PD-ABB-058

EVALUATION REPORT
SALVADORAN FOUNDATION FOR ECONOMIC AND SOCIAL DEVELOPMENT (FUSADES)

Contract No. PDC-0085-I-00-6098-00,
Work Order No. 61

Purchase Order No. 519-0177-0-00-8563-00

Submitted

by:

DEVELOPMENT ASSOCIATES, INC.
2924 Columbia Pike
Arlington, VA 22204
Telephone: (703)979-0100

December 1988

THE DEVELOPMENT ASSOCIATES TEAM

Phase I

HENRY A. SCHUMACHER, PhD	Team Leader: Overall issues and coordination of the collaborative team effort. Analysis of FIDEX, DEES and FORTAS with Manuel Salsa.
MANUEL SALSA	Management Consultant: Evaluation of FUSADES' management and institutional viability, financial and credit systems. Analysis of FIDEX, DEES, and FORTAS with Dr. Schumacher. Also collaborated with other team members on credit and financial issues.
WILLIAM RHETT	Marketing Consultant: Evaluation of PRIDEX and coordination on overall management issues.
JUDE PANSINI, PhD	Micro/Small Business Consultant: Evaluation of PROPEMI and coordination on overall management issues.
DON BOSTWICK, PhD	Agribusiness Consultant: Evaluation of DIVAGRO/RIEGO and coordination on overall management issues.

Phase II

JAMES L. ROUSH	Management Consultant: Expand on Overall Management Assessment (Chapter 2) and finalize report.

ACKNOWLEDGEMENT

The Development Associates' team wishes to thank Henry Bassford, Director, USAID/El Salvador and his staff for their help and support in the implementation of this evaluation report.

The team particularly wishes to thank the project officers, James Stephenson and Ana de Guth, for their guidance and assistance. The Private Sector Office coordinated our research efforts through Ana de Guth whose knowledge of FUSADES, its personnel, and the informational material she was able to obtain were invaluable. She arranged many of the interviews with the able assistance of Laura Fontin.

Our reception at FUSADES and the level of cooperation and assistance the team received throughout its five-week study was exceptional. Our deep thanks to Eduardo Nuñez, Executive Director of FUSADES, for his effective and efficient coordination of our evaluation study. All the directors of the programs, the Board of Directors and the various Commissions and Committees deserve our grateful thanks for meeting with us and providing their valuable insights on the Foundation's mission, goals, achievements, and visions of the future.

Respectfully,

Henry A. Schumacher, PhD
Manuel Salsa
William Rhett
Jude Pansini, PhD
Don Bostwick, PhD
James L. Roush

TABLE OF CONTENTS

	Pages
ACKNOWLEDGEMENT	iii
ACRONYMS	viii
EXECUTIVE SUMMARY	xii
CHAPTER 1: INTRODUCTION	1
1.1 Purpose of the Evaluation	1
1.2 What iS FUSADES?	1
1.3 AID/El Salvador Issues	1
1.4 AID/Washington Issues	2
1.5 Methodology	2
CHAPTER 2: OVERALL MANAGEMENT ASSESSMENT	4
2.1 What is FUSADES?	4
2.2 AID's Portfolio with FUSADES	6
2.3 Program Management	7
2.3.1 Organization and Staffing	7
2.3.2 Financial Management	8
2.3.3 Project Development and Implementation	9
2.4 Program Impact	10
2.5 Program Sustainability	12
2.6 FUSADES Viability	14
2.6.1 Questions Posed by AID/Washington	14
2.6.2 Strategic Planning	18
2.6.3 Some Options for Improving FUSADES Financial Viability	19
2.6.4 Some Concluding Thoughts on FUSADES Viability	21
2.7 Summary Overall Assessment of FUSADES	22
2.7.1 Findings	22
2.7.2 Recommendations	23
CHAPTER 3: FORTAS PROGRAM	24
3.1 Organizational Structure	24
3.2 Management System and Capability	24
3.3 Program Effectiveness	25
3.3.1 Services to Beneficiaries	27
3.3.2 Staff Productivity and Efficiency	28
3.3.3 Marketing FORTAS Program	28

Pages

3.4 Financial System..... 28
3.5 Overall Impact..... 28
3.6 Program Options..... 29

CHAPTER 4: DEES PROGRAM..... 31

4.1 Organizational Structure..... 31
4.2 Management System and Capability..... 31
4.3 Program Effectiveness..... 32

4.3.1 Services to Beneficiaries..... 38
4.3.2 Staff Productivity and Efficiency..... 39
4.3.3 Marketing the DEES Program..... 39

4.4 Financial Systems..... 40
4.5 Overall Impact..... 40
4.6 Program Options..... 41

CHAPTER 5: FIDEX PROGRAM..... 43

5.1 Organizational Structure..... 43
5.2 Management System and Capability..... 43
5.3 Services to Beneficiaries..... 44
5.4 Financial System..... 45
5.5 Overall Potential Impact..... 47
5.6 Program Options..... 48

CHAPTER 6: PRIDEX PROGRAM..... 49

Methodology..... 49

6.1 Organizational Structure and Assignments..... 49
6.2 Management Systems and Capability..... 53
6.3 Program Effectiveness..... 58
6.4 Financial Systems..... 65
6.5 Overall Impact..... 67
6.6 Program Options..... 68

CHAPTER 7: DIVAGRO PROGRAM..... 70

7.1 Introduction..... 70

7.1.1 Objectives..... 70
7.1.2 History..... 70

7.2 Organization..... 71

7.2.1 Internal..... 71
7.2.2 Links to PRIDEX and FIDEX..... 73
7.2.3 Links to USAID Project Funding..... 73

Pages

7.3 Management System..... 74

7.3.1 Administration..... 74
7.3.2 Projects..... 74
7.3.3 Research and Development..... 75

7.4 Effectiveness..... 76

7.4.1 DIVAGRO..... 76
7.4.2 Relations with FIDEX AND PRIDEX..... 80

7.5 Future Plans..... 81

7.5.1 Organization..... 81
7.5.2 Projects..... 81
7.5.3 Self-Sufficiency..... 82
7.5.4 Development Banking..... 84

7.6 Finding and Recommendations..... 84

7.6.1 Findings..... 84
7.6.2 Recommendations..... 86

CHAPTER 8: PROPEMI PROGRAM..... 88

Introduction..... 88

8.1 PROPEMI in Context..... 88

8.1.1 The Informal Credit System..... 91
8.1.2 Definition of "Micro"..... 92
8.1.3 Definition of "Small"..... 93

8.2 Management..... 93

8.2.1 Administrative Aspect of Management..... 93
8.2.2 Policy and Programming..... 94
8.2.3 Personnel..... 94

8.3 Program Effectiveness..... 95

8.3.1 Marketing the Program..... 95
8.3.2 Loan Application Process..... 96
8.3.3 Loan Approval Criteria..... 97
8.3.4 Initial Contacts 98
8.3.5 Program Information Sessions..... 99
8.3.6 Course Drop-Outs 99
8.3.7 Course Analysis 100
8.3.8 Loan Defaults..... 101
8.3.9 Loans Made..... 103
8.3.10 Outreach Technical Assistance..... 104
8.3.11 Asesores: TA Providers..... 105

Pages

8.4 Financial System..... 106

8.4.1 1987 Operational Costs and Income..... 106
8.4.2 Break-Even Analysis..... 107
8.4.3 Financial Soundness..... 108

8.5 Overall Impact..... 109

8.5.1 Technical Assistance..... 110
8.5.2 Credit..... 110
8.5.3 Employment Generation..... 111

8.6 Sustainability..... 111
8.7 Recommendations..... 113
8.8 Cost Implications of the Recommendations..... 115

8.8.1 Other Business Education Products and Business Services Program..... 115
8.8.2 Research and Seminar Costs..... 116
8.8.3 Lowering PROPEMI's Target Segment Sight.. 116
8.8.4 An Endowment..... 116

ANNEXES

A - Summary Scopes of Work for the Evaluation..... 117
B - Chronology of FUSADES-USAID Relationship..... 121
C - FUSADES Sustainability Projections..... 124
D - Agricultural Portfolio..... 137

D-1 Financial Status as of August 31, 1988
D-2 Economic and Social Impact of Authorized Projects

ACRONYMS

ANEP	Asociación Nacionale de Entreprises Privadas (National Association of Private Enterprises)
ARSP	Asociación para Riego del Sector Privado (Private Sector Irrigation Association)
ASA	Association Strengthening Activities (see FORTAS)
ASPENT	Asociación Salvadoreña de Productores y Exportadores de Productos no Tradicionales (Salvadoran Association of Producers and Exporters of Nontraditional Products)
BCR	Banco Central de Reserva (Central Reserve Bank)
BFA	Banco de Fomento Agropecuario (Agricultural Development Bank)
BH	Banco Hipotecario (Mortgage Bank)
BOS	Business Opportunity Survey
CACM	Central American Common Market
CBI	Caribbean Basin Initiative
C/CAA	Caribbean/Central American Action
CDG	Centro de Desarrollo Ganadero (Livestock Development Center)
CENCAP	Centro Nacional de Capacitación (National Training Center)
CENREN	Centro de Recursos Naturales (Natural Resources Center)
CENTA	Centro de Tecnología Agrícola (Center for Agricultural Technology - the MAG's Agriculture Research and Extension Agency)
CENTREX	One-stop documentation center for non-traditional exports and imports in the Ministry of Foreign Trade
CODEXI	Comisión para el Desarrollo de Exportación e Inversión (Commission for Export and Investment Development - a commission created in 1986, made up of high level public and private sector leaders, which is giving direction to the GOES' efforts to promote non-traditional exports)
COEXPORT	Corporación de Exportadores de El Salvador (Salvadoran Export Corporation - a private sector trade association of nontraditional agricultural and industrial exporters)

CORPREX	Corporación para el Desarrollo del Riego y Exportación Agrícola (Irrigation and Agricultural Export Development Corporation - a private sector irrigation association established in 1986)
DES	Department of Economic Studies (FUSADES)
DEES	Departamento de Estudios Económicos y Sociales (Economic and Social Studies Department of FUSADES)
DGRD	Dirección General de Riego y Drenaje (General Directorate of Irrigation and Drainage)
DIVAGRO	Diversificación Agrícola (Agricultural Diversification - a FUSADES program established in 1984)
ENA	Escuela Nacional de Agricultura (National School of Agriculture - a post-secondary public college of agriculture)
FENAPES	Federación Nacionale de Pequeñas Enterprises Salvadoreñas (National Federation of Small Enterprises)
FIDEX	Fomento de la Industria de Ensamble para la Exportación (Development of Assembly Industries for Export - a FUSADES program set up in 1986 to finance investments for industrial export projects)
FINATA	Financiera Nacional de Tierras Agrícolas (National Land Finance Institution)
FORTAS	Fortalecimiento de las Asociaciónes Salvadoreñas (Association Strengthening Activities Program of FUSADES)
FUSADES	Fundación Salvadoreña para el Desarrollo Económico y Social (Salvadoran Foundation for Economic and Social Development)
FX	Foreign Exchange
GDP	Gross Domestic Product
GISO	General Information and Support Office
GOES	Government of El Salvador
IGN	Instituto Geográfico Nacional (National Geographic Institute)
ISRP	Industrial Stabilization and Recovery Project (519-0287)
ISTA	Instituto Salvadoreño de Transformación Agraria (Salvadoran Institute of Land Reform)
JV	Joint venture

LC	Local Currency
MAG	Ministerio de Agricultura y Ganadería (Ministry of Agriculture and Livestock)
MICE	Ministerio de Comercio Exterior (Ministry of Foreign Trade)
MIPLAN	Ministerio de Planificación y Coordinación del Desarrollo Económico y Social (Ministry of Planning and Coordination for Economic and Social Development)
MOE	Ministerio de Economía (Ministry of Economy)
MOF	Ministerio de Finanzas (Ministry of Finance)
MOP	Ministerio de Obras Públicas (Ministry of Public Works)
NBCCA	U.S. National Bipartisan Commission on Central America
NTAP	Nontraditional Agricultural and Aquacultural Products
OA	Oficina de Agua (Water Office)
OCOPROY	Oficina Coordinadora de Proyectos MAG-AID (MAG-AID Project Coordinating Office)
ORE	Oficina de Recursos Especiales (Special Resources Office)
OSPA	Oficina Sectorial de Planificación Agropecuaria (Agricultural Sector Planning Office)
PACD	Project Assistance Completion Date
PADF	Pan-American Development Foundation
PID	Project Identification Document
PP	Project Paper
PRIDEX	Programa de Promoción de Inversiones y Diversificación de Exportaciones (Program of Promotion of Investments and Diversification of Exports - a FUSADES program established in 1985 to promote investment and export of nontraditional products)
PROPEMI	Promoción de la Pequeña y Micro-empresas (Promotion of Small and Micro Enterprises - a FUSADES program established in 1985 to provide training and credit assistance to small scale enterprise)
PVO	Private Voluntary Organization

RIEGO	Programa de Riego (Irrigated Agricultural Development - a FUSADES program established in 1985 to promote irrigated agriculture for the production of labor-intensive, high-value crops and processed products for export)
SCIS	Sociedad para el Comercio y la Industria Salvadoreña (Salvadoran Society for Commerce and Industry)
TA	Technical Assistance
TIPS	Trade and Investment Promotion Services
UDES	Union de Dirigentes de las Entreprises Salvadoreñas (Association of Managers of Salvadoran Enterprises)
WMS	Water Management Synthesis II Project

0540y/10.88

EXECUTIVE SUMMARY

WHAT IS FUSADES?

FUSADES is a private, non-profit, non-partisan organization established in 1983 by more than 100 Salvadoran businessmen to develop activities to promote the physical, intellectual, social, and economic well-being of the Salvadoran people within a framework, of economic and individual freedom. FUSADES is the implementing agent for eight USAID projects (or major components thereof).

FUSADES sees its role as fulfilling two functions: a research center and a broker of economic and social development. The development broker role is played by providing or facilitating the provision of needed services to:

a) Private sector producers in target sectors; and

b) Private sector sponsors of social development activities.

An overall look at the FUSADES organization and programs is provided in Chapter 2. A detailed discussion of each FUSADES program is included in Chapters 3-8. A chronology of the FUSADES-USAID relationship is provided in Annex B.

AID'S PORTFOLIO WITH FUSADES

A listing of the projects for which USAID has signed Cooperative Agreements with FUSADES, and their current status, is given in Table 1. Cumulative obligations since 1984 are $73.2 million; cumulative expenditures as of September 30, 1988 are $17.5 million.

PROGRAM IMPACT

As stated in the USAID's Action Plan, promoting long term growth is one of three main goals of the AID program. Within that goal, two inter-related objectives are particularly relevant to the FUSADES program: invigoration of the private sector and developing non-traditional exports. To carry out these objectives, it is necessary to improve the private-public sector relationship, obtain some changes in GOES economic policies, and encourage private sector activity.

Table 1

FUSADES PORTFOLIO, 9/30/88

PROJ. No.	PROJECT TITLE	INITIAL AGMT.	AMT. AUTH	CUM. THRU FY 88 OBLIG.	CUM. THRU FY 88 EXPEN.	CURRENT PACD
				-----US$ MILLIONS------		
0265	Ag. Diversification (Agrarian Reform Sector Support)	1/85	3.8	3.8	3.6	7/88
0287	Indust. Stabilization and Recovery	9/84	26.9	26.9	8.3	9/89
0303	Water Management	8/85	13.4	13.4	1.3	8/90
0304	Urban Small Business	8/85	3.0	3.0	2.4	9/88
0316	Assn. Strengthening Activities	7/85	1.9	1.9	1.4	5/89
0327	Agribusiness Development	9/87	20.0	17.9	0.1	9/92
0336	Private Sector Initiatives	8/87	4.7	4.3	0.4	1/91
0323	Free Zone Development	9/88	5.0	2.0	----	9/93
	TOTALS		78.7	73.2	17.5	

Fortunately, there has been a convergence between AID objectives and those of FUSADES, and the two organizations have worked together to overcome some of the serious obstacles to achieving the above objectives. Such FUSADES programs as the small and micro-enterprise activity have contributed to an improvement of relations with the present government. Within five years, FUSADES has been able to present draft legislation to the GOES which was approved. It has presented an economic rehabilitation strategy to the government and seen much of it become policy.

FUSADES has also fostered a social consciousness in the private sector. It facilitated the rehabilitation effort following the 1986 earthquake. It promoted the establishment of three private sector foundations with social programs in education (FEPADE), housing (HABITAT), and industrial safety (FIPRO). The Salvadoran Chamber of Commerce is providing technical training to low income entrepreneurs. The Association of Managers of Salvadoran Enterprises (UDES) has initiated social action programs.

Although the results are not yet impressive in terms of overall exports, the FUSADES-generated non-traditional export growth is already substantial and increasing rapidly. The results projected through 1988 are shown in Table 2 below.

Table 2

RESULTS OF THE GROWTH IN NON-TRADITIONAL EXPORTS

	1985	1986	1987	1988	Cum.
Foreign Exchange Generated ($ Mill.)	2.2	4.4	7.4	18.5	32.5
New Investments ($ Mill.)	0.4	1.2	5.1	13.4	20.1
Employment Generated (New Jobs)	1,266	1,134	2,634	4,266	9,300

Informal FUSADES projections of total non-traditional exports from 1988 to 1993 and the share expected from FUSADES-sponsored activities are shown in Table 3 below.

Table 3

PROJECTIONS OF NON TRADITIONAL EXPORTS
($ Millions)

	1988	1989	1990	1991	1992	1993
Total Non-Traditional Exports	100	136	193	274	389	552
Annual Increment	20	36	57	81	115	163
Increment Due to FUSADES Activity	8	14	24	40	59	75
FUSADES Increment as Percent of Total Annual Increment	40	39	42	49	51	46

PROGRAM SUSTAINABILITY

In none of the evaluation plans in the Project Papers for the projects in the FUSADES portfolio was there mention of sustainability. Then why is it a part of the scope of work for this evaluation? In part, no doubt, it is because AID/W has become aware of the need for being concerned about sustainability when projects are initiated. In part, some AID personnel may be concerned that the USAID might be putting too many eggs in one basket--assigning too many projects to a very new and possibly politically vulnerable organization.

While AID should generally be concerned with sustainability of programs over the long term, the situation in El Salvador with which the USAID has been dealing has been one in which the short term has had to dominate. Trying to get a resumption of long term growth was needed to help deal with the short term and had to be initiated in a crisis situation. In short, it was the sustainability of the Salvadoran economy that was of highest priority, and it was imperative to move forward with whatever mechanisms were available. It was fortuitous for the USAID that a group of private sector entrepreneurs came to about the same conclusions and were able to organize themselves to do what was needed, what the GOES was either incapable or unwilling to do at the time.

FUSADES has demonstrated a capability to expand its personnel and modify its organization as necessary to carry out AID activities to date, and there is no reason to believe that it cannot carry some additional activities as long as AID is willing to pay virtually all costs--as it does now. FUSADES is unlikely to have a problem of sustainability under current conditions unless AID seems to be distancing itself from the institution and thereby raises a question of its legitimacy.

A major question raised by AID is what happens to the AID projects in the post-1992 period when existing and presently planned AID funding is scheduled to run out. While there appear to be some options for sustaining AID activities even if AID funding for FUSADES were no longer available, the preferred solution would be for FUSADES to continue its programs without having to drop activities.

FUSADES VIABILITY

In his introduction to the 1987 Annual Report, the FUSADES president stated that FUSADES must attain self-sufficiency. The Executive Director has said that FUSADES's financial viability will be discussed in the forthcomic strategic planning seminar. In the

meantime, PRIDEX has drafted a five-year plan, PROPEMI has prepared a plan for self-sufficiency, and FORTAS' 1988 work plan calls for it to develop a plan for self-sufficiency.

FUSADES' management has mentioned the following possibilities for reducing costs:

a) Moving into their own building, thereby saving rent on three buildings ($120,000 in 1988);

b) Achieving some internal operating efficiencies;

c) Replacing some of the higher paid officials with junior officers now being groomed for senior positions (presumably in the 1992 time frame).

Possible sources of additional income that are being considered include the following:

a) Fees for use of the data bank/information center being established by DEES;

b) Establishing a training center next year within FORTAS and charging for services;

c) Increasing donations from Patron Members (firms);

d) Interest earned from lending programs;

e) Increasing donations from local foundations;

f) A special fundraising drive for the building fund;

g) Recruiting more rapidly new Founding Members;

h) Establishing an annual membership fee for Founding Members;

i) Sale of publications;

j) Charging for seminars;

k) Charging consulting fees;

l) Taking equity holdings, either for services rendered or as part of an investment project promoted by FUSADES--the legal aspects of taking equity are currently being reviewed.

Although FUSADES should try to increase its earnings from services provided, it appears the most promising possibilities for generating a significant increase in revenues are : (1) handling a much larger loan portfolio with a greater share of the loans being of shorter maturity; and (2) establishing a large endowment fund.

AID, in considering the sustainability of FUSADES activities, should recognize that the introduction of new crops and new industries and the changing of attitudes toward development by the private sector and government usually takes more than five years. Many government projects are not self-sustaining after 10 years. It appears that a higher than usual standard is being applied in a military-political-economic-social environment in which one would normally have expected the opposite.

FUSADES has become a capable organization dedicated to Salvadoran economic and social development, and AID should be interested in seeing it have the opportunity to continue playing a significant role. It appears, however, that AID is requiring that cash flow scenarios show full viability by 1992 as a pre-condition to receiving additional grants. This would seem to be particularly unfair at this time because it would reduce the chances of achieving a self-financing capability in the medium term.

Furthermore, the sustainability issue has been raised only recently and FUSADES is trying to respond. Therefore, it would seem logical to go along with new investments as planned for the next two years and then take another look at the cash flow projections and the achievements FUSADES has made. By then, FUSADES will have completed its strategic plan and had time to do one annual update of it, the political/military situation in El Salvador will have evolved further, the economic policies of the new GOES will be known, and there should be a clearer picture of the likely impact on El Salvador of the aid policies of the new U.S. administration.

With regard to the cash flow scenarios (see Annex C), Scenario III, which is probably the most realistic, shows a small surplus in 1993. Thus, a moderately successful fund-raising effort by FUSADES, particularly if initiated in 1989, should ensure FUSADES's viability even with virtual elimination of AID funding beyond that already planned.

RECOMMENDATIONS

1. FUSADES and AID work together to improve project implementation reporting and to establish the types of information needed to evaluate the impact of the different activities.

2. FUSADES and AID work together to liquidate the outstanding advances and make any adjustments necessary to minimize problems of reconciling accounts.

3. USAID support FUSADES, as appropriate, in the latter's effort to develop and implement a plan for achieving self-sustainability.

4. AID agree to let 0287 loan funds be lent for working capital for industry as is already the case for agricultural loans.

5. The next general evaluation of FUSADES be scheduled for 1990, at which time many of the variables that faced this team should have been clarified. It would be an appropriate time to go deeply into the sustainability issue.

0742y/12.88

CHAPTER 1

INTRODUCTION

1.1 PURPOSE OF THE EVALUATION

The purpose of this evaluation was to review the overall impact of the Salvadoran Foundation for Economic and Social Development's (FUSADES) programs in terms of the original objectives established in each of the programs. In addition, FUSADES' institutional, managerial, financial, and technical strengths and weaknesses were reviewed.

The evaluation assessed the Foundation's ability to exercise sound stewardship over AID resources, management capability to implement the programs it has, and its capacity to take on new activities. The evaluation includes a full examination of USAID/EL SALVADOR's projects with FUSADES.

See Annex A for a summary of the scopes of work for the evaluation.

1.2 WHAT IS FUSADES?

FUSADES is a private, non-profit, non-partisan organization established in 1983 by more than 100 Salvadoran businessmen to develop activities to promote the physical, intellectual, social, and economic well-being of the Salvadoran people within a framework of economic and individual freedom. FUSADES is the implementing agent for eight USAID projects (or major components thereof).

An overall look at the FUSADES organization and programs is provided in Chapter 2. A detailed discussion of each FUSADES program is included in Chapters 3-8. A chronology of the FUSADES-USAID relationship is provided in Annex B.

1.3 USAID/EL SALVADOR ISSUES

Paramount in the USAID's thinking were questions on management effectiveness in each program, their capacity for self-sustainability with their own resources, and their life span and viability. The USAID issues were:

- To what degree has social consciousness entered into the programs?
- What impact do each of the programs have on the political polarization issue?
- How do the various private sector businesses perceive FUSADES?

- How effective is the technical assistance to each of these groups?

- What is the degree of client satisfaction with FUSADES' services and will the clients pay a larger share of the costs for providing those services?

In summary, USAID wanted an independent evaluation of the present conditions and the potential for further impact on target beneficiaries if AID were to increase the amount of funding and program activities. At what level should AID support end? Is the present organizational structure and management capability adequate to absorb both present and expanded funding? What is the role of FUSADES in solving the economic and social problems of the country and how can it better interact with the present and future government?

1.4 AID/WASHINGTON ISSUES

The key question for Washington was determining the overall capability of FUSADES for delivering its services to the targeted beneficiaries at this period in history. There have been numerous evaluations and studies of the different programs within FUSADES over the past few years and many recommendations concerning structure and types of activities.

Before further funds were approved for the Industrial Free Zone Development Project and the Agri-Business Development Project, AID/Washington wanted an independent evaluation of the overall FUSADES institution as it fits into the AID strategy of increasing exports, generating jobs, and stimulating the entrepreneurial sector of El Salvador. Thus, there was a need to look into the institutional strengths and weaknesses and determine the long-term probabilities for success.

1.5 METHODOLOGY

The Development Associates' team of five members initiated the evaluation in San Salvador on May 16 and presented its draft report on June 15, 1988. The team worked under the general policy guidance of the USAID Private Sector Officer and USAID project managers in charge of FUSADES' various program components. After a week of orientation on the documentation and meetings with the FUSADES Executive Director and the USAID Mission Director and other USAID officials, the team presented its work plan which was approved by USAID.

Field work commenced on May 23, 1988, with interviews and meetings with FUSADES staff, the commissions, and committees. Beneficiaries were identified by both USAID and FUSADES staff and visits were arranged to meet with a sample of them in their offices or work places. The consultants also attended FUSADES commission and loan committee meetings as well as a Board of Directors meeting.

The team had frequent discussions on overall issues and set up meetings with some organizations and individuals outside of the FUSADES' family of clients and USAID recipients. Meetings were also held with the Executive Committee and members of the Board of Directors on the overall environment and priorities for the future.

The team's strategy was to identify both users and non-users of FUSADES's services and evaluate the degree of satisfaction or dissatisfaction and the degree of knowledge about FUSADES's mission. Another tactic was silent observer in meetings, training and promotion programs, and every day office routine. The team had a formal office set up in the Foundation's main building within the FORTAS PROGRAM. An informal office was also established with the PROPEMI PROGRAM. The team working with DIVAGRO, PRIDEX, and FIDEX also spent considerable time within their respective offices located in the same building. The DEES office was located in a house and less time was spent there due to logistics and the lack of electricity during the morning hours.

Field trips were made outside San Salvador to visit DIVAGRO's experimental farms and processing and packing plants. Visits were also made outside the capital to interview PRIDEX clients in the export business. Some of these trips were accompanied by FUSADES staff and others were made individually by the consultants.

After a review of the draft report, AID/W raised additional questions focusing on FUSADES' overall management, its financial situation to 1992, and prospects and options for sustainability. A "Phase II" activity was arranged under which a visit was made by James Roush to El Salvador on October 6-19, 1988 to: review FUSADES and AID documentation; conduct interviews with personnel in both organizations; draft a revised Chapter 2 of the report; and obtain USAID and FUSADES comments to incorporate into a final report.

CHAPTER 2

OVERALL MANAGEMENT ASSESSMENT

This chapter provides an overview of the FUSADES management of the portfolio of AID-funded activities. It also addresses issues of program sustainability and FUSADES viability. It concludes with a summary overall assessment of FUSADES.

2.1 WHAT IS FUSADES?

FUSADES sees its role as fulfilling two functions: a research center and a broker of economic and social development. The research center's objective is to analyze systematically and periodically the economic and social situation of the country, and to offer solutions to the major problems facing the country. The development broker role is played by providing or facilitating the provision of needed services to:

a) Private sector producers in target sectors; and

b) Private sector sponsors of social development activities.

The principal programs of FUSADES at this time are:

1. Economic and social research.

2. A trade and investment promotion program to facilitate the production of nontraditional export commodities, industrial and agricultural.

3. An agricultural diversification program to encourage the production of nontraditional agricultural commodities and the creation or expansion of related agro-industries.

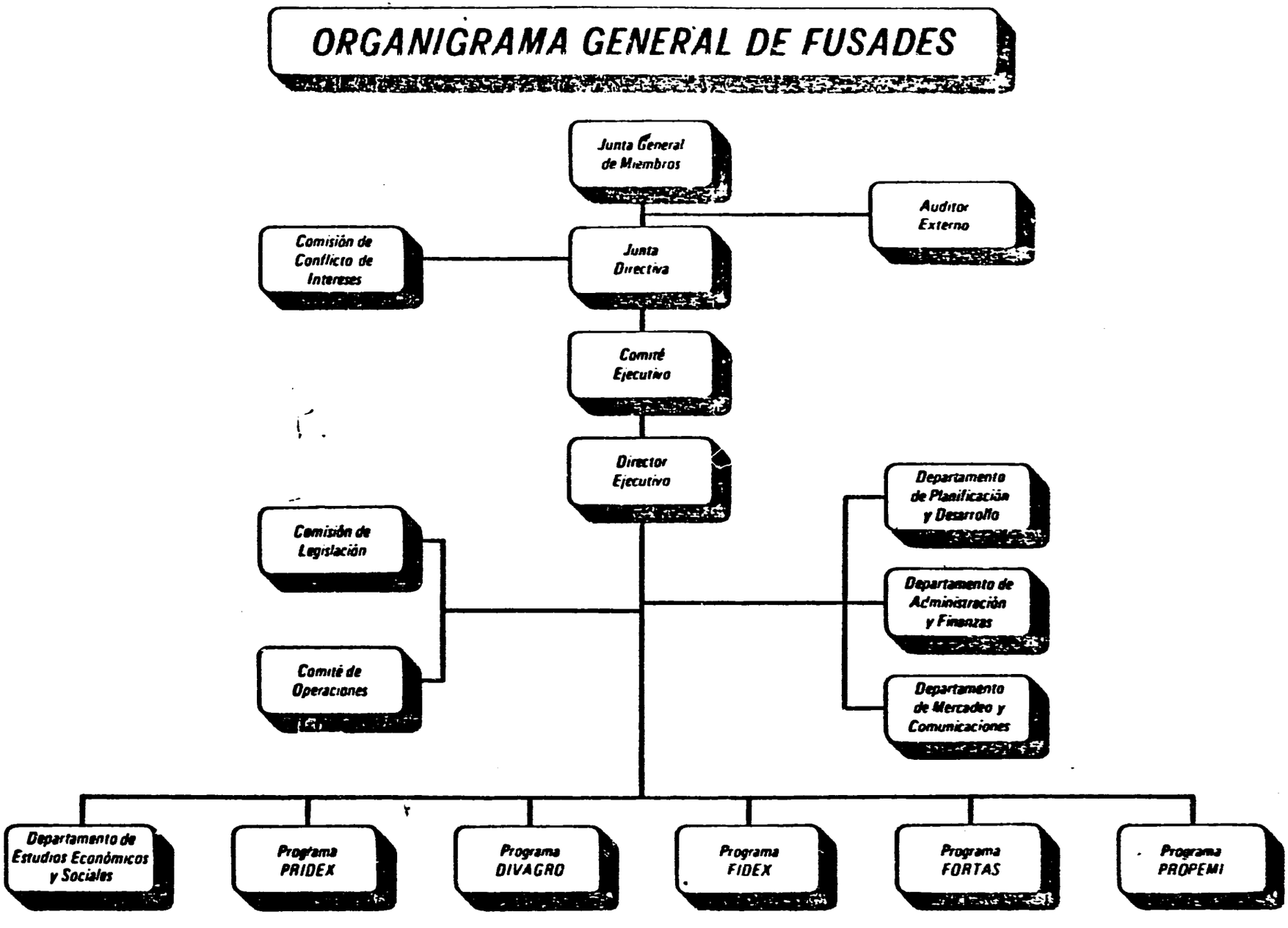
4. An investment fund for export which provides loans to producers or manufacturers of potential exports, thereby complementing the services provided by the trade and investment promotion and agricultural diversification programs.

