

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

PD-ABC-397

A. REPORTING A.I.D. UNIT: <u>USAID/Guatemala</u> (Mission or AID/W Office) (ES# <u>90-07</u>)	B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes <input checked="" type="checkbox"/> slipped <input type="checkbox"/> ad hoc <input type="checkbox"/> Eval. Plan Submission Date: FY <u>89</u> <u>0</u> <u>4</u>	C. EVALUATION TIMING Interim <input type="checkbox"/> final <input type="checkbox"/> ex post <input type="checkbox"/> other <input checked="" type="checkbox"/>
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D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; If not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
PL-480	Title: PL-480 Title I Evaluation for Guatemala, July 1989.				

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR	Name of officer responsible for Action	Date Action to be Completed
1) Distribute copies of the evaluation report among the Guatemalan Ministries and Agencies having participated in the evaluation, together with briefings as deemed appropriate.	ORD and PRG Offices	March 90
2) Assist MAGA in the development and implementation of a system for adopting coherent agricultural policies concerning investment, production, consumption, and trade which will support agricultural productivity growth.	ORD Office	Continuous
3) Reprogram Title I and Section 416 local currencies that are held by the Ministry of Finance.	USAID-Embassy MINFIN-MAGA	March 90
4) Establish a Unit for Control and Monitoring of PL 480 Title I and Section 416 Projects with participation of the Ministry of Finance and USAID.	USAID-MINFIN MAGA	June 90
5) Based on the above, Negotiate 1991 PL 480 Title I Program relying on wheat, and maintaining to the extent possible, the current \$18 million annual level, relying upon appropriate policy-driven self-help measures.	PL 480 Title I XG-AID-Embassy Committee.	Continuous

(Attach extra sheet if necessary)

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo ___ day ___ yr ___

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

Project/Program Officer Signature: <u>Roberto J. Castro</u> Typed Name: <u>Roberto J. Castro</u> Date: <u>12/24/90</u>	Representative of Borrower/Grantee Signature: <u>Thomas Kellerman</u> Typed Name: <u>Thomas Kellerman</u> Date: <u>N.A.</u>	Mission or AID/W Office Director Signature: <u>Terrence J. Brown</u> Typed Name: <u>Terrence J. Brown</u> Date: <u>12/12/90</u>
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H. EVALUATION ABSTRACT (do not exceed the space provided).

This Evaluation covered six PL-480 Title I, and three Section 416 Contracts, which began in FY 1984. Both programs make commodities available to the Government of Guatemala (GOG) on a concessionary basis; in the case of Section 416, the commodities are donated, while Title I PL 480 provides long-term loans (up to 40 years). These programs have been used to import \$117.9 million worth of commodities through FY 1989, and the FY 1989 level was \$18 million. Six commodities have been imported under these programs: wheat, corn, vegetable oil, tallow, non-fat dry milk, and rice. However, the program has been used exclusively for wheat imports for the last 2 years.

The impacts of Title I and Section 416 Programs are the following: (1) Producer Production Incentives: The impact of wheat imports on corn production are indirect and likely quite small mainly because of the administered wheat prices. These have been held relatively high and have increased in real terms; making wheat products relatively more expensive than corn products. Additionally, corn stocks have not increased, and there have been no pressure on corn prices from excess supplies. (2) Nutritional Impacts: The commodities sold under the Title I Program added directly to the foodstuffs available in the country. (In 1987 more than 7% of basic grains available). The imported wheat increased indirectly the availability of food for the poor. Because of relatively high prices, wheat is consumed more in urban areas and by higher income consumers, which reduces competition from urban consumers for the available supply of corn. (3) Balance of Payments Effects: The GOG has run a significant balance of payments deficit since 1984. In this context, the impact of the Title I and Section 416 Programs have been positive. These programs have increased government revenues in each of the years FY 1984-88, and reduced the total deficit from levels that otherwise would have been required. And, they have reduced foreign exchange requirements. (4) Agricultural Development: Real currency generated by the sale of concessionary imports have contributed a significant share of the resources that continued to be available to support the development of rural areas and the growth of agricultural productivity.

