continue to have, a profound and lasting impact on the social and economic structure of the Salvadoran society.

Although the two active phases of the agrarian reform process are very distinct in both concept and implementation, their respective beneficiary populations can be characterized as having low standards of living and limited access to the services that satisfy basic human needs like housing, potable water, sanitation, and education. Prior to the reform both beneficiary populations had little or no control over the land they worked and were by and large outside the institutionalized credit system.

1. Phase I Beneficiary Population

Phase I of the agrarian reform radically transferred the status of resident farmers on cooperative farm properties larger than 500 hectares from that of farm laborers to that of a cooperative members participating in the management of a large and complex agricultural enterprise. That has proven to be the most immediate effect of the reform. Longer term goals of the reform - enhanced living standards for its beneficiaries and their full and active participation in the country's socio-economic development-have yet to be realized. The objectives will be achieved once the beneficiaries are able to marshal the financial and physical resources at the same time they develop the managerial skills needed to increase production and income to a level that will enable them to acquire the goods and services to enhance their standards of living.

At the time the Phase I properties were expropriated, there was a dearth of reliable information about

the resident population on the properties. The most recent Census of Agriculture had been conducted in 1971. In the intervening time, the size of the permanent labor force on the large properties continued the steady decline that began in the mid-1960's as farm owners began reducing the number of permanent laborers in their employ as a reaction to legislated minimum wages. As the permanent labor force decreased, there was a corresponding increase in the size of the temporary labor force available to the farms. There are indications, albeit inconclusive at this time, that the reform has initiated a reverse in this trend. A sample survey of twelve cooperatives conducted at the time of expropriation indicated, that on the average, temporary workers outnumbered permanent by a ratio of two to one. A replication of the survey two years later indicated that, on the average, the employment situation on the cooperatives during the intervening two years had changed to the point where cooperative members as permanent workers outnumbered those regarded as temporary by a ratio of two to one. During the same period, the cooperatives also hired non-cooperative members to meet their demand for labor during peak periods. The total labor force on these twelve cooperatives has doubled in the time since expropriation. However, at the same time that the labor force on these cooperatives was expanding, their combined optimal labor utilization declined from 13.3 million person days worked during the 1980/1981 crop year to 11.7 million person days worked in 1982/1983. The obvious combined effect of these two trends is to reduce the potential income available to each cooperative member and to strain the cooperatives' ability to meet their financial obligations and provide social services to the membership. In sum, studies of the Phase I beneficiaries conclude that the daily wage rates on Phase I properties have not changed significantly from pre-reform levels.

In 1978 a group of Salvadoran rural sociologists conducted a survey of the country's rural poor population, a sub-set of which would consist of potential agrarian reform beneficiaries. Using data generated by that study, researchers at the Ohio State University prepared a study entitled, "El Salvador Rural Poor Survey". Survey results documented and quantified the inadequate schooling, low levels of education and literacy, non-existent sanitation, sub-standard housing, and restricted access to farm land that was prevalent in rural El Salvador at the time the survey was conducted. Unfortunately, studies of the Phase I properties and beneficiary population conducted prior to and following the initiation of the reform have not employed consistent socio-economic indicators thus precluding any comparative analysis. In its December 1982 report, however, the Checchi Study team included the results of a random sample survey of nine cooperatives farms. While definitive comparisons cannot be accurately established between pre-reform and post-reform conditions on the basis of the Checchi analysis, its results and conclusions are informative. For example, only 28 percent of the respondents indicated having dwellings with access to latrines, 32 percent reported having electricity in their homes, and 68 percent said that

they had completed two or fewer years of formal education. Although, the two surveys had different scopes and employed different methodologies, their results closely correspond, and interestingly enough, the Checchi survey, which did not document any measurable improvement in the quality of life on the Phase I cooperatives, did report that a majority of the respondents felt that the reform had improved their lives and was a good idea.

One of the ways in which the Checchi survey respondents felt that the GOES could assist the cooperative farms was the provision of additional amounts of credit on a timely basis. Using 1978 data, the Ohio State study found that only 16 of the 83 respondents (19 percent) of the Rural Poor Survey had access to more than half an hectare of land in 1978. In addition, only six of 72 respondents, or eight percent, reported having access to some source of production credit. With the implementation of Phase I of the agrarian reform, most of these same people should now have access to substantial productive resources, both land and equipment, as well as credit to work the land. However, in order to effectively work this land, the majority felt that additional amounts of credit were needed and that the credit should be disbursed more punctually.

2. Decree 207 Beneficiary Population

There had been several legislated attempts to regulate the rental of agricultural land in El Salvador prior to the proclamation of Decree 207. They all proved unworkable. By granting a sharecropper or renter user rights to a parcel of land, an act that initiates a process which results in the definitive titling and legal transfer of the parcel to the former renter or sharecropper, the Decree 207 beneficiary is freed from the obligation of paying a landlord in cash, crop, or service for the use of the parcel. The intent of Decree 207 is that, by making a modest, long-term amortization payment to the government to defray the cost of the land instead of annually determined rent to the landlord, the beneficiary's costs of production decrease and his/her net income increases. The marginal increase in income will be invested in improved agricultural inputs, resulting in increased yields (especially basic grains which have been the primary crops grown on rented lands). Diversification into cash and export crops and investments in more profitable productive enterprises such as fruits and vegetables are benefits anticipated for the long-term.

As was the case in Phase I, agrarian reform planners were hampered in their planning for Decree 207 by the fact that the Census of Agriculture had not been conducted since 1971, which made it difficult to estimate the amount of land that could be affected by the decree and the number of potential beneficiaries. The most recent estimate of the land that could be affected by the decree is 282,000 hectares of 19 percent of the

country's farm land. It was not until quite recently that a reliable estimate of the potential beneficiary population's size was made available. The Office of Agrarian Reform Planning and Evaluation (PERA) conducted a nation-wide survey of rural hoseholds in January 1983, to estimate the size of the Decree 207 beneficiary population. Survey results indicate that approximately 117,000 small farmers qualify as Decree 207 beneficiaries.

The Office of Agrarian Reform Planning and Evaluation conducted another survey in late 1982, to produce a socio-economic profile of the Decree 207 beneficiary population. As concluded in similar studies of the Phase I beneficiary population, the survey portrays a group of people with a very low standard of living and limited access to basic services. One of the principal objectives of the survey was to collect data that would enable researchers to determine if beneficiaries have realized improvements over their pre-reform standard of living. Although more than 50 percent of the respondents could not report any noticeable improvement in their standard of living, a significant number reported that they had constructed new houses (13 percent) and installed latrines (6 percent) during the two years since the initiation of Decree 207. More than 50 percent of the respondents have not or do not hope to realize improvements in social goods such as education, housing, and basic services. However, the same proportion responded positively when asked if they had improved access to land and more secure employment; the remaining respondents expected that those benefits would be realized in the future. Over half the beneficiaries described themselves as illiterates; 70 percent of them also stated that they had received less than two years of formal education. Survey results indicate that 87 percent of the respondents reside in dwellings without sanitary facilities, 55 percent have access to neither well nor piped water, and 84 percent have houses with earthen floors. In addition to title to their land, the beneficiary population will need additional resources,especially credit to raise their standard of living.

Unfortunately, no survey work specific to small farmers renters or sharecroppers, which would permit comparative income analysis, had been conducted prior to the proclamation of Decree 207. However, the PERA study did examine current income levels of the Decree 207 beneficiaries and found that their annual average income was $740 per year, 65 percent of which is derived from the sale of agricultural commodities produced on their parcels. This figures compares unfavorably with average earnings of $790 for the agricultural labor force and average earnings of $1,090 for the nation (information obtained from the 1980 Multipurpose Household Survey). The relatively low income of Decree 207 beneficiaries is the result of many factors, including the small size and poor location of the farm holdings and the rudimentary technology and agricultural inputs used in production. However, increased access to credit and technical

assistance should improve the latter.

According to PERA study, prior to the implementation of Decree 207, 70 percent of the beneficiaries were forced to use their own savings for the purhcase of agricultural inputs. Only 23 percent of the respondents used bank credit. Since the agrarian reform, the percentages of Decree 207 beneficiaries using bank credit has increased by 50 percent to 36 percent of the group. The percentage of beneficiaries who used their own funds to purchase agricultural inputs has dropped from 57 percent to 45 percent. Of those Decree 207 beneficiaries receiving credit from national banking system, 85 percent are clients of the BFA according to survey results. The survey results also indicated that 59 percent of those beneficiaries are members of the BFA's solidarity groups, a method by which the bank is able to service the credit needs of dispersed small farmers by grouping them together to determine their credit needs and to later make the actual credit delivery. Another 24 percent of the respondents, both current credit recipients and non-credit users, indicated a desire to participate in some sort of formalized group credit delivering system.