5. An association strengthening program which is designed to expand the capacity of private enterprise associations to serve their members with information and technical assistance, particularly with regard to promoting exports and establishing social development activities; and

6. A small and micro-enterprise promotion program.

Although FUSADES initially gave program priority to its research center objective, a broader role was anticipated from the outset. Its statutes, which were approved by Official Decree No. 71 on August 22, 1983, anticipated carrying out the following activities:

FIGURE 2.1


ORGANIGRAMA GENERAL DE FUSADES
Junta General de Miembros
Auditor Externo
Comisión de Conflicto de Intereses
Junta Directiva
Comité Ejecutivo
Director Ejecutivo
Comisión de Legislación
Comité de Operaciones
Departamento de Planificación y Desarrollo
Departamento de Administración y Finanzas
Departamento de Mercadeo y Comunicaciones
Departamento de Estudios Económicos y Sociales
Programa PRIDEX
Programa DIVAGRO
Programa FIDEX
Programa FORTAS
Programa PROPEMI

a) Analyze the economic and social situation of the country, periodically and systematically.

b) Support the development of a system of free enterprise by promoting its principles and fundamentals.

c) Formulate specific programs and promote their implementation as a means of contributing to the solution of economic and social development problems.

d) Offer advice to public and private sector entities for the solution of the economic and social problems of the country.

e) Promote the investment of local and foreign capital in agricultural, industrial, commercial and service activities.

f) Sensitize the private sector to national problems and their possible solutions.

g) Organize national campaigns to incorporate the different groups of the population in the effort to overcome the problems of economic and social development.

h) Promote communication and understanding among the different national sectors to facilitate the solution of the different problems that confront the country.

i) Support the improvement of Salvadoran relations with other countries, especially among those in Central America, and to improve the image of the country at the international level.

For a chronology of the evolution of the FUSADES - USAID relationship, see Annex B.

2.2 AID'S PORTFOLIO WITH FUSADES

A listing of the projects for which USAID has signed Cooperative Agreements with FUSADES, and their current status, is given in Table 1. Cumulative obligations since 1984 are $73.2 million; cumulative expenditures as of September 30, 1988 are $17.5 million.

Additional project funding under consideration for obligation between now and 1992 include:

1. A $3 million add on to the PROPEMI program from the new Small Business project ($1 million obligation in FY 1989; $2 million in FY 1990); and

2. A $22 million supplement to the Industrial Stabilization project (0287) with $13 million being obligated in FY 1989 and the balance in FY 1990.

Table 2.1
FUSADES PORTFOLIO, 7/30/88

PROJ. No.	PROJECT TITLE	INITIAL AGMT.	AMT. AUTH	CUM. THRU FY 88. OBLIG.	CUM. THRU FY 88. EXPEN.	CURRENT PACD
			-----US$ MILLIONS------			
0265	Ag. Diversification (Agrarian Reform Sector Support)	1/85	3.8	3.8	3.6	7/88
0287	Indust. Stabilization and Recovery	9/84	26.9	26.9	8.3	9/89
0303	Water Management	8/85	13.4	13.4	1.3	8/90
0304	Urban Small Business	8/85	3.0	3.0	2.4	9/88
0316	Assn. Strengthening Activities	7/85	1.9	1.9	1.4	5/89
0327	Agribusiness Development	9/87	20.0	17.9	0.1	9/92
0336	Private Sector Initiatives	8/87	4.7	4.3	0.4	1/91
0323	Free Zone Development	9/88	5.0	2.0	----	9/93
	TOTALS		78.7	73.2	17.5	

2.3 PROGRAM MANAGEMENT

Under this section, the following topics will be discussed: Organization and Staffing; Financial Management; and Project Development and Implementation.

2.3.1 ORGANIZATION AND STAFFING

The principal elements of the FUSADES's reorganization in 1987 are discussed in the chronology in Annex B. The new structure of FUSADES is reflected in Figure 1 on the following page. Some further re-structuring of FUSADES may take place, either as a result of the strategic planning exercise now under way or in response to changes that may be identified in the day-to-day workings of the institution under the current organization. For example, it may be found that it is more efficient to put the agricultural trade and investment promotion activities back in DIVAGRO.

Over the longer run, the Executive Director foresees the likelihood of an organization with three main components: the Studies department (DEES), an Economic Development department, and a Social Development department. For the more immediate future, however, he

sees priority being given to consolidating the organization, improving internal efficiency, and initiating staff training. The Consultant agrees with that assessment.

Finding and maintaining a rational organizational structure has not been easy, given the rapid addition of new program activities by AID and the funding of these activities through so many projects. Nevertheless, FUSADES management has done well under the circumstances. It has avoided the feeling of constant flux in the organization and at the same time demonstrated the flexibility to re-organize when it was necessary.

The staff of FUSADES has increased rapidly to accommodate the expansion of the program. It went from 14 employees at the end of 1984 to 133 in mid-1988. During its expansion, FUSADES has had to rely heavily on contracted technical assistance (TA) personnel. TA costs in 1988 are over 30 percent more than direct salary costs; they will drop in 1989 because some TA contracts are terminating in late 1988.

Because AID has permitted FUSADES to pay competitive salaries, FUSADES has been able to hire well qualified personnel. This has been especially important during this period of rapid expansion of the program. The salary levels may present a problem, however, when FUSADES has to assume responsibility for its personnel costs, which are practically 100 percent supported by AID now.

2.3.2 FINANCIAL MANAGEMENT

An AID Inspector General (IG) team reviewed the FUSADES organization and the AID projects for which FUSADES is responsible during the period July 13 to October 15, 1987. The IG team determined that FUSADES had adequate controls and accounting systems for managing AID funds. It felt some AID-funded activities were not in compliance with AID regulations or project agreements, but that this was understandable given "the rapid organizational growth of FUSADES, the latter's initial unfamiliarity with AID requirements and procedures, the country's civil conflict, the destructive 1986 earthquake, and other obstacles impeding private sector development."

Some of the issues raised by the IG team involved judgmental calls based on the particular situation. Most have been rectified; however, two things raised by the IG team still require some work: the handling of advances and project reporting (the latter will be discussed in the following subsection).

At the time of the IG team's visit, there were large amounts of advances that had not been liquidated or accounted for. These were cleaned up to the satisfaction of the IG by the end of the review and no recommendation was issued. Subsequently, FUSADES's Chief of the Department of Administration and Finances resigned and there was a gap before a replacement was hired. The replacement only stayed four months and there was another 4-month hiatus. A new department chief with good credentials has been hired and began work in October 1988; in the interim, a backlog of actions has developed.

During this hiatus, unliquidated advances have accumulated, with the USAID Controller's records showing over $1.17 million in advances that should have been eliminated/accounted for by September 30, 1988. The Controller's records also show an advance of $1.4 million made in late 1987 that still has not been accounted for; however, there has been correspondence indicating that the issue will be resolved by October 31. The settlement of these advances has been exacerbated by some errors in the Controller's records and some apparent inconsistencies between the FUSADES and Controller's accounting systems. The USAID Controller is planning to contract some short term help to settle all outstanding issues with FUSADES; the FUSADES Executive Director will hire a former AID auditor to work during November and December 1988 to synchronize the FUSADES system with USAID's and to clean up any problems. The advances issue and other potential financial management problems appear close to resolution.

The Internal Audit department was organized in February 1988 and a Chief Auditor was named. Procedures manuals were prepared by Price Waterhouse and accepted by USAID for the following areas: personnel, administration, planning, purchasing, and accounting.

The auditing department visits each project that involves the disbursement of funds to verify that funds have been disbursed according to the program plan. The cashier balances daily all loan payments received, and a strict control is maintained.

2.3.3 PROJECT DEVELOPMENT AND IMPLEMENTATION

The FUSADES Studies department has been very valuable to FUSADES and USAID as a means of developing the information needed to initiate new projects. In addition, FUSADES has had funds available under AID projects that could be used to hire experts to launch new activities. Thus, FUSADES generally has a good record, especially in comparison with GOES-run projects, in getting conditions precedent met and getting activities going once agreements have been signed. The few exceptions to this have been when FUSADES was trying to help some other entity organize to undertake an implementation activity (e.g., in export promotion and irrigation). Eventually, FUSADES took on the implementation activity itself with good results.

FUSADES has established a committee (Comisión) of volunteer members for each of its programs. Each committee meets frequently with the director of the program for which it is responsible, to review progress and to offer advice on how to deal with any problems that may have surfaced. The committee also reviews new project proposals, annual and quarterly work plans, monthly implementation reports to FUSADES and quarterly reports to USAID, and other program presentations. Committee members have participated in planning workshops.

The foregoing system has the advantage of having additional human resources readily available to project directors, and it is good for

FUSADES institutional stability to have the participation of a large number of its members. It does not, however, foster interaction between departments; there seems to be some compartmentalization of program activities. The USAID's administration of the FUSADES portfolio is split between two departments which also encourages compartmentalization.

One way to counteract this natural tendency toward compartmentalization would be to have each department review all other departments' annual program submissions. Perhaps even better would be the convening of two semi-annual reviews with participation of all FUSADES' project directors and AID project officers. One of the meetings could review the annual work plans and the other could focus on implementation issues, reporting requirements, evaluation schedules, documentation overload, etc.

The IG team found weaknesses in the reporting on project accomplishments and recommended that USAID, in conjunction with FUSADES, "establish uniform criteria and a system for measuring and reporting project accomplishments." The Phase II Consultant, after reviewing the 1988 Work Plans in which uniformity was the rule, is not convinced that uniform criteria can or should be established for all of the activities carried out by FUSADES. He agrees however that project reporting needs improvement.

In general, FUSADES reports follow a format similar to the annual work plan. They are quite long often, but they are focused more on project inputs than outputs; both should be covered. Perhaps semi-annual reporting would be sufficient on outputs if it was synchronized with USAID's preparation of reports for their semi-annual project review. Input data will probably need to be provided quarterly to tie into budget reviews.

The FORTAS program is an example of a program that can provide lots of quantified information, but the reviewer has no idea of the impact of the program. From the 1988 Work Plan, one would conclude that the program needs some direction. It would seem logical to target the program's activities on some specific associations rather than largely wait until someone asks for help. The strategic planning exercise should establish better guidance for the FORTAS program.

2.4 PROGRAM IMPACT

The impact of the individual programs administered by FUSADES is discussed in each of the program chapters which follow. This subsection will discuss the impact of the overall program.

As stated in the USAID's Action Plan, promoting long term growth is one of three main goals of the AID program. Within that goal, two inter-related objectives are particularly relevant to the FUSADES program: invigoration of the private sector and developing non-traditional exports. To carry out these objectives, it is

necessary to improve the private-public sector relationship, obtain some changes in GOES economic policies, and encourage private sector activity.

Fortunately, there has been a convergence between AID objectives and those of FUSADES. The two organizations have worked together to overcome some of the serious obstacles to achieving the above objectives. The GOES attitude in 1983, when FUSADES was created, was extremely anti-private sector. FUSADES was suspected of being a front for the ARENA party in spite of its apolitical objective and by-laws.

Such FUSADES's programs as the small and micro-enterprise activity have contributed to an improvement of relations with the present government, but further improvement is desirable. Yet, within five years, FUSADES has been able to present draft legislation to the GOES which was approved. It has presented an economic rehabilitation strategy to the government and seen much of it become policy. FUSADES now feels that its advice will be welcomed by the new President of El Salvador, regardless of which party wins the election next March.

One way to improve GOES-private sector relations is to inculcate a social consciousness in the private sector. It is difficult to assess the GOES or public's perception of the private sector attitude, but clearly there is evidence of a change in the private sector attitude. Not only did FUSADES help out during the 1986 earthquake, it also encouraged and facilitated the establishment of three private sector foundations in the same year (FEPADE, HABITAT, and FIPRO) with social programs in education, housing, and industrial safety respectively. The Salvadoran Chamber of Commerce is providing technical training to low income entrepreneurs. The Association of Managers of Salvadoran Enterprises (UDES) has initiated social action programs. The first activities involve installing covered bus stops and refuse receptacles.

Although the results are not yet impressive in terms of overall exports, the FUSADES-generated non-traditional export growth is already substantial and increasing rapidly. The results projected through 1988 are shown in Table 2 below.

Table 2.2

RESULTS OF THE GROWTH IN NON-TRADITIONAL EXPORTS

	1985	1986	1987	1988	Cum.
Foreign Exchange Generated ($ Mill.)	2.2	4.4	7.4	18.5	32.5
New Investments ($ Mill.)	0.4	1.2	5.1	13.4	20.1
Employment Generated (New Jobs)	1,266	1,134	2,634	4,266	9,300

Informal FUSADES projections of total non-traditional exports from 1988 to 1993 and the share expected from FUSADES-sponsored activities are shown in Table 3.

Table 2.3

PROJECTIONS OF NON-TRADITIONAL EXPORTS
($ Millions)

	1988	1989	1990	1991	1992	1993
Total Non-Traditional Exports	100	136	193	274	389	552
Annual Increment	20	36	57	81	115	163
Increment Due to FUSADES Activity	8	14	24	40	59	75
FUSADES Increment as Percent of Total Annual Increment	40	39	42	49	51	46

2.5 PROGRAM SUSTAINABILITY

In none of the evaluation plans in the Project Papers for the projects in the FUSADES portfolio was there mention of sustainability. Then why is it a part of the scope of work for this evaluation? In part, no doubt, it is because AID/W has become aware of the need for being concerned about sustainability when projects are initiated. In part, some AID personnel may be concerned that the USAID might be putting too many eggs in one basket--assigning too many projects to a very new and possibly politically vulnerable organization.

While the Consultant agrees that AID should generally be concerned with sustainability of programs over the long term, the situation in El Salvador with which the USAID has been dealing has been one in which the short term has had to dominate. Trying to get a resumption of long term growth was needed to help deal with the short term and had to be initiated in a crisis situation. In short, it was the sustainability of the Salvadoran economy that was of highest priority, and it was imperative to move forward with whatever mechanisms were available. It was fortuitous for the USAID that a group of private sector entrepreneurs came to about the same conclusions and were able to organize themselves to do what was needed, what the GOES was either incapable or unwilling to do at the time.

Even recognizing the wisdom of the USAID's decision to use FUSADES heavily in the 1984-87 period, it is still legitimate to ask if it is wise to add new activities now to the FUSADES portfolio. The relevant questions seem to be: 1) Is FUSADES capable of handling more activities well? 2) Is there a danger that FUSADES might go

out of business and leave AID activities stranded? 2) Is there an alternative?

FUSADES has demonstrated a capability to expand its personnel and modify its organization as necessary to carry out AID activities to date, and there is no reason to believe that it cannot carry some additional activities as long as AID is willing to pay virtually all costs--as it does now. If the new activity did not relate well to the existing activities, it is probable that it would be more costly to absorb by FUSADES, and it would be appropriate to explore alternatives.

Since AID is paying virtually all of the costs of the activities being carried out by FUSADES, the likelihood of FUSADES going out of business seems remote. While political developments could hamper FUSADES's operations, this seems much less likely now than in the early days of the program. There are parts of the current government that have worked with and utilized FUSADES's studies and proposals. The candidate for the Presidency from each of the major parties is more favorably disposed toward the private sector than the incumbent. FUSADES will need to continue to maintain its apolitical stance, especially during the forthcoming political campaign. Its management seems well aware of the necessity of steering clear of partisan politics.

FUSADES is unlikely to have a problem of sustainability under current conditions unless AID seems to be distancing itself from the institution and thereby raises a question of its legitimacy.

The more difficult question raised by AID is what happens to the AID projects in the post-1992 period when existing and presently planned AID funding is scheduled to run out. The way the question has been posed suggests that the continuation of the project activities rests solely on the ability of FUSADES to take over full funding of all of the activities. There would seem to be some other options.

The PROPEMI small and micro-enterprise activity is projected to become self-sustaining by 1992--contingent upon receiving the additional $3 million grant now under consideration by AID. The FORTAS association strengthening activity is scheduled to phase out by 1990 and there is no currently established need for the activity beyond that time. Some level of economic studies will no doubt be maintained by FUSADES because that activity was the basis for creating the institution and still is considered the function that guides the organization's strategy and programs. This latter is not a high cost operation; furthermore, it is conceivable it could get funding to cover the costs of some studies, even if AID funding were not available.

The agricultural research and extension activities of FUSADES are not likely to pay for themselves. It is feasible that the new GOES would agree with the importance of these activities and either take them over if FUSADES felt the need to discontinue them or contract with FUSADES to continue them.

The PRIDEX and DIVAGRO promotion activities for encouraging investment in El Salvador and facilitating non-traditional exports are unlikely to be undertaken by GOES agencies. Some cost sharing by the GOES might become feasible, but it is far from certain. It is best to plan for these activities to be carried out in conjunction with the FIDEX loan program.

The FIDEX program provides credit for both industrial and agricultural non-traditional exports. Because these are longer term investment loans, the capital funds turn over much more slowly than the PROPEMI type loans. If the earnings from the credit program should not be sufficient to cover the costs of its administration by 1992, the date by which currently-planned inflows of AID support are expected to end, there are several potential options that can be identified that would ensure the continuation of the lending for non-traditional exports.

One possibility is that FUSADES will either find other sources of income which will make up the overall budget shortfall or will obtain a follow-on grant or loan that will help cover expenses. FUSADES might, in the interim, expand the lending program into new fields with a new inflow of funds--this could ensure the needed cash flow by 1992. Alternatively, FUSADES might decide to shift the lending activity to a private development bank (promoted by it or others), to a GOES lending institution, or to a regional institution such as CABEI (the Central American Bank for Economic Integration). If the lending activity were transferred to a private development bank, FUSADES might be able to receive in either cash or equity some proportion of the value of the realizable income flow from the portfolio.

While there appear to be some options for sustaining AID activities even if AID funding for FUSADES were no longer available, the preferred solution would be for FUSADES to continue its programs without having to drop activities. Thus, it is appropriate to look at the viability options available to FUSADES and what its plans are for dealing with the issue.

2.6 FUSADES VIABILITY

2.6.1 QUESTIONS POSED BY AID/WASHINGTON

In the scope of work for Phase II of this evaluation, there were a number of questions posed which bear on the program sustainability/FUSADES viability issue. These are set forth below with the best response available at this time--most will be discussed in the forthcoming strategic planning seminar and more complete answers should be available afterwards. The current strategic planning session is discussed in the following subsection.

1. Has FUSADES set medium and long-term objectives for itself? If so, what are they and how were they formulated?

FUSADES has an overall objective and a strategy statement which were set forth at the beginning of Section 2.1 above. These are not useful, however, for operational purposes. The individual programs set forth objectives and targets in their annual work plans, but there is nothing comparable for FUSADES as a whole. The President of FUSADES has stated that FUSADES has long term objectives of self-sufficiency and legitimacy. Shorter term objectives enunciated by the Executive Director are rapid implementation of the USAID portfolio of projects and improving the internal efficiency of the organizatiion. FUSADES's objectives will be reviewed in the current strategic planning exercise.

2. What does FUSADES perceive as its role in El Salvador? How were/are the role and the corresponding objectives established?

The role is as stated at the beginning of Section 2.1: to be a research center and a broker for economic and social development. These were established in the 1984 strategic planning seminars. The role and the objectives are being reviewed as a part of the current strategic planning exercise.

3. What attention has been given to institutional viability beyond AID? What are the options that FUSADES has identified with respect to sustainability and how is the institution pursuing them?

In his introduction to the 1987 Annual Report, the FUSADES president stated that FUSADES must attain self-sufficiency. The Executive Director has said that FUSADES' financial viability will be discussed in the forthcomic strategic planning seminar. In the meantime, PRIDEX has drafted a five-year plan, PROPEMI has prepared a plan for self-sufficiency, and FORTAS' 1988 work plan calls for it to develop a plan for self-sufficiency.

FUSADES' management has mentioned the following possibilities for reducing costs:

a) Moving into their own building, thereby saving rent on three buildings ($120,000 in 1988);

b) Achieving some internal operating efficiencies;

c) Replacing some of the higher paid officials with junior officers now being groomed for senior positions (presumably in the 1992 time frame).

Possible sources of additional income that are being considered include the following:

a) Fees for use of the data bank/information center being established by DEES;

b) Establishing a training center next year within FORTAS and charging for services;

c) Increasing donations from Patron Members (firms);

d) Interest earned from lending programs;

e) Increasing donations from local foundations;

f) A special fundraising drive for the building fund;

g) Recruiting more rapidly new Founding Members;

h) Establishing an annual membership fee for Founding Members;

i) Sale of publications;

j) Charging for seminars;

k) Charging consulting fees;

l) Taking equity holdings, either for services rendered or as part of an investment project promoted by FUSADES--the legal aspects of taking equity are currently being reviewed.

The 1988 work plan for the Director of Marketing and Communication calls for him to prepare a fundraising plan. It is possible that FUSADES will decide to obtain some outside help to assist the Director with his task.

4. <u>Has consideration been given to possible changes in FUSADES' role after the upcoming presidential elections in El Salvador? What would be the impact on FUSADES of a pro-private or public sector government?</u>

FUSADES anticipates that the next President, regardless of the winning party, will be more prepared to work with the private sector than the incumbent. They foresee no special impact. They will want to maintain their independence and apolitical stance no matter who is running the GOES.

FUSADES' management is more concerned about the outcome of the U.S. election and its impact on U.S. assistance to El Salvador.

Various possible political and economic scenarios (internal and external) have been prepared for discussion in the strategic planning seminar.

5. Are there any areas where FUSADES sees itself as a catalyst over the short to medium term only, or will it continue in the future to acquire new functions without eliminating earlier ones?

This is the type of question FUSADES directors will focus on in the strategic planning seminar.

The Executive Director has stated that he sees some additional work by FUSADES on the legislative and judicial system, and FUSADES is promoting the establishment of a private sector foundation to work in the field of health--comparable to the other three organizations FUSADES helped spawn. There may be some re-orientation of DIVAGRO agricultural research. FUSADES will hire one or two people to carry out the recently approved Free Zones project.

In essence, no new functions are planned; this is a time for consolidation and implementation.

6. What are FUSADES' internal mechanisms for answering the aforementioned questions? Has it begun to address them and how?

These issues can arise in the meetings of Program Committees (Comisiones), the Executive Committee, or the Board of Directors. How some of the questions are being addressed is discussed in the answers to the questions. Most all of the questions are expected to be discussed in the forthcoming strategic planning seminar.

7. Are there specific observations/recommendations, such as a "where do we go from here" schema, which the evaluation could and should propose?

See subsections 2.6.3 and 2.6.4 below.

8. How can all the foregoing be reflected in FUSADES' strategic planning exercise?

As indicated in the responses to questions 1 to 6, the issues raised are expected to be considered in the strategic planning seminar. The strategic planning process now underway is discussed in subsection 2.6.2 which follows.

9. Are adequate structures and systems in place for effective decision-making, monitoring, supervision, and control, given the complex and demanding array of activities currently managed by the organization and to be taken on in the future?

Based on its review of the individual programs, the details of which are set forth in the chapters that follow, and the look at the overall management as discussed in this chapter, the

Evaluation Team answers in the affirmative. As pointed out in Section 2.3, some improvements are needed in the financial management and project reporting areas, but these are not serious and can be easily remedied. In fact, steps are already being taken to resolve the financial management concerns.

The array of activities appears to be more complex and demanding than it is because of the multiciplicity of projects AID has used to finance the activities.

2.6.2 STRATEGIC PLANNING

After the rapid expansion of activity and the expressions of concern by AID about sustainability, FUSADES decided to undertake another strategic planning exercise. It was postponed some months at USAID's request so the results of this evaluation could be available to the participants in the planning exercise. The postponement of AID's evaluation further set back FUSADES's planning schedule; the planning exercise, however, is now underway.

The strategic planning exercise is being carried out with the contracted assistance of the Innovation and Entrepreneurship Institute of the School of Business Administration of the University of Miami in Coral Gables, Florida. The exercise involves the following activities:

1. Siegfried Marks, under contract with the Institute, visited Washington, D.C. and San Salvador to conduct a number of interviews on the basis of which he prepared possible political and economic (internal and external) scenarios for the short and medium term.

2. The Institute prepared a questionnaire for completion by, and carried out interviews with, some 30 key people in FUSADES management and Board during the week of October 10. The questions focused on the reasons for and success of the various programs being carried out by FUSADES.

3. The Institute will compile the questionnaire responses and bring the results, along with the Marks scenarios, for use in a two-day seminar being held in El Salvador 27-28 October.

4. Subsequently, the Institute will present a strategy document to FUSADES, based on the results of the seminar.

5. After the general strategy is approved, the program directors will go to Miami and prepare work plans for each program.

6. A final document will be prepared by the Institute, incorporating the strategy and the work plans, and will be submitted to FUSADES for approval.

It is the intention of the FUSADES management to review and up-date the strategic plan annually.

2.6.3. SOME OPTIONS FOR IMPROVING FUSADES FINANCIAL VIABILITY

Options available to FUSADES for improving its financial viability include both cost reductions and income augmentations, with the latter being most important.

Some internal efficiencies may result from the efforts planned for next year to improve and streamline operations, and some cost savings may result. If some programs are eliminated or cut back, there will be savings. In a crunch, people can be let go even if operations become less efficient--up to a point. Some budgetary savings will no doubt be effected by FUSADES in the coming years. This is not likely to be too significant in relation to total needs, however, so efforts to increase revenue will no doubt receive higher priority.

Some of the possibilities for increasing revenue that have been discussed include charging for services provided (e.g., the project development services provided by DIVAGRO and PRIDEX, and the agricultural research and extension provided by DIVAGRO). In their report 1/, Hughes and Magill look at the possibility of viability for the DIVAGRO operations, assuming the earnings on agricultural loans are available to the program. They also allow for some earnings for services provided. They conclude there would be a shortfall of over $800,000 in 1993 and the deficit in 1995 would be twice as large.

Although FUSADES should try to increase its earnings from services provided, it appears there are only two possibilities for generating a significant increase in revenues: (1) handling a much larger loan portfolio with a greater share of the loans being of shorter maturity; and (2) establishing a large endowment fund.

Whether the first option is feasible would depend upon whether there is a market for additional lending, a source of funds for such lending, and whether the additional lending could be managed with a minimum increase in costs. It has been suggested that FIDEX also provide working capital loans for its industrial projects. If this proves feasible, it could increase interest income somewhat. Whether additional possibilities exist would need to be studied by FUSADES. Such a study could also review the feasibility and desirability for FUSADES of attempting to establish, or promote the establishment of, a private development bank--if an evaluation of the election results suggests that such a course of action would be politically feasible.

1/ Some Aspects of Equity Financing and Self-Sufficiency in the FUSADES Program: An Appraisal, Dr. David R. Hughes and Dr. John H. Magill, Development Alternatives, Inc., Washington, D.C., July 1988.

The term endowment fund is used here to mean a special capital account established solely to generate income for the current operations of the Foundation. The capital would generally not be touched. In the U.S., private foundations with endowment funds generally must use all of the interest generated annually for the purposes for which the foundation was established or be subject to paying taxes on the excess earnings. As long as those conditions are met, contributors to the foundation can deduct their contributions from their income tax. FUSADES may wish to explore the possibilities of establishing an endowment fund--or draft legislation, if that were needed, to make this a feasible option.

The earlier provision permitting FUSADES to put some of the contributions of users of FUSADES services into an endowment account has been rescinded by AID. FUSADES personnel have stated that when they go to their colleagues for donations, stating that they need to start preparing for when AID resources decline, their colleagues say, "Fine, come see me later when you need the money." Thus, FUSADES personnel may well ask where the organization will raise the funds to put in an endowment account if it establishes one.

Perhaps if the endowment account were established as discussed above, and especially if there were a tax incentive for contributors, it might be easier to get contributions. Some nonprofit organizations in the U.S. also encourage people who are sympathetic with their goals to include the organization in their will. FUSADES could also put the proceeds of fundraising activities into the account. Even though the funds raised by each activity might be relatively small, the accumulated effect could be significant in a few years, particularly if it were to establish a sophisticated fundraising program.

Adaptations of some of the fundraising activities used by U.S. nonprofit organizations might be useful for FUSADES. The United Nations Association in New York sponsors annually a concert at the Kennedy Center in Washington, D.C., followed by a gala dinner and dance at one of the big hotels. Businesses which buy a table at the dinner can have an Ambassador and spouse seated at their table.

The Nuclear Age Peace Foundation in Santa Barbara, California, among others, sponsors an annual dinner meeting at which it gives an award to an illustrious person--often from abroad. FUSADES's awardees could be both governmental and nongovernmental contributors to improved government-private sector relations and/or a business which had made a significant contribution to the community or which had carried out a social development activity. Besides raising some money, it could give FUSADES some positive publicity.

Since improving its image could improve the possibilities of raising funds for the organization, FUSADES might wish to consider some additional ideas for image building. A number of organizations sponsor essay contests in the high school. FUSADES might choose a topic related to how government and the private sector work

together. Affiliated organizations might be willing to put up the prize money--which would not need to be large. The public relations impact might be enhanced if the scholarships were given to the offspring of PROPEMI participants or lower level income groups.

The field of conflict management and conflict resolution is expanding fairly rapidly in the U.S. Some elements of the field relate to business activities and relationships. This might be a field of activity which could be incorporated into the FORTAS association strengthening program to the benefit of FUSADES, the business sector, and society.

2.6.4 SOME CONCLUDING THOUGHTS ON FUSADES' VIABILITY

AID should be concerned about the sustainability of the activities it has started with FUSADES, particularly the non-traditional export promotion and PROPEMI small and micro-enterprise programs. AID should recognize, however, that the introduction of new crops and new industries and the changing of attitudes toward development by the private sector and government usually takes more than five years. Certainly many government projects are not self-sustaining after 10 years. It appears that a higher than usual standard is being applied in a military-political-economic-social environment in which one would normally have expected the opposite.

It is good to be concerned about FUSADES's viability because it has become a capable organization dedicated to Salvadoran economic and social development and AID should be interested in seeing it have the opportunity to continue playing a significant role. It appears, however, that AID is requiring that the cash flow scenarios show full viability by 1992 as a pre-condition to receiving additional grants. This would seem to be particularly unfair at this time because it would reduce the chances of achieving a self-financing capability in the medium term.

Furthermore, the sustainability has been raised only recently and FUSADES is trying to respond. Therefore, it would seem logical to go along with new investments as planned for the next two years and then take another look at the cash flow projections and the achievements FUSADES has made. By then, FUSADES will have completed its strategic plan and had time to do one annual update of it, the political/military situation in El Salvador will have evolved further, the economic policies of the new GOES will be known, and there should be a clearer picture of the likely impact on El Salvador of the aid policies of the new U.S. administration.

With regard to the cash flow scenarios (see Annex C), two of three projections show a small surplus in 1993, the year after virtually all of the AID funding is assumed to have been disbursed. Scenario III is probably the most realistic in terms of known facts about expenditures, and it uses the lower of the two income projections. Thus, a moderately successful fund-raising effort by FUSADES, particularly if initiated in 1989, should ensure FUSADES's viability even with virtual elimination of AID funding beyond that already planned.

2.7 SUMMARY OVERALL ASSESSMENT OF FUSADES

Detailed discussions of the individual programs administered by FUSADES, along with summary findings and recommendations for each, are presented in the individual program chapters which follow. Comments on the overall organization and general recommendations are included in this section.

2.7.1 FINDINGS

1. FUSADES has developed rapidly into a responsive and responsible organization with highly capable and dedicated management and staff.

2. FUSADES has made important contributions to the national dialogue on economic policy and has facilitated positive actions by the GOES.

3. FUSADES has fostered new investment in El Salvador and stimulated the export of non-traditional exports, and these contributions are expected to expand annually as a result of FUSADES activities.

4. FUSADES has promoted social development activity by the Salvadoran private sector and is carrying out a very important activity itself through its PROPEMI small and micro-enterprise activity.

5. Activities fostered and carried out by FUSADES have contributed to some easing of the bad feelings between the GOES and the private sector and paved the way for a more constructive relationship with the next government.

6. FUSADES generally has done a good job in the management and accounting for AID funds. Some further improvements are needed in clearing advances more rapidly and in keeping its accounts so they can be readily reconciled with those of the AID Controller. Some adjustment by AID in standardizing some budget line items among the projects may be appropriate.

7. Some improvement in project reporting guidelines and practice is needed.

8. Virtually all of the FUSADES budget is financed by AID. AID levels may fall in the next few years, so FUSADES needs to begin now to shoulder more of its administrative costs--particularly of positions whose work seems to be more related to FUSADES institutional needs than to the programs being funded by AID, e.g. the Marketing and Communications office. FUSADES management is aware of the need to decrease its dependency upon AID and has already begun to explore options within the various programs for increasing income. Studies to improve internal efficiency are planned for early next year.