The evaluation team found that nearly one half of the currency generated by the sale of Title I and Section 416 commodities has not been spent, which was identified as the main implementation problem. To improve Title I project implementation, the team identified a number of options and sub-options. Among those are: (1) increase the amount of project planning and oversight; and, (2) make the MOU projects less specific.

The main recommendations of the team are: (1) Maintain the current reliance on wheat and the current \$18-million level for future PL 480 Title I Programs. (2) Consider measures to increase an effective use of unspent local currency generated by the Title I and Section 416 Programs. In this regard, the evaluators recommended: First, the GOG and USDA should increase their involvement in the development and implementation of a very small number of priority activities funded through Core Development Budget Funds; and, an increasing share of Title I funds should be made available through that channel. (3) Because of the lack of arable land and continuing rapid population growth, it is unlikely that future grains production increases sufficient to maintain or improve Guatemalan diets can be achieved without substantial increases in agricultural productivity. (4) USAID should cooperate with the Ministry of Agriculture to develop and elaborate coherent agricultural and economic policies to support sustained productivity growth.

L EVALUATION COSTS

1. Evaluation Team Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US\$)	Source of Funds:
J.B. Penn	Sparks Commodities	10 days	10,000	PD&S
William Motes	Sparks Commodities	10 days	10,000	PD&S
Ileana Pinto	Consultores AgroIndus triales.	30 days	15,000	PD&S/ Local Currency

2. Mission/Office Professional
Staff Person-Days (estimate) 10

3. Borrower/Grantee Professional
Staff Person-Days (estimate) 1

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/Guatemala

Date this summary prepared: August 1990

Title and Date of Full Evaluation Report: PL-480, Title I Evaluation for Guatemala

The evaluation covered all PL-480 Title I and 416 Programs since FY 1984. The 416 Programs were intended to help offset the impact of U.S. reductions in sugar imports from Guatemala. The purpose of the study was to evaluate the operations of these programs, and their impacts on the nation's nutrition levels, agricultural sector, and economic policies. Each of the six Title I PL-480 contracts, beginning in FY 1984, were evaluated, as well as the two Section 416 Contracts of FY 1986 and FY 1987. Individual contracts were analyzed and the self-help measures evaluated as well as the proposed projects to be funded with currencies generated by these programs. A joint team of expatriate advisors (Sparks Commodities) and local experts (Consultores Agroindustriales) spent 4 weeks in total to carry out these tasks. This joint effort led to a comprehensive study in a relatively short period of time. The evaluation team reviewed all existing documentation in USAID and GOG files, and used informal surveys to interview key people responsible for implementing projects and activities specified in the memoranda of Agreements and visited selected project sites. The questions that were addressed included:

- What activities/projects have these programs been supporting?
- Have these activities/projects been appropriate in terms of the priority needs of Guatemala?
- Have the programmed self-help measures been implemented, and if so, to what extent they contributed to address constraints impeding the growth of agricultural productivity?
- Are tangible results from Title I program assistance observable today?
- What problems impeded successful implementation of proposed projects/activities?

Throughout the evaluation process, the team met frequently with key AID and GOG officials to identify themes relevant to the impact of Title I and Section 416 Programs in the field.

Principal Findings and Conclusions: The Study found that commodities made available to the GOG under PL-480 Title I and Section 416 Programs, amounted to \$117.9 million through FY 1989, and that the FY 1989 level was \$18 million. Six commodities have been imported under these programs: wheat, corn, vegetable oil, tallow, non-fat dry milk, and rice. Although the Title I program has been used exclusively for wheat imports for the last 2 years, corn remains the chief staple food in Guatemala. The primary factor limiting corn consumption appears to have been its limited supply. Nevertheless, the availability of both wheat and corn appears to depend on GOG policies. Reliance on basic grains has increased as income pressures have further restricted access to animal proteins. In this context, wheat production has become increasingly significant in Guatemala in recent years. The PL 480 Title I and Section 416 Programs have contributed to meet increasing demand requirements for basic grains..