The relatively low number of credit recipients is indicative of another problem facing Decree 207 beneficiaries, lack of technical assistance in agricultural production methodologies. Only 23 percent of the PERA survey respondents indicated that they received technical assistance and 85 percent of these received this assistance from the BFA field agents. The solidarity group mechanism could improve to be an effective vehicle for improving access to credit by Decree 207 beneficiaries, improving supervision and recuperation of this credit by the BFA, and directing both agricultural extension and social services to the group.

VI. IMPLEMENTATION ARRANGEMENTS

A. Administrative Arrangements

The GOES signatories to the amended loan and grant agreement will be the Ministers of Planning and Agriculture. The loan and grant funding scheduled to capitalize the integral line of credit and to finance the institutional strengthening of the BFA and the host country counterpart contribution will be allocated from the Central Bank to the BFA. The BFA's General Manager has and will continue to exercise primary project management responsibilities for the GOES.

USAID's Rural Development Officer or his/her designee will have primary responsibility for the overall supervision of the project's implementation in a manner consistent with the goals and purposes described in this document. As project implementation requirements necessitate, the Rural Development Office will utilize the services and support of USAID's Projects, Program, Management and Controller's Offices to insure that the project resources and services described herein are provided in an adequate and timely manner.

As part of its overall project management responsibilities, USAID will conduct quarterly, or more frequently if conditions necessitate, project review meetings in conjunction with the BFA executive and project management staffs and representatives of the technical assistance contractor, STC. As part of its preparation for these meetings, the BFA will prepare and submit to USAID a financial statement detailing credit disbursements and drawdowns on the Integral Credit Line. Concurrent with the submission of the BFA's financial statement, STC's chief of party will submit a report describing the progress made and problems encountered by the advisory team contracted under the terms of the technical assistance contract's scope of work. A consolidated quarterly report describing the progress of both the BFA and the STC advisory team in the attainment of project goals, factors constraining progress encountered, and problems pending or anticipated will be presented to USAID's Rural Development Office.

B. Implementation Plan

The implementation schedule below lists the various activities that will be completed as part of the project's continuing implementation and the dates of their expected completion. Table VI.1 provides a detailed scheduling in bar chart form of the various categories of technical assistance that have been funded to date, those that will be funded by the supplement, and the quarters in which they have been or will be provided.

Implementation Schedules	Target Date
1. Project Authorization Amendment	12 April 83
2. Project Agreement Amendment Signed	19 " 83
3. Additional Condition Precedent Met	25 " 83

TABLE VI.1

TECHNICAL ASSISTANCE

	1980	1981	1982	1983	1984	Supplement	TOTAL
Financial Analyst	—	— — — —	— — — —	— — — ≠	≠	3.25	PM 40.25
Personnel Management		— — — —	— — — —	—			20
Farm Credit	—	— — — —	— — — —	— — — ≠	≠	5 PM	41
Accounting			—	— — — ≠	≠	4.75	16.75
Audit			— —	— ≠ ≠	≠ ≠	12	21
Data Processing			— —	— ≠ ≠ ≠		10	22
Credit Management	—	— —	— — — —	—			18
Manpower Dev. Advisor				≠	≠	4	4
Credit Advisor (Collections)				— ≠ ≠	≠ ≠	12	15
Organizations & Methods				≠ ≠	≠	9	9
						60	207

NOTE:
— — — = Assistance funded to date
≠ ≠ ≠ = Assistance to be funded by this supplement

4. Integral Line of Credit Capitalized through Advance of AID funds	1 May 83
5. Procurement of Advisory Services under Technical Assistance Contract	
- Audit Advisor (12 PM)	2 May 83
- Credit Advisor (Collections) (12 PM)	2 " 83
- Data Processing Advisor (10 PM)	1 June 83
- Organization & Methods Advisor (9 PM)	1 " 83
- Farm Credit Advisor (5 PM)	15 " 83
- Manpower Development Advisor (4 PM)	15 " 83
- Accounting Advisor (4.75 PM)	30 " 83
- Financial Analyst (3.25 PM)	30 " 83
6. Quarterly Reports Presented	
- No. 1	15 July 83
- No. 2	15 Oct. 83
- No. 3	15 Jan. 84
- No. 4	15 April 84
7. Automatic Data Processing Equipment Ordered	21 Aug. 83
8. Project Activity Completion Date	31 December 84
9. Project Completion Report	30 June 84

1. Procurement Plan

AID procurement procedures outlined in Handbook No. 1, Supplement B, Chapter 19 (Intermediate Credit Institutions) will be followed. The Automatic Data Processing System described in Section F.1 of this paper ("Description of Supplemental Assistance") will be procured in compliance with the procedures contained in Handbook No. 11, Chapter 1, 2.2.1 ("Informal Competitivie Procurement Procedures"). Justification for the latter procurement mode is based on the need to procure specialized equipment where the requirements are stated in terms of performance type specifications that may not be adaptable for presentation in an IFB. A similar determination was made, based upon the same justification, in the case of the approved procurement of an Automated Data Processing System for the Ministry of Agriculture and Livestock under the "Agrarian Reform Organization" Project (No. 519-0262).

The Project's technical assistance as described in Chapter III B of this paper ("Description of Supplemental Assistance - Grant Funds) will

extending and incrementally funding USAID's current contract with Servicios Técnicos del Caribe, STC. The continued use of this contractor in the project's implementation has been justfied by USAID review of contract compliance and the documentation of satisfactory performance. The Regional Contracting Officer, who currently has the authority to negotiate contracts up to $5 million will review, negotiate and execute the amended contract in consultation with USAID.

2. Disbursement Schedule

As detailed in Chapter IV, AID will disburse $23.3 million under this project supplement to capitalize an integral line of credit which will finance the production credit and short-term investment requirements of agrarian reform beneficiaries and other small farmers. The Project Disbursement Plan calls for the full disbursement of the $23.3 million scheduled to finance the Integral Line of Credit by May 1, 1983. As is demonstrated in Table VI. 2 describing the BFA's cash flow, the greatest demand for BFA production credit occurs in the months of May and June, the on-set of the planting season. If project funding for the Integral Line of Credit is not fully disbursed by that time, the BFA will have to satisfy the demand for production credit by borrowing from relatively high cost funding sources, such as the BCR.

Technical assistance resources, along with GOES funds allocated for BFA operational support, will be disbursed in their entirety prior to the amended Project Activity Completation date of December 31, 1984.

Project funding allocated for the procurement of an Automatic Data Processing System with the programmed training of BFA staff will be disbursed in its entirety on/or about March 31, 1984.

The following briefly summarizes scheduled disbursements under the amended project:

1. $23.3 million for the Integral Credit Line by May 1, 1983;

2. $700,000 for Automatic Data Processing system and training by February 28, 1984;

3. $500,000 for technical assistance by June 30, 1984.

TABLE VI.2

BFA CASH-FLOW OF CREDIT FUNDS

April - December 1983

($ 000)

	April	May	June	July	August	September	October	November	December
Beginning Balance	29,200	22,148	30,618	28,111	21,011	19,455	16,375	14,343	13,893
AID-CCCS Counterpart									
BID-642	[illegible]								
BID 642 - Machinery	1,200	1,200	1,600	1,2[illegible]	[illegible]	960			
BCR - Annual Credit Crop						6,000		4,000	
BCR - Economic Development Fund			400	[illegible]	4[illegible]	[illegible]	400		
BCR - Cotton Refinancing					6,[illegible]				
Fertilizer Inventory	2,000	2,000							
Refinance	5,6[illegible]	12,920	5,320	4,840	2,240	2,200	1,257		
Finance Products	92[illegible]	920	920	960	9[illegible]	960	2,720	3,120	7,800
Income from Sale of Fertilizers	1,200	1,600	1,200				960	960	960
Sub-Total	40,938	40,788	40,058	35,5[illegible]	31,4[illegible]	29,575	21,712	22,423	22,653
Disbursements	18,790	24,360	26,157	17,0[illegible]	14,516	16,160	7,369	8,530	10,170
Sub-Total	22,148	16,428	13,901	18,4[illegible]	16,895	13,815	14,343	13,893	12,483
AID		11,650	11,650						
AID-CCCS Counterpart		2,560	2,560	2,560	2,560	2,560			
ENDING BALANCE	22,148	30,618	28,111	21,011	19,455	16,375	14,343	13,893	12,483

As shown in this Cash Flow, if AID supplement money ($23,300) is not advanced in May and June, BFA will have to borrow heavily from BCR at high rate of interest. If the advance is received on May and June, BFA will not have to borrow from BCR until August.