9. It is conceivable that a number of the FUSADES-managed, AID-financed activities would be sustained even if FUSADES did not remain viable. However, cash flow projections (Annex C) suggest that FUSDADES, with a somewhat expanded fund-raising effort, can become a viable organization even if AID support is terminated when current and planned projects are completed.

2.7.2 RECOMMENDATIONS

1. Both FUSADES and USAID consider ways of integrating better the various programs of FUSADES. One possibility could be having two joint program reviews each year, one focusing on implementation and one on the annual work plans, with participation by all FUSADES program directors and AID project officers.

2. FUSADES and AID work together to improve project implementation reporting and to establish the types of information needed to evaluate the impact of the different activities.

3. FUSADES and AID work together to liquidate the outstanding advances and make any adjustments necessary to minimize problems of reconciling accounts. As FUSADES increases its contribution to the overall budget, an effort should be made to reduce the number of line items financed by AID (rather than pro-rating every budget category), thereby reducing the financial management workload for both sides.

4. USAID support FUSADES, as appropriate, in the latter's effort to develop and implement a plan for achieving self-sustainability.

5. AID agree to let 0287 loan funds be lent for working capital for industry as is already the case for agricultural loans. (Discussed in FIDEX chapter.)

6. The next general evaluation of FUSADES be scheduled for 1990, at which time many of the variables that faced this team should have been clarified. It would be an appropriate time to go deeply into the sustainability issue.

0539y/12.88

CHAPTER 3

FORTAS PROGRAM

3.1 ORGANIZATIONAL STRUCTURE

FORTAS was organized in 1984 as a department of FUSADES to improve the administration and organizing capacity of the Private Sector Associations. The Department is staffed by a director, administrative assistant, a private sector officer, an export promotion officer, and two secretaries. The Director of FORTAS has a degree in International Administration from Georgetown University, and has had varied business experience. His two assistants are academically qualified for their positions and provide the needed support to accomplish the established goals of the Department.

The representation on the FORTAS Commission is diverse. Members consist of eight private sector leaders from small business enterprises and professional persons. The Commission members are enthusiastic in promoting the social well being of the people and provide good support to FORTAS management. Their background is very well suited for the type of assistance that is needed to make FORTAS a complete success. The stimulation that they provide to FORTAS is increasing as more deficiencies in the economy are identified, and program strategies are developed. Exhibit 3.1 shows the present organization chart for FORTAS.

3.2 MANAGEMENT SYSTEM AND CAPABILITY

The Department has a work plan for 1988 setting forth the goals and objectives to be accomplished during the current year. FORTAS goals are: the promotion of the free enterprise system and non-traditional exports by offering technical assistance to their member trade associations. FORTAS serves as the technical assistance arm of FUSADES and is organized to effectively deliver these services. Training and technical assistance are among the most important components of the program to elevate the business capabilities of the trade association members. Their objectives are well defined and focused to the areas of most need in the economy of El Salvador which is the promotion of non-traditional exports and the improvement of management capabilities.

Eventually, FORTAS staff can concentrate on technical assistance and training, which they can do well, and increase the recovery of costs to at least 75 percent. In the short run, FORTAS will not be self-sufficient because of the enormous needs for services for which many of the members could not afford to pay. As the free enterprise business owner develops his/her management skills, the need for financial assistance from FORTAS will decline. This will reduce costs and possibly allow FORTAS to become a provider of funds to FUSADES in the future.

FORTAS has resolved many of the problems inherent in the present business system in El Salvador by, e.g., providing new ways for the private sector business owners to participate in programs through the trade associations that are members of FORTAS.

During visits to the trade associations which are members of FORTAS, it was clearly apparent that these associations benefited and improved their management capabilities. By establishing this linkage to the small business persons, it has given FORTAS a source of professionalism in training and business management.

The next stage of development of FORTAS is a stronger and even more visible role for the private sector in social development programs to benefit low income groups.

A major goal of FUSADES is to link the wealthy part of the private sector with the poor part of the private sector to help transfer the energy, enthusiasm, and motivation that exists in private sector activities. It is vital that the low income business persons perceive themselves as part of the private sector for both motivational and attitudinal purposes. The development of their entrepreneurial skills can best be done by the private sector itself, and FORTAS is an important link in this function.

The Director is enthusiastic in the performance of his duties and provides good leadership for the Department. He has organized the work to be done so it can be performed most effectively by the few people in the Department. The Department Personnel are inspired to take the required action to complete the assigned tasks. There is an atmosphere which creates the conditions to cause each individual in the Department to do this work with willingness and enthusiasm.

Based on the brief observation of the Department, the staff is fully qualified to operate effectively and accomplish their work assignments.

3.3 PROGRAM EFFECTIVENESS

FORTAS has focused its resources to help those associations that represent many different interests in the private sector. Its programs are having a positive effect in the private, social and government sectors. Out of the present 45 Association Members, 33 Associations have been helped to improve the delivery of their services.

The following goals were achieved from 1985 to 1988:

I. Miscellaneous Promotions

-	21,230	Persons and associations trained
-	34	Trips to observe and learn
-	18	Special studies done by consultants
-	32	Seminars, forums and special legislative sessions
-	11	Self-evaluation seminars
-	12	Work plans completed and presented by member associations
-	213	Students attended a course on the Economic and Social Policies Strategies of El Salvador
-	5	Permanent programs for computers, bulletins etc.
-	8	Programs of institutional strengthening
-	11	Publications in the area of organizing a company

II. Export Promotion

-	63	Persons trained overseas
-	1142	Persons trained locally
-	344	Companies trained locally
-	2	New associations helped in organizing their administration
-	8	Special seminars - export oriented
-	10	Observation trips overseas
-	6	Programs and studies in the organization and operation of associations

III. Social Development

-	3	Observation trips overseas
-	1	Establish a Permanent Social Action Committee
-	1	Special consultants to the social program of UDES
-	4	Articles on social projects
-	3	Assistance to Foundations: - FEPADE - FIPRO - HABITAT
-	4	Related activities in the social area

IV. Strengthened the Free Enterprise Sector

-	634	Courses to 12,853 students
-	284	Courses to 3,811 workers
-	16,910	Persons learned about the free enterprise system

-	3	Education programs to 200 students
-	1	National Revelation Program on the private enterprise system
-	400	Persons participated in a forum at the Chamber of Commerce
-	1142	Persons trained in export promotion locally
-	63	Persons trained overseas
-	2,047	Persons trained in a specific area of development.

3.3.1 SERVICES TO BENEFICIARIES

FORTAS provides technical and financial assistance to its member associations. The activities accomplished are too numerous to list in this report, but it has provided funds to send members to seminars and training programs. It has conducted management organization seminars to improve management skills of member associations. FORTAS has been very active in the social area, promoting and assisting new social ventures through their members. UDES has a program to install pedestrian covers at bus stops in San Salvador. Reforestation is another program in the planning stage. FORTAS was involved also with helping to organize the HABITAT, FEPADE, and FIPRO foundations. COEXPORT has been able to grow with the recent technical and financial assistance of FORTAS and is assisting the small and medium exporters of non-traditional products. FORTAS provided the financial assistance for the first seminar COEXPORT held for its members. The association started with 40 members and has grown to 179 members. FORTAS continues to fund their project activities.

ANEP is another association that continues to receive financial assistance from FORTAS for its projects. The Executive Director of ANEP stated that they have not had financial problems because of the assistance received from FORTAS.

UDES is an association of individual business leaders formed to develop the management skills of its members. Here is an association that has 40 women members representing 11 percent of its membership. UDES increased its membership from 285 to 395 members in ten months with the financial and technical assistance of FORTAS. UDES continually gives seminars with the help of FORTAS. This was the first association to start a public service program.

The services that FORTAS provides to its members has been well documented and supports our opinion that the organization is providing a necessary service to the community.

3.3.2 STAFF PRODUCTIVITY AND EFFICIENCY

More than 50 percent of the staff's time is spent providing services to the association members. About 15 percent of staff time is spent on administrative duties (reports, etc.) and the remainder on other activities. The staff members attend seminars and workshops to improve their work skills. The work being done by this small staff is efficient and through its dedication will achieve or exceed established goals.

3.3.3 MARKETING FORTAS PROGRAM

The marketing efforts of FORTAS are consistent with good management practices. A strategy of identifying the primary target segments is presenting FORTAS with the opportunity of earning some return on their services. The focus of activities is changing to one of improving income in the future as their programs become better known. A bulletin is published bi-monthly of current activities being planned and articles on the economy are included. The bulletin is sold for six colones per copy to the public.

A meeting with all member associations is planned for July 28, 1988 to motivate them to become directly involved in the implementation and development of social activities and projects. A series of seminars will be held: Part I orientation of new ideas, Part II Workshops, Reforestation, Hygiene and Urban clean-up, etc. These activities are all oriented toward making the FORTAS programs better known.

3.4 FINANCIAL SYSTEM

All of the controls and disbursement of funds are maintained by the Administration and Finance Department of FUSADES. The request for the disbursement of funds is made in accordance with the approved activities of the USAID project. The Internal Auditor of FUSADES periodically makes surprise inspections to verify that funds are being used as approved. This system appears adequate for the small budget of FORTAS.

3.5 OVERALL IMPACT

The economy of El Salvador has been beset by many problems because the small and medium business persons did not have access to sources of working capital on reasonable terms due to the lack of training and guidance. With adequate access to training and financial assistance, they are potentially an important source of employment generation and economic motivation for individual business enterprises. FORTAS through its program of assistance to its members has provided the funds for training trips, export promotion, social studies, and many other promotions. FORTAS has provided,

direct technical assistance on management systems and controls. This assistance has had a positive impact on the business community which became evident to the consultants when member associations were visited.

The problems of marketing and technical knowledge are closely interrelated. Both small and medium entrepreneurs recognize their need for technical assistance in production and marketing. The primary concern is increasing productivity. Significant productivity gains could be achieved without further mechanization merely by adjusting such basic elements as management of resources and assignment of personnel, and by adopting an export orientation.

The quality and availability of the small staff of FORTAS to help in developing/preparing member associations to provide training to their members has been exceptional.

Some executives of member associations of FORTAS stated that without the financial assistance from FORTAS, their association would scale down or close.

3.6 PROGRAM OPTIONS

FORTAS provides a necessary service to the business community and is well suited to continue the USAID project to strengthen FORTAS's member associations to educate the private enterprise business owner, and to manage his business more effectively. Technical assistance is also provided by FORTAS which will help enhance the value of the association's members' businesses. FORTAS is providing a needed service and should be assisted in the short term. However, the long-term prospect must be evaluated in terms of self-sufficiency. We recommend that FORTAS prepare a:

MARKET SEGMENT ANALYSIS AND PLAN

- Segment size (number, volume)
- Description/profile of a typical prospect
- Target segment market share:
    - Current
    - Desired
- Business or social needs
- Pricing in segment
- Current and future environment:
    - Economic
    - Political
    - Legal/regulatory

- People, funding, systems, income potential, risks, policies
- Strategy options
- Action steps
- Resource requirements-realistic, prioritized:
    - Local
    - External

This marketing analysis will show the size of the market for the services to be provided by FORTAS, and if those services can be delivered at a break-even point. The USAID program does not provide for self-sufficiency, since The Grant Agreement states that "the recipient association must contribute a minimum of 25 percent of the total cost of the proposed activity." In some cases, beneficiaries have contributed up to 75 percent of the total cost. The future viability of FORTAS depends on their ability to raise sufficient funds to cover their operating costs. Options include increasing service fees and developing new services such as a training and information center. This center should be self-supporting.

CHAPTER 4

DEPARTMENT OF ECONOMIC AND SOCIAL STUDIES (DEES)

DEES began in late 1984 as the policy research and analysis foundation of FUSADES. This "think-tank" was designed to enable the Foundation to undertake studies required to develop the conceptual and analytical basis for proposing recommendations to the Government. These studies promote government policies and foment actions which support economic reactivation, trade, investment, and export development. The studies also support other FUSADES Programs.

4.1 ORGANIZATIONAL STRUCTURE

The present organization consists of four sections and supporting administrative group reporting to the manager and program director. It is functioning well despite the recent vacancy of the directorship. The staffing of the four sections and the administrative group is as follows:

a)	Social Studies	3 Professionals (one vacancy)
b)	Special Studies	3 professionals (one vacancy)
c)	Macroeconomic Studies	3 professionals (one vacancy)
d)	Information Systems	3 professionals (no vacancies)
e)	Administrative	5 Professionals (two vacancies)

The twelve professional staff are working in a productive environment with the support of IBM-PS Model 80 computer systems. However, the Department is overloaded with work due to five vacancies on the staff. In order to meet the goals of the annual plan, increased effort should be placed on recruiting staff.

4.2 MANAGEMENT SYSTEM AND CAPABILITY

The management by objective system is producing studies and programs according to schedule. The outputs are controlled by a review system of the manager and section head. The DEES Commission reviews all new plans, reports, and changes in strategies. The overall system has an efficient control system which has produced quality reports and communications with other groups.

The management capability is high with the present manager effectively and efficiently leading her group. We found that all professional staff interviewed were of the highest caliber and the motivation and enthusiasm were extremely high. However, the need for recruiting top people in management is essential as the present manager will soon be leaving and the lack of a Director for the past three months may have a negative effect on the management of DEES.

4.3 PROGRAM EFFECTIVENESS

Indicators of impact are difficult to measure empirically without doing survey research. One measure, however, is the circulation of the different research outputs and program outreach. The publications of DEES are either the monthly "Boletin Economico y Social" or economic and social studies which are published and distributed separately. Table 4.1 lists the contents of the monthly Economic and Social Bulletins published during 1987 and 1988. DEES has written and published 34 bulletins since 1985 and sells an annual subscription for 25 colones. These bulletins reach about 900 people and institutions each month according to the DEES manager. The types of articles and studies have evolved over the past few years into more social and specific studies on particular problems and possible solutions for the business and agricultural sectors.

DEES has helped generate new legislation through CODEXI that has promoted exports and facilitated foreign investment in El Salvador. The Committee for Exports and Investments (CODEXI) worked to pass the new Export Promotion Law of 1986, the Foreign Investment Law of 1988, and the regulations for the private free zone development.

Recent press conferences and seminars for both national and foreign press have highlighted the applied research studies that DEES has recently completed on the state of the economy. DEES has analyzed the options and is disseminating the results of its studies to the press and the public.

In the social arena, DEES has helped implement pilot projects such as HABITAT (low-income housing project for the earthquake victims), FEPADE (Educational Development Foundation for training and educational improvement), and FIPRO (the Foundation for the Prevention of Industrial Accidents). DEES developed the conceptual framework that has led to the establishment of the above projects.

The economic studies published during the past year have focused on helping the reader understand the economic problems and the options for solving them. Market strategies and new taxation models have also been published. A list of these studies is shown in Table 4.2.

In 1985, DEES published a major study on the necessity for a restructuring of the economy, emphasizing incentives for an export oriented economy of non-traditional commodities. Since 1985, DEES has built upon that model and developed a program of studies based on the need for this structural readjustment of the economy. DEES has identified 18 studies that it plans to work on during the next year. The three major areas are macroeconomic policies, agricultural policies and incentives, and industrial policies. Table 4.3 depicts the specific studies presently underway and scheduled for completion during 1988 and 1989. These 18 research studies will cost about $347,000 and involve a total of 63 person-months of technical assistance effort.

TABLE 4.1

DEES PUBLICATIONS

ECONOMIC AND SOCIAL BULLETIN PUBLISHED 1987-1988

DATE	BULLETIN NO.	CONTENTS
JANUARY 1987	19	- Editorial. - Towards a renewal of economic growth in Latin America. - Aspects of Commercial Policy in El Salvador. - Education: The best investment for development.
FEBRUARY 1987	20	- Editorial. - Present status of basic needs in El Salvador: a synthesis. - Recent experiences in growth. Lessons learned. - The external debt: A problem we have ignored.
MARCH 1987	21	- Evolution of the economy in El Salvador during 1986. - Tax policy: Bases for a new model. - Comments on the trade agreement between El Salvador and Guatemala. - Comments on possible implications of the new Law on Reform and Control of Immigration of the United States.
APRIL 1987	22	- Economic outlook for 1987. - Policy on Interest Rates: A subject for discussion. - General comments on the present status of education. - What is a market oriented social economy? ESDM.

DATE	BULLETIN NO.	CONTENTS
MAY 1987	23	- Social Market Economy. The German experience. - The monetary and banking system in the social market economy: The German case. - The social security system under the social market economy. - Labor policy in the social market economy. The feasibility of the social market economy in El Salvador.
JUNE 1987	24	- Macroeconomic adjustment: a need that cannot be postponed. - The agricultural sector and macroeconomic policy in undeveloped countries. - Fiscal situation in 1986. - On the need for a new concept on health and social security.
JULY 1987	25	- Editorial. - Legislation proposed by the President of the Republic on June 1, 1987. - Foundations for a policy to encourage production.
AUGUST 1987	26	- Editorial. - The economic recovery of Central America: Myth or reality. - Basic economic policy toward exports promotion. - Educational development in a country with an export oriented economic culture: the case of Taiwan.

DATE	BULLETIN NO.	CONTENTS
SEPTEMBER 1987	27	- Export policy and its management. - Fiscal deficit and inflation in El Salvador. - Public expenditures in the social sectors.
OCTOBER 1987	28	- Fiscal policy, growth and stabilization programs. - Foreign markets as a model for development. - A few aspects of trade liberalization. - "The silent revolution," an extract from the article by Mario Vargas Llosa.
NOVEMBER 1987	29	- The informal revolution. - Budget Proposal for 1988. - The philosophy for development of the Chamber of Commerce of Cali.
DECEMBER 1987	30	- Liberation of the economy and growth. - The success of democratic capitalism in Sri Lanka. - Privatization of the economy: a specific case. - The social function of enterprise.
JANUARY 1988	31	- Editorial. - Analysis of results of the first stage of the Agrarian Reform. - The second stage of the Agrarian Reform. - Experiment in Eastern Africa: Prosperity of Kenya and decline of Tanzania.

DATE	BULLETIN NO.	CONTENTS
FEBRUARY 1988	32	- Foundations for a special plan for economic cooperation aimed at Central America. - Economic policy in the Central American countries. - Results from a study of the status of the private sector in the Department of San Miguel. - Some comments on education in El Salvador.
MARCH 1988	33	- On exchange policy (Editorial). - Alternatives regarding the issue of exchange regimens. - Foreign sector crisis: policy options. - Towards a more realistic exchange policy.
APRIL 1988	34	- Comments on the economic program for 1988. - Transportation of export freight. - Survey of the present status of occupational safety and health of industry in El Salvador. - Orientation and quality of the educational system.

TABLE 4.2

ECONOMIC STUDIES PUBLISHED IN 1987-88

HOW IS OUR ECONOMY?	MAY 1987.
THE SOCIAL STRATEGIES OF THE MARKETPLACE	SEPTEMBER 1987.
THE BASIS FOR A NEW TAXATION MODEL	OCTOBER 1987.
AN OVERVIEW OF THE ECONOMIC ACTIVITIES	MARCH 1988.

TABLE 4.3

STUDIES PLANNED DURING 1988-89 BY DEES

ECONOMIC POLICIES

1. Analysis of the Financial Sector
2. Investment Incentives
3. Social Policies
4. Pricing Policies and the Cost of Living Indices
5. Basic Design of Tax Reform
6. Exchange Policies
7. Incentive for Export
8. Institutional Assistance to Export Companies
9. Foreign Debt Policies

AGRICULTURAL STRATEGIES

10. Coffee Situation and Pricing Policies
11. Other Agricultural Product Possibilities
12. Agricultural Reform
13. Reform of the Protection of Agricultural Products
14. Institutional Reform of Agricultural Institutions

INDUSTRIAL STRATEGIES

15. Free Zone Regulations for Assembly Plants
16. Reform of the Protection of Industrial Products
17. Restructuring of the Industrial Institutions
18. Mechanisms to Facilitate the Industrial Transformation

4.3.1 SERVICES TO BENEFICIARIES

Each of the four sections of DEES provides services to both FUSADES members, the government, and the general public.

The newly formed Information Systems Group organizes and maintains a computerized data bank to be linked by modum to the other FUSADES offices. They have written and published in March 1988 an annual overview of the economic situation and activities during 1987. (Informe de Coyuntura de la Actividad Económica: Edición Especial Enero-Diciembre de 1987). The Information Systems Group also analyzes and distributes the results of surveys and questionnaires, assists in the analysis of the quantitative studies of the other sections of DEES, and publishes the monthly periodicals. They also design field tests and implement survey instruments for the field research of other groups. During this year, they are designing survey instruments concerning the business climate, a semi-annual opinion survey, and internal questionnaires on program evaluation.

The Macroeconomic Studies Section produces studies for publication in the monthly bulletins and special studies on promoting the economic model of restructuring and export promotion. Articles are written on economic perspectives, financial policies, and the foreign sector. Studies are implemented on agricultural and industrial strategies, policies needed for the promotion of exports, and structural policies needed to promote the economic model. Promotion of the research is largely done through publication in the bulletins and magazines of FUSADES. However, seminars and talks are held with the press, the public, and small groups of FUSADES members.

The Special Studies Section plans and implements studies on specific problems. Its most ambitious project is the coffee sector analysis and the development of a model for the reactivation of the coffee farms. This project is contracted out to a local firm. It is scheduled for completion in early 1989. Nine special studies will be published during this year. The following wide range of subjects are studied:

- Hygiene and Worker Safety
- Financing Textile Industries
- Eastern Region Private Sector Analysis
- Export Transportation Options
- Local Demand for Free Zones
- Cotton Growers and Sellers
- Private Sector Analysis
- Competitiveness of Export Products
- Foreign Aid analysis

Seminars and talks are often held following publication of the studies in order to discuss the findings and recommendations with interested groups.

The Social Studies Section plans and implements studies and pilot projects in both strategies of social development and the analysis of the educational sector. It plans on publishing reports on both subjects during 1988. Pilot projects are being implemented in collaboration with business and trade associations of FORTAS such as ASI, ANEP and the Chamber of Commerce. One is the collection of household garbage using private collectors in the higher socio-economic neighborhoods and releasing the city collection to the lower economic areas. The second project is the HABITAT low-income housing project which was initiated by FUSADES. This unique community of 1,100 house lots is scheduled to have all houses built by November 1988.

The second phase of the study on the education sector, which is being funded by the Inter-American Development Bank, will study the manpower demands in different sectors and the educational and training outputs from differents levels. It is of special interest to the Ministry of Education which may use the study as the basis for a project proposal in vocational and technical education. This study is scheduled for completion in October. Eight consultants from both El Salvador and the United States are participating.

The Social Studies Group will also be studying the informal sector of the economy and the effects of both rural and urban poor on the productive sectors. Based on the studies and pilot projects, the Social Studies Section will develop a social strategy to increase economic development for all members of society.

4.3.2 STAFF PRODUCTIVITY AND EFFICIENCY

The DEES program is an excellent example of a group of professionals with a clear vision of direction and a plan of how to get there. The three-year planning cycle is achieved through group consensus with the DEES Commission providing overall policy and program guidance. It is working with an overall macro economic model and also works as a close knit internal group on specific economic policies.

Working with a small professional staff of only twelve people and contracting out some of the work to consultants, DEES manages to produce twelve monthly Economic and Social Bulletins with an average of three studies in each one. Furthermore, DEES plans, implements and publishes economic studies and analyzes legislative issues that affect economic productivity and export promotion. In order to continue this program, DEES must retain high standards. Therefore, recruiting the best quality people for the vacancies in DEES should be high priority.

4.3.3 MARKETING THE DEES PROGRAM

DEES markets its services directly and uses the Marketing and Communications Department of FUSADES. A weekly column in the daily newspapers is spreading the news of what FUSADES and DEES are

doing. Meetings with the press, students, and open forums are held on a regular basis. Seminars are held with small groups of business leaders and FUSADES members to inform them of the research findings. Seminars are also planned with PROPEMI clients on the need for planning and evaluation.

The users of DEES services are projected to pay these amounts for each specific service during 1988:

-	Purchase of Publications	C 45,000
-	Purchase of Studies	65,000
-	Information Services	30,000
-	Conferences and Lectures	25,000
-	Seminars and Forums	17,000
-	Purchase of Books	15,000
-	Library Memberships	3,000
	TOTAL AMOUNT.....	C 200,000

The above services are marketed directly to the public using different media sources. Beneficiaries of the DEES research and analysis studies include the following groups: (number of individuals)

- FUSADES Founding Members (215)
- Government Officials (90)
- Banking and Financial Officials (54)
- Business and Trade Associations (60)
- Educational Institutions (29)
- Political Parties (19)
- Autonomous Institutions (30)
- Diplomatic Missions (35)
- Companies (26)
- Communications Media (47)
- Private Individuals (56)

4.4 FINANCIAL SYSTEMS

The financial procedures that were reviewed are adequate within DEES. Budgets are prepared, reviewed, and approved by the DEES Commission on an annual basis. All revisions in the budget are discussed in the appropriate committee. As an example, a proposal for an adjustment in the 1988 budget was presented to the DEES Commission for consideration on June 1, 1988.

4.5 OVERALL IMPACT

DEES has been marketing its research findings to diverse groups over the years. The measurement of impact on the economic, social, and governmental sectors is difficult to quantify but some indicators of progress are evident. In the social sector, DEES has helped promote

and develop the conceptual thinking and has established the framework for pilot projects. Examples are HABITAT, FEPADE, and FIPRO. DEES implemented the first phase of the Educational Sector Study and is working with the Educational Development Foundation (FEPADE) in promoting its programs. It is also developing frameworks for the promotion of the Foundation for the Prevention of Industrial Accidents (FIPRO).

In the government sector, DEES has promoted a dialogue among the business community and some government institutions such as the Ministry of Planning. The executive branch of the government has begun promoting the export oriented policies of FUSADES in its announcements and is becoming more receptive to the private sector's contribution to the overall economic development model. Bankers and planners are receiving DEES' studies and bulletins and increasingly meeting with FUSADES and its members.

The Commission of Legislation and DEES have contributed studies which have assisted CODEXI (Committee for Exports and Investments) to promote the passage of new legislation such as the Export Promotion Law of 1986, the Foreign Investment Law of 1988, and the regulations for the private free zone development.

CODEXI is an informal advisory committee consisting of representatives from the Ministry of Planning, the Ministry of Foreign Trade, the Central Bank and four private sector entrepreneurs. This committee provides a forum for private and public sector cooperation in order to promote economic development.

In the economic sector, some trends are emerging such as more nontraditional exports of agricultural products and industrial light industry products. Foreign governments and institutions are also reading the studies and the recent press coverage of FUSADES regarding economic policy are positive indicators.

4.6 PROGRAM OPTIONS

DEES already is following many of the recommendations of the Louis Berger International study on the DEES Strategy and Organization for Institutional Development which was completed in April 1987. DEES has reoriented its strategy to include more emphasis on changing critical policies in specific microeconomic areas. The program of DEES is ambitious; the staff is dedicated and produces quality work. Therefore, the short-run goals are obtainable if the professional vacancies can be quickly filled. As long as USAID continues to fund the technical assistance and the major operating expenditures, DEES will have little difficulty attracting qualified people and producing the reports and studies within the plan. In the longer period, DEES must become more self-sufficient in funding. It could do this two ways. One option is actively to go after contract research for both the government of El Salvador

and within the private sector. The other option is to rely on a range of funding sources and increase autonomy away from a single donor. This is extremely unlikely in the immediate future and will most likely take many years before DEES can survive as an independent research and policy foundation.

The first option is a long-term goal which could succeed with the support of a new government and an economic upturn. However, presently there is not much capital available for contract research in either the government or the private sector. Therefore, in the long-term, the second option appears more attainable. In addition, FUSADES may be able to support DEES by funneling income generated by FIDEX's activities and other sources.

Recommendations:

1. Continue its strategy on changing critical policies in specific areas. The policies center on the necessity for a restructuring of the economy emphasizing incentives for an export oriented economy.

2. Continue the annual studies on El Salvador's economic and social problems. Follow up these studies with dissemination programs with the media and business, government, and student groups.

3. Implement the research studies already identified in order of priority. These 18 applied research studies should be funded and completed during 1988 and 1989.

4. Continue to emphasize applied research and its dissemination in both economic and social areas. Economic policy studies, agricultural and industrial strategy studies, and social and educational studies are all part of the comprehensive program.

CHAPTER 5

FIDEX PROGRAM REVIEW

5.1 ORGANIZATIONAL STRUCTURE

FIDEX became operational three months ago as the processing financial department for PRIDEX and DIVAGRO with a director and an assistant. The department is staffed by 6 persons: a director, credit officer, 2 credit analysts and 2 secretaries. This staff is adequate to process the present loan volume. The director is well qualified for the position, having worked in banking since 1972. He is comfortable with managing the present loan portfolio and has the capacity to manage a larger portfolio. His experience in the commercial banking field may make him more conservative, but in discussing the credit standards applied to loans generated by DIVAGRO, his tendency is to concentrate analysis on qualitative factors rather than on quantifiable variables. Businesses do not operate in a vacuum and a review and analysis of all individual elements of the business needs to be performed in light of its environment. The appropriate analysis is being made and the conclusions are logical. The director is exercising the needed skills of management, as evidenced by the manner in which the department has been organized with necessary control items in place.

The credit manager has been employed in banking since 1964. His qualifications for the position are good and he provides the needed support to the director, which is crucial at this stage of operation.

Exhibit 5.1 shows the present organization chart for FIDEX.

5.2 MANAGEMENT SYSTEM AND CAPABILITY

The Loan Policy Manual is adequate for the present size of FIDEX, which conforms to the AID requirements under the program for Agriculture and Industrial Projects. The loan procedures are also well detailed, conforming to the Loan Policy approved by FUSADES.

As FIDEX is structured, it can only process those loans which are generated by DIVAGRO and PRIDEX. In the case of DIVAGRO borrowers, short-term loans can be extended only together with long-term financing. However, in the case of PRIDEX industrial clients, only long-term financing is available according to AID requirements. This appears to be at odds with the banking principle of financing the total needs of the borrower.

A package loan to a borrower can be better controlled, especially with these higher risk loans. Consideration should be given to amending this requirement to permit working capital financing for

the industrial sector. The risk factor should not be any greater than working capital loans to agricultural borrowers of DIVAGRO.

5.3 SERVICES TO BENEFICIARIES

The USAID Water Management Project No. 519-0303 provides funds for purchase and installation of irrigation systems, Type A loans. All are export oriented, and are for "precision" irrigation systems, meaning pressure drip and trickle. They may get into level-basin and furrow systems later. FIDEX expects to do around $750-800 thousand in loan business during the first year of operations.

FIDEX is NOT generating any irrigation loan business, but is servicing loan proposals put together by DIVAGRO.

USAID Project 0327 on agribusiness development provides funds for all agribusiness loans other than those involving irrigation systems. These are mostly packing, canning, and freezing plants and some export credit. FUSADES operates a dollar trust account in the Bahamas through CitiTrust. This fund can be used to import machinery only when product transformations are involved; e.g., such as in freezing and/or canning of vegetables, fruit, and shrimp. Local currency loans for packing shed operations are administered through the Banco Hipotecario.

Security on loans of four years and more is usually a mortgage on land and a lien on equipment. Borrowers often use a first mortgage to secure operating capital from local commercial banks. The export loans are secured also by export collections with an irrevocable payment order in favor of the Banco Hipotecario, or CitiBank, as appropriate.

FIDEX does not make production loans; these go through commercial banks, called <u>credito avio</u>. Short-term credit for agricultural commodities may include the costs of production, packing, transport, and broker fees. FIDEX has plans to complete the financing in 1988 for several plants:

- Expand present capacity (double, actually) for freezing okra and broccoli for export; and
- Expand capacity to process and pack a range of speciality products for export to the USA.

FIDEX management hopes to have $17 million in loans outstanding by year end 1988. Banco Hipotecario monitors all local currency loans, and reports all interest and principal collected to FUSADES. FUSADES will have available the net interest collected (after management fees, reserve for bad debts are deducted) to use in its operation.

CitiTrust and its local agent do a similar job as correspondent for offshore accounts. DIVAGRO continues to monitor the technical aspects of accounts after a loan is disbursed, and maintains computer access to market reports for PRIDEX and its own database.

PRIDEX acts as a broker for USA marketing operations at the producers' request; however, it can do direct marketing if desired.

