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PROJECT APPRAISAL REPORT (PAR)

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1. PROJECT NO. 526-24-920-063	PAR FOR PERIOD: 7/1/73 TO 6/30/74	3. COUNTRY PARAGUAY	4. PAR SERIAL NO. 75-4
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8. PROJECT TITLE

COMPAÑIA PARAGUAYA DE DESARROLLO (COMDESA) - AID Loans 526-L-019/025

6. PROJECT DURATION: Began FY 1969 Ends FY 1977	7. DATE LATEST PROP -	8. DATE LATEST PIP -	9. DATE PRIOR PAR -
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10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: \$ 5,600,000	b. Current FY Estimated Budget: \$ -	c. Estimated Budget to completion After Current FY: \$ -
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11. KEY ACTION AGENTS (Contractor, Participating Agency or Voluntary Agency)

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

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

A. ACTION (X)			B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
USAID	AID/W	HOST		
X			1. The Mission should issue an Implementation Letter requiring COMDESA to obtain the Mission's approval for all agricultural subloans (specially those for crop financing).	January 31, 1975
	X		2. COMDESA should request the Mission to formalize the verbal agreement on livestock financing.	January 31, 1975
	X		3. COMDESA should submit to the Mission a detailed plan for the use of the funds allocated for technical assistance.	January 31, 1975
	X		4. COMDESA should increase its efforts in placing subloans to small enterprise projects.	Continuing
	X		5. COMDESA should establish a systematic follow-up plan on the progress of the subprojects.	February 28, 1975
X		X	6. COMDESA should study the future need of funds for preinvestment studies and submit it to the Mission for review.	February 28, 1975

D. REPLANNING REQUIRES	E. DATE OF MISSION REVIEW
REVISED OR NEW: <input type="checkbox"/> PROP <input type="checkbox"/> PIP <input type="checkbox"/> PRO AG <input type="checkbox"/> PIO/T <input type="checkbox"/> PIO/C <input type="checkbox"/> PIO/P	November 1974

PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE HENRY L. Miles <i>Henry L. Miles</i>	MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE Oliver L. Sasse <i>Oliver L. Sasse</i>	DATE 1/14/75
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SECURITY CLASSIFICATION

PROJECT NUMBER

526-24-920-063

PAR CONTINUATION SHEET

This sheet is to be used for any Narrative Sections for which sufficient space has not been provided on the form. Identify each narrative by its Part and Section Designation.

EVALUATION SUMMARY REPORTAID Loan No. 526-L-019/025 - COMPAÑIA PARAGUAYA DE DESARROLLO S.A. (COMDESA)For the period July 1973 - June 1974A. PROJECT BACKGROUND

In August 1970 A.I.D. signed the first Loan Agreement No. 526-L-019 providing \$2.6 million to COMDESA, a private development finance and investment institution, to be used for making loans and equity investments in private industrial and agricultural enterprises that lack alternative sources of funding at reasonable terms.

In the first quarter of CY 1972, anticipating full commitment of the present loan, COMDESA requested USAID/P to consider a second loan and as a result, a new loan agreement (AID-L-025) for \$3.0 million was signed in August 1973. The principal objective of the second loan is to assist COMDESA's continued expansion as a financial institution serving Paraguay's development by supporting the productive growth of the private sector.

B. PERFORMANCE EVALUATION

Our evaluation of COMDESA's performance was made following the framework for evaluation contained in the CAP, and developmental performance was measured utilizing the ten goals expressed in the A.I.D. M.O. on development banks as follows:

1. Medium and Long-term LendingTABLE 1Loan Maturities

<u>Period</u>	<u>N° Borrowers</u>	<u>% Loans</u>	<u>Amount \$</u>	<u>% Portfolio</u>
Short - less than 3 years	11	18	81,746	4
Medium - 3-5 years	34	57	1,095,634	46
Long - more than 5 years	16	26	1,193,071	50
TOTAL	61	100	2,370,451	100