VII. EVALUATION ARRANGEMENTS

Previous evaluation exercises addressing issues relating to the Agrarian Reform Credit Project's implementation have consisted of USAID contracting the evaluative services of the Contracting Corporation of America (CCA) in mid-year 1982, to perform a financial analysis of the BFA's portfolio and a technical assessment of the services provided that institution through the contract with STC. Concurrent with that evaluation, STC conducted an institutional assessment of the BFA, which among other things, provided USAID with valuable insights into the Bank's institutional capacity to administer both internal and external resources. The on-going implementation of the agrarian reform project and the design of this supplement have both benefited from the information provided by the evaluative and assessment.

An evaluation of activities funded under this supplement will be conducted in November 1983. Using evaluation procedures acceptable to AID, an evaluation team consisting of a financial analyst, an agricultural economist, and an agricultural credit specialist will initiate their evaluation by a thorough review of the quarterly reports submitted by BFA staff and STC contractors. Using those reports as a point of departure, the evaluation team will determine the following:

The proportion of potential clients receiving credit under the Integral Line of Credit; the rate at which loan applications are received, processed and approved; the end uses of credit extended to agrarian reform beneficiaries; the ability of the BFA to supervise its agrarian reform portfolio through the adequate staffing of its field operations; the rate at which loans are being repaid; the rate at which farm financial plans are being prepared and submitted to the BFA and other financial institutions as support for loan applications, the degree to which cooperatives are participating in the preparation of financial plans, the technical adequacy of the plans, and the degree to which the banking system as a whole is utilizing the financial plans in meeting the production and investment credit needs of the reform sector.

VIII. CONDITIONS, COVENANTS AND RECOMMENDATING STATUS

Planning of this project supplement has proceeded to the point that the main issues concerning the project supplement have been addressed and substantively resolved to the satisfaction of the GOES and USAID/El Salvador. The project supplement has been discussed in detail with BFA officials during the foundation of its functional components as described herein. Thus the substance of the project supplement, including the following conditions and convenants, has been negotiated and no difficulties are expected in concluding negotiations of the project supplement grant and loan agreement.

A. Conditions Precedent

Prior to disbursement of the additional assistance provided under Amendment No. 3 of the Project Loan and Grant Agreement, or the issuance by AID of documentation pursuant to which disbursement will be made to finance credit activities, other than technical assistance, the GOES shall furnish to AID in form and substance satisfactory to AID, documentation describing proposed modifications to the Investment Credit Discount Line, which will ensure its rapid utilization by the commercial banks for onlending to Phase I cooperatives during the 1983/1984 crop year.

B. Covenants

1. The GOES agrees that, unless AID otherwise agrees in writing, within 45 days after signing Amendment No. 3 of the Project Loan and Grant Agreement it will furnish to AID, in form and substance satisfactory to AID, evidence that all the GOES documentation required for transferring all previous GOES counterpart contributions to the BFA has been completed.

2. The GOES agrees that, unless AID otherwise agrees in writing, within 45 days after signing Amendment No. 3 of the Project Loan and Grant Amendment it will cause the BFA to furnish to AID in form and substance satisfactory to AID: a) the timetable for completing the BFA administrative reorganization in CY83; b) the steps the BFA will take to improve the financial position of the BFA during the CY83; c) the policy adopted by BFA to strengthen the field operations in credit delivery and recovery; d) the training plan for BFA personnel through CY83; e) evidence that the BFA has entered into an agreement with ISTA to participate in its program to establish effective management on Phase I farms; and f) the implementation plan to upgrade the BFA data processing facilities.

3. The GOES agrees that, unless AID otherwise agrees in writing, within 90 days after signing Amendment No. 3 of the Project Loan and Grant Agreement it will cause the BCR to refinance the past due agricultural production credit debts accumulated since the initiation of the agrarian reform by all the Phase I cooperatives

and commercial banks, The terms and conditions of the refinancing mechanism should be structured to enable the financial institutions to base the payment schedule on the cooperatives' ability to pay as determined by individual farm plans.

ANNEX A

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: 1 year
From FY 1983 to FY 1984
Total U. S. Funding $25,000,000
Date Prepared: March 1983

Project Title & Number: Agrarian Reform Credit Project No. 519-0263

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
PROGRAM GOAL: To improve the socio-economic well-being of the agrarian reform beneficiaries and small producer clients of the BFA through increased agricultural production and employment.	Increased incomes. Increased on-farm employment. Increased productivity on agrarian reform and small producer properties.	Studies, reports and evaluation of BFA, ISTA and MAG.	Assumptions for providing inputs: Sufficient political stability to allow the GOES to provide necessary services. Stable or increasing farm gate prices for export production.
PROJECT PURPOSE: To increase both the availability of credit to the agrarian reform and small farm sectors who are clients of the BFA and the capacity of the Agricultural Development Bank (BFA) to provide such credit.	END-OF-PROJECT STATUS The BFA is providing timely credit to its clients and has a well managed credit portfolio.	BFA reports and USAID evaluations.	Timely availability of GOES and USAID funds. BFA Directors and top management remain committed to improving BFA operations.

ANNEX A

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: 1 year
From FY 1983 to FY 1984
Total U. S. Funding $24,500,000
Date Prepared: March 1983

Project Title & Number: Agrarian Reform Credit Project No. 519-0263

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Goal:	Magnitude of Outputs:		Assumptions for achieving outputs:
Agrarian Reform Farms and Small farms operating and investments credit requirements financed through the Integral Line of Credit.	a. A total of 60,518 subloans contracted as follows: Amount / No. / Ha. Decree 207 and Small Producers: 17.5 / 59,757 / 101,460 Phase I: 18.6 / 761 / 31,500 Total: $36.1 M / 60,518 / 132,960	BCR Reports	
BFA operations improved through:			
1) Management structure reorganization.	1) Management structure reorganization completed by September 1983.		
2) Development and implementation of a financial policy.	2) Loan recuperation problems researched, write-off and recuperation policy developed and procedures implemented.		
3) Development and implementation of a personnel policy aimed at strengthening the field operations and credit management activities, including expansion of the outreach program.	3) Personnel policies and procedures developed and implemented. Increased number of BFA personnel assigned to credit operations.		
4) Expansion of BFA internal training program.	4) Number of graduates of BFA internal training activities will increase by 20% during 1983.		
5) Participation of the ISTA Regional Cooperative Co-Management Program.	5) BFA will provide qualified personnel who will participate fully in all ISTA Regional Cooperatives Co-Management activities.		

Best Available Document

ANNEX A

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: 1 year
From FY 1983 to FY 1984
Total U. S. Funding $24,500,000
Date Prepared: March 1983

Project Title & Number: Agrarian Reform Credit Project No. 519-0263

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	Magnitude of Outputs:		Assumptions for achieving outputs:
6) Improved financial records management and reporting capability.	6) Computarized financial records and reporting system installed and operating. Timely and accurate reports on BFA financial operations produced for BFA management.		

(in $ Millions)

INPUTS	SUPPLEMENT	LOP
AID		
BFA Credit (DL)	$ 23.300 M	50.600
Vehicle and Equipment (DL)	.700 M	1.230
Integrated Pest Management (DL)	-	.200
Technical Assistance (DG)	.500 M	1.625
Contingency	-	.070
Total	$ 24.500 M	$ 53.725 M
GOES		
BFA Credit	$ 12.800	$ 16.700
BCR Investment Credit	-	3.900
BFA Operational Support	-	2.500
Integrated Pest Management	.200	.200
	$ 13.000 M	$ 23.300 M

MEANS OF VERIFICATION: BFA and AID records and reports.

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5C(2) PROJECT CHECKLIST

ANNEX B

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

CN to be prepared.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,00, will there be

	(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	(a) Yes (b) Yes
3.	FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	N/A
4.	FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)	N/A
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	Yes

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	The Project will increase the flow of international trade, foster private initiative, encourage development and use of agricultural cooperatives and improve the technical efficiency of agriculture and commerce.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The Project will directly benefit U.S. private trade through the procurement equipment manufactured in the U.S. and indirectly through inputs some of which will be of U.S. source and origin

9.	FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	The GOES is providing counterpart contributions to the project in local currency. U.S. owned foreign currency will be used for goods and services supplied locally.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
12.	FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	No
13.	FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does	Yes

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? — N/A

B. FUNDING CRITERIA FOR PROJEC

Development Assistance Project Criteria

a. FAA Sec. 102(b), 11 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns a rural areas, and insuri wide participation of t poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help devel cooperatives, especial by technical assistance to assist rural and urb poor to help themselves toward better life, and

This project is designed to benefit the rural poor by providing them with the credit necessary to invest in and improve their agricultural lands.