5.4 FINANCIAL SYSTEM

Policy and Procedure Manuals were developed to govern the extension of loans promoted by PRIDEX and DIVAGRO. The purpose of this Loan Policy is to provide the FIDEX officer with a ready reference for analyzing credit to be extended for DIVAGRO and PRIDEX customers. This policy helps the credit officer to understand exactly what kind of assets DIVAGRO and PRIDEX intend to generate, with what kind of customer, on what terms and conditions, with what delegated authority and required documentation. This document helps everyone involved to be aware of and to focus on exactly what kind of business is desired and, equally important, what kind of business does not qualify for credit. This policy is circulated to all parties involved in credit to make certain that loans fit the agreed criteria.

In evaluating the effectiveness of the FIDEX Loan Policy, the base of analysis used was the technique of determining whether the loan policy effectively covers strengths, weaknesses, opportunities, and threats of the credit. Some of the minimum standards used were:

- Size -- e.g., income, net worth, sales volumes
- Financial information required -- financial statements, audits
- Characteristics -- reputation, competence, and stability
- Amortization requirements
- Pricing -- interest collection intervals
- Acceptable collateral -- maximum margin
- Funding policy
- Approval authorities
- Documents required -- document control responsibility
- Document registration requirements

The loan portfolio consists of 17 loans to finance 10 different projects which are supported by first or second mortgages on real estate and/or equipment.

LOAN PORTFOLIO FIDEX

May 31, 1988

Loans Approved

Model (A) 2 loans for $0.272 million
Model (B) 15 loans for $1.973 million

Loans Disbursed

Model (A) 2 loans for $170,000
Model (B) 5 loans for $1,676,000

Loans Declined

Model (B) 2 loans for $129,587.82

Loans Outstanding

Model (A) 2 loans $170,000
Model (B) 5 loans $1,636,000

Total AID funding	$ 35,000,000
- Available funding Model A & B Loans (irrigation)	$ 10,000,000
- Available funding for maquila and light industry	$ 15,000,000
- Available funding for agribusiness and aquaculture (DIVAGRO)	$ 10,000,000

Loans declined by Credit Committee:

1. The loan for $99,148.55 was declined because the borrower was being sued by a local bank for non-payment of loans.

2. The loan for $30,439.27 was declined because the project lacked sufficient irrigation water.

The criteria for approving loans to finance mostly new ventures are based on obtaining up to 150 percent guarantee in real assets. However, in certain justifiable cases, the Loan Committee may reduce this requirement to 133.33 percent. This is not an unreasonable policy, but a balance must be maintained between having too strict or too generous an approval standard in order to establish the proper credit disciplines. The ultimate goal is to enable FIDEX to disburse loan funds quickly to create a cash flow to help FUSADES become self-sufficient.

Details on the loans approved are included in Annex D.

The Committee Members are well qualified to act on this committee. The Policy Manual covers and exceeds the above minimum standards for good credit. You may argue that the collateral requirements may be excessive for the type of development loans which are being approved. However, the loans being made represent substantial risk, and since FIDEX is just starting operations, caution is used in approving credit. At this first stage of operation, this more conservative thinking is normal and should be pursued until everyone in FIDEX and the Loan Committee feel comfortable with the operation.

The loans that are being processed are high risk and are seldom made by local commercial banks. The only loans that are usually made by local banks can be discounted at the Central Bank of El Salvador under special lines of credit at favorable interest rates.

Consideration should be given to the fact that FIDEX is in its inception stage, and is following a conservative lending policy to develop a loan portfolio that can be collected in the future. In the initial stage of operation, the conservative road would be more appropriate until staff and the Credit Committee gain more experience in this type of project development financing.

The Procedures Manual has well defined procedures and they adhere to the approved Loan Policy. The credit memorandum which is prepared for each loan request is detailed and meets the requirements of both policies.

The FUSADES Board of Directors has delegated to the Credit Committee the necessary power to approve or decline credits generated under the USAID Agreement Number 0287 with complete autonomy. The committee must have a quorum of 3 members to act on a credit. Included in the delegated authority of the committee is a clause on conflict of interest which states:

> In accordance with the Policy of Conflict of interest, in the case that any member of the Investment Fund Committee (CFI) has any financial interest in the credit presented, be it as an individual or company, the member <u>will not</u> participate in the voting.

The executives and managers are aware of the insider conflict of interest by which they must abide under the USAID Agreement. No evidence was found that any loans have been extended to any members of the credit committee, any paid staff member, executives of FUSADES, any family members, and any business controlled by such individuals.

Not true

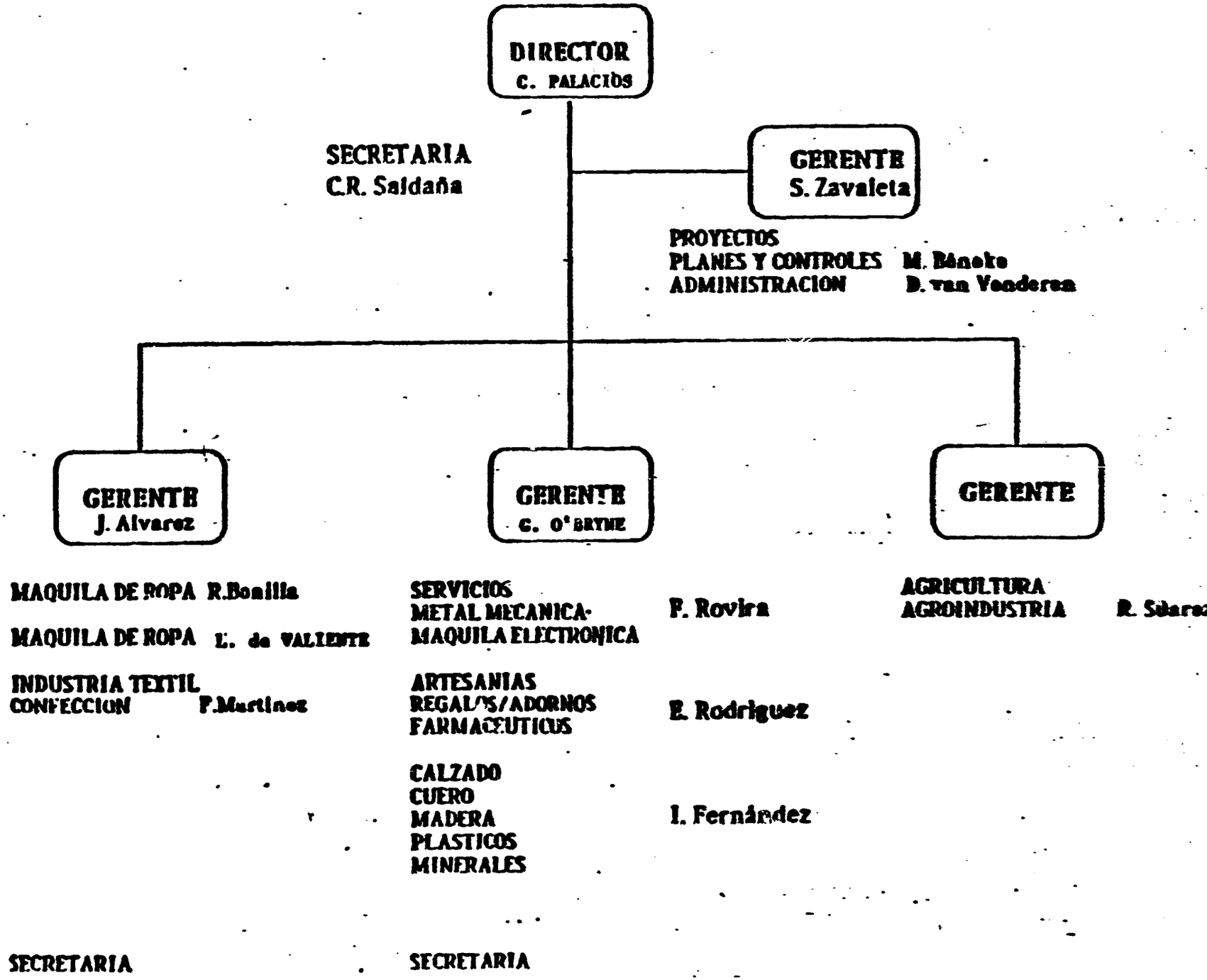
5.5 OVERALL POTENTIAL IMPACT

The function of this department is to support the activities of DIVAGRO and PRIDEX. It provides the credit analysis for the loans generated, loan approval, and the operating procedure for loan funds disbursed.

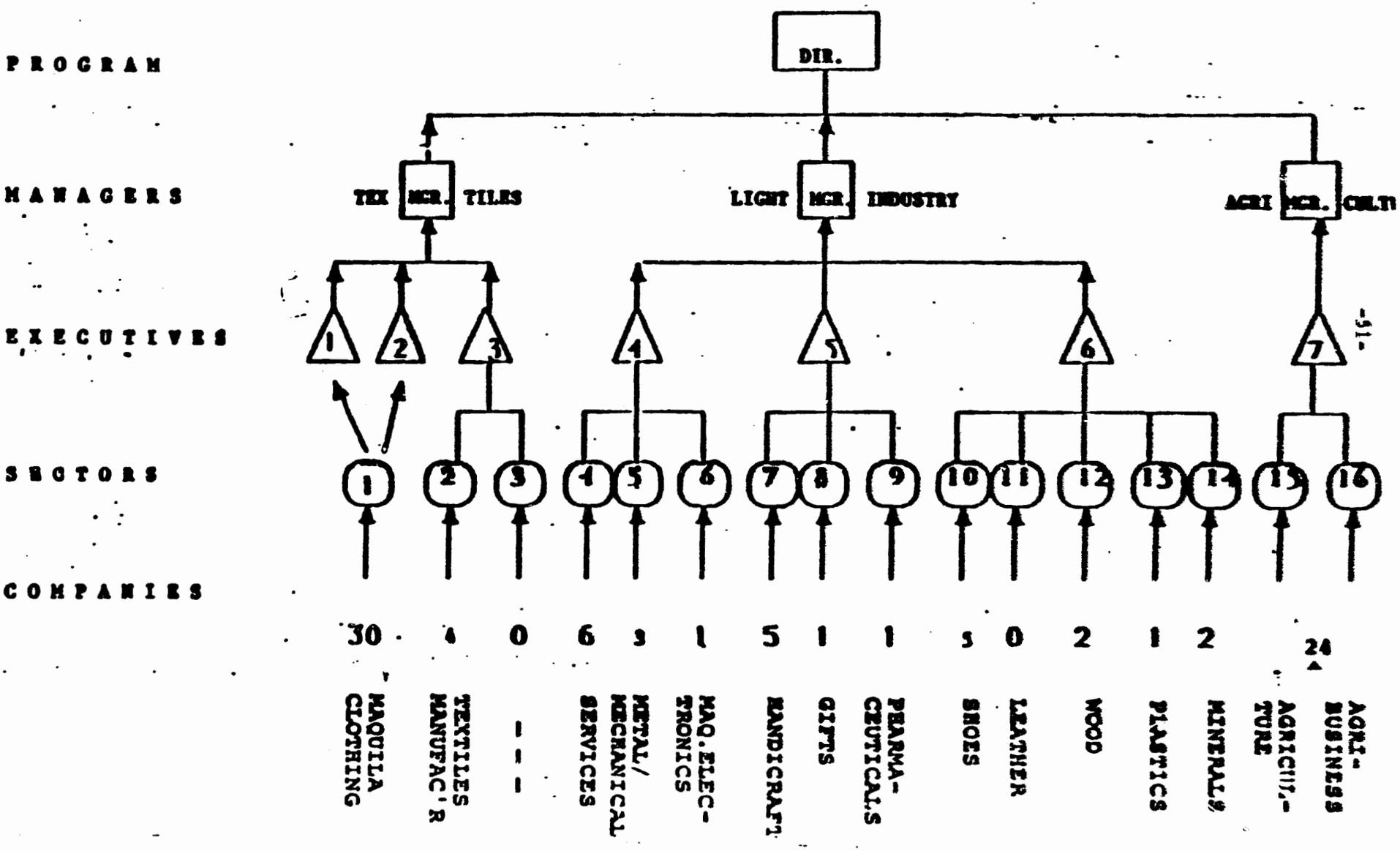
Missing pages 48,49

EXHIBIT V.1

PRIDEX ORGANIZATION



METHODOLOGY



a) Assigning additional clients to the current Promotion Executives.

b) Adding additional Promotion Executives within each product group.

c) Creating new product groups under new Managers.

d) Using outside consultants as required.

Option (a) offers only limited expandability, as the Promotion Executives are currently tasked heavily, and their attention to current clients and to marketing/promotional activities should not be diluted (see Sections 6.3.1.3 and 6.3.1.4 following).

Option (b) could provide two or three additional Executives within either of the two larger Product Groups (more within the smaller Agriculture/Agribusiness Group) without detrimental effects on the capacity of the Product Group Manager.

Similarly, under option (c) the present organizational alignment would allow one or two more product group additions without seriously affecting the span of control of the PRIDEX Director. Expansion, particularly under this option, would necessitate additional staff support in the Projects Control and Administration functions, and to an unknown degree in the secretarial area.

The use of qualified outside consultants to supplement PRIDEX resources and to provide product/service and specific technical know how is a practice already in use by PRIDEX, and offers flexibility in any of the organizational options mentioned.

Additional functions may be needed in the areas of marketing, in investment, and in joint venture analysis, as well as in any new Free Zone development project. The current organization can support this by addition of a new staff Manager position for either or both functions.

6.1.2.2 Alternative organizational structure considered: It is believed that the present type of relatively shallow, product-oriented organization is best suited to meet the prerequisites of:

a) Responsiveness/fast reaction to varying levels of client needs, and the subsequent development of a maximum, proactive service capability.

b) The best possible degree of PRIDEX staff familiarity with a complex mix of business and service sectors.

c) Personalized, accountable contact with individual clients, and subsequent minimization of successive, bureaucratic levels of management.

To redesign the organizational structure along functional lines, e.g. by groups responsible for client-potential evaluation, program development, and/or promotion would reduce the PRIDEX-client personal interface factor. This is increasingly important as the size, maturity and ready-to-export qualifications of the client or prospect diminish. Any reorganization would complicate the ability of PRIDEX Executives to understand the varying business aspects of different clients, and severely handicap responsiveness and reaction times.

6.1.2.3 The PRIDEX Director's communication with his counterparts at DEES, FORTAS, PROPEMI, and DIVAGRO is frequent, although he states it is less so with FORTAS and even less with PROPEMI. He participates in Operations Committee meetings monthly, or occassionally bi-weekly. These contacts provide some "passalong" of new business/new client leads. There is also the annual meeting of all FUSADES management in which yearly plans are presented.

A management retreat is planned to coordinate work on the forthcoming Five Year Plan.

Interface with other FUSADES groups: the PRIDEX Promotion Executive for Agriculture and Agribusiness works closely with DIVAGRO in evaluating product potential and in subsequent promotion. From the limited time provided for the project work, little interaction on the part of other PRIDEX Executives and Managers with FUSADES divisional counterparts was observed. However, the commencement of the FIDEX lending process for PRIDEX programs and clients will call for considerable involvement of PRIDEX Promotion Executives with that financial group. This process has already been formalized, with the role of the PRIDEX Promotion Executive as the client/applicant interface and advisor clearly spelled out.

6.2 MANAGEMENT SYSTEMS AND CAPABILITY

6.2.1 FINDINGS

6.2.1.1 The foundation for the measurement of progress and control is the PRIDEX Annual Plan. PRIDEX management regards the 1988 Plan as the baseline for subsequent planning and evaluation inasmuch as the Arthur Young program management ended in August 1987. The 1988 Annual Plan has been developed from a "zero base" rather than attempting to build upon or carry over the Arthur Young model.

The current Annual Plan is organized in accordance with a standard FUSADES planning format, from which the Plan index is derived.

6.2.1.2 Internal plan development process: the PRIDEX planning process is "crescive" in that it grows from below; it begins at the day-to-day client program development level. Each Promotion

Executive reviews the individual client company he is responsible for and forecasts quarterly, by client or prospective client, the:

- Number of new jobs expected to be created.
- Dollar amount of foreign exchange to be generated.
- Technical assistance to be provided, and cost.
- Number and cost of trips to be made.
- Number and cost of studies forthcoming.
- Foreseen changes in export status.

These forecasts are reviewed by Product Group Managers, by the Projects Manager, and lastly by the PRIDEX Director, and then incorporated into the Annual Plan as the "Summary of Principal Goals" annex.

Both these quantitative goals and other qualitative ones are included in the formulation of PRIDEX's mission statement, objectives, strategies, and expected results, detailed in the opening Program Description section of the Annual Plan.

6.2.1.3 Five Year Plan: The planning cycle is annual (calendar year) and for five years; the 1989 Annual Plan is to be incorporated into the 1989-93 Five Year Plan now scheduled for completion in July.

Goals to be incorporated into it, as stated by the PRIDEX Director, are:

- To promote investment.
- To promote exports.
- To develop "tradings": providing Salvadoran producers with contacts with foreign suppliers who would subsequently be buyers/customers and, hopefully in some cases, investors in Salvadoran companies.
- To develop the infrastructure.

An important consideration for PRIDEX is "to incorporate" self-sufficiency into the Five Year Plan, according to the PRIDEX Director. Further discussion of this option is found in Section 6.2.2.

6.2.1.4 Progress measurement and controls: This process begins at weekly meetings of Promotion Executives with their respective Managers, during which each Executive prepares a Work Plan for the coming week detailing planned client or prospect contacts, with comments. In addition, each Executive's weekly Client Register (log) is completed for the previous week and reviewed.

Client input is furnished monthly on "Accomplishment Report Forms," required by contract. On these, each PRIDEX client sets down:

- Permanent and temporary jobs generated as a result of PRIDEX assistance.

- New investments during the month (in US$).

- Export sales generated, broken down by specified foreign markets.

- Comments.

This data becomes the basis for computer-generated monthly and quarterly results reports which are broken down by Product Management groups (e.g., light industry), then by Promotion Executive, and lastly by client company. These summary reports are for internal PRIDEX use only and provide cumulative results throughout each quarter of actual export-generated jobs versus those forecast and the resulting variance, plus similar comparisons for foreign exchange earnings and investments. This monthly cumulative report is similar in format and content to Table 6.3, with names of the responsible Promotion Executives and the companies provided.

This comparison of actual versus forecast data is used judgmentally by the PRIDEX Director in tracking the performance of each product group and the individual Promotion Executives and is used in spotting significant variances by client company. Costs by service function and client are collected and reported quarterly to PRIDEX management. This information is combined with service results versus forecasts in a summary presentation to the PRIDEX Commission.

Reporting to FUSADES and AID: PRIDEX sends a monthly textual report to FUSADES summarizing activities by product group plus general events. This is translated and incorporated into a quarterly report to AID/El Salvador which includes a comparison of actual versus forecast results of export-generated jobs, foreign exchange earnings, and investments; plus performance during the period in terms of number of technical assistance actions, trips, and PRIDEX staff participation in trade shows, conferences, seminars, etc.

6.2.1.5 Client program planning: Each Promotion Executive maintains a confidential master file for each client assigned. Various planning and administrative tools are used in evaluating prospective client potential for extra-regional exports and non-traditional products or services, and subsequently in planning the export market development program. In approximate sequence of use, these aids in a typical client master file include:

a) Outline/guide for preparing Feasibility Studies ("Terminos de referencia estudio de factibilidad").

b) Project evaluation rating form ("Evaluación del Proyecto").

c) Client profile ("Perfil de Clientes").

d) A typical contract (for general PRIDEX assistance; another format is used for foreign travel assistance).

e) Work Plan ("Plan de Trabajo") completed jointly with each client: these will vary considerably in format and content with each client company.

Also included in the client master file are copies of the company's official business registration and any relevant correspondence, telexes and/or market studies.

Seminars: a series of management seminars for clients on "Setting Objectives and Planning" is currently underway for client top and second-line management. Each seminar lasts two and one-half days and is conducted by an outside management training specialist. The objective is to help PRIDEX clients do a better job of planning and thus to become more competitive in export sales. PRIDEX Promotion Executives also participate with their respective clients; only one client company is enrolled at a time so that the training can be focused on the individual company, and program content tailored to particular company needs.

2.2 COMMENTS

6.2.2.1 The PRIDEX internal planning process is highly professional and provides properly defined, quantified goals. They are organized by business sector, by Promotion Executive, and by client/prospective client. It is relatively simple, and it works. Like all such planning, it is dependent upon the ability of the first person in the process to make realistic forecasts in each case. The longer the experience of the latter with individual clients, the higher the confidence factor for the forecasts.

6.2.2.2 The Five Year Plan was not in a form permitting review at this writing. In any case, the Five Year Plan format should include the following AID-specified subject headlines:

a) Mission statement.

b) Goals and objectives.

c) Strategy for broadening the membership base and mobilizing resources (which suggests a plan for self-sufficiency).

d) Rationale for current and future programs.

e) Source and application of funds.

f) Strategy for spinoff/termination/reduction of selected programs in accordance with FUSADES goals and funding levels.

Additional subjects offered for PRIDEX consideration are:

- Any implications for PRIDEX of the new FUSADES building.
- Plans for maximizing the PRIDEX U.S. presence.
- How to avoid bureaucracy.
- How to develop increased assistance for smaller firms in El Salvador's private sector.

6.2.2.3 The PRIDEX progress measurement and control system provides the basic input needed to monitor program impact by client of PRIDEX-related job creation, foreign exchange (FX) earnings, and investments. As such, it is fully dependent on the timeliness and accuracy of the monthly reports furnished by the clientele. Informal exception control is conducted to ensure that complete reports arrive each month from each client.

6.2.2.4 Incentives tied to individual staff performance versus objectives have not been installed at PRIDEX to date although this subject is under consideration. If such a plan is to be implemented, the required performance data is at hand.

6.2.2.5 Reporting: the quarterly report from PRIDEX to FUSADES -- and thence to AID/El Salvador -- conveys a lot of textual detail on specific activities by and for different companies, but it is difficult to track these individual activities in the perspective of a given company's overall export development program, and subsequently establish a value for assistance to that company. A cost-benefit evaluation for each client is not possible, if it were desired, nor is it possible to assess impact across the board on individual companies for the program during a given period.

6.2.2.6 Client program planning: this process is informal and follows no set sequence. There is considerable flexibility, depending upon each client's potential and readiness for export, and the type and anticipated export sales volume of product. For purposes of tracking client progress in moving ahead in "capability to export," PRIDEX has established four "status" levels:

Status 1). "Idea or pre-project stage."

2). "Product now exists."

3). "(Company) has export capability."

4). "(Company) now exporting: needs to expand markets(s)."

These status changes are shown on quarterly reports and are a means toward evaluating program effectiveness. They are broken down by quarter and by business sector and compared to the forecasts in the Annual Plan.

The client seminar program confronts head-on one of the major challenges facing PRIDEX: the pervasive local lack of the necessary attitude/mentality for successful company export orientation and organization, including the difficult transition from a low volume, high margin operation to a high volume, low margin format, with the added vital ingredient of consistent export market level quality necessary.

6.3 PROGRAM EFFECTIVENESS

6.3.1 FINDINGS

6.3.1.1 Services to beneficiaries include:

- Technical Assistance ("TA") covering on-the-job training, TA within the beneficiary company or with outside resources (including local and foreign seminars) and studies of various types.
- Trips to assess markets; to make contacts; to participate in fairs (with or without clients); and to further TA.
- Loans (via FIDEX) for capital equipment from the USA. The Promotion Executive is the chief organizer and provider of services, with the support and guidance of his Product Group Manager.

Promotion Executives forecast services to be provided with estimated costs and include this data in the Annual Plan. Variations in actual costs versus forecast are normal as new clients are added and unforeseeable opportunities arise.

Identification of business sector targets: 16 Salvadoran business sectors having the highest potential for export market development, local and foreign investment, and assembly operations have been identified and assigned to the respective product groups within PRIDEX. These follow, not in any order of importance, with the number of client companies in each sector as of the issuance of the Annual Plan in January 1988:

	Companies
- Clothing Assembly (Maquila)	30
- Textiles Manufacture	4
- Services (general)	6
- Metal/mechanical	3

- Maquila of electronics	1
- Handicrafts	5
- Gifts	1
- Pharmaceuticals (mostly cosmetics)	1
- Shoes	5
- Leather	0
- Wood	2
- Plastics	1
- Minerals	2
- Agriculture	24

Exhibit 6.2 diagrams these sectors in relation to the individual product groups and Promotion Executives. Additional companies have been added to the client list in the first four months of 1988.

The process of qualifying prospective clients is primarily subjective; the PRIDEX Director considers this activity the most difficult part of the program. The "Project Evaluation Guide" assists in this by assigning weighted points to various aspects of the prospective client's business and analyzing:

a) Whether the firm offers a clearly established objective of non-traditional product/service exports to extra-regional markets;

   Whether the project represents an expansion of current client activities or a change in business strategy;

   Whether economic assistance -- if requested -- is considered an operational expense.

b) Feasibility, including adequate capacity, infrastructure, and company financial stability (with ratios).

c) Impact, in terms of

   - Creating sufficient new jobs, at a cost per job appropriate to the support to be provided;

   - Generating enough foreign exchange to justify FUSADES/PRIDEX support; and

   - Creating new investments which will affect other Salvadoran businesses positively.

d) The company's capacity/ability, as confirmed by

   - Documentable evidence of experience in its current and proposed activities.

   - Credit and commercial references.

   - Evidence of the ability to apply sufficient resources to make the project successful.

Client prospects are further evaluated via a "Client Profile" which provides general background data on the company, its products, markets, production, marketing and sales organization and operations, experience in foreign markets, etc. Thirdly, a feasibility study may be conducted to assess product/service potential for export. An internal guide to structuring such a study has been developed. These feasibility studies vary in format and scope according to the characteristics of the client under consideration. Not every client or prospect is the subject of a feasibility study.

PRIDEX executives have stressed in interviews that their priorities for setting support to clients lie first with companies having the greatest up-front export potential, as this is the only way they can generate concrete results in the least amount of time. Companies that have the greatest near-term potential for successful initial or expanded exports are the larger, more mature firms. PRIDEX management believes that serving these larger, more established companies first will have a "halo" effect on smaller companies over time, both from the standpoint of generating jobs and earnings that will filter down to the lesser firms, and that of building foreign customer credibility for the viability of El Salvador as a reliable supplier.

6.3.1.2 Program effectiveness in meeting established objectives and goals: PRIDEX objectives and goals are set forth in quantified terms in the 1988 Annual Plan. The results for the first quarter of 1988 have met or exceeded these goals in terms of new export-related jobs, foreign exchange earnings, investment dollars and changes in export status of clients, as reflected below.

6.3.1.3 Staff productivity and efficiency: the only quantitative norms for evaluating this are the monthly and quarterly "Results Reports" (section 6.2.1.4) which permit measurement of the contribution of each Promotion Executive assigned to service specific client companies in each of the three product groups. This leaves the Project Managers, the Plans and Controls Executive and the secretarial staff for judgmental assessment by management.

Some indication of overall PRIDEX efficiency may be obtained from the following quarterly results compared to goals and budgets.

1st QUARTER 1988
(including Agriculture)

	% in excess of quarterly goal	PRIDEX costs as % of qtr budget
New jobs formed	114.7	
FX earnings	223.0	74%
Investments	246.1	

Thus, goals for all three critical standards were exceeded in the first quarter at a cost 26 percent under budget.

6.3.1.4 Marketing the PRIDEX program: although PRIDEX is considered the "marketing arm" of FUSADES by FUSADES management, the marketing function within PRIDEX is an informal one. The sole reference to new business development is found in one of the responsibility definitions assigned to the position of Promotion Executive:

1. To promote investments and co-investments and to develop programs.

The PRIDEX budget for Advertising, Publications and Promotion is the largest within FUSADES; the local total of US$106,700 represents 4.5 percent of the overall PRIDEX program budget for 1988.

The PRIDEX marketing function is also largely a personal one. Product Group Managers and their Promotion Executives actively pursue new Salvadoran client prospects which are referred to them by management, members of various FUSADES Commissions, trade and personal contacts, referrals from clients, seminar contacts and occasional "walk-in" prospects. Promotion of investments by Salvadoran companies is conducted by Promotion Executives and Product Managers, assisted as necessary by FUSADES Directors, Commission members, the Executive Director, and the PRIDEX Director himself.

This represents a recent change in emphasis on investment sourcing, from the original strategy of concentrating on U.S. investor prospects. Owing to the negative impression many of these have had of the Salvadoran business, economic and political climate, FUSADES/PRIDEX efforts to attract investment are now being focused on Salvadoran sources.

PRIDEX Product Group Managers and Promotion Executives make numerous trips abroad to research market and product potential, to promote Salvadoran products and services, to identify customers and prospective 'maquila' sources, to obtain technical information and updates on new technologies, and to attend seminars and participate in trade shows. Ninety-one such trips are planned for 1988, of which 21 were to have been completed in the first quarter. The actual number of trips taken in that period was 18. Other than the planned number of trips per quarter, there are no pre-set requirements for PRIDEX executives to pursue new business, other than having to meet the projections for new job creation, foreign exchange earnings, and investment dollars, which all relate to the generation of new business from existing clients and the addition of new ones.

Support in marketing communications and public relations/public affairs is provided by the FUSADES staff group. This takes the form of product-specific brochures (as in the case of an '807' English-language brochure produced for the textile section of PRIDEX), an English-language brochure describing PRIDEX in general,

name cards/place signs for seminars and conferences, wrap-around folders for literature and press releases, et al. Work is under way on a new English-language booklet promoting maquila operations, investment in El Salvador, and export sales of Salvadoran products. This FUSADES staff group also organises media conferences, press presentations, etc., and assists in general with PRIDEX management relations with the number of 'publics' with which it deals:

- FUSADES membership - prospective members
- El Salvador private sector in general
- El Salvador Government
- Trade associations and other influence groups
- USAID - other "benefactors"
- FUSADES program beneficiaries
- U.S. customer and investor prospects
- Local Media - U.S. media

6.3.2 COMMENTS

6.3.2.1 Services to clients: in interviews with PRIDEX clients the only service <u>not</u> currently being provided was said to be that of providing reasonable loans for working capital, of which a number of firms are experiencing a shortage. This in turn hampers product development, quality enhancement, technical and managerial training, and foreign business travel. A revolving line of credit was needed, according to several respondents.

PRIDEX services generally were highly rated; some of the executives interviewed were not aware of the full range of services offered. Ten of the executives contacted were asked to complete an informal questionnaire, to indicate which services were being used and which were desired, the order of importance of each service, and how effective each was felt to be. While the sample is admittedly very small, the replies give an indication of the wide application of the spectrum of PRIDEX services, their relative importance to the users, and opinions of their effectiveness.

<u>Results</u>: each of the services listed in the questionaire was used by at least three companies. The services ranked highest in importance were:

- marketing assistance;*
- introductions to foreign customers;*
- participation in foreign trade shows;
- market potential studies, followed closely by; and
- technical assistance in production training.

---

*Ranked even.

Other services that were desired but not used included:

- quality control assistance (two mentions);
- management/planning training (one mention for this and for each of the following);
- technical assistance in product development;
- technical assistance in production training;
- marketing assistance;
- market potential studies;
- introductions to foreign buyers;
- participation in foreign trade shows; and
- credit for expansion.

Write-ins concerning unlisted services were few; mentioned were "shipment of samples," "executive teamwork" and "technical assistance in the fabrication process."

PRIDEX's strategic decision to concentrate on target firms having the greatest immediate potential for export sales (or sales increases) is believed to be a necessary and pragmatic one. The alternative would be to focus on smaller, younger firms. Bringing these up to the levels of managerial strength and product/service quality sufficient to compete successfully in foreign markets would involve a great deal of time and commitment of substantial PRIDEX human resources, implying in turn a heavier and more lengthy subsidization by USAID.

One executive stated: PRIDEX discriminates, but has to. Some products simply aren't exportable. Another: Aiding small companies isn't cost-effective. Helping larger and medium-sized companies helps the smaller ones in turn. You can't start at the bottom.

A partial resolution of the problem of serving smaller Salvadoran firms lies in PRIDEX serving as an organizer of smaller companies to serve as subcontractors to larger ones, which in turn would be the exporters. PRIDEX management is aware of this approach and plans to further it wherever appropriate.

