

FD-ABC-972

A.I.D. EVALUATION SUMMARY - PART I

1 BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS
 2 USE LETTER QUALITY TYPE, NOT DOT MATRIX TYPE

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office (ES# <u>FY91-5</u>) <u>USAID/Honduras</u>	B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan? Yes <input type="checkbox"/> Slipped <input checked="" type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY <u>90 Q 4</u>	C. Evaluation Timing Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input 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 No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
522-0209	Small Farmer Livestock Improvement	1983	9/90	13,000	13,000

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
<p>Attachment B to this Evaluation Summary contains the list of evaluation recommendations. All these recommendations have been accepted by the Fondo who is taking actions to implement them. The two Mission pending actions are:</p> <ol style="list-style-type: none"> 1. Prepare Project Assistance Completion Report. 2. Close out Project accounts and deobligate unexpended balance of \$52,438 in DA Loan funds. 	<p>USAID/Honduras</p> <p>USAID/Honduras</p>	<p>5/91</p> <p>5/91</p>

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) 06 (Day) 05 (Year) 91

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
	Debert McClusky ARDO		Donald Soules, ODP Carmen Zambrana	John A. Sanbrailo
Signature				
Date			6/5/91	

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The project's purpose was to increase the number and the productivity of Honduras' small and medium-sized individual and group farm livestock operations, thereby resulting in an increase in the national herd and in domestic production of livestock products. To achieve this purpose, the project established the Fondo Ganadero de Honduras (Fondo), a mixed-capital, producer controlled corporation which continues to implement the project. The final evaluation was carried out by Chemonics International Consulting Division, based on a review of project documents, visits to 23 Fondo clients (about 18 percent of total clients), and interviews with both USAID/Honduras and Fondo staff. The purpose of the evaluation was to measure the Fondo's impact on the project's objectives and purposes, and on the Honduran livestock sector. It also assessed the Fondo's financial status and prospects for self-sustaining financial viability. The major findings and conclusions are:

- The Fondo's livestock-on-deposit and complementary credit operations are operating normally; the in-kind credit program for cattle loans has been temporarily suspended due to unfavorable market and inflationary considerations.
- Fondo farm supply outlets are operating at a profit and are financially self-sustainable.
- There has been a positive increase in adoption of new technologies, but productivity has not increased sufficiently.
- The project has had a positive economic impact on participants.
- There is a higher rate of return in the growing and fattening operations (15-25%) than in the dual purpose and breeding operations (3-7%). This tends to attract more participants into the growing and fattening operations, despite the greater importance of breeding to the long-term objective of increasing herd size.
- Increased stock sales to augment capitalization of the Fondo should be pursued.

The lessons learned are that:

- A for-profit, private sector organization cannot, in times of serious financial adversity, be expected to continue to support those goals or activities which are not considered essential to its survival. Conversely, this type of organization can only be expected to actively support social benefit goals when it is in a relatively secure economic position.
- An enterprise which is expected to become a self-sustainable profit-oriented business should not be given long-term concessionary terms. If it cannot stand alone without strong concessionary support, or raise sufficient private sector support, it should not be undertaken as a profit-making private sector activity.

COSTS

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Leslie Teixeira	Chemonics	22	\$ 4,913	PD&S
Robert Moffett	Chemonics	27	10,260	"
Vincent Morabito	Chemonics	7	3,139	"
Other Direct Costs		_____	13,540	"
TOTAL		56 days	\$ 31,852	

2. Mission/Office Professional Staff Person-Days (Estimate) <u>25 days</u>	3. Borrower/Grantee Professional Staff Person-Days (Estimate) <u>29 days</u>
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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

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

Mission or Office:

USAID/Honduras

Date This Summary Prepared:

May, 1991

Title And Date Of Full Evaluation Report:

Final Evaluation of the Small Farmer Livestock Improvement Project January 1991

1. PURPOSE OF THE EVALUATION AND METHODOLOGY USED

The purpose of the evaluation was to measure the impact of the Fondo Ganadero on the objectives and purposes of the project and on the Honduran livestock sector, particularly on the participating farmers. The evaluation also assessed the Fondo's current financial status and its prospects for self-sustainable financial viability.

The evaluation team was comprised of a livestock specialist, an evaluation specialist, and a finance and credit administration specialist. The evaluation was carried out on the basis of site visits, review of the Fondo's financial and administrative records and procedures and interviews with USAID/Honduras and Fondo staff. A preliminary report outline and draft survey form were developed and reviewed by the A.I.D. project officer. The scope of work was modified to clarify the focus of the evaluation on the Fondo's financial status and its long-term financial viability, and the overall development impact of the project.