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? — Yes

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? — Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activitiy with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — Yes

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.	No
f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage	This Project responds directly to the needs, desires and capacities of the small farmer to improve her standard of living by increasing the productive capacity of his land through the effective and efficient use of credit. Additionally, this Project provides substantial

institutional development; and supports civil education and training in skills required for effective participation in governmental processes esential to self-government.	technical assistance support to the major agricultural credit institution to improve its operations.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.	El Salvador has the financial capacity to repay the loan. The terms of the AID loan are reasonable and legal under the laws of the U.S.and host country.
b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	N/A
c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?	N/A

3. Economic Support Fund Project Criteria N/A

a. FAA Sec. 531(a). Will this assistance promote economic or political

	stability? To the extent possible, does it reflect the policy directions of FAA Section 102?	
b.	FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?	No
c.	FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?	No
d.	FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes. Standard procurement regulations, procedures and good commercial practices will be followed under the Project.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	Yes
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be	N/A

financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604( ). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas? — No

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? — No

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other — Yes

Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? — N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)?	N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	Yes
2. FAA SEc. 301(d). If fund is established solely by U.S. contributions and administed by an internatioal organization, does Comptroller General have audit rights?	N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes
4. Will arrangements preclude use of financing:	
a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family	Yes

planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?	
b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?	Yes
c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes
d. FAA Sec. 662. For CIA activities?	Yes
e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes
f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or	Yes

adjusted service compensation for military personnel?	
g. FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments, arrearages or dues?	Yes
h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	Yes
i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign rationals in nuclear fields?	Yes
j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	No
k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes

A N N E X C

Borrower Request for Assistance

ANNEX D

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Martin V. Dagata, as Director of the Agency for International Development Mission to El Salvador, having taken into account, among other things, the maintenance and utilization of projects previously financed by U.S.A.I.D./El Salvador, do hereby certify that in my judgement The Government of El Salvador and the implementing agency have the financial capacity and human resources capability to effectively utilize and maintain the proposed third supplement of the Agrarian Reform Credit Loan and Grant.

Martin V. Dagata

Martin V. Dagata
Director
USAID/El Salvador

Date

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ANNEX E.

10 FEB 83
TOR: 1524
CN: 01735
CHRGE: AID

ACT: AID-5
INFO: AMB DCM
ECON CRN

AIDAC

E.O. 12356:N/A
TAGS:
SUBJECT: AGRARIAN REFORM CREDIT (NO. 519-0283) PROJECT PAPER SUPPLEMENT

ACTION COPY

REF: (A) SAN SALVADOR 9733 (B) SAN SALVADOR 867
(C) KING/JESSE/MERRILL TELCON 12/22

1. WHEN MISSION SUBMITTED REF. A, ON NOVEMBER 30, IT REQUESTED IMMEDIATE COMMENT SO THAT PP SUPPLEMENT COULD BE TRANSMITTED TO AID/W FOR REVIEW DURING WEEK OF DECEMBER 6. IN ORDER TO ACCOMMODATE MISSION, LAC/DR HELD A REVIEW OF THE SUBJECT PROJECT IN EARLY DECEMBER, AND TELEPHONED COMMENTS TO MISSION (REF. C.) IN RESPONSE TO REF. B, WE SET FORTH BELOW THE ISSUES RAISED AT DECEMBER REVIEW. THE FOLLOWING MAY NOT REPRESENT A COMPREHENSIVE LIST OF THE QUESTIONS/ISSUES THAT WILL BE RAISED DURING REVIEW OF SUBJECT PP SUPPLEMENT.

2. PP SUPPLEMENT SHOULD CONTAIN: (1) A THOROUGH ASSESSMENT OF THE CURRENT FINANCIAL SITUATION OF THE

BFA AND CREDIT COOPERATIVES PARTICIPATING IN THE PROJECT (REPAYMENT RATES, CREDIT NEEDS, ETC;) (2) USES OF EXISTING CREDIT PROVIDED TO DATE UNDER THE PROJECT; (3) DESCRIPTION OF BENEFICIARIES (I.E. SIZE OF HOLDINGS, INCOME, CROPS CULTIVATED); (4) BREAK DOWN OF THE PURPOSES FOR WHICH PRIOR CREDIT UNDER THE PROJECT WAS USED; (5) REPAYMENT RECORD OF PROJECT BENEFICIARIES; (6) JUSTIFICATION OF THE NEED FOR A COMPUTER SYSTEM TO THE BFA AS WELL AS DESCRIPTION OF THE SOFTWARE AND HARDWARE TO BE PURCHASED; AND (7) THE RATIONALE FOR AN ADDITIONAL 60 MONTHS OF TECHNICAL ASSISTANCE, AS WELL AS A BRIEF IDENTIFICATION OF THE SCOPES OF WORK FOR THE CONSULTANTS.

2. BECAUSE TIMING OF SUBMISSION OF THE PP SUPPLEMENTAL COINCIDES WITH THAT OF THE PP FOR THE AGRARIAN REFORM SUPPORT PROJECT AND THE PROJECTS ARE STRONGLY INTERRELATED, BUREAU PLANS TO REVIEW BOTH PROGRAMS AT THE SAME TIME. THIS SHOULD FACILITATE MISSION REPRESENTATION, WHICH WILL BE REQUIRED FOR BOTH REVIEWS.
DAM
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#7898

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83 FEB 10 PM 12 50

ACTION TO: RDD
ACTION DUE: 2/15
DIR | RDD | DFR
Subject
ACTION TAKEN
DATE
INITIALS

UNCLASSIFIED

STATE 37398

Best Available Document

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PROJECT AUTHORIZATION

Name of Country: El Salvador

Name of Project: Agrarian Reform Credit

Number of Project: 519-0263

Loan Number: 519-T-028

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agrarian Reform Credit project for El Salvador (the "Cooperating Country") involving planned obligations of not to exceed Nine Million Five Hundred Thousand United States Dollars ($9,500,000) in loan funds ("Loan") and Five Hundred Thousand United States Dollars ($500,000) in grant funds ("Grant") over a one-year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign currency and local currency costs for the project.

2. The project ("Project") will increase the availability of credit for beneficiaries of the Salvadorean Agrarian Reform and help to strengthen the capability of the Banco de Fomento Agropecuario (BFA) to provide for the special credit requirements arising from the Agrarian Reform.

3. The Project Agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment (Loan)

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping, financed by A.I.D. under the Loan shall have their source and origin in countries that are members of the Central American Common Market or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree

in writing, be financed only on flag vessels of the United States or of countries that are members of the Central American Common Market.

c. Source and Origin of Goods and Services (Grant)

Goods and services, except for ocean shipping, financed by A.I.D. under the Grant shall have their source and origin in the United States and countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

d. Reimbursement of Expenses

Upon compliance with the relevant Conditions Precedent to Disbursement by the Cooperating Country, A.I.D. may disburse loan funds as reimbursement for costs of credit, and Grant funds as reimbursement for costs of technical assistance and other eligible costs, provided that evidence is furnished to A.I.D. in form and substance satisfactory to A.I.D. that such costs were incurred subsequent to the Project Authorization date.

e. Conditions Precedent to Disbursement (Loan)

Prior to any disbursement, or the issuance of specific commitment documents under the Project Loan Agreement to finance credit for the BFA, the Cooperating Country shall cause BFA to furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(1) Evidence that a Special Cooperative Association Line of Credit has been legally established, which can be used for:

(a) Crop production credit beyond that which is available from other institutional lenders,

(b) Medium and long-term investment requirements,

(c) Hacienda administrative expenses, and

(2) A Description of how the Special Cooperative Association Line of Credit will work, including interest rate and terms to be applied, application procedures, and relationship to other sources of credit.

f. Condition Precedent to Disbursement of Loan Funds for the Special Cooperative Association Line of Credit

Prior to any disbursement, or issuance of specific commitment documents under the Project Loan Agreement to finance credit for the BFA, the Cooperating Country shall cause the BFA to submit to A.I.D. a financial plan summarizing

the total credit requirements for each hacienda, including the amount to be financed through the Special Cooperative Association Line of Credit and all other institutional sources, for which the BFA is requesting the disbursement of A.I.D. funds.

g. Special Covenants

The Cooperating Country shall covenant that, unless A.I.D. otherwise agrees in writing, it will:

(1) Make a capital contribution of at least $3.5 million equivalent in colones for the BFA's Special Cooperative Association Line of Credit during the life of the Project.