6.3.2.2 The effectiveness of the PRIDEX management system in meeting its established goals has only been observable for the first quarter of the current year. In this limited timespan, the results have been impressive. Whether this level of performance can be maintained in the face of rising projections for the balance of the year will bear watching. (For projections, see Exhibits 2.2, 2.3 and 2.4.)

The system itself, and its application and controls, are judged to be excellent by any standards.

6.3.2.3 The same management system permits quantitative evaluation of performance of Promotion Executives and Product Group Managers, as noted. Most of these are recent hires working with new clients over a short time period. As the experience of the PRIDEX executives grows and the client relationship matures, this assessment will become more meaningful. This maturation might well call for application of an incentive pay system that would recognize and reward performance.

6.3.2.4 The PRIDEX marketing program faces two broad challenges: one in El Salvador, the other in foreign markets. Near and long-term requisites in both areas include:

<u>El Salvador</u>

Near term: broadening the PRIDEX client base through increased awareness of services and documented positive results.

Long term: helping to build a positive 'export mentality' in the local private sector; supporting wherever possible the training of young Salvadorans in management and export marketing disciplines.

<u>Foreign Markets</u>

Near term: identifying and qualifying suitable foreign buyers, 'maquila' participants, distributors, wholesalers, agents, et al. and promoting Salvadoran exports and local production capabilities to them on a product-by-product basis.

Long term: building the reputation and image of the country as a reliable supplier, a dependable source of well-qualified production, and a productive place to do business.

This is a very sizeable order given the relatively small staff and limited resources of PRIDEX. While 4.5 percent for advertising, publications and promotion might seem an acceptable level for these functions, the dollars in aggregate are insufficient to accomplish the overall task. Specific plans for the PRIDEX budget are unknown; the consultants were allowed only a brief look at the FUSADES Marketing Plan.

Any Marketing Plan should consider the several challenges mentioned and set priorities for meeting them, as resources are limited. For example, it would be impractical to attempt to counter the widespread negative attitude about El Salvador in the U.S. with any

sort of national image-building program there. Better instead to concentrate PRIDEX promotional efforts on publicising positive examples of Salvadoran products and value-added services via a "case history" approach, letting the results speak for themselves to establish vital credibility.

Any PRIDEX marketing program must be developed for the long term, and it is important to establish a proper base for it in the beginning. It is believed important to begin to think about ways to supplement the personal marketing efforts of the Promotion Executives and Product Group Managers:

- To make their client program development activities even more productive and to allow them to take on additional clients.
- To provide a consistent, professional level of support in the marketing function.
- To use limited marketing/promotional funds as effectively as possible.
- To allow expansion of marketing activities, e.g., in the U.S. through and in support of the Miami office.
- To maximize promotion/marketing coordination with clients.

There is a need for a planned program, amplified beyond the level of providing brochures and similar support materials. The ten Promotion Executives and Product Group Managers should not be expected to bear the marketing responsibility alone during the period of expanded PRIDEX activity to come.

6.4 FINANCIAL SYSTEMS

6.4.1 FINDINGS

6.4.1.1 Once the annual budget has been prepared, PRIDEX-financial control is exercised via quarterly comparisons of variable and fixed costs versus the budget. Overall financial management is provided by FUSADES staff.

For the first quarter of 1988, costs of all activities were substantially under budget. Variable costs such as technical assistance and travel are also identified quarterly by product group on internal reports.

6.4.1.2 PRIDEX has been giving considerable thought to self-sufficiency in the long term. At present, PRIDEX is paying only a very small percentage of its own way. PRIDEX clients pay 35 percent of travel and trip expenses directly to FUSADES after the trip is completed.

In interviewing clients, the consultants were given the strong impression that little latitude exists for further increases in charges for PRIDEX services. If USAID funding is diminished, especially in the face of added clients and expanded services, cutbacks and/or elimination of programs will be necessary unless replacement revenue can be found.

6.4.1.3 Equity participation either as compensation for PRIDEX services rendered or as loan security could be a way to contribute towards self-sufficiency. This is to be studied by an outside consultant in the near future.

6.4.1.4 Loan requests are to be analyzed, approved, or rejected by FIDEX. The PRIDEX Director stated that there were no pending loans, loans in process, or refused loans from/to PRIDEX clients as of this writing.

6.4.2 COMMENTS

6.4.2.1 The current budgeting and cost control process is satisfactory. One concern is that PRIDEX is not spending up to the budgeted limits. Since only the first quarter 1988 results are available, this should be monitored closely so that important programs will receive the planned level of support. As noted, the budgeted resources are limited to begin with, especially in view of the obstacles and opportunities faced by PRIDEX.

6.4.2.2 Self-sufficiency of PRIDEX should be addressed carefully in the forthcoming Five Year Plan. It will be difficult to develop any meaningful proposals or supporting figures without an indication of USAID plans regarding future funding.

An additional source of funds could result from PRIDEX modifying its position as a Foundation program to that of a more active participant in a client's export commercial activity, either via equity participation or possibly as a risk sharer, taking a percentage of export sales revenue generated as a result of PRIDEX efforts.

6.4.2.3 Equity participation would bring with it the need for decisions regarding the degree of active participation PRIDEX might take in management of the client company, with subsequent implications for staffing and the overall composition and role of

the PRIDEX program. These considerations are beyond the scope of this study, and will shortly be reviewed separately in the Strategic Planning exercise to follow.

6.5 OVERALL IMPACT

6.5.1 FINDINGS

6.5.1.1 The overall quantitative impact of the programs has been summed up in the first quarter 1988 presentation to the PRIDEX Commission. From the qualitative standpoint, reactions of clients may be judged from the comments made during interviews with the consultants. These were very positive concerning both PRIDEX's services and FUSADES as a service organization.

Non-clients interviewed could not specify any direct impact from PRIDEX programs but were aware of programs available.

6.5.2 COMMENTS

6.5.2.1 As discussed in paragraph 6.2.2.5, current reporting procedures do not give as complete an overview of PRIDEX program impact as might be desired. With the understanding that this is currently being discussed among USAID/El Salvador and PRIDEX/FUSADES, a suggested format for a modified cumulative quarterly report was drawn up. This approach combines information now provided in the PRIDEX monthly internal 'Results Report' with currently available cost data for functions related to client services. The only additional input required would be a quarterly textual prognosis by each Promotion Executive regarding planned activities to come during the next quarter.

6.5.2.2 Other questions involve the less definable areas of PRIDEX management and staff. What is the degree of social consciousness and the impact on the Salvadoran private sector and the local society as a whole? In the opinion of the consultant who spent three weeks talking with PRIDEX staff members and clients, there exists a highly-developed sense of mission throughout the PRIDEX organization, coupled with a continuing appreciation of the value of each person's professional activities and attitude on the future of their country. This very responsible and constructive attitude is

sought, and strongly applied, in interviewing candidates for PRIDEX executive positions, and has served to help ward off offers of higher-paying employment elsewhere. PRIDEX executives, because of their elan and training, appear to be prime human resources.

6.6 PROGRAM OPTIONS

6.6.1 SHORT-TERM OPTIONS

Short-term options include:

1. A broadened client base. This is not only desirable but necessary if 1988 objectives and goals are to be met. This must be accomplished without reducing service to present clients.

2. A different mix of client firms: this has been discussed in section 6.3.2.1. PRIDEX should continue to concentrate on the firms with the greatest up-front export potential. This category will probably never be completely depleted, as additional firms move up into Status 3 or 4. Concurrently with this, PRIDEX should strive to bring smaller firms together with the larger company clients as subcontractors, to aid in the 'downward' distribution of export marketing benefits.

3. Investment sourcing: Salvadoran investors should continue to be the first priority (without, of course, refusing qualified foreign investors) until the political/economic situation has reached a more attractive level.

4. Modified service offerings: present types of services are considered satisfactory if provision can be made to offer revolving lines of credit on a reasonable basis to qualified clients, via FIDEX. Any "Buy American" restrictions attached to capital equipment loans should be examined carefully on a case-by-case basis by FIDEX, with waivers able to be granted in instances where there is a substantial price advantage on equivalent equipment available elsewhere.

5. Marketing: steps should be taken to further organize and strengthen the marketing function within PRIDEX (see "Recommendations").

6. Planning: the forthcoming Five Year Plan should reflect the strengthened marketing function and also address the question of self-sufficiency, while adhering to established USAID guidelines.

7. Staff training and retention: continued and increased attention should be given to ensure that PRIDEX Managers and Executives receive the ongoing training needed to make

them the most effective client mentors possible, and up-to-date on relevant changing technologies in foreign markets. Retaining these human assets is vital, and the matter of incentive compensation/recognition for outstanding results production should be addressed for both short and long term.

6.6.2 LONG-TERM OPTIONS

Long-term options include:

8. A modification in PUSADES/PRIDEX positioning should be carefully considered, vis-a-vis taking equity positions and acting as commercial agents or risk-sharers with clients.

9. New programs: additional programs such as promotion of Free Zones may well require additional staff and modification of organizational format.

10. U.S. expansion: in planning, PRIDEX should bear in mind the probable need to expand its U.S. base, in Miami or elsewhere. The advantages of sponsoring a warehousing facility in the U.S. to serve Salvadoran clients has been touched upon elsewhere.

CHAPTER 7

DIVAGRO PROGRAM

7.1 INTRODUCTION

7.1.1 OBJECTIVES

DIVAGRO is a program intended to aid in the diversification of agricultural production, and agroindustry, with emphasis upon exports outside of the Central American market area. It seeks to assist potential and actual producers, processors, exporters, and investors to enter into non-traditional agricultural production for export purposes. "Non-traditional" is here defined to mean any crop other than coffee, cotton, sugar cane, and shrimp caught in the sea. Specifically, it is the objective of DIVAGRO to investigate potential production on farm, processing, and marketing prospects, to assist establishment by direct technical assistance and the transfer of needed technology to producers/processors/exporters, and to aid in the investments required to bring projects to fruition.

The strategy that DIVAGRO expects to follow in achieving its objectives is a total systems approach. First, the potential product is identified that has a market potential outside of Central America. Second, research is begun on the varieties and cultural conditions necessary to grow the quality product. Following the trials and pilot projects, the applied research information and feasibility study is disseminated to potential investors and farmers. Field days and seminars are held in promoting the potential new non-traditional products. Third, the investor is provided technical assistance in transferring the appropriate technology into a project proposal and eventual loan application. Following the technical approval within DIVAGRO, the loan application passes to FIDEX for approval by the credit committee for funding. If the appropriate collateral and credit references are approved, the loan is disbursed. Following the approval of the loan, DIVAGRO provides for follow-up and technical assistance in the training of field men and further applied research if necessary.

7.1.2 HISTORY

DIVAGRO and RIEGO were originally separate programs of FUSADES charged with administering USAID Projects 519-0265 and 519-0303 respectively. DIVAGRO was organized in 1984 and charged with promoting agricultural diversification into export products. It undertook production and marketing investigations for a list of products.

The RIEGO program was organized in 1985 under USAID Project 519-0303 in response to a conviction that irrigation was essential to permit Salvadoran producers to respond competitively to seasonal demands of foreign markets. The designers anticipated that formation of an independent association outside of FUSADES would be formed to manage the project. This proved unworkable, and after a two year delay FUSADES took over formal management of the RIEGO Project.

As part of an overall reorganization of FUSADES in early 1988, the RIEGO program was integrated into the DIVAGRO program for efficiency and effectiveness of management. At the same time, FIDEX was charged with the responsibility of all credit operations for both DIVAGRO and PRIDEX projects. PRIDEX was charged with all agricultural export marketing responsibilities which were formally under RIEGO and DIVAGRO programs. Thus, what had begun as a series of individual projects funded by AID were transformed into an integrated FUSADES program.

7.2 ORGANIZATION

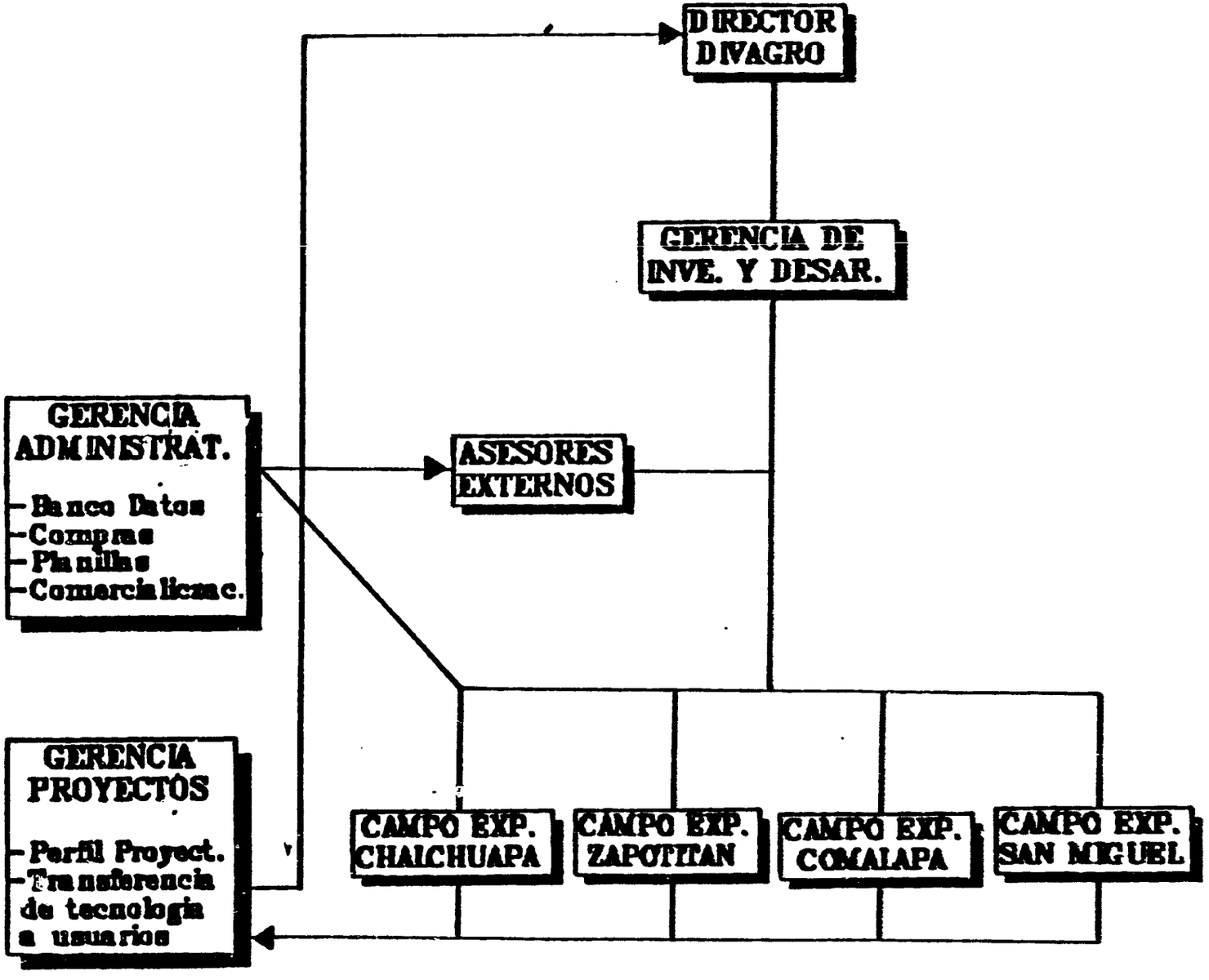
7.2.1 INTERNAL

DIVAGRO is organized with a Director, a manager of research and development, three departmental heads and a number of project executives. Exhibit 7.1 show a flow chart of responsibilities. The Administrative Department controls budgets and personnel, the purchasing of supplies, and reports market information on current exports (includes data on volume, price, and source of products imported into the United States markets). Market information for new products is handled by PRIDEX.

The Research and Development department carries out production research in response to perceived market possibilities. It also coordinates activities of outside consultants dealing with new product development such as AGRIDEC which has developed new varieties of baby corn. It presently implements the variety trials at the three field sites. A new section on planning, evaluation, and publication, consisting of two persons, will soon be added in R&D to handle the work now being done by the Fundación Chile experts whose contract expires October 1988.

The Projects Department is organized into five subject-matter sections and will soon add a Project Evaluation section. The existing staff has almost completed the training provided by Fundación Chile. The projects office promotes and assists in the development of projects for which production is deemed feasible. It also evaluates loan proposals from a technical viewpoint before forwarding the proposals to FIDEX for the credit analysis.

EXHIBIT 7.1


DIRECTOR DIVAGRO
GERENCIA DE INVE. Y DESAR.
GERENCIA ADMINISTRAT.
- Banco Datos
- Compras
- Planillas
- Comercializac.
ASESORES EXTERNOS
GERENCIA PROYECTOS
- Perfil Proyect.
- Transferencia de tecnologia a usuarios
CAMPO EXP. CHALCHUAPA
CAMPO EXP. ZAPOTITAN
CAMPO EXP. COMALAPA
CAMPO EXP. SAN MIGUEL

Currently, DIVAGRO employs fifteen professional people, of whom four are supervisory, with two additional vacancies, and gets staff help from five secretaries and two people for janitorial and messenger duties. In addition to Fundación Chile, DIVAGRO gets technical assistance in irrigation technology from a group provided by Israel, under direct AID/Washington funding. DIVAGRO contracts for short-term consulting help on specific subjects whenever the need arises. In addition to the daily U.S. Market Information work, DIVAGRO subscribes to journals and trade news reports, keeps up-to-date on research work and findings at several U.S. State Experimental Stations, and is building into its data bank all available information on prduction and processing procedures and expertise relevant to the crops and products with which it has become involved, e.g., ten crops plus shrimp and fish.

7.2.2 LINKS TO PRIDEX AND FIDEX

PRIDEX handles the export promotion and marketing of the non-traditional agricultural products for which DIVAGRO has developed projects. PRIDEX maintains a one-man office in Miami, Florida and a consultant in Salinas, California for the purpose of keeping track of market trends, maintaining and enlarging contacts with brokers/buyers/wholesalers, and locating expertise when short-term consultants are needed. Clients are not required to sell through any given broker, but the Miami office is a resource that they are encouraged to use when needed.

FIDEX reviews all loan applications generated to support projects developed in DIVAGRO. It passes loan instructions on to the Banco Hipotecario for all local fund lending, and thru correspondents (City Trust in the Bahamas, and Citibank in Miami) for dollar loans. The dollar funds can be used ONLY to finance the import of plant and equipment required under agribusiness loans. Loans for irrigation equipment, etc. under RIEGO funds are made in local currency.

Even though DIVAGRO has transferred marketing responsibilities to PRIDEX, it still maintains some marketing intelligence and is linked to PRONET.

7.2.3 LINKS TO USAID PROJECT FUNDING

USAID has channeled funds through three projects to date:

519-0265 DIVAGRO (completed)

519-0303 RIEGO Water Management ($10 million in local currency for Model A and Model B loans)

519-0327 Agribusiness Development ($10 million for agricultural export project loans)

The USAID project called DIVAGRO with funds under #510-0265 has expired. Present funding is coming from the Water Management Project (#519-0303) and from the recent Agribusiness Project (#519-0327). These two current projects also funnel funds for the operational expenses and technical assistance of DIVAGRO. These two funds are administered by USAID with two project managers located in the Agribusiness division of the Rural Development Office.

7.3 MANAGEMENT SYSTEM

7.3.1 ADMINISTRATION

There are several layers of accounts, beginning with a set of monthly accounts reporting the status and activities of projects. Data is collected from clients on a project basis and includes the loan amounts and purpose, amount disbursed, status of payments on principal and interest, foreign exchange generated, and employment generated. A second set of accounts deals with projects whose applications are in process. This shows the time of DIVAGRO people allocated to each project, the status of the application through the six stages from application to submission of a credit recommendation to FIDEX, and number of days spent in each stage of the application process. A third level of accounting combines the data generated into a monthly summary. These data are transmitted to the DIVAGRO Committee, and to FUSADES.

A summary is prepared each quarter that addresses goals, achievements, cancellations, objectives for the coming quarter. Similar data are summarized each quarter and sent to USAID Project Managers.

7.3.2 PROJECTS

To date, most of the credit projects have arisen as a result of inquiries from private parties, individuals, or groups who have conceived an interest in a specific item of potential export. Each proposal is given an identifying number, and is then assigned to one of the five Project Executives. The processing of a proposal is monitored through the successive stages up to submission to FIDEX for credit analysis and action. PRIDEX may be asked for market data and the R&D people may be asked for available production advice specific to El Salvador.

It is the job of each Project Executive to guide the development of a project through the several internal stages of project preparation, including irrigation system design (if requested to do so by the client), agronomic aspects of production, processing requirements, including the checking of design, layout, equipment to be used in processing plants, and the proposals for transport and marketing.

The finished project proposal goes for credit analysis with a complete production/marketing plan. Thus, the Project Executive leads the client by the hand throughout the processes of project development and operation.

A project proposal for which there are inadequate production/processing/marketing data will require a longer time in the system. Non-traditional export crops, with some experience in domestic production, may require a season or more, so that R&D can select the best varieties given market requirements and preferences. A completely new project proposal will generally require at least two years for variety trials, and a third year for small-scale production under commercial field conditions. Such projects are not entertained lightly. They are screened for probable volume of demand in U.S. markets, for probable production and transport costs, the two indicating the degree of competitive advantage, and for agronomic feasibility in local conditions.

The data generated in prior studies, such as the one by Fundación Chile, are a basic guide to this initial screening process. Production is promoted for a given crop/product after all relevant details are known, e.g., only after R&D has completed their work on that crop. R&D routinely collects known data from the results of other trials and production activities done elsewhere, and especially in the U.S. When the time comes to gather material for variety trials, genetic material is imported from plasm banks, rather than importing plant material and/or seeds from commercial sources that may carry new disease vectors with them.

7.3.3 RESEARCH AND DEVELOPMENT

This second operating Division of DIVAGRO is concerned primarily with the generation of recommendations on varieties that are best suited to production under conditions in El Salvador. For example, tomatoes are presently undergoing variety trials on two of the field station plots. There were 30-40 different varieties involved, replicated in small rows, with conditions of production held as nearly constant as possible. Tomatoes are being tested for quality under the requirements for paste, catsup, juice, canning, and fresh export, each of which may require a different set of physical and production characteristics. A variety trial by R&D always has a specific product use in view, though serendipity is not forsworn.

R&D currently is carrying out variety trials on cantaloupe, watermelon, baby corn, tomato, carrot, cabbage, green pepper, chile pepper, and green string beans on two of the field stations. These stations are located at Chalchuapa at 800 meters of altitude, and at Zapotitan at 450 meters of altitude. The former station includes about 16 manzanas of land, the latter about 12. A third station near the international airport, at very near sea level, is under development; it will have about 20 manzanas of land available.

The establishment of the exp[illegible]nt station at San Miguel is delayed because of security problems.

As many as twenty to thirty varieties of a crop may be put out in the trial plots the first production season, with uniform soil preparation, seedling raising, water and fertiliser treatments, and insect control. Careful and complete notes are kept daily, or as necessary, upon each row throughout the season, and harvest results are included as the crop matures. Field days are held several times per season at which potential producers, processors, other local farmers, and students from the University or the Agricultural College are all in attendance. The products are evaluated by the R&D staff, and by processors, and recommendations recorded for each variety. R&D tries to get the results of each trial season published within a month of the end of the season, and makes these reports available to the public.

During the second season, if needed, a few selected varieties are grown in replicated plots, and evaluated again at the end of the season. The third year, the R&D may grow one or two varieties in one-manzana fields, under commercial conditions, in order to prepare production recommendations for growers. Growers may also participate at this stage, with small, private, but closely supervised, plots. Marketing/processing trials are carried out with the produce after the second, and especially the third years in order to acquaint U.S. buyers with the product characteristics and quality.

DIVAGRO has a very limited professional staff and cannot do much extension type work which requires direct field supervision of the production process. Their intent is to train Field Men for the packer/processor clients, and to remain on standby for special problems that inevitably will arise. A similar system is used by commercial packer/grower/processor companies in the U.S. DIVAGRO has a list of experts in various disciplines upon whom they can call for short-term consulting, usually within a period of a week.

7.4. EFFECTIVENESS

7.4.1 DIVAGRO

Lending operations under the RIEGO program date back one year, and technical work under both RIEGO and DIVAGRO goes back about three years.

Staffing and budget for the current year give an indication of priorities, and of the way in which various resources in the DIVAGRO program are combined. Of the 22 employees of DIVAGRO, 15 are at the professional level, four of whom are supervisors and the other eleven are active technical staff, and 7 are secretaries and other support staff. There are two vacancies.

TABLE 7.1

DIVAGRO OPERATING COSTS - JANUARY-APRIL 1988

Item	Operating Cost (Thousand Dollars)	Percent of Total
Technical Assistance	976	70.4
Salaries, etc.	122	8.7
Variety Trials	44	3.2
Demonstration Plots	93	6.7
User Trips	18	1.3
Employee Trips	12	0.9
Publicity	8	0.6
Seminars and Conferences	7	0.5
Rent and Services	44	3.2
Vehicles, etc.	62	4.5
Total for Quarter	$1,386	100.0

The operating budget for the first quarter was about $1,386,550, as shown in Table 7.1.

Seventy percent of this amount was spent upon technical assistance. A large portion of this was the Fundación Chile contract and the balance supported various short-term contract expertise. Only about 9 percent of the budget went to salaries and related costs. Nearly ten percent of the budget supported the costs of variety trials and demonstration plots. The costs of the Israeli Team that is providing help on precision irrigation systems are not included in this budget, since it comes directly through AID/Washington.

In 1985 there were four participants on foreign trips. In 1986 there were 24 people on seven trips. In 1987 there were eleven trips sponsored by DIVAGRO on which 44 people were accommodated, plus sixteen trips for 55 clients, at a cost of $49,386. In the first quarter of 1988 there were seven trips sponsored by DIVAGRO. Field days also are an important device for spreading interest. In 1987 there were five field days with 606 attendees. DIVAGRO also gave seven seminars attended by 162 people in 1987, and has sponsored an additional five in the first four months of 1988, attended by a total of 195 people.

Use of fiscal and human resources are planned and reported in three formats.

a) A monthly budget of planned activities by project activity and type;

b) Time spent upon each stage of Project Development by each Project Executive, ordered by project activity;

c) A monthly report on investments through new loans, and the employment and dollar exchange generated.

There are two types of budgeted loan project activities in DIVAGRO. Model A are loan projects under development which will use funds under the old RIEGO source, e.g., projects involving the design, purchase, and installation of precision irrigation equipment by farmers. There currently are five of these projects under development.

Model B activities involve a loan project development fund for processing plants that may be integrated production/processing/exporting activities; the requirement remains that crops must be produced under irrigation. There are four of the Model B loan projects currently under development in DIVAGRO. Technical assistance may be extended to export-oriented operations even though no loan funds from FIDEX are involved, since such activities are in aid of the commitment to expand this sector.

Each beneficiary, defined here as an entity receiving loan funds and/or technical assistance, reports each month upon new investments (loans disbursed, not total invested), man-days of permanent and temporary employment generated, and the value of dollar sales generated the previous month. These data are reported in Table 7.2 for the first quarter of 1988, and in Table 7.3 for the previous years. When activities under the newly signed AID project for AgroIndustry (0327) commence, DIVAGRO will add a fourth type of activity for those reports.

TABLE 7.2

NEW INVESTMENT AS A RESULT OF MODEL A AND B LOANS AND TECHNICAL ASSISTANCE DURING FIRST QUARTER, 1988 (Equivalent US $)

Item	Model A	Model B	Technical Assistance	Total
Irrigation Systems	19,200	-	600	19,800
Machinery	24,899	-	24,600	49,499
Crop Establishment	55,524	144,000	2,000	201,524
Other	-	50,600	68,000	118,600
TOTAL (Dollars)	99,623	194,600	95,200	389,423
Man/Days Labor				
Permanent	1,088	2,390	6,214	9,692
Temporary	7,005	12,769	6,255	26,029
Dollar Sales Generated	-	32,434	1,255,771	1,338,266

The data available for earlier years is presented here to indicate the increase in levels of activity by DIVAGRO. Table 7.3 gives the results from the years 1985 to 1987 in terms of employment and foreign exhange added.

TABLE 7.3

IMPACT OF 11 DIVAGRO PROJECTS: 1985-1987

Period	Area in Manzanas	Foreign Exchange Generated (US $)	Employment Generated (mandays)	Number of Projects
1985 - 1986				
Exports	458	649,270	44,412	2
Import Substit.	91	165,000	15,200	2
TOTALS:	549	814,270	59,612	4
1987				
Exports				
Fruit and Vegt.	-	1,890,055	119,436	2
Agro-Industry	-	-	-	-
Aquaculture	-	128,062	20,071	5
Flowers, etc.	-	40,800	4,320	4
Import Subst.				
Fruit and Vegt.	-	149,634	9,456	-
Agro-Industry	-	193,188	23,296	
Totals	397	2,401,739	184,579	11

It is tempting to calculate some efficiency indicators from these data, such as the volume of new investment generated per DIVAGRO employee, etc. Even more tempting would be a ratio of foreign exchange (U.S. dollars only so far) generated per company. The temptation must be resisted until time-series data are available. Investments made in January will not have created many jobs or dollars by April. It must also be remembered that FIDEX and PRIDEX had budget involvement in these results, and their costs must be included along with those of DIVAGRO.

One may organise the accounts around "profit centers," as these of DIVAGRO are, but it is too soon to attempt statistical analysis of them. One can only comment that the budget allocations of both people and money seem reasonable in proportion to the goals of DIVAGRO, and the volume of the action in which they are involved. Time, and the additional data that it will bring, may suggest changes.

7.4.2 RELATIONS WITH FIDEX AND PRIDEX

DIVAGRO is responsible for technical production and processing activities of clients engaged in the production, processing, and export of non-traditional agricultural products to non-Central American markets. It designs irrigation systems, carries out variety trials on both the agronomic and agribusiness processing of products, develops projects for loan funding, and supervises projects when they are in operation. FIDEX does loan analysis and recommends projects to the Credit Committee. PRIDEX carries out product promotion (such as exhibits at trade fairs) and helps clients with marketing, at their request. While DIVAGRO is involved only with agricultural and agribusiness activities, both PRIDEX and FIDEX include marketing and financing of agricultural and agribusiness activities along with their more broad range of responsibilities.

The three departments share the same floor of an office building, with interconnecting corridors and open offices. There is a constant and informal communication between staff people at all stages of project development. The total staff is small enough so that this system appears to work successfully. DIVAGRO occasionally is asked to look into the production/processing activities of a product for which a market has been identified. PRIDEX sometimes is asked to come up with preliminary market research for a product that DIVAGRO believes has a promising production potential in El Salvador. As things progress, FIDEX is kept apprised, so that projects that arrive for their credit analysis do not come as surprises to them. In this sort of open system, project ideas can arrive from anywhere, can come in at any point of the system, and receive appropriate attention from all three divisions.

7.5 FUTURE PLANS

7.5.1 ORGANIZATION

DIVAGRO has no plans to change its organization. Growth is anticipated, but not in directions that would require organizational change.

7.5.2 PROJECTS

The variety trials were chosen as the most fruitful way to sort out quickly technical production data for export crops. The R&D staff currently have their hands full with this activity. They are aware that there are other conjoint variables that affect both agronomic productivity and export quality. These would include fertilization, plant populations, water application amounts, systems, and timing, disease/insect control, etc. In replicated experimental plots such as those set up for variety trials, each variable added increases the space, manpower, and other costs factorially. Going from the one variable of a variety, everything else held constant, to the seven additional variables listed above, would multiply requirements by perhaps 140 times those presently encountered. One would then have the circumstances of a major horticultural research and experiment station. DIVAGRO has no such plans for the foreseeable future.

R&D would like to expand their activities marginally, allowing them to check a few ideas on levels of fertilization, etc., for each of one to three varieties of the ten vegetables under investigation. When variety trials are essentially completed (1989), some resources will be shifted to questions of fertilizer, plant population, etc. It will be necessary to develop trials on aquaculture equivalent to variety trials for crops. DIVAGRO will be hesitant to introduce investigations for new crops, but will promote broader production/processing/marketing activities of the crops for which data have been generated.

Three activities are under contemplation that will require further developmental R&D. Pineapple production is well understood in El Salvador - it is a native crop here. But there are several very powerful producer/processors already in the market with whom DIVAGRO could probably not win a sales invasion. No extended production research is needed for pineapple, only a firm connection with one or more of the dominant companies who already have the technical production expertise and market presence. Asparagus is also being contemplated to fill the marketing nitch of December through January in the U.S. and in Europe. This would require a short-term R&D study, probably two production seasons, in order to generate data ready for promotion with producers. There is interest in raspberry production, but nothing is known about it in El Salvador. It would require long-term research, three years or more, to generate sufficient data upon which production, processing, and marketing could be based.