As can be seen from Table 1 above, 82% of COMDESA's loans to June 30, 1974, accounting for 96% of the value of its portfolio, were directed to medium and long-term loans. Compared with the results obtained during the last evaluation contained in the CAP, the table shows a better distribution of the percentages relating to number of loans and portfolio corresponding to medium and long-term loans. The percentages in the CAP are 76% and 86%. These figures seem to be satisfactory to comply with Annex I of the loan agreement which states, among other things, that one

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of the purposes of the loan is "to help meet the medium and long-term development credit needs of the Paraguayan private sector economy"

2. Strengthen the Private Sector

The most important constraint to the development of the private industrial sector is the shortage of medium and long term credit; COMDESA was established primarily to give some relief to this problem. COMDESA responded remarkably well to this challenge by moving into this capital gap. As noted in the previous section it now has 96% of its portfolio in medium and long term loans. Also COMDESA has provided management assistance to its clients and has imposed sound accounting and administrative standards even on some of its most prestigious clients who initially resisted such advice. As a result, several companies are now operating with modernized procedures which otherwise would probably not have been adopted.

COMDESA's granting longer term credit, coupled with its ability to provide management services, has contributed to the establishment of 24 new business activities. In short COMDESA is strengthening the industrial sector by improving existing enterprises and creating new ones.

One area of concern constitutes the financing by COMDESA of livestock and crop projects which were considered by the Mission as currently inappropriate for COMDESA since international lending agencies (IBRD - IDB) have already made extensive resources available to them. Therefore, any future activity in this area should require the Mission's approval on a case-by-case basis.

3. Attract Non-AID Foreign Sources of Funds

Up to now, COMDESA has not needed such funds.

4. Finance Small and Medium Sized Enterprises

COMDESA is having problems in placing subloans with small enterprise projects. Small firms that requested loans generally have lacked an adequate administrative structure and insufficient guarantee of repayment.

The breakdown of subloans by size of borrowers was as follows:

TABLE 2

Size of Borrowers Measured by Total Assets
(US\$)

	<u>Small</u> (to \$24,000)	<u>Medium</u> (\$24,001 to \$200,000)	<u>Large</u> (\$200,001 to \$400,000)	<u>Very Large</u> (\$400,000 +)
Number of Loans	6	33	11	11
% of Loans Made	10	54	18	18
Value of Loans Made	32,659	970,286	506,008	861,500
% of Portfolio	1.38	40.93	21.34	36.35

Analysis of the patterns of lending shows that, compared to the evaluation criteria in the CAP, the percentage of loans made and the percentage of portfolio for firms classified as Small have decreased from 13% to 10% and from 6% to 1.38%

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respectively. For Medium-size firms, these percentages have increased from 39% to 54% and from 35% to 40.9%. Those corresponding to Large and Very Large firms have not substantially changed. More than half of the total amount of loans granted by COMDESA during the period evaluated has gone to Large and Very Large firms. According to Annex I of the Loan Agreement, up to \$200,000 of the loan funds are to be used to finance small enterprise projects through selected channels approved by A.I.D. The amount of loans made to small firms has been only \$32,659.

5. Provide Moderate Sized Loans

The loan size classification is also based on the classification established in the CAP.

TABLE 3

<u>Size of Loans</u>	<u>No. of Loans</u>	<u>% Total Loans</u>	<u>Value of Loans \$</u>	<u>% Total Portfolio</u>
\$20,000 and less	30	49	320,640	13
\$20,001 to \$49,999	20	33	750,055	32
\$50,000 to \$99,999	7	11	567,373	24
\$100,000 and above	4	7	732,384	31
	61	100	2,370,452	100

Compared to the same table in the CAP, the above table shows an increase in the percentage of loans and the percentage of total portfolio for loans above \$50,000. The target percentage of total loans above \$50,000 in the CAP is 34% compared to actual experience to date of 57%.

6. Stimulation of Investment

Of the 61 loans granted in the period July 1973 to the end of June 1974, 24 were for establishing new activities. These loans totalling \$1,218,177 or 51.39% of the total loan portfolio during the period reflect COMDESA's attention to the development of new activities. The total amount of such loans granted by COMDESA generated new projects requiring capital of \$4,939,960. COMDESA had contributed an average of 48.1%* of the total asset value of the projects undertaken.