(2) Make available adequate crop production credit to the Agrarian Reform Sector through the banking system.

(3) Cause the BFA to covenant to hold open the Special Cooperative Association Line of Credit for a minimum of seven years and to return all reflows as capital to the aforementioned Special Line.

(4) Cause the BFA, at the time that A.I.D. and the Cooperating Country mutually agree in writing that there is no longer a need for the Special Line, to covenant to contribute all reflows generated by the Special Cooperative Association Line of Credit for use in the BFA's normal small farmer and agrarian reform credit programs.

(5) Ensure that the BFA is given at least equal priority when repayments of Cooperative Association loans from the commercial (mixed) banks and

Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

Date

Clearances:

LAC/CEN:MArnold: date 6/26
LAC/DR:CPeasley: date
LAC/DR:MBrown: date 6/26
Drafted:GC/LAC:JLoriokg:6/26/80

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PROJECT AUTHORIZATION
(Amendment No. 1)

Name of Country: El Salvador

Name of Project: Agrarian Reform Credit

Number of Project: 519-0263

Number of Loan: 519-T-028A

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Agrarian Reform Credit project for El Salvador was authorized on June 28, 1980. That Project Authorization is hereby amended as follows:

   a. Lines 3 and 4 of paragraph 1 of the Project Authorization are hereby amended by deleting the words "Nine Million Five Hundred Thousand United States Dollars ($9,500,000)," and substituting in lieu thereof the words "Eleven Million One Hundred Thousand United States Dollars ($11,100,000)."

2. Except as expressly amended or modified hereby, the Project Authorization remains in full force and effect.

Edward W. Coy
Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

June 1, 1981
Date

Clearances:
GC/LAC:BVerot: [illegible] date 5/1/81
LAC/DR:MBrown: [illegible] date 5/1/81
LAC/CEN:MArnold: [illegible] date 5/1/81
GC/LAC:DAAdams:ckg:6/5/81:29183

PROJECT AUTHORIZATION
(Amendment No. 2)

Name of Country: El Salvador

Name of Project: Agrarian Reform Credit

Number of Project: 519-0263

Number of Loan: 519-T-028

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Agrarian Reform Credit project for El Salvador (the "Project") was authorized on June 28, 1980, and amended on June 11, 1981 (hereinafter, as so amended, the "Authorization"). The Authorization is hereby amended as follows:

a. Project Purpose

Section 2 of the Authorization is hereby deleted in its entirety and the following new Section 2 is substituted therefor:

"2. The project ("Project") will increase the availability of agricultural credit to Phase I and Decree 207 agrarian reform beneficiaries as well as other small farmers and will help to improve the capacity of the banking system to deliver credit to these beneficiaries in a timely manner."

b. Loan and Grant Increase

The amount of loan funds authorized for the Project is hereby increased by $17,000,000 (the "FY 1982 Loan Increment"), increasing the aggregate amount of the loan to $28,100,000; and the amount of grant funds authorized for the Project is hereby increased by $625,000, increasing the aggregate amount of the grant to $1,125,000.

c. Repayment Terms

The Government of El Salvador (the "Cooperating Country") shall repay the FY 1982 Loan Increment to A.I.D. in U.S. Dollars within forty (40) years from the date of first disbursement of the FY 1982 Loan Increment, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the FY 1982 Loan Increment at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the FY 1982 Loan Increment and on any due and unpaid interest accrued thereon.

d. Conditions Precedent to Disbursement

Prior to any disbursement of the FY 1982 Loan Increment, or the issuance by A.I.D. of documentation pursuant to which disbursement of the FY 1982 Loan Increment will be made to finance credit activities, other than technical assistance and vehicles, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing:

(1) cause the Agricultural Development Bank ("BFA") to furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence that an Integral Credit Line: (i) has been formally established and has legally replaced the Special Cooperative Association Line of Credit and the Special Line for Decree 207 Beneficiaries and Other Small Farmers; (ii) has been capitalized by the transfer of the entire portfolios of the two credit lines referred to in clause (i); and (iii) can be used by all BFA clients eligible to be served by the two replaced lines of credit for:

(i) Crop production credit beyond that which is available from other institutional lenders;

(ii) Medium and long-term investment requirements; and

(iii) Administrative expenses.

(b) A description of how the Integral Credit Line will work, including interest rate and terms to be applied, application procedures, and the relationship of the Integral Credit Line to other sources of credit;

(2) cause the Central Reserve Bank ("BCR") to furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that the reprogramming by the BFA of outstanding debt totalling at least $36 million equivalent in colones and all related issues concerning BFA liquidity have been adequately resolved; and

(3) cause the BCR to furnish to A.I.D., in form and substance satisfactory to A.I.D., (i) a description as to how the Investment Credit Discount Line will work, including interest rates and other terms to be applied, application procedures and the relationship of the Investment Credit Discount Line to other sources of credit; and (ii) evidence that the Investment Credit Discount Line is operative, which evidence shall indicate that discount funds are available and that the necessary regulations have been established.

Covenants

(1) Clause (i) of Section 3.g. of the Authorization is hereby deleted in its entirety and the following new clause (i) is hereby substituted in lieu thereof:

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"(1) Make a contribution of at least $10.3 million equivalent in colones to the Project, out of which at least $3.9 million equivalent in colones are to be used as a capital contribution to the BFA's Integral Credit Line; $3.9 million equivalent in colones are to be used as a capital contribution to the BCR's Investment Credit Discount Line to be drawn upon by banking institutions for loans to agrarian reform Phase I clients; and $2.5 million equivalent in colones are to be made available by the BCR subsequent to January 10, 1982, as financing for operating expenses related to the employment of additional BFA field agents."

(2) Clauses (3) and (4) of Section 3.g. of the Authorization are hereby amended by deleting therefrom all references to the "Special Cooperative Association Line of Credit" and/or to the "Special Line" and by substituting therefor "Integral Credit Line".

f. Waivers

(1) Procurement of 60 off-road motorcycles, with a total value of approximately $90,000, is hereby authorized from countries included in A.I.D. Geographic Code 935 (Special Free World).

(2) Competition in the procurement of goods is hereby waived and authorization is hereby granted for a single source negotiated contract with the American Motor Corporation for the procurement of 40 diesel CJ7 vehicles with a total value of approximately $440,000.

2. Except as expressly amended or modified hereby, the Authorization remains in full force and effect.

Richard Weber
Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

12/30/81
Date

Clearances:

GC/LAC:BVeret: date 12/24
LAC/CEN:JClary: date
LAC/DR:ILevy: date

GC/LAC:GMWin[illegible]kg:12/24/81:x[illegible]182

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BANCO DE FOMENTO AGROPECUARI(

NORMAS DE OPERACION DE LA LINEA DE CREDITO INTEGRAL PARA LAS ASOCIACIONES AGROPECUARIAS BENEFICIARIAS - DE LA REFORMA AGRARIA, DEL DECRETO 207, Y OTROS PEQUEÑOS AGRICULTORES, CON FONDOS DEL CONTRATO DE PRESTAMO GOES/AID No. 519-0263

Marzo/82

NORMAS DE OPERACION DE LA LINEA DE CREDITO INTEGRAL PARA LAS ASOCIACIONES COOPERATIVAS DE LA REFORMA AGRARIA, BENEFICIARIOS DEL DECRETO 207 Y OTROS PEQUEÑOS AGRICULTORES, CON FONDOS DEL PRESTAMO GOES/AID 519-0263

La ejecución del financiamiento a través de la línea Integral de Crédito - con fondos de los Convenios de Préstamo y Donación AID-519-0263 y AID No. 519-0262 del 7 de julio y 30 de Septiembre de 1980 respectivamente, entre el Gobierno de la República de El Salvador, y el Gobierno de Los Estados - Unidos de América, se sujetará a lo dispuesto en las siguientes normas:

1- OBJETIVOS DE LA LINEA DE CREDITO INTEGRAL:

Suministrar créditos a las Asociaciones Agropecuarias de la Reforma Agraria y las tradicionales atendidas por el B.F.A., Beneficiarios del Decreto 207 y otros pequeños agricultores que clasifiquen en la División Fomento de dicho Banco.