DIVAGRO presently is limited to practical studies of non-traditional agricultural products for export outside the CACM. There is some question that this policy is a bit too restrictive. DIVAGRO would like to be able to extend some of its research effort to include adapted varieties of domestic crops, such as maize, beans, and rice, which are complements to intensive vegetable production for export. The complementary relationships are a result of seasonality of demand, plague and insect control, and maintenance of soil tilth, amongst other things. The point of such research would be to develop cropping systems around vegetable production, all of whose components would be as economically efficient as possible. As a matter of policy, such research is allocated to the Government, to be carried out at the National Agricultural University (INA) or elsewhere. So far, the results have been achieved at a glacial pace at such traditional places. The R&D people at DIVAGRO would welcome an increase of collaborative research effort with their colleagues at INA and CENTA.

7.5.3 SELF-SUFFICIENCY

DIVAGRO believes that USAID funding cannot continue indefinitely into the future at the levels now enjoyed. The choices are to decline along with AID funds, to find grant funds outside of AID, or to begin to grow in the internally created revenues that would allow operations to continue, or even to expand in future years. DIVAGRO intends to continue the research and services of a pragmatic nature which will help in the creation and expansion of export-oriented non-traditional agricultural product markets. There are several ways of approaching the condition of self-sufficiency, some or all of which may one day be tried.

a) If a potential or actual processor requests developmental help from DIVAGRO - say, production and variety trials - and wants the sort of exclusive rights to the research results that would go along with a patent/copyright, DIVAGRO may be able to accommodate him. DIVAGRO would work up an estimate of their costs, and negotiate with the processor for payments to cover as much of the costs as possible.

b) DIVAGRO has done some work for U.S. seed companies who want variety trials on new products. If they prove out, these seeds can then be promoted to farmers in El Salvador. The charge for this R&D work would also be negotiated.

c) There are some private producers/processors who have a market identified, such as companies who already operate in the U.S. fresh fruit and vegetable markets, who need variety and production trials run, generating the sort of production data that would allow them to make a decision of whether or not to locate in El Salvador. DIVAGRO would undertake to provide the required data "for free," and

would get a royalty based upon a percentage of the new business generated as a result of this work, or an equity position in the subsidiary that was formed for the production/transport/marketing operations.

Such an agreement might be for a period of ten years or so, at which time DIVAGRO would have the option of renewing the agreement, or of selling its equity position on the current market. This technique would be especially useful in those cases where operations must begin on a pilot basis, for which the necessary R&D are far too expensive to be economic by themselves. Once the new industry has grown up, those original R&D costs are relatively cheap per unit of capacity. The work with red fish is a case in point.

d) DIVAGRO might generate projects out of its own work, in which there were initially no outside interests. After a study and approval from the DIVAGRO Commission, DIVAGRO would look for interested investors, and attempt to organize a production and marketing effort with them. It would take an interest in the company that resulted, thus reducing the total capital requirements for the beginning of the company.

e) Fresh produce shipped to the U.S. market faces a time-consuming and arduous clearance procedure, mainly by reason of the U.S. Department of Agriculture (and some State) phytosanitary requirements. As a long-term commitment to a particular market grows, it would be possible to establish a laboratory in El Salvador to test fresh produce for compliance with both the grade standards and the freedom from contamination with the proscribed list of bugs and residues of control chemicals. Produce that passed these rigid controls could be stamped with a "Seal of Approval" not dissimilar to that issued by market inspectors in abbatoirs and packing sheds in the U.S. at present. A gradual accumulation of production expertise, and of careful in-house quality and phytosanitary control, should allow a growth in product reputation. This becomes an asset that can be sold to users/buyers of the product, and is, morever, a "passport" thru customs/USDA inspections at the other end of the transport chain.

The several brokers/wholesalers through which PRIDEX now works, e.g., for melons, charge about US$1 per box. DIVAGRO should be able to cut up to about U.S. 40 cents a box for the services associated with its "FUSADES Seal of Approval." This system would be profitable only under high volumes of produce export, where the costs per box are minimized.

Under current AID agreements, the above procedures have <u>not yet been allowed to happen</u>. Some discussion is certain to occur on this subject in the not-too-distant future.

DIVAGRO is looking toward 1991-1993 as the target for a significant take-off toward self-sufficiency, a period similar to that required for Fundación Chile to reach the same point in its career.

7.5.4 DEVELOPMENT BANKING

DIVAGRO could see itself as part of a Development Bank, with its role to be much the same as its present functions. It would expect to continue to develop systems of agricultural production and processing for export, some of which would be passed on for credit analysis and loan processing. To the extent that DIVAGRO was independent from, but provided this service to a Development Bank (of necessity an autonomous for-profit corporation), it would expect to be paid. It would also expect to be paid for the supervision of projects in production, probably on a fee basis. This fits in with one of the routes toward fiscal self-sufficiency discussed above.

7.6 FINDINGS AND RECOMMENDATIONS

7.6.1 FINDINGS

1. The strategy of diversifying agriculture in El Salvador for export products appears to be both a viable and an appropriate one. Projects for melon, watermelon, cucumber, and baby corn have achieved economic significance. Vegetables such as bell pepper, chili pepper, okra, green beans, carrots, and onions are being done successfully on a pilot basis. Two crops for import substitution, tomato and cabbage, are also successful at the pilot stage. Development work is proceeding on shrimp and fish production. Once the last stage of pilot production under field conditions is completed, the commercial production and export results will begin to accelerate.

2. The integration of RIEGO technical work into the programs of DIVAGRO has been a thorough success.

3. DIVAGRO strategies, operating procedures, and objectives do not require changing, except for a possible expansion to permit technical evaluation of improved varieties and irrigated production systems of non-export crops that are grown in rotation with vegetables for export.

4. A minor part of the budget of DIVAGRO is devoted to investment promotion, such as field days, seminars, weekly news releases, field trips of clients, and other contacts with potential clients. The budget does not reflect the considerable time spent by technicians of DIVAGRO on these activities, but in fact, only their direct cash costs. The resources devoted to investment promotion bring recognition of possibilities to potential clients, and appears to be worthwhile.

5. There is a high and increasing level of interest in export production/processing due to DIVAGRO programs. Most of the

clients reached are producers/processors above the minifundia level, as is necessary at this stage of development. These are the groups most likely to successfully learn to produce export products under strict quality standards. These are the only products that can compete in export markets.

6. Several market studies, including those by Fundación Chile, have thoroughly explored market prospects for non-traditional export crops. DIVAGRO technicians have done an excellent job of selecting from these lists, and of carrying out variety and irrigation trials. Technical reports on field results have been prepared and distributed to the academic and other professional users of such material. Pamphlets have been prepared that are laymen's guides to commercial production, and these are made available primarily to farmers.

7. A major constraint has been the extreme polarization between the left and right wings of the local political/social spectrum. In the beginning, this minimized the access of FUSADES to Government, for purposes of modifying regulations, etc., and has held horticultural research at a low level. The banking system is conservative, and of little help in the kind of high-risk credit required for developmental projects like those of DIVAGRO. In addition, companies who already operate in production, processing, and marketing in the export markets were not eager to locate branch operations in El Salvador. These factors led to the original strategy of seeking local producers/processors, and of including credit components in the AID projects.

   Attitudes and polarization are softening bit by bit in El Salvador. DIVAGRO's activities are seen to be successful. They are acknowledged in Government circles, though not yet supported with enthusiasm. The development over the last several years of successful production, processing, and of export marketing has constituted a small and localized revolution of prospects for growth. It has been noted.

8. The management structure and financial procedures of DIVAGRO appear to be sound, and are appropriate to the role of the Division. They are equal to international standards.

9. DIVAGRO is looking a few years into the future, when some degree of self-sufficiency will have been achieved. Their strategies for achieving this goal include that of charging clients for technical services rendered, and possibly of exchanging technical development work for equity positions in some of the new businesses that they help to create.

10. DIVAGRO, FIDEX and PRIDEX are distinct organizations within FUSADES. FIDEX handles the credit proposals generated by some of the DIVAGRO activities. PRIDEX handles most of the promotion and marketing of products brought to reality by DIVAGRO and FIDEX work. The three Divisions share office space, and maintain an habitual and constant liaison. They

are newly minted in this relationship, having been surgically reconstituted at the beginning of 1988. The present system appears to be fruitful, and should be left alone for a bit longer at least.

11. DIVAGRO has used a significant amount of technical assistance in the past. This item accounts for 70 percent of the current budget. The long-term contract with Fundación Chile will expire in October of 1988. DIVAGRO is absorbing Fundación Chile expertise in its staff, as was intended. The technical assistance claim on the operating budget will be reduced as a consequence, to be partially replaced by an increase in staff salaries, etc.

    DIVAGRO is dealing with agricultural and aquacultural products and production processes that are distinctly non-traditional in El Salvador. DIVAGRO habitually uses short-term technical assistance in any situation in which its own experts feel the need for help. This appears to be a very healthy attitude, and should be expected to continue into the indefinite future.

12. There is one good reason for having a lending expertise in the same shop that develops projects. Agricultural and AgriBusiness projects always are exercises in probabilities, not in certainties. The mind-set as well as specific lending policies are different from those of commercial bank lending.

    There also is a good reason for separating technical project development from lending decisions. Agricultural technicians tend to become highly enthusiastic about projects that technically are feasible but not marketable.

    The recent restructuring separated technical development from credit decisions. It would be reasonable to assess this structure in the accumulated light of much more experience than is now available.

7.6.2 Recommendations

1. Current levels of USAID funding to DIVAGRO should be continued.

2. Any additional AID Project funding aimed at expanding the capability in El Salvador to promote production, processing or marketing expertise, whether for export or import substitution should be channeled through DIVAGRO/FIDEX/PRIDEX.

3. Discussions and changes in extant agreements should clear the path for future DIVAGRO activities leading toward fiscal self-sufficiency. This would include permission to undertake charging clients for technical services rendered, and to take equity positions in new ventures in return for DIVAGRO developmental work.

4. Allow a modest expansion in technical work, such as varietal and field trials, to encompass crops that are complementary to non-traditional export production in terms of sound agronomic practices on the farm.

CHAPTER 8

PROGRAM OF SMALL AND MICRO-BUSINESS PROMOTION (PROPEMI)

INTRODUCTION

A principal issue which AID/Washington asked the Chaij-Williams-Esteve evaluation team to address was whether FUSADES programs were reaching low income and disadvantaged populations in El Salvador. In any country like El Salvador where poverty is clearly part of a long cultural tradition, hard data are difficult to obtain. The generation of jobs and foreign exchange have been the traditional criteria utilized for assessing the impact of development programs on the poor. However, it is well known that per se neither are infallible measuring rods. They are valid criteria in some contexts but not others. History and tradition are always key elements. A recently completed employment study for USAID/El Salvador by Peter Gregory (April 1988) states that El Salvador has a relatively low level of unemployment -- about 8 percent. However, it also suggests that a significant number of jobs in El Salvador do not pay enough to meet basic subsistence needs. Many households require several incomes to meet these expenses. This is a well known problem among Third World plantation worker families.

As regards foreign exchange, the problem is similar. The significance of foreign exchange for the development of low income and disadvantaged populations is totally dependent upon its use. But it is generally accepted that much foreign exchange in El Salvador, as in many other LDCs, is used for purchases that make little or no contribution to the development of the poor. It should be determined how serious a problem is this non-development use of foreign exchange.

Ostensibly the PROPEMI program to provide training, technical assistance, and credit for small and micro-entrepreneurs was FUSADES most visible and direct effort in assisting those populations. In April 1986, seven months behind schedule according to PROPEMI spokesmen, the program got underway with a three million dollar grant for a revolving loan fund of slightly over two million dollars and an operations fund for just under one million for the length of what was believed to be the initial phase of the project. First loan disbursements were made in June of that year.

8.1. PROPEMI IN CONTEXT

PROPEMI is one of many small and micro credit-making institutions in El Salvador. Others include those listed in Table 8.1. It is important to note that, with the exception of the PVO organizations in the list, all are part of the nationalized commercial banking system. Like all micro-credit programs operating in the metro area of San Salvador, PROPEMI does not provide credit to the lowest

levels of micro-entrepreneurs, but primarily for higher level "micros" and lower level "small" businesses. This is also the policy of those nationalized commercial banks which have complied with existing banking regulations to include small and micro credit windows in their operations. While it appears that all banks provide credit to small enterprises, not all provide it to micro businesses, except at the going commercial rate of 21 percent. This was pointed out to be against banking regulations, but it is a common practice nevertheless. The entry of the national banks into the micro credit market turned out to be a significant development for PROPEMI and it needs to be understood.

At the time that FUSADES program planners were developing the PROPEMI project plan (third quarter of 1985), it was decided that the most appropriate segment of the small and micro enterprise financial market for PROPEMI would be those entrepreneurs in the upper end of the micro scale and lower end of the small. At the time that this policy was set there was relatively little competition for micro credits. Commercial banks got into the business of small-scale credits in 1984, when legislation was passed requiring banks to earmark 15 percent of its money for loans to small businesses. But this credit line did not, as a rule, reach down to micro level entrepreneurs. That changed in April 1986. Before PROPEMI could open its doors, the Government passed another law which required all national banks to set aside 2.5 percent of its funds for credit to micro businesses. So before getting started, the market picture had changed significantly. (PROPEMI would not make its first loan until June of 1986.)

TABLE 8.1

SMALL AND MICRO CREDIT RESOURCES

1. AGESAL + (ES/PVO)
2. Banco de Fomento Agropecuario*
3. Comite Pro-Clubes de Amas de Casas Campesinas + (ES/PVO)
4. DIDECO*
5. FEDECACES*
6. FIGAPE +*
7. FIDECCREDITO +*
8. FINCA + (US/PVO: presently in a TA role)
9. Foster Parents + (US/PVO)
10. FUNDASAL + (ES/PVO)
11. SAVE THE CHILDREN + (US/PVO)
12. National Banks' Small and Micro-Credit Windows*

* = Government programs with rural branches
+ = Credits to smaller/smallest micro entrepreneurs

Like the commercial banks, PROPEMI does not provide credits to entrepreneurs at the lower end of the micro scale. PROPEMI's targeted market segment is indicated in Table 8.2 below. SAVE THE CHILDREN, Foster Parents and Comite Pro-Clubes de Amas de Casas Campesinas do make such loans available, but for rural, not urban

populations. (The latter, with a 105 small/micro loan projects portfolio, is a totally self-financed Salvadoran PVO selling kitchen wares and was founded 25 years ago by middle-upper class urban women in support of rural women entrepreneurs.) FIDECCREDITO, said to be the oldest small and micro lending institution in the nation (about 40 years), includes a micro line of credit at the smallest micro level, a significant portion of which is for urban residents. This credit line is intended primarily for street and public market merchants/
vendors, the great majority (over 95 percent) being women. Its scope does not include those indicated as "Pre-Micro."

MARKET SEGMENT

FUSADES choice of a market segment within the very complex small and micro financial market was the top end of "micro" and the lower end of "small" as illustrated below. At the time that FUSADES, with PADF program design consultants, were designing the program, national banks were not in the micro credit making business.

The PROPEMI market segment was limited to established small and micro businesses. This policy was adopted because it was believed that these, rather than smaller micros, had a better potential for growth and had promise for a significant generation of employment. Moreover, a good number of entrepreneurs within this market segment were formally educated, a factor which was an important consideration for the FUSADES decision to include business administration education in the list of PROPEMI's services.

TABLE 8.2

PROPEMI's TARGETED MARKET SEGMENT

	Largest-Small
	Larger-Small
	Medium-Small
	SMALLER-SMALL
PROPEMI's Target	LARGEST-MICRO
	MEDIUM-MICRO
	Smaller-Micro
	Smallest-Micro (PRE-MICRO)

CHAIJ-WILLIAMS-ESTEVE REPORT

The Chaij-Williams-Esteve Report recommends that serious thought be given to the spin-off of PROPEMI. It suggests a reason: namely that the fundamental macro economic objectives of FUSADES are at odds with the micro economic objectives of PROPEMI. The Report also suggests that FUSADES possesses neither the staff nor the inclination to deal with micro business issues.

However, PROPEMI is urgently needed by FUSADES in order to give it a much needed degree of credibility. PROPEMI should take the lead role

in reaching out to and assisting low income and disadvantaged populations in micro-enterprise development which is widely regarded to hold the most realistic promise of income generation for a great number of people who are otherwise statistically unemployable. According to the Report, the impact of the FUSADES programs on the poor is a principal issue for USAID.

In spite of being at opposite ends of the development effort, with vastly unequal funds at their disposal (approximately 35 million dollars obligated for the upper end as opposed to three million for small and micro entrepreneurs) FUSADES and PROPEMI were seen -- from quite different and politically opposed professional sectors of Salvadoran society -- as being integral to each other. Separating the two in the present Salvadoran political situation would serve as an unfortunate sign/symbol for significant numbers of Salvadorans of the continued and unproductive state of extreme polarization between those associated with the rich and poor.

A MAJOR CHALLENGE

Micro credit programs have become a much discussed topic in development circles. A growing literature on the subject indicates significant examples of success. What is worthy of note, however, is that most well known micro credit programs for that level of micro identified in Table 8.2 as "Smallest-Micro" and "Pre-Micro" are proper to rural populations: e.g., Grameen Bank (Bangladesh), BKK (Indonesia), Women's Working Forum (India). ACCION-AITEC (well known to USAID) has developed small- and micro-credit programs in 30 cities. Many of ACCION-AITEC's initial loans to individuals begin with sums as low as fifty dollars. Their average individual loan amounts, however, are significantly higher: over eight hundred dollars for loans to individuals in both San Jose and Tegucigalpa. In other words the demand for micro credit within cities for the smallest and pre-micro market segments are very far from being met by PVO/NGO organizations.

PROPEMI's experience has developed in the poorer sections of the City. It is in these areas that most of their credit and beneficiaries reside. While PROPEMI's targeted market segment has not been San Salvador's smallest and pre-micro entrepreneurs, significant knowledge has been acquired of a unique urban socio-economic milieu so that knowledgeable working outreach models accessing that market segment can be designed and tested.

8.1.1 THE INFORMAL CREDIT SYSTEM

An unknown degree of micro credit demand is being met at the lowest levels by an informal credit system. Some knowledgeable observers argue that the single most important source of micro credit is the informal sector itself, and this through a very wide range of money lenders. Unfortunately, the money lending practices and other uses of money within the informal sectors of Third World cities has not

been documented. Stereotypes predominate, one of the most common being the Simon Lecree type of loan shark who charges twenty/thirty and more percent interest rates daily. Such people, doubtlessly, are part of the picture.

But the informal credit system is much more complex. It includes money lenders who are kin, next-stall, or adjacent floor space neighbors with whom one has related for long periods of time and according to different roles -- including that of money lender. People at the lowest micro and pre-micro levels borrow very small sums of money from each other frequently. Those who loan larger amounts, but still very small, are vendors in more permanent market stalls and those with permanent lock-up stores. It is from these latter that the smallest entrepreneurs have been making credit purchases for years, having begun with very small amounts and increasing as the store owner has come to know the borrower. In very many cases, "interest" needs to be understood in terms of in-kind terms.

Smallest and pre-micro men and women are obligated even to money lenders who pursue the maximization of profits rule to the worst possible extent. Even in such cases a borrower is frequently grateful because, in his/her view, an important service has been provided. Micro credit lenders and borrowers very frequently understand that a service will be provided by the borrower in return for the favor of having been lent money. Formal interest is not always involved. These services consist of errands, special labor, child care, security, some technical work if the borrower is a technician of some kind. It would be surprising, indeed, if some of the above considerations were not apropos to El Salvador's informal sector in which most of the City's smallest and pre-micro entrepreneurs earn all or part of their subsistence needs.

8.1.2 DEFINITION OF MICRO

There has been much discussion in development circles about what constitutes a micro business enterprise. A widely held opinion maintains that the term "micro-enterprise" is most appropriately used in reference to a business that is poorly capitalized on the one hand, and employs fewer than five workers on the other -- these frequently being within a kin group. Another feature of the ideal definition is that a micro enterprise does business within that sector of the economy labeled by economic development people as "informal," "underground" or "shadow." These enterprises are still considered by many to be marginal to the law, but this view is fast giving way to another which sees the informal sector as an integral part of the economy. In some Third World cases the informal sector is believed to surpass in importance the "formal sector." Hernando de Soto's El Otro Sendero (the Informal Sector in Peru) suggests such an argument.

I have listed the term "pre-micro." The term signifies an important reality, one which can be easily observed in any large street market. "Pre-micro" refers to that great amount of entrepreneurial

activity by the poorest persons in the society: i.e., tortilla and ambulatory meal makers, cleaning persons and launderers, hawkers of whatever article and service that will supply some part of the day's needs.

The extent that these "pre-micro" persons can be called entrepreneurs in a strict sense has been honestly debated by many scholars, as has the impact of their economic activities in the micro economies of their immediate communities, and their impact on the greater macro picture. Until the recent micro business legislation by the U.S. Congress, which mandated 125 million of AID funds for very small ($300 maximum) credits during FYs '88 and '89, AID largely avoided funding this lowest and pre-micro level of entrepreneurial activity because it was believed that such assistance did not have significant development benefits.

In many cases these Pre-Micros are indistinguishable from those identified as Lowest-Micro. One distinguishing feature in many cases is business stability, i.e., the latter sell and/or make pretty much the same thing day after day. In urban areas these Lowest and Pre-Micros are generally the majority and they have been the most difficult sector to assist. In many ways Pre-Micro people are the untouchables of teeming Third World cities. Accessing them is, certainly, one of the development community's most significant challenges.

8.1.3 DEFINITION OF "SMALL"

Development workers have also had a difficult time agreeing on a definition for "small." AID/Washington (S&T/RD) has favored a less-than-fifty employee limit. This figure was used in the PROPEMI proposal. The tendency in El Salvador, however, appears to be to consider a business "small" if it has less than 20 employees. As regards capital/fixed assets requirements for assessing "small," there is no agreement. The 1987 INCAE study indicates a capital spread from C5,000 to C500,000. According to a banker informant, the Banco Central de Reserva de El Salvador considers an enterprise "small" if its capital/fixed assets do not exceed C750,000.

8.2 MANAGEMENT

8.2.1. ADMINISTRATIVE ASPECT OF MANAGEMENT

In spite of some problems with realizing their market projections for credit, PROPEMI has developed into a finely administered and professional human service unit. The evaluation team member assigned to the PROPEMI evaluation spent about four hours daily with PROPEMI staff, assessing many aspects of their management responsibilities. Included were interviews with 16 PROPEMI program beneficiaries in their places of business regarding their knowledge of FUSADES, the PROPEMI program, the value of the course to their business operations, the post-disbursement technical assistance, and the personnel who regularly visited them. Comments were consistently positive and supportive.

Most aspects of administration and management were examined and/or observed, and discussed at length with staff and board members and responsible AID/ES officials. These included program marketing strategies, loan processing and data control systems, course contents and classroom procedures, course graduation ceremonies, technical assistance in field situations, annual plans and decision making procedures and policies. Morale and cooperation among staff, and their dedication to beneficiaries, was judged to be well above the ordinary. In the opinion of this evaluator, most administrative aspects of management are excellent. It is believed that present staff are capable of assuming additional and significantly more complex responsibilities with minimal/normal instruction.

8.2.2 POLICY AND PROGRAMMING

One management problem may be in the area of assertiveness where policy is involved. There is important creativity among key staff which is based on solid professional experience. This experience could be significantly enhanced by contact and dialogue with such organizations as ACCION-AITEC. Innovative programming ideas were clearly expressed by staff when asked about future program directions for PROPEMI in terms of its impact on the smallest representatives of the micro-business community. However, these ideas do not appear to be easily shared with Commission members who are the formal policymakers. What can easily result when this is taken to extremes is a reactive management situation. The problem may not be a serious one at PROPEMI, but it needs to be watched.

8.2.3 PERSONNEL

The professional staff of PROPEMI all have university degrees in the fields of economics, business administration, engineering, and social work. All have been employed at PROPEMI from periods of fifteen to twenty-eight months. Except for the Executive Director, and the Director of Credit (recently resigned), none had previous credit experience, but significant human service experience.

Salary levels appear to be slightly lower than roughly parallel positions in national banks, and some dissatisfaction was expressed regarding the issue: but not to an extent suggesting low morale. Staff morale is high.

An analysis of the residential areas in which professional staff make their homes indicate that most outreach workers called asesores reside in those sections of the San Salvador metro area classified as lower/poorer, middle/lower and middle class neighborhoods. Such residence patterns are significant for assessing the capability of staff to relate to the social conditions under which a particular group of clients, in this case entrepreneurs, need to live, work and invest.

8.3 PROGRAM EFFECTIVENESS

8.3.1 MARKETING THE PROGRAM

FUSADES choice of a market segment within the very complex small and micro financial market was the top end of "micro" and the lower end of "small", as illustrated in Table II. At the time that FUSADES was designing the program, national banks were not yet in the micro credit making business.

The market segment selected by FUSADES was limited to established small and micro businesses. This policy was decided upon because it was believed that these, rather than smaller micro-enterprises, had potential for business growth: and this in turn held promise for the significant generation of employment. Moreover, a good number of entrepreneurs within this market segment were formally educated -- a factor which was viewed as an important consideration for the decision to include business administration education in the list of PROPEMI's services.

UNEXPECTED COMPETITION

A consideration for the program designers was a relatively low level of competition from other credit-providing institutions serving that general small and micro market segment. In April of 1986, however, the Monetary Board passed a banking regulation requiring that 2.5 percent of a bank's portfolio be set aside for a micro credit window at a 13 percent interest rate for loans of one year or under. (PROPEMI's rate is 15 percent, regardless of time.) Two years earlier a similar regulation had been passed which called for the set aside of 15 percent of a bank's funds for "small" business credits. Before PROPEMI had made its first loan, national banks had been required to assign 17.5 percent of their portfolio for combined small and micro credits.

THE EARTHQUAKE

The situation changed quickly after the earthquake of October 1986, four months after the first PROPEMI credits were disbursed. Following that devastating event, the AID Disaster Relief Office made available fifty million dollars for housing and small/micro business credits through the national banks. Ten million dollars of this disaster relief money was set aside for small and micro business credit to entrepreneurs. These included those entrepreneurs targeted within the PROPEMI market segment who were now able to obtain credit more quickly (without needing to submit to a five week course) and at a more favorable interest rate than the going PROPEMI credit line interest rate. PROPEMI became faced with a market situation that had significantly more credit resources available to micro entrepreneurs than when it first designed the project.

Efforts to market the program have been modified since its seven-month delayed inception in April of 1986. Initially the asesor outreach workers visited small business establishments door to door in assigned sections of metropolitan San Salvador to which AID requested the program be initially limited. The initial marketing strategy was a simple one: door-to-door visits to entrepreneurs of the selected market segment and newspaper advertisements announcing the program. The initial contacting role of the asesores was to invite entrepreneurs to participate in an initial get-acquainted-with-PROPEMI session held every Monday evening at the PROPEMI offices. The time spent going door to door for initial contacts was significantly reduced with time, as by the first year's end about half of those showing up for the Monday night get-acquainted sessions were referrals by former students, a pattern which continues to the present.

COURSE REQUIREMENT

The requirement that the business course be completed before becoming eligible to submit a formal credit application did not lend itself to large numbers of credit applicants. The low number of credit applicants was attributed by some to subsequent competition from the small and micro credit windows established within the national banking system. Others believed the disbursement numbers not to be low, maintaining that the problem was with those who estimated badly at the time the market objective was formulated, and with AID for being so insistent on disbursing the money by a certain date. Nevertheless, since the beginning of the program, formal credit applicants averaged significantly below the estimated number. With a credit cap of ₡25,000.00 it became clear that PROPEMI was not going to meet its objective of disbursing its over ten million colon allocation by September of 1988. At the beginning of 1988 the decisions were made to increase the loan cap to ₡50,000.00 colones, to expand the program to Santa Ana and San Miguel, and to make merchandising entrepreneurs eligible for credit.

8.3.2 LOAN APPLICATION PROCESS

The evaluation found the loan application process to be very thorough. Initial contacts with potential PROPEMI clients were made by outreach workers. Each of the ten asesores, six men and four women, were initially assigned designated sections of the City's poorer (not poorest) areas. One by one the asesores proceeded to visit these business establishments to describe to their owners (called "empresarios") the PROPEMI credit and business administration education program and to invite them to an initial get acquainted session at the PROPEMI office building on any Monday evening. It is at this weekly evening session that the PROPEMI program and the ₡150 colones fee are explained. Interested candidates are then invited to enroll in the nightly five week course from 5 to 7 PM. A new course begins every Monday evening. The need for door-to-door visits has diminished in recent months, as more than half of new students learn about the program through PROPEMI alumni and newspaper announcements.

On the first day of class a short form is filled out by the student. This is the first of six forms the student will fill out during the five week course. His/her file will include two additional forms prepared by the Credit Officer: one to be filled out during a visit to the empresario eight days following the disbursement of the credit; the other for appropriate comments following visits at the end of the first, sixth and eighteenth month.

The initial one page questionnaire asks about the student's credit needs. The second form is a detailed credit analysis filled out by the student with the assistance of the assigned asesor. The purpose of this rather lengthy analysis period is not simply to give PROPEMI credit analysts the needed data upon which to base a decision, but also to assist the student to better understand the concepts of credit, creditworthiness, and the bases upon which credit decisions are made. Preparing the forms is an important aspect of the training. Two of the five empresarios visited, who were denied credit, pointed to that process as a valuable one in answering the question put to them about what they thought about PROPEMI's adverse decision on their behalf: i.e., they were disappointed, but considered the course valuable nevertheless.

Upon completion of the credit analysis, the student is assisted by the asesor in filling out a formal credit application form for him/herself and his/her co-signer when one is needed. A co-signer is needed when the loan applicant does not have appropriate collateral.

From the information supplied, the Credit Office prepares a recap sheet of the credit analysis information for the members of the credit committee. A final clearance form is attached to the completed packet of forms. This clearance form is signed by several PROPEMI technical employees as a control and an assurance that all credit making procedures have been followed. The loan is approved or not by the Credit Committee which consists of the Executive Director, Chief of Technical Services, the Credit Officer and the asesor assigned to the case. Disbursement follows as soon as a check can be prepared -- usually the next working day.

Eight days following disbursement, the asesor visits the loan recipient to assure that the loan is being used as intended, and to give assistance if needed. The final control document is filled in by the asesor following visits at the end of the first, sixth and eighteenth month. Payments on the loan are made monthly at the PROPEMI Office.

8.3.3 LOAN APPROVAL CRITERIA

PROPEMI's loan approval criteria are similar to those used by commercial banks in terms of assessing an applicant's creditworthiness. An important difference was said to be the relatively few mortgage-based loan guarantees in the PROPEMI portfolio -- only 5 of 614. The criteria which makes PROPEMI unique among small and

micro-credit making institutions is its policy that all credit applicants need to enroll in its business administration studies program, a five week, fifty hour (two hours nightly) course of studies in five management science fields: accounting, cost analysis, marketing, program planning, and administration. The implications of this policy will be examined below under Course Analysis (8.3.7). After the initial assessment is made of the reasonableness of the applicant's credit needs and character, collateral requirements are decided upon to guarantee the loan. These take the forms of: (1) personal guarantee of a co-signer: (2) equipment and machinery; (3) land/home mortgage; (4) a combination of the above.

Since the program's inception loans have been guaranteed as follows (see Table 8.3):

TABLE 8.3

TYPES AND NUMBER OF LOAN GUARANTEES

Type of Guarantee	Number of Loans	Amount
Co-Signer	211	C1,511,050.00
Equipment	24	C 185,200.00
Mortgage	5	C 119,000.00
Mixed	374	C3,620,670.00

8.3.4 INITIAL CONTACTS

Since April 1986 the asesor outreach workers have visited a total of 8,473 small and mostly micro business establishments. Most were located in the poorer sections of the metro area, fewer in the poorest neighborhoods (where pre-micro entrepreneurs are dominant) and fewest in middle class neighborhoods -- although here too entrepreneurs residing in these areas were not representative of most residents in those neighborhoods, but of poorer classes.