Impact of Title I and Section 416 Programs: These two programs have had the following impacts:

- Production Incentives: the impact of wheat import increases on corn production are indirect, and likely quite small because of the following reasons: (1) The administered wheat prices have been held relatively high; in spite of the imports, they have been increased in real terms; (2) Corn prices have declined in real terms, and wheat products have become relatively more expensive than corn products as a result of GOG policies; (3) Although, corn stocks have not increased, there appears to have been no pressure on corn prices. (4) Corn prices have declined in real terms, primarily as a result of administration policies (i.e. prohibition to export basic grains) and the ineffectiveness of the parastatal INDECA in maintaining production incentives.

The likely relatively small indirect impacts came primarily from reduced competition from urban consumers for the available supply of corn. Wheat imports have increased the total amount of grain available for consumption in the country, which explains the nutritional benefits of the Title I Program. By maintaining high prices for wheat and flour, the GOG has maintained domestic wheat production levels at about 50,000 m.t./year, and has avoided disincentives to produce corn domestically. Because there is not a strong relationship between corn and wheat prices, the likely impacts of high prices on corn production has been quite small.

b) Nutritional Impacts: The majority of the Guatemalan population suffers from some degree of undernourishment, and in a high proportion of cases, the undernourishment is severe. In such a context, the contribution of Title I and Section 416 Programs are extremely important for at least three reasons: First, those programs add directly commodities to the food stuffs available in the country (in 1987 added more than 7%). Second, imported wheat can be expected to increase indirectly the availability of food for the poor, including those who consume little bread. Increasing the total amount of grain available likely prevents those who can afford to buy bread from bidding corn away from those who cannot; third, both programs make funds available for investment in infrastructure and better education targeted for the poor in rural areas.

c) Fiscal and Budget Impacts: In absence of the Title I Program, the country would have imported Title I commodities commercially, which would have required payment in dollars over a 3-year period with interest cost of about 8%. The foreign exchange requirements, under this situation, could have range from \$2.3 million in FY 1984 to nearly \$28 million in FY 1987. The FY 1989 cost would have been about \$23 million. The actual costs of the Title I Program to date have been much smaller than they would have been had Guatemala paid cash for the same commodities. Assuming that the commodities imported under Title I would have been imported commercially, in the absence of that program (but those imported under Section 416 would not), the Title I Program has reduced the balance of payment deficit nearly by \$93 million during the last six fiscal years.

d) Title I and Agricultural Development: Because the GOG has faced severe economic and financial problems, it drastically reduced government spending in real terms through much of the 1980s. Expenditures on agriculture were particularly hard hit, basic grains more affected than export crops. Local currencies generated by the sale of concessionary imports have contributed a significant share of the resources that continued to be available to support the development of rural areas and the growth of agricultural productivity. These resources ameliorated the impact of a significant reduction of GOG expenditures through much of the 1980's, due to severe economic and financial problems.

Implementation Problems: The program's capacity to move important amounts of high quality products into Guatemala, without disrupting local markets, appears to be working relatively well, especially for wheat. In spite of this smooth operation and the very positive impacts, the Title I program faces serious implementation problems, largely from conflicts over program purposes. These problems are related to the use that is made of the currency generated by the sale of imported commodities. Nearly one-half of the funds generated through those programs have not been spent. Past procedures have led to unfunded projects and unused funds for several reasons. Among them are: (1) Title I and Section 416 projects often are proposed out of the actual budget cycle of the GOG. The problem is made more difficult by the time pressures that come when contracts are signed late in the U.S. fiscal year, under conditions that require shipment of commodities very quickly; (2) The GOG often is under pressure not to spend beyond legal expenditure limits, and pressure from multi-lateral lending institutions frequently gives the government strong incentives not to spend project funds; (3) Title I and Section 416 projects generally have varied substantially from year to year. Most are relatively small and lack continuity.

The problems in implementing Title I projects appear likely to persist, or even worsen in spite of the nation's acute need for agricultural development. At least three options and a number of sub-options are available that could be expected to improve Title I project implementation. These are: (1) Continue to program Title I local currency efforts through specific projects, but substantially increase the amount of project planning and oversight to ensure that the MOU projects fully reflect the share priorities, that the prefeasibility and planning efforts are complete before the projects are funded, and that the funds available are spent for the intended purpose on schedule. (2) Make the MOU projects less specific in one of

several ways: (a) Program all (or most) of the local currencies into Core Development Budgets, which have relatively higher implementation rates; (b) program much larger amounts of local currencies for use as counterpart funds for specific, large projects; (c) program larger amounts through the Section 108 Program. However, since these funds are administered by U.S. personnel, such an approach would be similar to the first option.