2- BENEFICIARIOS

Serán elegibles como sujetos de crédito:

a) Asociaciones Agropecuarias de la Reforma Agraria asignadas al BFA.
b) Cooperativas tradicionales atendidas por el Banco.
c) Beneficiarios del Decreto 207.
d) Otros pequeños agricultores que clasifiquen en la División Fomento del B.F.A.

Los beneficiarios mencionados deberán reunir los requisitos siguientes:

2.1- Aceptar que técnicos del BFA en colaboración con técnicos del ISTA o de otras dependencias del MAG, los asesoren para preparar un plan financiero y de producción que establezca los requerimientos que -- servirán de base para las solicitudes de crédito.

2.2- Estar en capacidad de contraer obligaciones y presentar la documentación que les faculta para solicitar crédito y comprometer garantías

2.3- Aceptar y aplicar las recomendaciones financieras que el personal del BFA les imparta en relación con la ejecución del Plan que se financia.

2.4- En el caso de las Asociaciones Agropecuarias, demostrar a satisfacción del BFA la autorización por parte de los socios, para formalizar o contratar créditos, dar garantías, retirar y utilizar los fondos de los préstamos y pagar las amortizaciones de los mismos.

2.5- Contar, a juicio del BFA con una buena organización administrativa y contable o que pueda adquirirla mediante la asistencia que pueda darle el BFA, en colaboración con ISTA u otra entidad del MAG.

3. DESTINO DE LOS FONDOS DE LA LINEA:

Los recursos financieros de la línea estarán destinados para el financiamiento de:

3.1- Crédito de Avío.

3.2- Financiamiento para la Producción Animal:

Establecer, mejorar e incrementar las explotaciones de ganado mayor y menor, avícolas, apícolas y de otras especies animales, que puedan ser explotadas económicamente en el país, inclusive lo concerniente a créditos para compra de alimentos productos veterinarios, así como los gastos operativos anuales.

3.3- Financiamiento para Mejorar la Propiedad Agropecuaria

Mejorar la infraestructura productiva de las explotaciones agropecuarias, a través de riego, drenaje, conservación de suelos, reforestación, vías internas de acceso, perforación o habilitación de pozos y otras estructuras que contribuyan al desarrollo integral de la explotación.

3.4- Financiamiento para el Establecimiento, Mejoras y Mantenimiento de Cultivos Permanentes y Semipermanentes.

Gastos correspondientes a inversiones necesarias para establecimiento mejoras y mantenimiento de cultivos permanentes, y semipermanentes, incluyendo la adquisición de plantas, semillas, establecimiento de almácigos o viveros y cualquier otra inversión necesaria a la explotación del cultivo.

3.5- Financiamiento para Reparar o Adquirir Maquinaria y/o Equipo para uso Agropecuario

Financiar la compra de toda clase de maquinaria y equipo nuevos o usados, herramientas, y repuestos necesarios para el incremento de la productividad agropecuaria.

3.6- Financiamiento para establecer o Mejorar el Almacenamiento, Distribución y Mercadeo de Productos Agropecuarios.

Establecer, ampliar y/o mejorar la infraestructura que permita almacenar la producción, como silos, bodegas y otras instalaciones necesarias para la eficiente comercialización de los productos de origen agropecuario.

3.7- Financiamiento para Establecer, Mejorar y/o dar Mantenimiento a las Agroindustrias.

Financiar edificaciones, maquinaria, mantenimiento y otros gastos directos o indirectos para el establecimiento o mejora de agroindustrias.

3.8- Financiamiento para Gastos Generales de Administración y Operación.

4. CONDICIONES DE LOS CREDITOS:

4.1- Monto máximo de los créditos

El monto máximo de los créditos con recursos de la Línea de Créditos Integral se sujetará a los requerimientos del proyecto a ejecutar.

4.2- Intereses, Plazos y Períodos de Gracia

Los créditos otorgados bajo esta línea integral rendirán una tasa de interés de acuerdo a lo establecido por la Junta Monetaria. Los intereses, plazos y períodos de gracia se indican en el anexo No.1

4.4- Retiro de los Préstamos

Los desembolsos con cargo a los Préstamos responderán a la programación de inversión contenida en el proyecto elaborado con la asesoría de técnicos del BFA. Se fijará en cada préstamo un plazo máximo para el desembolso de fondos; sin embargo, el plazo podrá ser modificado de acuerdo a circunstancias especiales justificables.

4.5- Amortizaciones de los Créditos

La amortización y períodos de gracia establecidos en el Anexo 1, dependerán de la capacidad de pago que origina la actividad a financiar, así como el cíclo productivo de la explotación, objeto del crédito y de las recomendaciones técnicas pertinentes.

4.6- Aplicación de la Tasa Penal

En caso de retardo en el pago de una o más cuotas de amortización, el BFA aplicará la tasa de interés penal del dos por ciento sobre la o las cuotas en mora más el interés pactado, exceptuando los - beneficiarios del Decreto 207 y usuarios individuales de la División Fomento.

4.7- Garantía:

En el caso de las Asociaciones Agropecuarias de la Reforma Agraria el BFA le solicitará firma solidaria del Consejo de Administración prenda y el aval del ISTA. Para las Cooperativas Tradicionales, la firma solidaria del Consejo de Administración y Prenda. Para créditos individuales podrá ser prendaria, y/o personal.

5. TRAMITE DE LOS CREDITOS

5.1- Formularios:

Las solicitudes de crédito se tramitarán usando los formularios que normalmente usa el BFA. Los documentos de contratación, desembolso, abono y pago de intereses se identificarán con las siglas AID-519-0263.

5.2- Aprobación y Contratación:

La aprobación y contratación de los créditos quedará sujeta a los - niveles de aprobación vigentes en el B.F.A. en lo que concierne a - los beneficiarios del Decreto 207 y otros agricultores de la División Fomento. La resolución a las solicitudes de crédito de las Asociaciones Agropecuarias de la Reforma Agraria y de las Cooperativas Tradicionales será responsabilidad exclusiva de la Junta de Directores. La contratación de los créditos bajo esta línea será hecha de acuerdo a los procedimientos establecidos en el Banco.

5.3- Cartera:

La Gerencia General del B.F.A. dispondrá que la Cartera de esta Línea de Crédito Integral se maneje en forma independiente.

6. SUPERVISION Y RECUPERACION DE CREDITOS

6.1- Supervisión de la Inversión

La Supervisión de la inversión de los créditos concedidos bajo - esta línea estará a cargo de los Agentes de Crédito del Banco.

6.2- Recuperación de Créditos

Los créditos otorgados a través de la Línea Integral AID-519-0263 serán recuperados única y exclusivamente por el personal autorizado por el B.F.A. para tal efecto.

Las recuperaciones serán registradas en una cuenta especial de la Línea AID-519-0263. Se identificarán con un código especial a efecto de que las recuperaciones por concepto de capital e intereses, se inviertan como lo establecen las bases del convenio.

ANEXO No. 1

4.2 - INTERESES, PLAZOS Y PERIODOS DE GRACIA

	INTERES ANUAL	PLAZO MAXIMO DE AMORTIZACION	PERIODO MAXIMO DE GRACIA
1. Crédito de Avío	13	Hasta 18 meses	----------
2. Financiamiento para la producción animal	13	Hasta 8 años	Hasta 3 años
3. Financiamiento para mejoramiento a la propiedad Agropecuaria	13	Hasta 15 años	Hasta 6 años
4. Financiamiento para el establecimiento de:			
a) Cultivos Permanentes 1/	13	Hasta 15 años	Hasta 6 años
b) Cultivos Semipermanentes	13	Hasta 3 años	Hasta 1 año
5. Financiamiento para compra de maquinaria y/o equipo para uso agropecuario	13	Hasta 5 años	Hasta 1 año
6. Financiamiento para establecer o mejorar el almacenamiento, distribución y mercadeo de productos agropecuarios.	13	Hasta 15 años	Hasta 3 años
7. Financiamiento para establecer, mejorar y/o dar mantenimiento a las agroindustrias .	13	Hasta 15 años	Hasta 3 años
8. Financiamiento para gastos generales de administración y operación.	13	Hasta 1 año	----------

1/ En el caso de forestales podrá ampliarse el plazo de acuerdo a la naturaleza del proyecto.