Visits to the city's neighborhoods by outreach asesores were coordinated by the outreach coordinator who divided the city into grids. Visiting was done on a door-to-door basis of established enterprises. The purpose of the initial contacts are to inquire into the needs of the entrepreneur, to describe what the purpose of PROPEMI is, and to invite him/her to a get-acquainted-with-PROPEMI session at the PROPEMI Center.

It was estimated by senior staff that the total number of establishments visited represented approximately 70 percent of the total number of micro entrepreneurs within the largest and medium micro market segment chosen by FUSADES, and about 7 percent of the total number of micro entrepreneurs excluding the pre-micro category. These estimates would put the total number of largest and medium micro businesses in the metro area of San Salvador in the range of

12,000 to 14,000 establishments, and approximately 115,000 to 125,000 in the total range of micros. This roughly represents a population of 565,000, out of an estimated total population range of 1.6 to 2.1 millions in the greater metro area.

8.3.5 PROGRAM INFORMATION SESSIONS

Of the number initially contacted by the team of asesor outreach workers, well over half were said to have attended the weekly Monday night sessions at the PROPEMI center. It is here that the PROPEMI program is explained and course instruction given. Of the number which attended these sessions, 3946 (47 percent of the number originally contacted) signed up to take the course. Of this pre-registered number, 2431 (61 percent) actually showed up for the first night of class. Those who completed the course numbered 1627. The number represents a 33 percent drop-out rate. This drop out rate needs to be understood. (v. 8.3.6.)

TABLE 8.4

PROGRAM INFORMATION AND COURSE ATTENDANCE

Year	1st Session	1st Class	Graduated
1986	1012	704	451
1987	2287	1229	807
1988 (to May)	656	498	369
TOTALS	3946	2431	1627

8.3.6 COURSE DROPOUTS

Given the difficulty of the materials treated in the PROPEMI business course, a 67 percent completion rate needs to be judged excellent. It clearly indicates a job well done by the asesor outreach workers, who are also the course teachers. Reasons for the dropout were given by staff and course graduates. They included child care (especially by women); unable to leave the place of business, especially in those parts of the city where electricity is shut off during day hours thus forcing manufacturing micro-entrepreneurs to work when electricity is available. Another reason given was the cost of traveling for 25 evenings.

The problem with the course is not only the drop-out rate of those who began the course but did not complete it. Also at issue are those who came to inquire into the course, signed up for it and never returned -- 39 percent of them. Why? A perusal of course materials suggested difficulty to the evaluator, an opinion which was shared by some PROPEMI staff and denied by others, the latter maintaining that persons judged to be illiterate were not invited to attend the sessions.

8.3.7 COURSE ANALYSIS

Even a superficial perusal of the five course modules (Accounting, Cost Analysis, Marketing, Project Planning, and Administration) indicates that the course materials would be difficult for many formally schooled persons, even with high school educations and beyond who, simply, do not have an aptitude for such kind of studies, yet manage very well as entrepreneurs. Such courses are simply impossible for persons who have not been formally schooled. Course materials, fundamentally developed by the Carvajal Foundation, were not designed for the majority of persons who own business enterprises at those lower and lowest levels of micro enterprise activity referred to above. It was understood that the PROPEMI program excluded the smallest micro entrepreneurs. This was done because it was believed by the FUSADES leadership that, given limited resources, employment generation would best occur within the goals of the program in the context of the smallest "smalls" and the largest "micros" which were oriented to manufacturing and service.

To exclude such a vast number of entrepreneurs from the opportunity to obtain a better understanding of business administration needs to be discussed in depth. It is often the case that entrepreneurs at the lowest levels of micro business activity do not need significant training to continue their operations in a traditional non-growth manner. For the vast number of entrepreneurs on the lowest levels of the micro scale, a business is of an essentially subsistence nature, and that will probably remain unchanged for a very long time to come.

Business education courses, even accounting and cost analysis courses, can be designed for persons who have learned in the schools of the streets and campos, but they need to be very different from the single course presently available at PROPEMI. There is a great need for such courses -- in business as well as in technical subjects. The commonly held position that many smaller micro-entrepreneurs have little need for formal business courses is based on solid experience. The most immediate need is generally credit. On the other hand it is erroneous to maintain that smaller or smallest micro-entrepreneurs have <u>no need</u> or little appreciation for formal education related to their businesses. Anyone who has been involved in adult alphabetization knows the importance, and great emotion, attached to learning how to write one's name. The value of such as act goes far beyond the practical value of the writing skill acquired which, per se, is insignificant: i.e., a great many persons who learn to sign their names as adults never progress beyond that writing level. Its significance in other areas of a person's life, however, is indisputable. When such persons are parents, for example, there is a much greater probability that their children will become fully literate.

Much of the above is relevant for assessing the value of the actual PROPEMI course and other courses which need to be developed for other and smaller micro entrepreneurs. These other courses need to

be developed in accordance with the real world that the majority of Salvadoran micro-entrepreneurs live in, i.e., a world with less than minimal resources and, frequently, less than appropriate technology.

In addition to very basic business subjects, what often succeeds in such social contexts is technical assistance to improve the quality of materials produced and/or repaired: shoes, clothing, electrical and mechanical articles. Whether of a technical or theoretical nature, such instructions need to be packaged into brief time frames and formats. These materials also need to be designed in such a way so as not to depend on the written word. Such materials have been successfully used in extension education programming -- including radio and mobile schools. PROPEMI's highly appreciated outreach program at the Chamber of Commerce and Industry, for what appeared to be the same level of entrepreneur as those enrolled in the PROPEMI building, is a step in the right direction in that it clearly suggests the importance of extension education programming. Extension education, in many of its forms, needs to be carefully explored in the growing worldwide effort to make private enterprise at the lower levels much more significant for national development than it has been.

8.3.8 LOAN DEFAULTS

PROPEMI classifies past due accounts in five categories: from one to thirty days; 31 to 60; 61 to 90; over 90, at which time collection procedures are begun; and over 180 days when legal action is begun via the courts. The loan default rates vary with the aging of accounts as follows:

TABLE 8.5

LOAN DEFAULT RATES

Time Past Due	Percentage Rate
one day and more past due	41.8
31 days " " " "	26.0
61 " " " " "	19.0
91 " " " " "	14.6
180 " " " " " (legal action taken)	5.8

Overall rate of delinquency during the past 12 months = 6.14 percent, i.e., total amount in default (¢262,373 colones/$52,475 dollars) over total loans made (¢4,271,070 colones/$854,214 dollars.)

TABLE 8.6

PROPEMI LOANS IN DEFAULT

1. Total Loans Since Beginning

Total Loans to Men and Amount.....445
¢3,920,990($784,198) (70%)

Total Loans to Women and Amount.....169
¢1,699,680($339,936) (30%)

Total Loans Since Beginning of Program.....614/
¢5,620,670 ($1,124,134)

2. Total Loans Last 12 Months

Total Loans to Men and Amount.....285
¢2,944,090 ($588,818) (69%)

Total Loans to Women and Amount.....126
¢1,326,980 ($265,396) (31%)

Total Loans During Last 12 Months 411/
¢4,271,070 ($854,214)

3. Default

Men 1 to 30 days..... 71
¢29,382 ($5,876) (81%)

Women 1 to 30 days..... 24
¢ 7,018 ($1,404) (19%)

Total Defaults Between 1 and 30 Days 95/
¢36,400 ($7280)

Men 31 to 60 days..... 28
¢19,275 ($3,855) (76%)

Women 31 to 60 days..... 13
¢5,970 ($1,194) (24%)

Total Defaults Between 31 and 60 Days 41/
¢25,245 ($5049)

Men 61 to 90 days..... 25
¢19,605 ($3,921) (71%)

Women 61 to 90 days..... 6
¢ 7,955 ($1,591) (29%)

Total Defaults Between 61 & 90 Days..... 31/
¢27,561($5512)

Men Over 90 days..... 36
¢41,495 ($8,299) (57%)

Women Over 90 days..... 18
¢31,653 ($6,331) (43%)

Total Defaults Over 90 days..... 54/
¢73,148 ($14,630)

Men: Legal Action Initiated..... 29
¢84,599 ($16,920) (85%)

Women: Legal Action Initiated..... 7
¢15,417 ($3,083) (15%)

Total Against Whom Legal Action Initiated..... 36/
¢100,017($20,003)

Total Men in Default.....189
¢194,359($38,872) (74%)

Total Women in Default..... 68
¢ 68,014($13,603) (26%)

Total in Default.....257/
¢262,373($52,475)

8.3.9 LOANS MADE

As illustrated in Table 8.7 the loan fund of C10,619,740.00 was being disbursed with some delay. As of April 1988, the credit fund had C5,959,970.00 yet to be disbursed. The delay, however, does not appear to be a serious one. The May 1988 disbursement was for over one million colones.

PROPEMI prefers a slower disbursement rate to avoid the pitfall of rushing to disburse funds, a practice which frequently causes credit analysts to approve loans to poor credit risks. PROPEMI would like to see a two-three month extension. This is felt to be reasonable, given the fact that the program was seven months behind schedule in getting underway.

PROPEMI and FUSADES members have defended the relatively slow rates of disbursement for another reason. The country's civil war has been pointed to as the cause of many business problems, including that of doing credit checks. They have pointed to the relatively low default rate as justification for their conservative credit making policies. It appears that the default rates of the special small and micro credit windows of the commercial banks are very high.

TABLE 8.7

PROPEMI LOANS DISBURSED BY MONTH

June	1986	23,500.00	(US$4,700)
July		72,900.00	(14,580)
August		120,000.00	(24,000)
September		137,300.00	(27,460)
October		58,000.00	(11,600)
November		177,000.00	(35,400)
December		200,000.00	(40,000)
CUMULATIVE TOTAL		¢789,000	($157,800)
January	1987	104,000.00	(US$20,800)
February		75,000.00	(15,000)
March		63,000.00	(12,600)
April		113,500.00	(22,700)
May		204,000.00	(40,800)
June		130,050.00	(26,010)
July		146,000.00	(29,200)
August		163,000.00	(32,600)
September		128,400.00	(25,680)
October		388,600.00	(67,720)
November		391,900.00	(78,380)
December		295,100.00	(59,020)
CUMULATIVE TOTAL		¢2,992,850	($598,570)
January	1988	228,660.00	(45,732)
February		356,000.00	(71,200)
March		549,300.00	(109,860)
April		482,960.00	(96,592)
May		1,010,900.00	(202,180)
CUMULATIVE TOTAL		¢5,620,670	($1,124,134)

8.3.10 OUTREACH TECHNICAL ASSISTANCE

The Technical Assistance outreach part of the PROPEMI program is a major concern to USAID/ES because it is the largest operational cost center without income generation. As such, it represents over 50 percent of PROPEMI's total deficit.

In certain theoretical business administration contexts, programs with sections such as the PROPEMI Technical Assistance team, incapable of generating any part of its operating costs (a problem common to all FUSADES technical assistance programs), would be phased out as quickly as possible. In other contexts, again theoretical, its continuation would be justified only in terms of a long-term investment holding the promise of a substantial return on that investment. In the case of PROPEMI the technical assistance outreach aspect of the program was looked at, primarily, from the latter point of view., i.e., the expense was believed to hold the promise of a significant long-term pay-off. But "long-term investment" and "pay-off" need to be explained.

The terms do not refer to a possibility of eventually covering the costs of the program on a fee-for-service basis. The U.S. Government's annual investment of well over one half-billion dollars in El Salvador is, obviously, not primarily concerned with break-even development operations. Such a possibility is remote and difficult for PROPEMI to achieve without the assistance of an endowment fund akin to the USAID/CR policy in support of the ACORDE PVO funding agency in Costa Rica. Income generation by the TA project will be discussed. A most important consideration intertwined with economic development in El Salvador is, certainly, the best interests and security of the United States.

The PROPEMI program provides both immediate and long-term pay-offs. The principal short-term pay-off of the technical assistance aspect of the program is believed to be in its potential for generating self-employment opportunities. These opportunities are widely held to be meaningful in a growing amount of worldwide literature on micro business development. These opportunities are probably very important in the view of the Salvadoran poor who appear to have ample opportunities primarily for poorly paid employment.

The principal long-term benefit of the PROPEMI program is, as suggested above, as a generator of good will for the United States whose security is widely believed to be threatened in Central America by a well organized complexus of political movements hostile to the best interests of the U.S. To many observers it appears certain that much of this anti-U.S. sentiment is shared by significant numbers of low income and disadvantaged Salvadoran people, many of whom are persons involved in the lowest levels of micro and pre-micro business activity. Given their very large numbers, support of a low cost (relative to other FUSADES obligated funds) PROPEMI micro business support program needs to be rated as important as the much more costly FUSADES programs for far fewer larger entrepreneurs. Recommendations will, realistically, attempt to take into account the need to get the PROPEMI technical assistance program, as its three other component programs, on a self sustaining basis.

8.3.11 ASESORES: TA PROVIDERS

A significant part of the time spent by the asesor outreach workers is in giving technical assistance to business enterprises which have requested it. This is usually done for those entrepreneurs who have taken the business administration course. Others were assisted who were encountered in the course of the door-to-door contacting. Asesores provide technical assistance to their clients in a wide range of areas. These include information and referral (How can I get dollars to purchase materials from Mexico?); implementation of lessons learned (development of accounting and other records); assistance with business and some legal forms. Asesores are also the first who call upon delinquent accounts.

The role of the asesor outreach workers was described as a major activity. Duties require the asesor to make initial door-to-door and follow-up contacts recruiting entrepreneurs into the business administration education program. It needs to be remembered that asesores play a multi-faceted role at PROPEMI. They are both outreach providers of technical assistance and, in the evenings after regular work hours, the teachers of the business administration courses.

Unfortunately, detailed field records of asesor activities were not maintained. They would have given invaluable information about the types of services in demand by micro entrepreneurs. Such data would have served to develop hypotheses and questionnaires for determining service needs to that micro entrepreneur segment as part of a market study.

Entrepreneurs visited during the course of the research felt that the assistance of the asesores (who also double as their business course teachers) was an important service. As is the case for the five-week business administration course, certain other types of business educational services -- both theoretical and technical -- may be marketable on a fee-for-service basis. Indeed, it would be odd if the micro market for business educational services had room for only one single educational service, the one presently being provided by PROPEMI. Which business educational services are marketable, of course, needs to be formally studied. Recommendations will address the market research issue.

8.4 FINANCIAL SYSTEM

8.4.1 1987 OPERATIONAL COSTS AND INCOME

PROPEMI categorizes costs in four areas: Education (Business Administration Courses), Credit Making Operations, Technical Assistance, and Administration. During 1987 the education program paid for 98 percent of its own costs. FUSADES and PROPEMI spokesmen regarded this as a significant accomplishment for a program only two years since its beginning. Course fees are derived from the ¢150.00 fee paid by each student. A new class beginning every Monday evening results in five different courses going on at PROPEMI every night. Other courses are scheduled on an outreach basis at the Chamber of Commerce and Industry. In the latter case fees are paid to the Chamber who, in turn, pays PROPEMI the ¢150.00 fee per student. The credit-making and control component of the organization was the only other division with income generation -- from interest payments.

TABLE 8.8

OPERATIONAL COSTS

Cost Category	Expenses	Income	Plus/Minus
Administration	¢174,883	-0-	(174,883)
Technical Assistance	578,161	-0-	(578,161)
Credit	576,459	249,260	(327,199)
Business Course	107,905	105,000	(2,905)

Cost of Making Loans

During the 1986 start-up year, total PROPEMI operating costs amounted to over 1.5 million colones, against a total amount disbursed in loans of ¢787,400. This amounts to a ¢1.92 real cost for every colon borrowed. During 1987 the per colon disbursed real cost dropped to ¢.48 centavos. The per colon borrowed cost relative to credit making operations has a range of 14 to 25 centavos, the latter if earned interest is not included; 14 centavos if it is included -- as illustrated:

576,459 (Credit Operations Costs) = ¢0.25 (without interest included)
2,334,050 (Colones Borrowed)

327,199 (Credit Operations Costs) = ¢0.14 (with interest included)

2,334,050 (Colones Borrowed)

The per colon borrowed cost during 1988 will decrease as the number of colons disbursed increase and credit operations costs decrease (due to existing vacancies which PROPEMI is reluctant to fill due to funding uncertainties). Estimated costs, based on a five-month operations estimate, look as follows:

Real Costs (= all Agency costs during first five months of '88)
598,920 = 0.228 cost/colon borrowed
2,627,820 = Colones borrowed during '88

Relative Costs (= Credit Making Operations Only)
240,191 = 0.09 cost/colon borrowed
2,627,820 = Colones borrowed during '88

8.4.2 BREAK-EVEN ANALYSIS

PROPEMI has calculated a 10.5 percent portfolio loss of its revolving fund over a 30 month period, from June 1986 (first disbursement) through December 1988. These assumptions project that

if it closes 1988 with a 9.5 million colones portfolio, its interest income for 1989 will be ¢1,425,000.00. Its calculations are as follows:

Loan Portfolio Equity.....	¢9,500,000.00
Income:	
Interest (15% of Portfolio)....	1,425,000.00
Income from Courses	150,000.00
Total Income	¢1,575,000.00
Costs:	
5% Non-Recoverable Reserve	(475,000.00)
3% Non-Foreseen Eventualities..	(42,750.00)
Operating Costs	(1,700,000.00)
Total Operating Costs	(¢2,217,750.00)
Total Difference (DEFICIT).....	(¢642,750.00)

The operating deficit can theoretically be overcome by beginning the 1989 year with a larger portfolio. This larger amount has been calculated at ¢16,500,000.00. In such an event the financial scenario looks as follows:

Loan Portfolio Equity.....	¢16,500,000.00
Income:	
Interest.....	2,475,000.00
Income from Courses.....	150,000.00
Total Income.....	¢2,625,000.00
Costs:	
5% Non-Recoverable Reserve.....	(825,000.00)
3% Non-Forseen Eventualities....	(74,250.00)
Operating Costs.....	(1,700,000.00)
Total Costs.....	(¢2,599,250.00)
Total Difference.....	25,750.00

8.4.3 FINANCIAL SOUNDNESS

During the course of the evaluation, operational costs were requested and examined according to the PROPEMI budget categories. The purpose of the exercise was to ascertain budget preparation and monitoring practices; rationale for budget categories; which kind of activities were budgeted within PROPEMI and to what extent, and which piggy backed on FUSADES (e.g., consultant costs). Totals were utilized to cross-check per colon borrowed costs and break-even analysis figures. Data were discussed with other evaluation team members. They were requested for operations costs since the beginning and for the past twelve months. All PROPEMI financial data were evaluated in the context of the total FUSADES operation.

8.5 OVERALL IMPACT

The overall impact of any human service program is difficult to evaluate in short periods of time. It is especially difficult when a program is in the process of getting started, as is the case with this project. The PROPEMI thrust is three-pronged: 1) the Business Administration Course (judged to be the most important by PROPEMI staff); 2) Technical Assistance; 3) Credit.

Some aspects of the education program have been commented upon above. Entrepreneurs who took the course appeared to be genuinely pleased to have taken it, and this even by those five persons interviewed who initially enrolled in the course primarily as a requirement for a loan which never materialized because the loans were denied.

It should be noted that one of the questions which was asked of each of the sixteen entrepreneurs interviewed was whether they had made any changes in their accounting procedures as a result of having taken the course. While a few said that they did to some small extent, most admitted that they did not. One way of looking at that particular data set is that the Business Course is not successful.

Another view (conditioned by many years in adult educational programs for economically disadvantaged peoples) sees one of the most important things that a course of studies does for anyone is the growth of a bit more confidence in oneself. There is a case to be made for the importance of confidence in the kind of situations that micro entrepreneurs face in the near chaotic situations of Third World cities. The buildup of entrepreneurial confidence is a significant accomplishment. PROPEMI courses have accomplished some small measure of that in the lives of that small sample of beneficiaries interviewed (randomly chosen). In any profession, confidence in oneself makes the telling difference between making it or not; between being OK and being outstanding. That phenomenon is well known in many professional contexts, and is very much applicable in this evaluation context.

To be sure, it has been argued in this report that the courses have had some negative consequences. A case can be made in support of that charge, <u>but not with respect to those who took the course</u>. Many very bright and capable men and women have great need for the kind of business assistance which PROPEMI staff <u>is learning</u> how to impart. To be sure, PROPEMI's literacy requirement policies unjustifiably discriminate against many illiterate, but highly intelligent people who are, clearly, in the majority in Central American countries -- including El Salvador. Recommendations will address this issue.

8.5.1 TECHNICAL ASSISTANCE

The PROPEMI technical assistance program contains the seeds of what this observer of LDC micro entrepreneurs believes is a sine qua non for the successful development of the private sector from below, namely the provision of badly needed business support services. The contents of the course materials are indicative of some of those needs, but there are many more needs which micro entrepreneurs have. Reports from asesores and entrepreneurs (as well as from many market vendors visited) indicate that these needs include such indispensables as an information and referral service: "How do I import from Mexico and pay for it in dollars? How to apply for credit? Who can fill out a form with legal implications without going to an lawyer? Where can I sell this? Buy that? Marketing and purchasing needs are also very important to micro entrepreneurs. Entrepreneurs who are interested and capable of business growth are frequently stymied and discouraged by the morass of legal and bureaucratic regulations in the formal world which they need to know if growth is to be achieved. Another important area of needed instruction is quality improvement: How do I make a better pair of shoes? pants? How do I rebuild a battery better? repair a radio? computer?

8.5.2 CREDIT

PROPEMI staff rated the importance of their tasks in the following order: the Business Administration course, Technical Assistance, and Credit. The number three priority given to credit by PROPEMI staff should not be interpreted in terms of "low." The need for business credit is keenly appreciated by staff. The experience that they have obtained in a very difficult-to-work-in urban context (the most successful and well known micro credit programs are in rural areas) has given PROPEMI staff an appreciation for the need for credit. They also appreciate how difficult it is to get it to those who can make the most use of it, but whose creditworthiness and/or illiteracy precludes their ever receiving the opportunity under present policy constraints.

The problem is a significant one. Since its beginnings to the end of May 1988, PROPEMI has made a total of 614 loans. These loans were made in the following amounts illustrated in Table 8.9.

TABLE 8.9

LOAN SIZES

Loan Size	1986	1987	1988
Under 2,000	19	52	12
2001 to 5000	56	114	52
5001 to 10,000	41	74	42
10,001 to 20,000	14	68	31
20,001 and over	-0-	-0-	39
Average Loan Amount	C6072	C7154	C14,930

In terms of credit, PROPEMI has in just two years gone from an average of ¢6,072 to almost ¢15,000. It is significant to compare this amount with the average small and micro credit size of the Banco Salvadoreño, i.e., ¢5,600.00. It is important to point out again, that the comparison is not a fair one for PROPEMI, because while the 13 percent micro credits of the national banks are limited to one year (but repeatable), the PROPEMI credit line of 15 percent runs for longer periods of time. Longer term loans in national banks run at 21 percent, which was said, by banker informants, a truer picture of the value of money in the marketplace.

An original goal of FUSADES for PROPEMI was to work with those micros unable to obtain credit from commercial banks in order to enable them to do so at a later date after they had received the opportunity to build up a successful credit history. PROPEMI has not done this.

8.5.3 EMPLOYMENT GENERATION

PROPEMI credits have had the employment impact illustrated in Table 8.10.

TABLE 8.10

EMPLOYMENT GENERATION

Type of Enterprise	Percent	Loans	Workers	New Jobs
Cloths Makers	23.7	119	36	147
Furniture Makers	13.3	66	211	68
Misc. Manufacturing	12.5	42	104	45
Metal Working	9.8	36	107	29
Printing	8.7	26	75	25
Shoemakers	7.0	36	362	35
Auto Mechanic	6.7	20	108	30
Machinery/Elec. Repair	6.6	42	106	33
Food Maker	6.1	16	53	23
Personal Services	3.2	23	35	31
Construction Materials	1.8	8	47	13
Leather Finishers	0.3	4	2	5
Other	0.3	1	2	2

8.6 SUSTAINABILITY

PROPEMI has estimated that if it ends 1988 with a loan portfolio valued at ¢9,500,000 it will end 1989 with a deficit of ¢642,750. Theoretically that difference can be made up by increasing the interest rate by about 8 percent, to 23 percent, which is two points above the going commercial rates for regular business and personal loans. The problem with that scenario is that 2.5 percent of national bank portfolios have been set aside by banking regulations which places the interest cap at 13 percent. In other words, given competitive credit programs, the PROPEMI deficit cannot be made up by increasing interest rates. As long as PROPEMI stays targeted

within the same credit market segment as the national banks, its interest rate needs to stay roughly competitive with them. In order to be able to increase the interest rate significantly, it would need to market the program for the lowest and pre-micro entrepreneurs -- as it is well known that interest rates fall in proportion to the size of the credit: the more money one is able to receive, the less interest is paid; the less money one is able to borrow, the higher is the interest rate paid.

SAVE-THE-CHILDREN's largely rural-based lowest-micro and pre-micro credit programs charges a 36 percent interest rate. Several of its rural branches, called "bancos comunales," are subject to the regulations of a board of trustees/directors and these have decided to charge an interest rate of 10 percent monthly: a 120 percent annual rate in an effort to perpetuate their small revolving funds. This is apparently being done successfully. These were said to be low interest rates within the informal credit market in urban areas. It is doubtful whether PROPEMI can presently lower its targeted segment in order to significantly increase its interest rates. Given the present system and association with FUSADES the possibility is a remote one because FUSADES would, "almost certainly" according to some informants, look unfavorably on such a policy change, i.e., the scenario of PROPEMI increasing its interest rate from 15 to 23 and more percent would probably not make for good newsprint.

While such a change of market target cannot be made quickly, the fear may not be well founded: the cost of money in the informal credit market is traditionally high by commercial banking standards. A possibility which needs to be seriously discussed as part of PROPEMI's quest for financial sustainability is for PROPEMI to act as a sub-grantor of revolving loan funds, in the context of which significant increases in interest payments becomes a more realistic possibility. Such loans could be made to a good number of church organizations with existing social action programs. Many of the people involved in those kind of church organizations are highly motivated, honest, and sufficiently talented as managers and trainers. Outside technical assistance, from people like ACCION-AITEC or local PVOs with the appropriate experience, might soothe out the eternally present rough spots.

PROPEMI's financial sustainability also needs to be helped from other quarters, i.e., in terms of other marketable activities. There is no question that PROPEMI has been successful in marketing its business administration course. Strong arm tactics were not used in marketing the program. Obviously there was a need in that particular marketplace for that educational product. What other needs for educational products exist in that particular market segment and other, lower micro, market segments? As indicated above, it is well known in marketing science that one successful product is part of a range of other successful products, i.e., the Hilasal Company does not only market bath towels. FUSADES needs to explore this, and PROPEMI needs to develop and market the appropriate products.

Two bankers, small and micro window directors, believed that the banking community of San Salvador would be pleased to collaborate with PROPEMI in developing several different training and outreach technical assistance programs for different levels of small and micro entrepreneurs. Such services, they felt, might prove to be a great help in reducing the commercial banks high default rates -- put at about 15 percent as compared to 6 percent for PROPEMI.

But even in the best of scenarios it is doubtful that a significant degree of financial sustainability can be realized. The lower one goes down the micro market segment scale the more overwhelming does the poverty of Salvadorans become. This is not a new development. PROPEMI will need to deal even more intensely with the poor who have no other real hope for income generation than the free enterprise penny capital system. In the long haul (ten years anyway) sustainability for PROPEMI needs to be thought of in the manner of the Costa Rican ACORDE program, whereby a significant part of the operating budget is generated by an endowment fund.

8.7 RECOMMENDATIONS

8.7.1 PROPEMI should establish approximately six outreach centers in the poorer areas of the city. These centers will serve as support centers for small and micro business communities. These centers should be staffed by the present, or fewer, number of outreach workers. The job descriptions of these will be carefully reviewed and redefined in accordance with this change. They should formally include those services now said to be largely supplied informally, especially information and referral services and short-term education services products. The centers should be centers primarily in name. They should not be built or decorated as to make the poor feel ill-at-ease. They should ideally be located in low rent areas relative to those parts of the City chosen, and consist of a room big enough for small classes and meetings in addition to the making and servicing of PROPEMI's smallest micro loans.

8.7.2 PROPEMI should abandon its policy of mandatory attendance at the business courses in order to qualify for credit assistance.

8.7.3 In addition to its proven five-week business administration course, PROPEMI should develop and implement several other types of <u>short-term</u> business education services products including business-related films. The characteristics of these products will need to reflect findings of appropriate market studies of the micro market. These studies should especially include existing studies on the Salvadoran micro sector. Educational products need to include both business and technical subjects related to the needs of area micro entrepreneurs. They should be designed and taught in such a way so as not to impede or intimidate non-literate persons.

8.7.4 PROPEMI should develop a micro-business business services program. These services will include a wide range of business assistance and counselling services, including the filling out of legal, banking and other business related forms for such needs as credit applications for commercial banks, foreign exchange, etc. The service will include an information and referral system listing materials and services available from the public and private sectors, including other micro entrepreneurs. The data base will include information on marketing, central purchasing, consumer information, etc. It should be built up over time in order to reflect the real world needs of micro entrepreneurs, and should be eventually managed by standard computer software data tracking packages such as Database.

8.7.5 PROPEMI, in collaboration and coordination with the DEES, should develop a Micro Business Research and Seminar Program. This program will dedicate itself to the study of all aspects of micro business including its relationships and impact on lower income populations and the formal business sector. Importance needs to be given to the study and development of micro credit-making models for use in urban contexts. The program should utilize the considerable expertise of Salvadoran social and management scientists as its primary human resource base. It should make immediate use of a major UCA study (Department of Economics) on the micro business sector consisting of 14 volumes on 14 sub-sectors of the micro, and largely informal, Salvadoran economy. It is important that all scholars and workers with appropriate credentials participate in the dialogues of these seminars regardless of real or imagined ideological persuasions.

8.7.6 PROPEMI should modify its present credit making operations. It should begin to target a lower micro entrepreneur who is outside of the commercial banking system. A large majority of its present beneficiaries have ample opportunity to receive credit from numerous commercial banks: with comparative dispatch, at a more favorable interest rate for short-term loans of less than one year and at normal market rates for long-term loans. The micro-credit windows of the city's commercial banks appear to have significant experience in making loans to the same general market segment targeted by PROPEMI. One such bank (Banco Salvadoreno) has a lower average credit size (¢5,600/$1,120) than PROPEMI's current 1988 average of almost ¢15,000/$3,000. The Banco Salvadoreno also has a faster approval time. (However it has no course requirement.) The establishment of an AID-funded credit operation in de facto competition with the commercial banking system appears to run counter to AID's tradition and to FUSADES originally stated intention in the PROPEMI program design -- which is to facilitate the integration of persons without prior experience into the traditional credit systems by giving them the opportunity to build up credit histories. Abstracting from the educational and technical assistance aspects of the PROPEMI program, its credit making operation is, pretty much, a traditional one.

The present loan portfolio should continue to be serviced. However the market target of the PROPEMI credit operation should -- with the buildup of knowledge and experience -- gradually be changed to target the lowest and pre-micro entrepreneurs of the city. The change of PROPEMI's market target should be substantially completed within an eighteen-month period.

(Note: PROPEMI objected to this recommendation, stating it would be risky and costly to PROPEMI.)

PROPEMI should simplify its loan application process. It should reduce the number of forms supporting a credit request. The initial diagnostico and the formal application, for example, are lengthy and duplicative in numerous respects.

8.7.7 The administration of PROPEMI should conduct a feasibility study of the utilization of those San Salvador churches with economic development and social action programs, as sub-contractors through whom credit-making services can be made available to the lowest and pre-micro entrepreneurs of the City. Many church organizations around the world, as mosques in Muslim countries, have the dedication and management capability to implement credit-making operations. Many, in fact, include credit and loan programs in their social action programming.

8.7.8 The USAID/El Salvador Mission should consider the establishment of an endowment fund for PROPEMI in the spirit of the USAID/CR Mission endowment made to the Costa Rican ACORDE program to cover operating costs for a ten-year period.

8.8 COST IMPLICATIONS OF THE RECOMMENDATIONS

The Centers

The recommended centers will not require additional staff. In fact, analysis of the resulting work load estimates could suggest a need for fewer staff. The reduction of staff for these key positions, however, needs to be carefully considered, as these could become highly stressful positions, which stress can be significantly diminished by rotating staff between home base and outreach centers on a regular basis. The cost of rental for outreach centers of the type envisioned should not exceed ¢300-400 colones monthly.