7. Promotion of Capital Markets

A capital market does not exist in Paraguay. The Central Bank has been making studies to establish one but the creation of such a market is not envisaged for the near future. The total potential for equity transactions at this time is too small to anticipate an active stock market.

* Three nontypical projects were excluded. If these are included this figure is 24.6%.

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8. Technical Assistance to Borrowers

So far COMDESA has not yet utilized the loan funds allocated for pre-investment studies and technical assistance to the subborrowers. Technical assistance so far has been limited to helping applicants comply with the requirements to obtain a loan. A commission is charged by COMDESA for this service, but no AID loan funds have been used as planned.

During the evaluation, COMDESA expressed its concern that the amount of up to \$300,000 tentatively allocated for pre-investment is too high. According to former USAID/Paraguay officials who participated in preparation of the second tranche loan, the inclusion of this amount for pre-investment studies was based on the assumption that COMDESA might be participating in large-scale projects called forth by the impact of the Itaipu hydro-electric project. For such large-scale projects it was believed that major pre-investment studies would be a necessity. Since our present goal for COMDESA is not large-scale projects but rather the small entrepreneur, it seems very unlikely that the total amount tentatively allocated for this purpose can or should be used. It was therefore agreed that COMDESA would submit a detailed study of its future needs for USAID consideration in determining actual requirements.

In addition, the Loan Agreement also tentatively allocated up to \$100,000 over a period of four years for additional technical assistance, for COMDESA's own direct benefit, in the form of consulting services in capital marketing operations, long term financial planning and in-service training of its staff.

The evaluation disclosed that COMDESA has not yet taken any action to contract outside technical assistance. COMDESA feels that it received sufficient technical assistance during the organizational period, (the present manager was formerly a technical assistance financed consultant) and believes that it cannot utilize an additional \$100,000 for such purposes. It was agreed that COMDESA will submit to the Mission a plan covering the technical assistance it deems necessary along with a cost estimate. The Mission will analyze the plan and consider actual requirements.

9. Promote New Investment Opportunities

The preceding Section 6 of this report indicates the extent to which COMDESA attained this goal.

10. Stimulate High Priority Investment

According to the CAP, there is a general agreement among the World Bank, IDB, CTAP and AID that the areas for priority investment in Paraguay are in agriculture, agro-industry, and export production. Table 4 below shows the areas to which COMDESA directed its lending activities.

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TABLE 4

Percentage Distribution of COMDESA's Portfolio by Priority Areas
(July 1973 - June 1974)

	<u>% Portfolio</u>
Agro-industry	21.1
Manufacturing	20.5
Cattle and Agriculture	25.9
Transportation	19.0
Tourism	8.2
Construction industry	<u>5.3</u>
	<u>100.0</u>

The percentage distribution of COMDESA's subloans seems to be well distributed; however, COMDESA's lending was not totally directed towards the areas listed in the loan agreement. i.e. (1) production for export, (2) processing of Paraguayan agricultural, mineral and forest products, (3) processing, marketing and distribution of foodstuffs, and (4) employment opportunity and income distribution. (See Table 5 below).

TABLE 5

Number of COMDESA's Loans Including One or More of the
Priority Items Indicated in the Loan Agreement

<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5) Others</u>
11	18	6	43	39

(5) these loans are for transportation, service industries, agriculture, cattle, etc. fully

COMDESA representatives stated that they should not be required to adhere/to the requirements of the loan agreement regarding the financing of the four types of priority projects because the changing circumstances in the Paraguayan economy precludes them from following such a rigid policy. COMDESA says it generally directs its lending to those areas where no other sources of credit are available and it also attempts to avoid having its resources idle for long periods of time.

Although part of the activities financed by COMDESA were not specifically directed to the four priority sectors established in the loan agreement, the projects financed by COMDESA were either complementary or closely related to those priority areas. The participants in this evaluation believe that COMDESA has performed well in meeting the credit needs of the private sector.