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

September 29, 1988

Sr. Salvador Simán
Presidente, Junta Directiva de
FUSADES
Edificio La Centroamericana, 6o. piso
San Salvador

Asunto: Convenio de Cooperación
Donación de A.I.D.
No. 519-0304-A-00-5506-00
Enmienda No. 4

Estimado Sr. Simán:

De acuerdo con la autorización contenida en el Acta de Asistencia al Exterior de 1961, y sus enmiendas, la Agencia para el Desarrollo Internacional, por este medio, enmienda el mencionado Convenio de Cooperación, según enmiendas, con la Fundación Salvadoreña para el Desarrollo Económico y Social (FUSADES), para su Programa de Pequeños y Microempresarios como sigue:

I. Sección B, "Período del Convenio" del Anexo 1, "Calendario", se elimina por este medio en su totalidad y se sustituye por lo siguiente:

"B. Período del Convenio

1. La fecha efectiva de este Convenio es agosto 29, 1985. La fecha de expiración es junio 30, 1989.

2. Los fondos obligados en esta enmienda están disponibles para gastos del programa desde la fecha del Convenio hasta junio 30, 1989, como aparece más adelante en el Plan Financiero Ilustrativo".

Mr. Salvador Simán
President, Board of Director
FUSADES
Edificio La Centroamericana, 6o. piso
San Salvador

Subject: Cooperative Agreement
A.I.D. Grant No.
519-0304-A-00-5506-00
Amendment No. 4

Dear Mr. Simán:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development, hereby amends the above referenced Cooperative Agreement, as amended, with the Salvadoran Foundation for Social and Economic Development (FUSADES), for its Small and Microenterprises Program as follows:

1. Section B, "Period of Agreement" of Attachment 1, entitled "Schedule", is hereby deleted in its entirety and the following substituted therefor:

"B. Period of Agreement

1. The effective date of this Agreement is August 29, 1985. The expiration date is June 30, 1989.

2. Funds obligated hereunder are available for program expenditures from the date of this Agreement to June 30, 1989, as shown in the Illustrative Financial Plan below."

II. El "Plan Financiero Ilustrativo", como aparece en el rubro del presupuesto de la página 3 del Anexo I, el "Calendario", se elimina por este medio y se sustituye por el Anexo 1 de esta Enmienda al Convenio.

A excepción de lo modificado por este medio, todos los demás términos y condiciones del Convenio de Cooperación original, según enmiendas, permanecen en pleno vigor y efecto.

Favor firmar el original y tres (3) copias de esta Enmienda para indicar su acuerdo con los términos establecidos aquí, y devolver el original y dos copias (2) a la USAID/El Salvador.

II. The "Illustrative Financial Plan" as expressed in the line item budget on Page 3 of Attachment I, entitled "Schedule", is hereby deleted and Annex 1 to this Agreement Amendment is substituted therefor.

Except as hereby expressly modified, all other terms and conditions of the original Cooperative Agreement, as amended, remain in full force and effect.

Please sign the original and three (3) copies of this Amendment to acknowledge your agreement with the terms set forth herein, and return the original and two (2) copies to USAID/El Salvador.

Sincerely

Richard Greenfield

Henry H. Bassford
Director

Laura K McGhee

Laura McGhee
Grant Officer

Accepted: _____

Name: Salvador Simán

Title: President

Date: Sept 20/88

Annex 1
(Anexo 1)

ILLUSTRATIVE FINANCIAL PLAN
IN US$
PLAN FINANCIERO ILUSTRATIVO
EN US$

Expenses (Gastos)	Amount (Cantidad) 1st year (1er año)	2nd year (2o. año)	3rd year (3er año)	Previous Totals (Totales Anteriores)	This Change (Este Cambio)	Totals (Totales)
A. Revolving Credit Fund (Fondo de Crédito Rotativo)	$311,110	$ 755,555	$1,057,283	$2,123,948	-0-	$2,123,948
B. Technical Assistance (Asistencia Técnica)	47,789	35,555	26,670	110,014	(28,800)	81,214
C. Operating Expenses, Equipment and start up (Gastos de Operación, Equipo e instalación)	229,812	260,452	275,774	766,038	28,800	794,838
Total	$588,711	$1,051,562	$1,359,727	$3,000,000	-0-	$3,000,000

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

September 29, 1988

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

From: Edward T. Landau, PRJ

Through: Deborah Kennedy, PRJ

Subject: Small and Micro-Enterprise Program
PACD Extension and Reprogramming Request for Cooperative Agreement.

Action: Your approval is required to allow a reprogramming of funds and extend, at no cost, the PACD for the subject Cooperative Agreement from September 30, 1988 to June 30, 1989. This action will enable program implementors to approach meeting the original objectives, as well as provide a linkage to the planned small business project scheduled for obligation in FY89.

Background: The purpose of the Project is to increase the profitability and to promote the expansion of small and micro-enterprises, thereby generating employment and fostering economic growth. Project activities incorporate the provision of credit, training and technical assistance. The Project implementing unit is the Small and Micro-Enterprise Unit (PROPEMI) of the Salvadoran Foundation for Social and Economic Development (FUSADES). The Project was authorized on August 27, 1985, with LOP funding at $3,000,000 for approximately a three-year period ending September 30, 1988. The initial agreement, signed August 29, 1985, obligated $1,000,000. Since that time, three Agreement amendments have been signed: two served to provide incremental funding taking the Agreement to the authorized LOP amount, and one served to expand the geographic scope to include activities outside San Salvador as stated under the purpose of the Agreement in Attachment I, the Schedule, and the purpose of the Project in Attachment II, Program Description. The Mission in August 1987 also waived the 25 percent counterpart requirement.