Recommendations: The evaluation team, based on the above findings, recommends:

1) Because of the Title I Program's beneficial impacts, the availability of food, its positive fiscal and balance of payments impacts, and its potential for supporting agricultural and rural development, a continued and substantial Title I program can be beneficial in Guatemala. The current reliance on wheat and the current \$18 million annual level could be expected to provide substantial benefits.

2) The Mission and USDA should consider measures that will increase the effective use of the local currencies that now are held in the Ministry of Finance. In this context, two basic recommendations are presented: First, the Ministry of Finance and USDA should increase their involvement in the development of a very small number of priority activities to be funded through Core Development Budget (CDB) Funds; Second, the Mission should increasingly plan and coordinate direct support for the implementation of large agricultural development projects through CDB funds, and an increasing share of the Title I local currency funds should be made available through that channel.

3) Because of the lack of available land, continuing rapid population growth, acute need for growing productivity in the agricultural and food sector, but at the same time little appreciation of the necessity for coherent agricultural policies to support substantial productivity growth, it is recommended that USAID cooperate with the Ministry of Agriculture to develop and elaborate a system for inducing coherent agricultural policies concerning investment, production, consumption prices, and trade; and assisting in the development of resources to carry them out.

The main lessons that can be derived from the evaluation report are: (1) It is imperative to take some corrective action to address the problems in implementing Title I projects; these problems are likely to worsen if current procedures are not improved; (2) To avoid GOG's increasing dependency on imported food, there is an urgent need to cooperate with the GOG in pursuing coherent policies to support sustained basic grains productivity growth.

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

Report titled: PL-480 Title I Evaluation for Guatemala by Sparks Commodities, Inc. July 1989.

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

The USAID Mission of Guatemala concluded that the evaluation of the Title I PL 480 and Section 416 Programs is thorough and comprehensive. It helped both the Mission and the GOG to have a better understanding of the issues related to food aid and the use of local currency generated from the sale of food commodities that were made available under PL-480 Title I and Section 416 Programs.

A mix of foreign expatriate and local experts spent sufficient time interviewing key persons involved in implementing both programs. The participation of local experts provided a full picture of the realities both in the field and in the implementing offices. Their understanding of the local bureaucracy allowed them to measure, as much as possible, the impact of Title I Programs, as well as to identify the problems encountered in their implementation.

The evaluation methodology focussed on the rapid reconnaissance approach. As such, an informal survey was carried out at different implementation stages of both programs. This survey was essential to have a rapid but comprehensive view of the impact and problems that derive from imported food commodities. The findings and recommendations of the evaluation team agreed with the views of some AID Staff about these two programs. Furthermore, the evaluation report has been produced in both English and Spanish languages. The latter, is helping the GOG Officials to have a better understanding of the spirit and mandate of Title I and Section 416 Programs.

The evaluation team went beyond the proposed scope of work. In addition to examining the operational aspects of the Title I and Section 416 Programs, the study provides an overall view and future perspectives of the agriculture and food sector of Guatemala. In this context, the evaluators identified critical policy issues that will require Mission's attention. In addition, the analysis of the impact of the Title I and Section 416 Programs is an excellent attempt to provide solid econometric justification. One of the most relevant findings of the evaluators concerned the use that is made of the currency generated by the sale of imported commodities. Nearly one half of the funds generated through the Title I PL 480 and Section 416 Programs have not been spent. This finding led to the basic recommendation of the necessity to improve the Title I project implementation process. A number of projects have not been implemented because of delays in disbursement, while others have lacked continuity in their financing.

Regarding the overall food and agriculture sectors, the report provides good arguments for establishing a system for developing and elaborating coherent policies concerning investment, production, consumption, price and trade to induce sustained productivity growth in those sectors. The analysis of the wheat policy is an example of how a country could avoid negative pressures from food aid on the domestic production of basic grains.

Overall, the USAID/Mission of Guatemala is very pleased with the evaluation document. The general consensus is that the report is an excellent factual assessment of the Title I and Section 416 Programs as they have operated in Guatemala over the past five years.