8.8.1 OTHER BUSINESS EDUCATION PRODUCTS AND BUSINESS SERVICES PROGRAM

The development of new service products for both programs are envisioned to be developed by the team of outreach workers. The needed marketing research is envisioned as a task (and a cost) for FUSADES marketing people. Given the success of the business course, it is more reasonable to assume that there is a (fee-for-service) market for additional business education and service products than to assume that there is not. The assumption is that these new

service products will result in some income. While that income will most probably not cover the entire cost, it could cover a significant amount.

8.8.2 RESEARCH AND SEMINAR COSTS

There are important resources in San Salvador that are available at little or no cost to the program. Mention was made of the UCA Economics Department. There are others who, it is reasonable to assume, would be willing participants in such a program primarily because of the perceived importance of doing so. What costs are incurred should be covered by the DEES.

8.8.3 LOWERING PROPEMI's TARGET SEGMENT SIGHT

The possible scenarios vary here. If PROPEMI develops into a credit-making institution directly to lower and pre-micro entrepreneurs, then it will need additional support staff to make and service loans. If it develops into a sub-contracting institution its costs can be significantly curtailed. In either case there exists a real possibility of significantly increased interest rates.

8.8.4 AN ENDOWMENT

A PROPEMI scenario to eliminate its deficit (shown in 8.4.2.) begins in the 1989 calendar year with a ¢16,000,000 colones loan portfolio equity. At PROPEMI's current 15 percent interest rate, the portfolio should generate almost 2.5 million in interest. That amount could be increased significantly if higher interest rates could be charged which is feasible if lowest and pre-micro entrepreneurs become primary targets. If 1989 were to begin with a significantly larger loan portfolio equity, say fifty million colones (ten million dollars) then direct lending operations through revolving loan funds could be sub-contracted to the aforementioned church groups and/or any other appropriate indigenous PVO -- provided, of course, that the mentioned feasibility study suggests the reasonableness of doing so. Interest from those operations could fund PROPEMI operational costs.

ANNEX A

WORK ORDER NO. 61

The evaluation will cover, to varying degrees, all ongoing A.I.D. Projects with FUSADES:

519-0265	Agricultural Diversification Program
519-0287	Industrial Stabilization and Recovery
519-0303	Water Management
519-0304	Urban Small Business
519-0316	Association Strengthening Activities
519-0327	Agribusiness Development
519-0336	Private Sector Initiatives

OBJECTIVE

The purpose of the evaluation is to review the overall impact of FUSADES's program in terms of the original objectives established in each of the programs it is implementing as well as FUSADES's institutional, managerial, financial, and technical strengths and weaknesses. The evaluation will assess FUSADES's ability to exercise sound stewardship over A.I.D. resources, management capability to implement the programs it has now, and its capacity to take on new activities. The evaluation will include a full examination of USAID/El Salvador's Projects with FUSADES, including an analysis of the Foundation, its capabilities, the new restructuring, implementation progress and impact of its programs, and prospects for its eventual long-term viability and financial self-sufficiency.

STATEMENT OF WORK

The Consultants will conduct an examination of USAID's Projects with FUSADES, including an analysis of the institution, its capabilities, management structure, program impact and long-term viability. The Consultants will place special emphasis on FUSADES potential for eventual financial self-sufficiency given its present and planned institution, as well as each of its programs, will be assessed for potential financial self-reliance.

FUSADES has a comprehensive program with responsibilities divided among PRIDEX, FIDEX, PROPEMI, DIVAGRO, RIEGO, DEES, and FORTAS. Each of these divisions will be examined by appropriate expert consultants who will study and evaluate the individual structure, management, program effectiveness, financial systems, and impact. In addition, the evaluation will assess the viability of each program independently and within the overall management structure of FUSADES.

In performing the evaluation, the Consultants will utilize previous studies of FUSADES including: The Chaij/Williams Report; the January 29, 1987 "Memorandum Study" on FORTAS; the Robert Nathan and Associates Feasibility and Design Study of May 1987; the Louis Berger Study on DEES Overall Objectives; the AID Regional Inspector General's Audit Report on FUSADES; obligating documents; various FUSADES Action Plans; and other relevant studies and pertinent AID documentation.

It is planned that each of the team members will concentrate on specific areas of assignment and that the efforts of each will be coordinated by the Team Leader. The final report will satisfy the requirements of this Scope of Work and will contain individual sections on each of the above mentioned programs, overall FUSADES management, credit operations, export and investment promotion activities, and FUSADES financial structure and viability. The final report will also recommend alternatives for increasing the restructuring of programs and divisions where restructuring is deemed appropriate to improve implementation efficiency.

For each FUSADES division/program, the team of Consultants will make specific recommendations for modifications to improve upon identified deficiencies.

P.O. NO. 519-0177-0-00-8563-00

STATEMENT OF WORK

The evaluation prepared in June 1988 provided information on FUSADES's programs and on its management and financial situation. As a result of this useful "first stage" analysis, a number of questions have been raised. The purpose of this statement of work is to elicit information supplemental to the June 1988 analysis, which will provide the Mission with fuller information and substantiation of the first stage analysis and recommendations. The statement of work outlined herein will provide the Mission with a solid assessment of FUSADES' management and capabilities; its financial situation, including a "snapshot" of FUSADES' financial situation in 1992; and prospects and options for sustainability. The focus of the analysis will be on the management assessment and sustainability. However, in addition, detail on a few program areas will be provided as described below.

A. Sustainability

The assessment of the self-sustainability of FUSADES will flow out of the management and financial analysis of the institution. AID is interested in seeing what programming levels can be maintained in 1992 and beyond, given current programmed AID assistance levels to FUSADES. Options for improving its self-sustainability will be outlined in brief.

B. Management Assessment

The management assessment will consider FUSADES' current management, its capabilities, and implications for the future. The consultant(s) will provide detail to substantiate the recommendations and conclusions of the first stage analysis by responding to the following questions: (see Chapter 2, Section 2.6.1).

C. Financial Analysis

- AID funding: Source and assumptions in AID funding will be clarified. It will be assumed that current Projects will be funded at authorized LOP levels, and that the proposed amendments on Projects 0287 and 0327, as well as the new Small Business Project which contemplates a component with PROPEMI as contained in the Mission's 1989 Action Plan, will be funded as planned.

- Costs will be disaggregated by fixed and variable costs. This information will also be useful in the sensitivity analysis, since fixed costs are, to a degree, a factor of the variable costs.

- The revised financial analysis will consist of a "base case" and sensitivity analysis of several different scenarios to be agreed to by the Mission to project FUSADES' financial position in 1992.

- New financial tables will be prepared using the same format (income statement, profit and loss statement, etc.)

D. FUSADES Credit Portfolio

- Regarding the water management loan portfolio (Project 519-0303), describe in detail the loan portfolio in terms of the purpose of the loans, the amount of the loans, their management, anticipated impact, and the method to be used to assess impact.

- Review the finding, recommendations, and options regarding FUSADES evolution towards and the need for a private development bank (Ref: Evaluation pgs xiii, 49 and 50) and either substantiate the narrative or delete reference to the development bank in the report. Formulate recommendations for the future implementation of the FUSADES credit programs (as an alternative to the development bank concept).

E. Other

- Prepare an Executive Summary which includes recommendations on the basis of the supplemental analysis.

- Provide a list of acronyms used in text.

- Provide a current organizational chart.

- Provide a few paragraphs on background of FUSADES to provide a context for the evaluation.

0748y/1.89

ANNEX B

CHRONOLOGY OF FUSADES - USAID RELATIONSHIP

1983

In November 1983, FUSADES signed the first agreement with USAID ($185,000). Its purpose was to support planning activities related to the Caribbean Basin Initiative.

1984

FUSADES held two internal seminars (January and September): first, to determine if FUSADES was ready to go beyond just being a "think tank" offering advice and begin to implement projects; and second, to decide on the organizational and staffing implications of the decision to implement development projects.

In September, USAID signed a grant agreement with FUSADES under Project No.519-0287, Industrial Stabilization and Recovery, for the promotion of exports from and investment in El Salvador through the creation of a trade and investment promotion service, the strengthening of business associations, and the carrying out of a number of economic studies.

In October 1984, FUSADES presented to the GOES a draft law for the promotion of exports.

In December, FUSADES re-organized to implement the additional activites, establishing program committees of volunteer members for new and planned programs.

1985

The program of agricultural diversification (DIVAGRO) was initiated with the signature of an agreement with USAID at the end of January to promote non-traditional agricultural exports. A contract was signed with Fundación Chile to undertake five studies to help identify possibilities for and problems of diversifying Salvadoran agriculture. The DIVAGRO program was expanded in August with an agreement with USAID under the Water Management project (RIEGO) to assist in the introduction of precision irrigation needed to produce certain non-traditional crops for export.

The organization and structuring of the Investment Promotion and Export Diversification program (PRIDEX) was completed with the signing of a contract in July and the recruiting of personnel for service in El Salvador and in a New York office.

An agreement was signed with USAID in July to expand the strengthening of private sector associations (FORTAS) and to finance additional studies by the Department of Economic and Social Studies (DEES).

DEES was expanded and re-organized. It completed and published the document "The Necessity for a New Economic Model for El Salvador: General Lines of a Strategy." The study eventually affected the policy of the Government of El Salvador (GOES) and also provided a framework for the work of FUSADES. DEES also initiated the publication of an Economic and Social Bulletin.

The Small and Micro-Enterprise Promotion Program (PROPEMI) was organized in 1985 and initial support from AID came through an agreement signed in August.

A new Executive Director and other senior staff were hired; the number of employees rose to 31 and there were an additional 16 contract employees or Technical Assistance Personnel working in FUSADES by year's end. A Department of Planning and Institutional Development was established and the controller unit was re-organized and expanded into the Department of Administration and Finance.

1986

This was primarily a year of consolidation, of completing conditions precedent, of moving projects into the implementation stage, of preparing for the absorption of an additional inflow of AID obligations. A new program (FIDEX) was created to organize and manage an investment loan program to complement the PRIDEX program. Loan funds of $7 million were provided by AID in August through an amendment to the Industrial Stabilization and Recovery project. Other projects receiving additional funding included Water Management ($6.7 million), Agricultural Diversification ($2.8 million), and Association Strengthening ($475,000); total new obligations were over $17 million.

FUSADES drafted and presented to the GOES a revised draft law for the Promotion of Exports which was approved and enacted. It also drafted and presented a draft law for the Promotion and Guaranty of Foreign Investment.

Following the severe earthquake of October 10, 1986, FUSADES helped in the reconstruction by handling the accounting of funds received from private sources abroad. It also proposed a strategy for reactivation and reconstruction of the Salvadoran economy in the wake of the earthquake.

As part of its concern for the social development of the country, FUSADES participated in the creation of three new nonprofit organizations by the private sector to work in social areas. The Fundación Empresarial para el Desarrollo Educativo (FEPADE) will work to re-orient the educational system (formal and vocational) so

that its education and training programs will be more appropriate to the needs of the Salvadoran economy and thus more appropriate for the individuals who will be seeking employment.

The Fundacion HABITAT will be seeking to find housing solutions for lower income groups. The Fundación Industrial de Prevencion de Riesgos Ocupacionales (FIPRO) will be seeking to raise the standards of occupational safety.

1987

The main events in 1987 were a near doubling over 1986 of AID obligations going to FUSADES ($32.5 million in 1987), the re-organization of FUSADES to cope with the expanded program, and the recognition by FUSADES's leadership of its vulnerability to rapid fluctuations in AID-supplied resources and the necessity to begin to plan for the sustainability of FUSADES and its programs.

The increased obligations in FY'87 included add-on funds to all activities and the initiation of a new Agribusiness project to replace and expand on the Agricultural Diversification Program.

The FUSADES reorganization involved consolidating the DIVAGRO (agricultural diversification) and RIEGO (precision irrigation) programs. In addition, the FIDEX (Fondo de Inversiones de Exportation) department was established to take over the implementation of both the agricultural and industrial loan programs. The promotion of the investment in and the marketing of potential agricultural export products was turned over to PRIDEX (Programa de Promocion de Inversiones y Diversificacion de Exportaciones), which was already responsible for such activities for industrial projects.

In the 1987 Annual Report, the President of FUSADES stated that FUSADES needed to further consolidate itself institutionally and financially. The institution needed its presence in Salvadorean society further legitimized, and it needed to become self-financing.

1988

Implementation of programs and the initiation of a strategic planning exercise have been the main events of the first three quarters of 1988.

One new activity was added with the signing of an agreement with AID to support the development of industrial free zones. This will involve promotion activities, similar to what PRIDEX is already doing, in support of a multi-million dollar project with the GOES for the physical expansion of industrial free zones.

Add on obligations were made to the new Agribusiness Development project and Project No. 519-0336, Associations Strengthening Activities.

ANNEX C

FUSADES SUSTAINABILITY PROJECTIONS

I. METHODOLOGY

The methodology used to determine the self-sustainability of FUSADES was to project over five years the deployment of available resources. It was assumed also that all available AID funds would be disbursed over the period and principal reflow would be immediately re-invested. Various conditions were assumed to gauge the approximate funds needs over the period studied. For example, three scenarios were used incorporating the inflationary factor, increases in variable and fixed costs, and investment of reflow of funds. Table C-1 gives budgeted costs for 1988, the base year.

II. PROJECTIONS

Tables C-2, C-3 and C-4 portray the methodology used for each project's credit line.

Basic assumptions on fixed and variable costs with inflation rates are shown for the three scenarios in Table C-5.

Credit disbursement rates for two income projections are shown in Tables C-6 and C-10. Sources of income from loan interest on the five credit lines and income generated from non-credit activities are shown in Tables C-7 and C-11.

Profit and loss statements for the three scenarios are portrayed in Tables C-8, C-9, and C-12.

TABLE C-1
BUDGET OF FIXED AND VARIABLE COSTS IN 1988 BY PROGRAM
(Dollars)

COSTS	ADMIN.*	PRIDEX	DIVAGRO*	FIDEX	DEES	FORTAS	PROPEMI	TOTAL
Fixed Costs								
Salaries	490,880	534,260	336,540	164,400	407,260	92,860	222,560	2,248,760
Rents and Services	94,040	181,340	113,960	33,800	64,040	19,480	48,740	555,400
Total Fixed Costs	584,920	715,600	450,500	198,200	471,300	112,340	271,300	2,804,160
Variable Costs								
Technical Assistance	79,000	1,085,700	1,265,100	20,000	412,740	54,000	30,240	2,946,780
Assistance to Associations						286,000		286,000
Client Trips		233,000	179,260			38,000		450,260
Demonstration Plots			233,260					233,260
Varietel Research			79,200					79,200
Field Agents			49,000					49,000
Seminars and Conferences	3,600	40,000	59,300	800	25,000	2,000	1,400	132,100
Publicity and Promotion	55,600	106,700	37,700	5,000	36,000	12,000	18,200	271,200
Director Trips	24,600	4,800	8,000	8,800		5,000	4,000	54,600
Staff Trips	37,000	130,000	70,000	15,200	13,200	10,000	2,000	277,400
Supplies and Equipment	12,600	69,000	328,020	18,120	61,980	18,000	6,600	514,320
Contingencies	130,000	12,000	30,000			4,000	800	176,800
Total Variable Costs	341,800	1,681,200	2,338,840	67,920	548,920	429,000	63,240	5,470,920
Grand Total	926,720	2,396,800	2,789,340	266,120	1,020,220	541,340	334,540	8,275,080
Percentage of Fixed Costs	63.12%	29.86%	16.16%	74.48%	46.20%	20.75%	81.10%	33.89%
Percentage of Variable Costs	36.88%	70.14%	83.85%	25.52%	53.80%	79.25%	18.90%	66.11%

*Includes $1.7 million in costs (Admin. 0.6 and DIVAGRO $1.1 million) that will not be duplicated in following years as a result of the termination of Project 519-0265 in July, 1988.

TABLE C-2

METHODOLOGY FOR PROJECTIONS - Project 519-0287

PRIDEX (INDUSTRIAL STABILIZATION)

1. Loans to assembly plants and light industry will have an interest rate of LIBOR plus 2 percent. For this projection an annual interest rate of 12.5 percent is used, eight-year average term, with three-month grace period for interest and six-month grace period for principal.

2. Disbursements are based on the PRIDEX projections for 1988, and thereafter in 1989-1991 on the FIDEX projections. The repayment of principal during this period will not be considered until the $15 million original donation is disbursed.

3. The payment of principal and interest, after the grace period, will be made quarterly. Interest accrued and not received during the grace period, shall be paid in the following manner:

   - Approximately 80 percent of all the credits shall pay interest for the grace period of interest, at the end of each period.

   - Approximately 20 percent of all credits will pay interest for the grace period, in four equal quarterly payments at the end of the grace period.

4. The administrative costs of the trust are divided into two parts:

   a) A commission of 0.4 percent p.a. on the loan portfolio, with minimum monthly of $2,000; and

   b) $500 monthly to the local agent of the trust. The first payment to CitiTrust includes also a first-time trust commission of $7,500.

5. From the interest accrued and received, a reserve for bad debts of 2 percent on the loan portfolio outstanding at year-end will be established.

6. The income available to FUSADES from this source is the interest payments on loans minus trust commissions to local bank and CitiTrust, and the deduction for bad debt reserves. The net income that is shown yearly in the last line of the flow of funds in this section will be available to FUSADES after September 30, 1988.

TABLE C-3

METHODOLOGY FOR PROJECTIONS - PROJECT 519-0303/0327

DIVAGRO (WATER MANAGEMENT AND AGRI-BUSINESS DEVELOPMENT)

1. Loan terms will remain constant at 15 percent interest rate with an average term of eight years for both Model A and Model B loans under #0303. Two-year grace period on interest and principal.

2. Loan terms under the new project #0327 will remain constant at 15 percent interest rate with a two-year grace period on interest and principal and a range of five to 20-year term.

3. Repayment of interest quarterly and the net interest will be available to FUSADES quarterly.

4. Loan loss reserves at two percent.

TABLE C-4

METHODOLOGY FOR PROJECTIONS - PROPEMI - Project 519-0304/0318

(URBAN SMALL BUSINESS AND SMALL BUSINESS ASSISTANCE)

1. Loan loss reserves will be established as follows:

   - 5% - non-recoverable loans
   - 2% - possible loan losses

   From the interest collected, a reserve for bad debts of 2 percent on the loan portfolio outstanding at year-end and another 5 percent for identified loan losses is established.

2. The net interest will be available to FUSADES monthly.

3. Payments of principal and interest are made monthly and interest calculations were based on principal being reinvested as collected.

4. Loan terms will remain constant at 15 percent interest with a three-year maximum term.

TABLE C-5

FUSADES - EXPENSES: 1988-1993

BASIC ASSUMPTIONS

Assumption #1: Scenario I

1. Fixed and variable costs to remain the same.

2. Inflation 17 percent per year increase.

Assumption #2: Scenario II

1. Fixed costs to increase 5 percent annually. Inflation 15 percent each year.

2. Variable costs to increase 5 percent annually. (Assume technical assistance costs of DIVAGRO and FORTAS will decline.)

Assumption #3: Scenario III

1. Fixed costs remain the same in 1989, decline by .14 in 1990 (rent) reflecting new building availability, decline by .10 in 1991 to reflect assumed reduction in FORTAS program, and remain the same in 1992 and 1993.

2. Variable costs remain the same.

3. Inflation at 15 percent each year.

TABLE C-6

FUSADES INCOME PROJECTIONS

PROJECTION A[1]

Basic Assumptions

1. FUSADES receives net interest income from all loans.

2. Equity participation - FUSADES will have minimum participation of $10 million in client projects by 1990. Rate of return is assumed to be 25 percent.

3. Other donors will contribute a minimum of $200 thousand per year by 1990.

4. Funding - each AID line of credit will be disbursed according to the following Schedule #1.

5. All loan principal collected will be available for reinvestment.

6. Consulting fees of $100 thousand will be generated by DIVAGRO beginning in 1989 and will increase by 10 percent annually.

Schedule #1

Credit Line

#287	o $15 million disbursed by year-end 1989. o $15 million disbursed in three equal parts in 1990-1991-1992. o Total of $30 million disbursed by end of 1992.
#303	o $9 million disbursed by year-end 1988. o Total of $10 million disbursed by end of 1989.
#327	o $9 million disbursed by year-end 1989. o $10 million disbursed in three equal parts in 1990-1991-1992. o Total of $20 million disbursed by end of 1992.
#304 #318	o $1 million disbursed by year-end 1988. o $2 million disbursed in two equal parts in 1989 and 1990. o Total of $4 million disbursed by end of 1990.

1/ Used in Scenarios I and II.

TABLE C-7

SOURCES OF INCOME: 1988-1993

PROJECTION A

(Millions of dollars)

	1988	1989	1990	1991	1992	1993
AID Funds	6.60	7.99	8.96	6.96	6.22	.50
Loan Interest						
#287 ($15M) 1988 ($15M) 1990-1992	.46	1.85	2.49	3.11	3.74	3.80
#303 ($10m L.C.)	.28	1.11	1.12	1.12	1.12	1.12
#327 ($10M) 1987-1992 ($10M) 1990-1992	-	-	1.78	2.34	2.84	2.90
#304 ($2M) 1988 #318 ($2M) 1990-1992	.16	.24	.44	.45	.45	.45
Subtotal	.88	3.20	5.83	7.02	8.15	8.27
Non-Credit Activities						
Consulting Fees	-	.10	.11	.12	.13	.14
Publications	.04	.05	.05	.06	.07	.08
Training	.02	.02	.03	.03	.04	.05
Fees	.10	.12	.14	.16	.18	.20
Other Donor Funds	-	-	.20	.22	.24	.25
Equity Returns	-	-	-	2.50	2.50	2.50
15 % Interest on Cumulative Surplus	-	.16	.74	1.80	3.05	4.28
Subtotal	.16	.45	1.27	4.89	6.21	7.50
GRAND TOTAL	7.64	11.64	16.06	18.87	20.58	16.27

DEVELOPMENT ASSOCIATES, INC.

TABLE C-8

SCENARIO I

PROFIT AND LOSS STATEMENT

(Millions of dollars)

Expenses Assumption #1

Costs	YEAR 1988	1989	1990	1991	1992	1993
Fixed	2.18	2.55	2.98	3.49	4.09	4.79
Variable	4.42	5.17	6.05	7.08	8.28	9.69
Total Expenses	6.60	7.72	9.03	10.57	12.37	14.48

RECAP

Income Projection A

Income	YEAR 1988	1989	1990	1991	1992	1993
AID Non-Credit Asst.	6.60	7.99	8.96	6.96	6.22	.50
From Credit Funds	.88	3.20	5.83	7.02	8.15	8.27
Non-Credit Activities	.16	.45	1.27	4.89	6.21	7.50
Total Income	7.64	11.64	16.06	18.87	20.58	16.27
Expenses (Less)	6.60	7.72	9.03	10.57	12.37	14.48
Surplus (Deficit)	1.04	3.92	7.03	8.30	8.21	1.79
Cumulative Surplus (from 1988)	1.04	4.96	11.99	20.29	28.50	30.29

TABLE C-9

SCENARIO II

PROFIT AND LOSS STATEMENT

(Millions of dollars)

Expenses Assumption #2

Costs	YEAR 1988	1989	1990	1991	1992	1993
Fixed	2.18	2.62	3.14	3.77	4.52	5.42
Variable	4.42	5.30	6.36	7.64	9.17	11.00
Total Expenses	6.60	7.92	9.50	11.41	13.69	16.42

RECAP

Income Projection A *

Income	YEAR 1988	1989	1990	1991	1992	1993
AID Non-Credit Asst.	6.60	7.99	8.96	6.96	6.22	.50
From Credit Funds	.88	3.20	5.83	7.02	8.15	8.27
Non-Credit Activities	.16	.45	1.24	4.78	6.06	7.03
Total Income	7.64	11.64	16.03	18.76	20.43	15.80
Expenses (Less)	6.60	7.92	9.50	11.41	13.69	16.42
Surplus (Deficit)	1.04	3.72	6.53	7.35	6.74	(.62)
Cumulative Surplus (from 1988)	1.04	4.76	11.29	18.64	25.38	24.76

* Modified slightly for change in interest on cumulative surplus.

TABLE C-10

FUSADES INCOME PROJECTIONS

PROJECTION B

Basic Assumptions

1. FUSADES receives net interest income from all loans.

2. Equity participation - FUSADES will have a minimum equity participation of $5 million in client company projects by 1990. Rate of return is assumed to be 20 percent. Repurchase agreement to include a five-year buy back clause.

3. Other donors will contribute a minimum of $100 thousand per year by 1990.

4. Funding - each AID line of credit will be disbursed according to the following schedule #2.

5. All loan principal collected will be available for re-investment.

6. Consulting fees of $50 thousand will be generated by DIVAGRO beginning in 1990 and will increase by 10 percent annually.

Schedule #2

Credit Line

#287
- o $15 million disbursed equally 1988-1989-1990.
- o $15 million disbursed equally 1991-1992.
- o Total of $30 million disbursed by end of 1992.

#303
- o $9 million disbursed equally 1988-1989-1990.
- o Total of $10 million disbursed by end of 1992.

#327
- o $9 million disbursed by year-end 1990.
- o $10 million disbursed equally 1991-1992.
- o Total of $20 million disbursed by end of 1992.

#304
#318
- o $1 million disbursed equally 1988-1989.
- o $2 million disbursed equally 1990-1991.
- o Total of $4 million disbursed by end of 1991.

TABLE C-11

SOURCES OF INCOME: 1988-1993

PROJECTION B

(Millions of dollars)

	1988	1989	1990	1991	1992	1993
AID Funds	6.60	7.99	8.96	6.95	6.22	.50
Loan Interest						
#287 ($15M) 1988 ($15M) 1990-1992	.31	1.23	1.86	2.79	3.73	3.80
#303 ($10m L.C.)	.18	.74	1.12	1.13	1.12	1.12
#327 ($10M) 1987-1992 ($10M) 1990-1992	-	-	1.78	2.34	2.84	2.90
#304 ($2M) 1988 #318 ($2M) 1990-1992	.07	.15	.29	.44	.45	.45
Subtotal	.56	2.12	5.05	6.70	8.14	8.27
Non-Credit Activities						
Consulting Fees	-	-	.05	.06	.06	.07
Publications	.04	.05	.05	.06	.07	.08
Training	.02	.02	.03	.03	.04	.04
Fees	.10	.12	.14	.16	.18	.20
Other Donor Funds	-	-	.10	.10	.10	.10
Equity Returns	-	-	-	1.00	1.00	1.00
15 % Interest on Cumulative Surplus	-	.11	.53	1.48	2.46	3.47
Subtotal	.16	.30	.90	2.89	3.91	4.96
GRAND TOTAL	7.32	10.41	14.91	16.54	18.27	13.73

DEVELOPMENT ASSOCIATES, INC.

TABLE C-12

SCENARIO III

PROFIT AND LOSS STATEMENT

(Millions of dollars)

Expenses Assumption #3

Costs	YEAR 1988	1989	1990	1991	1992	1993
Fixed	2.18	2.51	2.73	3.32	3.82	4.39
Variable	4.42	5.08	5.84	6.72	7.73	8.89
Total Costs	6.60	7.59	8.57	10.04	11.55	13.28

RECAP

Income Projection B

Income	YEAR 1988	1989	1990	1991	1992	1993
AID Non-Credit Asst.	6.60	7.99	8.96	6.95	6.22	.50
From Credit Funds	.56	2.12	5.05	6.70	8.14	8.27
Non-Credit Activities	.16	.30	.90	2.89	3.91	4.96
Total Income	7.32	10.41	14.91	16.54	18.27	13.73
Expenses (Less)	6.60	7.59	8.57	10.04	11.55	13.28
Surplus or (Deficit)	.72	2.82	6.34	6.50	6.72	.45
Cumulative Surplus (from 1988)	.72	3.54	9.88	16.38	23.10	23.55

0546y/12.88

TABLE D-1

FINANCIAL STATUS OF AGRICULTURAL PORTFOLIO
AUGUST 31, 1988

Applicant	Purpose	Type	Amount Approved	Date Approved	Date Authorized	Disbursements To Date
1. Agroindustrias Diversas, S.A.	Working Capital Cucumbers	B	474,690.00	29-Oct.-87	03-Dec -87	144,005.63
2. Agroindustrias Diversas, S.A.	Equipment Cucumbers	B	23,444.00	29-Oct.-87	03-Dec.-87	23,444.00
3. Alvarez Valdes, Ernesto	Working Capital Ornamentals	B	60,000.00	29-Oct.-87	07-Dec.-87	10,000.00
4. Alvarez Valdes, Ernesto	Equipment Ornamentals	B	106,151.00	29-Oct.-87	07-Dec.-87	88,319.64
5. Cardoza, Jose G.	Equipment Honeydew Melons	A	72,720.00	24-Sept.-87	05-Jan.-88	50,904.00
6. Cardoza, Jose G.	Infrastructure	A	43,053.40	24-Sept.-87	05-Jan.-88	29,217.60
7. Exportadora Salvadorena, S.A.	Equipment Cantaloupe	B	512,835.00	15-Oct.-87	23-Feb.-88	63,937.50
8. Exportadora Salvadorena, S.A.	Working Capital Cantaloupe	B	254,052.00	15-Oct.-87	23-Feb.-88	0.00
9. Exportadora Salvadorena, S.A.	Equipment Cantaloupe	B	392,000.00	15-Oct.-87	23-Feb.-88	0.00
10. Inversiones Santa Maria, S.A.	Equipment Coffee	A	33,500.00	31-Mar.-87	21-Jul.-87	33,500.00
11. Mena Lagos, Alfredo Antonio	Equipment Coffee	A	42,567.20	18-Feb.-88	19-Apr.-88	42,567.20
12. Moreno Ceren, Jose Manuel	Equipment Cucumbers	A	10,460.20	12-Mar.-87	21-Jul.-87	10,460.20
13. Sociedad La Esperanza, S.A.	Equipment Roses	A	17,600.00	07-May-87	21-Jul.-87	17,600.00
14. Lopez-Avila, Soc.Agricola Samayoa	Working Capital Marigolds	B	73,544.80	28-May-87	31-Jul.-87	73,544.80
15. Lopez-Avila, Soc.Agricola Samayoa	Equipment Marigolds	B	76,500.00	14-Feb-88	05-Mar.-88	76,500.00
16. Lopez-Avila, Soc.Agricola Samayoa	Working Capital Marigolds	B	112,500.00	07-Jul-88	16-Aug.-88	20,337.30
17. Carlos R. Granillo	Equipment Various Produce	A	6,900.00	19-Nov.-87	05-Jul.-88	6,900.00
18. Ballette De Llovera Maria Alicia	Equipment Coffee	A	45,441.60	14-Apr.-88		

TABLE D-1 (Continued)

Applicant	Purpose	Type	Amount Approved	Date Approved	Date Authorized	Disbursements To Date
19. Pruvex, S.A. De C.V.	Equipment Melons	B	359,097.60	09-June-88	-	-
20. Bon Appetite, S.A.	Plant Various Produce	B	1,209,650.00	27-June-88		
21. Melonera Del Pacifico, S.A. De C.V.	Plant Cantaloupe	B	394,919.40	27-July-88		
22. Guerra, Alex Alberto		A	10,186.80	18-Aug -88		
TOTALS			4,331,813.00			692,237.95

ANNEX D

TABLE D-2

ECONOMIC AND SOCIAL IMPACT OF AUTHORIZED PROJECTS

Borrower	Value of Annual Production ($)		Value of Annual Exports ($)		Land Under Cultivation		Labor Generation (Men/Days)	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
1. Agroindustrias Diversas, S.A.		6,472		6,472	69.88	6.99		252
2. Alvarez Valdés Ernesto		12,200		12,200	6.99	6.99		5,600
3. Cardoza. Jose G.		1*		1*	33.50	35.00		480
4. Exportadora Salvadorena, S.A.		2*		2*	525.00	2*		4,800
5. Inversiones Santa Maria, S.A.		1*		1*	10.48	10.48		630
6 Mena Lagos, Alfredo Antonio		1*		1*	16.10	16.10		0
7 Moreno Ceren, Jose Manuel		3*		3*	2.80	2.80		480
8. Sociedad La Esperanza, S.A.		NA	0	0	3.32	3.32		720
9. Lopez-Avila, Soc.Agricola Samayoa		54,880	0	0	31.45	31.45		3,364
10. Carlos R. Granillo		40,800			46.82	38.50		5,490
TOTALS	0	114,352	0	18,672	746.34	151.63	0	21,816

1* Not in production (off season)

2* Not in production (Plant under construction)

3* Production reported by model "B" plants (AGRIDSA)