Discussion: On August 2, 1988, the Mission received a proposal from FUSADES requesting three actions: extend at no-cost the PACD to March 31, 1989 for current activities, reprogram C144,000 ($28,800) to cover additional operating costs, and increase LOP funding by $3,000,000 with a concomitant three-year PACD extension for the new funding. For the purposes of this Action Memo, the increase in LOP funding request will be deferred to a later date, once the Small-Scale Enterprise Strategy and the Small Business Development Project become realities.

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The ongoing program has three major objectives: (1) to create income producing jobs; (2) to bring small and micro-enterprises within the established financial system; and (3) to develop a permanent program of technical assistance and credit for small and micro-enterprises. Within the parameters of the Agreement, PROPEMI has developed a coordinated and complementary approach to gain the participation of target beneficiaries. The approach includes the steps of targeting larger-scale micro enterprises and smaller-scale small enterprises in a door-to-door promotion and consciousness raising program; of providing a five-week, 50-hour training course in basic business principles and procedures; of analyzing the businesses of training graduates to determine the viability of making a loan and the amount of such a loan; of providing loans at 15 percent interest rates for a period not to exceed five years; and of making available technical assistance for the actual application of the learned procedures in the participating enterprises. PROPEMI has constituted an administrative structure and a professional group of univeristy-trained extension officers to carry out all facets of the program.

Status: The Project started slowly, due principally to PROPEMI complying with A.I.D. procurement regulations, a new bank regulation and the 1986 earthquake. The new bank regulation in conjunction with an earlier regulatory change required the commercial banks to set aside 17.5 percent of their portfolios for loans to small and micro enterprises at 13 percent interest rates (much lower than market rates). Given the commercial banks inability to execute a comprehensive program for all segments of micro and small enterprises, the banks tended to target the same narrow population as PROPEMI. A few months after the PROPEMI program made its fledgeling start, the earthquake struck. Disaster relief programs through the banks made approximately $10,000,000 available to micro and small enterprises, without the steps required in the PROPEMI program and at low interest rates. These factors inhibited the smooth functioning of the program, as well as diminished its attractiveness to prospective clients.

With the aforementioned problems, the project has accomplished about 20 months of uninterrupted implementation. Although not expressly indicated in the Cooperative Agreement, there appear to be five general output areas (see Semi-Annual Reports (SAR)). The results according to PROPEMI are:

		LOP	As of Sept., 1988
1.	T.A. (No. of Beneficiaries)	2,375	2,095
2.	Credit		
	- No. of Loans	2,375	1,075
	- Amount of Loans	$2,100,000	$1,920,000
3.	Field Extension Officers Working	18	11 (SAR)
4.	Generate Employment	2,374 jobs	1,100 jobs
5.	Beneficiaries turned over to established financial system	250	75

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As of July 31, 1988, a total of $1,834,605 had been expended, leaving a balance of $1,165,395.

Project progress is behind schedule, but performance has improved significantly over the last 15 months. With the additional nine months, and except for the amount or number of loans disbursed, the Project will approach, but not likely meet the planned output levels. Remaining credit funds should be disbursed by December 31, 1988, after which PROPEMI can operate at reduced levels on reflows. In addition, the draft evaluation performed by Development Associates, Inc. on the whole FUSADES portfolio pinpoints some concerns with the PROPEMI/AID program. These concerns include among others: the appropriatness of the target beneficiaries, the quality and applicability of the training program, the geographic scope of the program, the frequency of technical assistance follow up and the potential for attaining financial self-sufficiency. In the development of a new follow-on project, the PROPEMI evaluation will be closely analyzed and supplemented. The nine months provided in the unfunded amendment proposed herein will permit the orderly completion of Project activities, enable a more thorough evaluation and allow time for the development of a new project.

Reprogramming: With the extension of the Project, PROPEMI will require an additional C400,000 to defray operating costs. PROPEMI management wishes to use C144,000 derived from an excess in programmed technical assistance financing, along with C256,000 in loan recuperation funds to meet those needs. This transfer of funds should not have a negative impact on Project implementation; and is, therefore, recommended by the Project Implementation Committee.

Authority: Pursuant to Delegation of Authority No. 754, Section II, Para. D(1), the Mission Director has the authority to extend the terminal date for completion of performing services and furnishing goods (PACD) for a cumulative period not to exceed two years. The request for a nine-month extension falls within the Mission Director's approved authority. Relating to the reprogramming, A.I.D. must approve any variation of planned expenditures that exceeds 15 percent from the original line item budget, in accordance with Standard Provision No. 4 of Attachment 3 of the Cooperative Agreement.

Recommendation: That you approve the nine-month un-funded PACD extension for the subject Cooperative Agreement from September 30, 1988, to June 30, 1989, and approve the reprogramming of $144,000 in technical assistance funds to finance increased operating costs.

APPROVED: [signature]

DISAPPROVED: _____

DATE: 9/28/88

Drafted by: TLandau, PRJ
Cleared by: DKennedy, PRJ (draft) date 9/1/88
JStephenson, PRE (draft) date 9/2/88
GNell, EXO (draft) date 9/6/88
FGLatham, CONT (draft) date 9/19/88
WSKaschak, ADPP (draft) date 9/20/88
JHeard, AMDO (draft) date 9/26/88
RKArchi, DDIR _____ date _____

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