ANEXO No. 2

BANCO DE FOMENTO AGROPECUARIO

NIVELES DE APROBACION DE CREDITOS Y DISTRIBUCION 1980

NIVELES DE APROBACION	DIVISION BANCARIA	DIVISION FOMENTO
Supervisor de Agentes de Crédito	(hasta) ₡ 5 000	(hasta) ₡ 2 000
Jefe de Agencia	" 10 000	" 5.000
Comité de Agencia	" 25 000	" 20 000
Comité Regional	" 50 000	" 50 000
Junta de Directores	(mayores de) 50 000	(Mayores de) 50 000

NOTA: 1/ Las resoluciones de los Comités, serán por unanimidad y en caso de desacuerdo, el crédito se pasará a consideración del nivel de aprobación superior. De igual manera se procederá con los créditos denegados, adjuntándoles las razones del traslado al nivel superior.

NOTA: 2/ Las aprobaciones para las Asociaciones Agropecuarias de la Reforma Agraria y Cooperativas Tradicionales, cualquiera que sea su monto será responsabilidad exclusiva de la Junta de Directores del B.F.A.

BANCO DE FOMENTO AGROPECUARIO

RESUMEN Y RESOLUCION DE CREDITOS

REGION: _____
AGENCIA: _____
DIVISION: _____

I – RESOLUCION

NIVEL DE APROBACION	Acta No. _____ Crédito No. _____	2o. NIVEL DE APROBACION	Acta No. Crédito No.
Cód.		Cód.	
1			
2			
3			
	FIRMA		FIRMA

CODIGO

II – TIPO DE CLIENTE:

Nombre del Solicitante o Razón Social:

	Primer Apellido	Segundo Apellido	Nombres	No. Cédula de I.P.
1er. Deudor				
2o. Deudor				
3er. Deudor				

ACTIVO AGROPECUARIO DEL CLIENTE ¢ ACTIVO TOTAL DEL CLIENTE ¢

III – DATOS DEL CREDITO AGRICOLA

1– Clave del Préstamo | Div. | Agenc. | Año Aprob. | No. Corr. Crédito | N. I. U.

FINANCIAMIENTO

Cód. Fuente de Recursos y Destino Préstamo	No. de Mzs. o Unid.	VALORES POR RUBRO: Sem.	Fert.	Pest.	Jorn.	Alq. Mec.	Alq. Bueyes					MONTOS ¢
											TOTAL ¢	

Garantía | Plazo | Tasa | Vencimiento d m a | Control Invers. o/o ¢

Plan de Entrega	Fecha				Plan Pago	Fecha			
	Monto				Cód.	Monto			

IV – DATOS DEL CREDITO (AGRICOLA Y OTROS)

2– Clave del Préstamo | Div. | Agen. | Año Aprob. | No. Corr. Crédito | N. I. U.

FINANCIAMIENTO

Cód. Fuente de Recursos y Destino Préstamo	No. de Mzs. o Unid.	VALORES POR RUBRO										MONTOS ¢
											TOTAL ¢	

Garantía | Plazo | Tasa | Vencimiento d m a | Control Invers. o/o ¢

Plan de Entrega	Fecha								
	Monto								
Plan de Pagos	Fecha								
	Monto								
	Fecha								
	Monto								

V – DATOS DEL CREDITO PECUARIO Y OTROS

3 – Clave del Préstamo | Div. | Agenc. | Año Aprob. | No. Corr. Crédito | N. I. U.

FINANCIAMIENTO

Cód. Fuente de Recursos y Destino Préstamo	No. Unid.	DESCRIPCION DE LA INVERSION	MONTO ¢
		TOTAL ¢	

Garantía		Plazo		Tasa		Vencimiento	d	m	a	Control Invers.	o/o ¢

Plan de Entrega	Fecha								
	Monto								
Plan de Pagos	Fecha								
	Monto								
	Fecha								
	Monto								
Código	Fecha								
	Monto								

VI – DETALLE Y AVALUO DE LA GARANTIA

Fianza personal de:

Prendaria:	VALOR ¢
VALOR TOTAL DE LA GARANTIA PRENDARIA ¢	

Hipotecaria:

VALOR TOTAL DE LA GARANTIA PARA EFECTOS REMATE ¢

VII – LOCALIZACION (Indicar propietario, ubicación, naturaleza, extensión e inscripción)

VIII – CONDICIONES ESPECIALES

1. Para efectos de contratación tiene validez por noventa días
2. Créditos División Bancaria tendrán cargo de interés penal por mora.
3.

IX – TENENCIA DE LA TIERRA

Propia(s) Mzs. Arrendamiento Simple Mzs. Arrendamiento Promesa de Venta Mzs.

X – PLANIFICACION DEL CREDITO

Fecha del Plan | Nombre del Agente | Firma del Agente

Litheosol, S.A. de C.V. -10751

HECHO | REVISADO | AUTORIZADO

PROJECT AUTHORIZATION

Name of the Country:	El Salvador
Name of Project:	Agrarian Reform Credit
Number of Project:	519-0263
Number of Loan:	519-T-028

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Agrarian Reform Credit project for El Salvador (the "Project") was authorized on June 28, 1980, and amended on June 11, 1981, and on December 30, 1981 (hereinafter, as so amended, the "Authorization").

a. Project Purpose

Section 2 of the Authorization is hereby deleted in its entirety and the following new Section 2 is substituted therefor:

"2. The project ("Project") will increase the avail ability of agricultural credit to the Phase I and Decree 207 agrarian reform beneficiaries and other small farmers who are clients of the Agricultural Development Bank (BFA) and will help to improve the capability of the BFA to provide such credit.

b. Loan and Grant Increase

The amount of Loan funds authorized for the Project is hereby increased by $24,000,000 (the "FY83 Loan Increment"), increasing the aggregate amount of the Loan to $52,100,000; and the amount of Grant funds authorized for the Project is hereby increased by $500,000, increasing the aggregate amount of the Grant to $1,625,000.

c. Repayment Terms

The Government of El Salvador (the "Cooperating Country") shall repay the FY1983 Loan Increment to A.I.D. in U. S. Dollars within forty (40) years form the date of first disbursement of the FY1983 Loan Increment, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the FY1983 Loan Increment at the rate of (i) two percent (2%) per annum during the first ten (10) years and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the FY1983 Loan Increment and on any due and unpaid interest accrued thereon.

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d. Conditions Precedent to Disbursement (Loan)

Prior to disbursement of the additional assistance provided under Amendment No. 3 of the Project Loan and Grant Agreement, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance credit activities, other than technical assistance, the GOES shall furnish to A.I.D. in form and substance satisfactory to A.I.D., documentation describing proposed modifications to the Investment Credit Discount Line, which will ensure its rapid utilization by the commercial banks for on-lending to Phase I cooperatives during the 1983/1984 crop year.

e. Special Covenants

1. The GOES agrees that, unless A.I.D. otherwise agrees in writing, within 45 days after signing Amendment No. 3 of the Project Loan and Grant Agreement it will furnish to A.I.D., in form and substance satisfactory to A.I.D. evidence that all the GOES documentation required for transferring all previous GOES counterpart contributions to the BFA has been completed.

2. The GOES agrees that, unless A.I.D. otherwise agrees writing, within 45 days after signing Amendment No. 3 of the Project Loan and Grant Amendment it will cause the BFA to furnish to A.I.D. in form and substance satisfactory to A.I.D.: a) the timetable for completing the BFA administrative reorganization in CY83; b) the steps the BFA will take to improve the financial position of the BFA during the CY83; c) the policy adopted by BFA to strengthen the field operations in credit delivery and recovery; d) the training plan for BFA personnel through CY83; e) evidence that the BFA has entered into an agreement with ISTA to participate in its program to establish effective management on Phase I farms; and f) the implementation plan to upgrade the BFA data processing facilities.

3. The GOES agrees that, unless A.I.D. otherwise agrees in writing, within 90 days after signing Amendment No. 3 of the Project Loan and Grant Agreement it will cause the BCR to refinance the past due agricultural production credit debts accumulated since the initiation of the agrarian reform by all the Phase I cooperatives and commercial banks. The terms and conditions of the refinancing mechanism should be structured to enable the financial institutions to base the payment schedule on the cooperatives' ability to pay as determined by individual farm plans.

2. Except as expressly amended or modified hereby, the Authorization remains in full force and effect.

ANNEX I

BFA FINANCIAL TABLES

1. BFA - Comparative Balance Sheets (Unadjusted) for 1978 - 1982

2. BFA - Comparative Balance Sheets (Adjusted) for 1982 - 1983

3. BFA - Comparative Income Statements (Unadjusted) for 1978 - 1983

4. BFA - Adjusted Income Statement for 1983

5. BFA - Administrative Expenses to Income Ratio for 1979/80 - 1982/83

EFA - COMPARATIVE BALANCE SHEETS (ADJUSTED)

TABLE I.1

(In Thousands of $)

ASSETS	1978	%	1979	%	1980	%	1981	%	Est. 1982	%
Cash & Banks	3,516	4.04	3,168	2.61	5,970	2.97	23,778	10.07	26,762	12.63
Foreign Exchange	739	0.85	118	0.10	290	0.15	958	0.41	782	0.37
Loans	37,425	42.95	56,440	46.50	114,617	57.06	120,660	51.11	54,160	25.57
Inventory	3,667	4.21	411	0.34	6,625	3.30	15,288	6.47	5,628	2.66
Total Current Assets	45,347	52.04	60,137	49.53	127,502	63.48	160,685	68.06	87,332	41.23
Plant & Equipment	1,783	2.05	3,073	2.54	4,042	2.01	3,926	1.66	4,042	1.91
Long-term Loans	28,714	32.95	45,238	37.34	52,375	26.08	55,814	23.64	54,980	25.95
Investments	-	-	-	-	-	-	853	0.36	1,194	0.57
Other Assets	11,290	12.96	12,715	10.49	16,938	8.43	14,824	6.28	64,270	30.34
Total Long-Term Assets	41,787	47.96	61,026	50.37	73,355	36.52	75,417	31.94	124,486	58.77
Total Assets	87,134	100.00	121,163	100.00	200,857	100.00	236,102	100.00	211,818	100.00
LIABILITIES										
Deposits	8,385	9.76	18,780	15.50	14,674	7.33	15,687	6.66	13,543	6.39
Bonds	2,048	2.35	2,113	1.74	2,440	1.22	2,440	1.03	2,440	1.15
Local Loans	23,193	26.62	38,706	31.95	100,738	50.15	111,888	47.39	47,905	22.62
External Loans	15	0.02	494	0.41	770	0.38	651	0.28	480	0.23
Other Liabilities	12,204	14.18	9,143	7.55	21,885	10.90	18,044	7.64	25,698	12.13
	46,045	53.85	69,236	57.14	140,507	69.98	148,710	63.00	90,066	42.52
External Loans	9,658	11.08	15,936	13.15	15,448	7.69	18,821	7.97	26,496	12.51
Other	-	-	-	-	- 10	-	188	0.05	-	-
	9,658	11.08	15,936	13.15	15,458	7.69	18,820	8.02	26,496	12.51
CAPITAL										
Bank Division Capital	20,119	23.12	20,325	16.77	25,008	12.45	32,676	13.84	36,897	17.42
Economic Dev. Fund	18,546	12.18	15,069	12.44	19,178	9.55	34,451	14.59	56,826	26.83
Provision Reserve	545	0.63	556	0.46	576	0.28	621	0.25	668	0.31
Retained Earnings	21	0.02	41	0.04	130	0.05	715	0.30	865	0.41
	39,231	35.97	35,991	29.71	44,892	22.33	68,463	28.98	95,256	44.97
Total Liabilities & Capital	87,134	100.00	121,163	100.00	200,857	100.00	236,102	100.00	211,818	100.00

Source: EFA Records.

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BFA - COMPARATIVE BALANCE SHEETS (ADJUSTED)

(In Thousands of $)

	Est. 1982	%	Proj. 1983	%
ASSETS				
Cash & Banks	26,762	16.39	26,398	14.10
Foreign Exchange	782	.48	539	0.29
Loans	60,127	36.81	78,281	41.81
Inventory	14,938	9.15	7,608	4.06
Total Current Assets	102,609	62.83	112,826	60.26
Plant & Equipment	3,441	2.11	3,361	1.79
Long-term Loans	38,972	23.86	46,037	24.59
Investments	1,194	0.73	1,194	0.64
Other Assets	17,108	10.47	23,796	12.72
Total Long-Term Assets	60,715	37.17	74,388	39.74
Total Assets	163,324	100.00	187,214	100.00
LIABILITIES				
Deposits	13,544	8.29	13,544	7.24
Bonds	2,440	1.49	2,440	1.30
Local Loans	47,905	29.33	41,675	22.26
External Loans	480	0.29	646	0.35
Other Liabilities	9,000	5.52	1,047	0.56
	73,369	44.92	59,352	31.71
External Loans	26,496	16.22	29,074	15.53
Other	16,698	10.22	11,690	6.24
	43,194	26.44	40,764	21.77
CAPITAL				
Bank Division Capital	22,317	13.67	41,570	22.20
Economic Dev. Fund	23,531	14.41	43,828	23.41
Prevision Reserve	425	0.26	791	0.42
Retained Earnings	488	0.30	909	0.49
	46,761	28.64	87,098	46.52
Total Liabilities & Capital	163,324	100.00	187,214	100.00

Source: STC/BFA Analyses

TABLE I.3

EFA - COMPARATIVE INCOME STATEMENTS 1/
(US$ 000)

	1978	%	1979	%	1980	%	1981	%	Est. 1982 2/	%	Proj. 1983 2/	%
Income from Operations												
Financial Products	4,745	99.16	7,087	99.26	11,298	98.68	15,858	99.54	15,904	99.23	13,000	93.24
Other Products	34	0.71	-	-	140	1.22	-	-	-		1,000	6.76
Service & Administrative Products	6	0.13	52	0.74	11	0.10	74	0.46	124	0.77	-	-
Total Operating Income	4,785	100.00	7,059	100.00	11,449	100.00	15,932	100.00	16,100	100.00	14,000	100.00
Operation Cost & Expense												
Financial Expenses	1,118	17.67	2,997	32.57	6,356	45.94	10,620	54.53	8,452	47.13	5,820	36.82
Administrative Expenses	5,208	82.33	6,205	67.43	7,479	54.06	8,857	45.47	9,481	52.87	10,000	63.18
Total Operations Expenses	6,326	100.00	9,202	100.00	13,835	100.00	19,477	100.00	17,933	100.00	15,820	100.00
Net Income from Operation	(1,541)		(2,143)		(2,386)		(3,545)		(1,825)		(1,820)	
Other Products (Expenses)			(14)				(35)		313		(40)	
Income (Loss) of Period	(1,541)		(2,157)		(2,386)		(3,580)		(1,512)		(1,860)	

1/ Includes only banking activities.
2/ Unadjusted for expected unpaid interest earnings.

Source: EFA Records

TABLE I.4

BFA ADJUSTED INCOME STATEMENT FOR 1983
(Thousands of US$)

Banking Operations			
Income			
Interest Income			
- Short-term Loans	6,720		
- Medium-term Loans	1,780		
- Long-term Loans	2,000		
- Overdue Loans	1,980		
Total Loan Interest Earnings		12,480	
Interest Income from Deposits	1,320		
Total Interest Earnings		13,800	
Other Income	1,000		
Total Income			14,800
Expenses			
Administrative Expenses	10,000		
Financial Expenses	5,788		
Other Expenses	40		
Total Expenses			15,828
Net Income before Deductions			(1,028)
Less:			
Reserve for Depreciation	(480)		
Reserve for bad Debts	(7,130)		
Net Income (Loss) on Banking Operations			(8,238)
Commercial Operations			
Income	56,800		
Cost of Goods sold	52,000		
Net Income before expenses		4,800	
Administrative Expenses	1,080		
Net Income from Commercial Operations			3,720
Total Net Income			(4,518)

TABLE I.5

BFA - ADMINISTRATIVE EXPENSES TO INCOME RATIO*

		1979/80	1980/81	1981/82	1982/83
a)	Expenses 1/	6,205	7,479	8,857	9,481
b)	Income 2/	7,059	11,449	15,932	16,108
c)	Ratio (a/b)	87.9	65.3	55.6	58.9
d)	Number of Credits 2/	42,936	48,164	45,866	83,317 3/
e)	Cost per Credit in US$ (a/d)	144.52	155.28	193.10	113.80
f)	Amount of Credit Given during the year (thousands of US$)	83,203	124,558	105,392	94,634
g)	Cost per Each Dollar given	0.075	0.060	0.084	0.100

1/ B.F.A. Yearly Report

2/ Obtained from B.F.A. Financial Statements

* Does not include Commercial Section ctivities.

3/ Increase in loan number is due to the way the BFA is actually recording the loans:

1 (one) user
- AID - Production
- BID - Administrative Expenses
- BCR - Insecticides

} 3 credits

Source: CCA Study