Visits were made to 23 beneficiaries: 3 Category A (small individual operators); 6 Category B (campesino groups); and 14 Category C (medium sized individual operators), as described in section B.1.b of the final evaluation report. Visits were also made to the Fondotienda in San Pedro Sula and the Home Farms at Manacal and Puerto Arturo.

2. PURPOSE OF THE PROJECT

The Small Farmer Livestock Improvement (522-0209) Project was authorized on September 30, 1983 for total A.I.D. funding of \$13 million (\$3 million grant funds, and \$10 million loan funds). The purpose of the project was to increase the number and the productivity of small and medium sized individual and group farm livestock operations, resulting in an increase in the size of the national herd and the domestic production of livestock products. To achieve this purpose the project established the Fondo Ganadero de Honduras, a mixed capital, producer controlled livestock corporation. The Fondo is a profit oriented business with a development focus. Its principal functions are to provide in kind credit (cattle), technical assistance, and infrastructure credit to small and medium-sized individual producers and organized peasant farmer (campesino) groups interested in initiating or expanding their livestock operations.

3. FINDINGS AND CONCLUSIONS

The evaluation team found that the modifications made as a result of various midterm assessments - in terms of farm and enterprise size - and the related parameters for the selection of participating farmers were justified during the time period in which they took place. They were needed for the Fondo to develop financial stability. The major findings and conclusions are summarized as follows:

(a) Livestock-on-Deposit (LOD) Program: There are 13,966 head of cattle on deposit with Fondo participants under 124 separate production contracts. The Fondo has expanded its LOD growing and fattening activities by purchasing the "raw materials" locally rather than waiting for it to be produced by its LOD program "mother herd".

The LOD program is functioning normally, with the following rates of return to the various enterprise options:

* Dual Purpose	5-7%
* Breeding	3-6%
* Growing	15-20%
* Fattening	15-25%

(b) In-Kind Credit: The decision to initiate this activity was based on expressed client interest and the Fondo's assessment of selected client needs. The program was recently suspended in view of various market and inflationary considerations, an action which was logical given the financial position of the Fondo, current conditions of inflation, and the increasingly stronger export market for slaughter cattle.

(c) Infrastructure Credit: Approximately 40 percent of the total number of loans under this activity were made to the campesino groups or cooperatives of Category B, reflecting the general lack of infrastructure normally prevailing in these groups. This program is functioning normally, providing valuable support to the Fondo's livestock program. The intrinsic value of this activity is such that it should be continued by the Fondo even if some negative cash flow occasionally occurs as a result of Government of Honduras rigid interest rate controls.

(d) Production of Mineral Supplements (FONDOSAL): Two blends are produced -- one for breeding and fattening, and the other for dual purpose programs. The mineralized salt mixture produced by the Fondo, continues to gain excellent market acceptance and increasingly expands its contributions to the income of the Fondo.

(e) Supply Outlets (Fondotiendas): Sales and earnings of the Fondo farm supply outlets, after a slow start, have continued to increase quite rapidly. The number of outlets (Fondotiendas) has grown from one to three, and a fourth is being projected. The Fondotiendas operation business has proven to be complementary to the Fondo's livestock program, as well as a profit center helping to cover general overhead.

(f) Beneficiary Technical Assistance and Training: Beneficiary technical assistance has not been as intensive as was initially projected. However, there have been marked improvements in calf and adult mortality rates, rates of gain, milk production, overall herd health, and adoption of improved pasture management techniques. These indicate that the Fondo's informal technical assistance is working. However, there are still problems with the fertility of the Fondo cow herd, as reflected in relatively low calving rates.

(g) Financial Status: During the past two years the Fondo has increasingly demonstrated a business management strategy consistent with that of a serious private sector enterprise. Management has established control of the company and is managing it on a for-profit basis. A marked turnaround in the financial status of the Fondo began in 1988 and appears to be gaining considerable strength. Changes in the Fondo's business plan place more emphasis on activities with higher rates of return. Pricing practices and inventory management at the Fondotiendas have been modified to compensate for inflationary and devaluation related pressures. The Fondo has attained its financial stability but needs to improve its management of the depositor contracts.

(h) Stock Sales to the Public: The Fondo is positioned to experience significant increases in the value of all classes of its common and preferred stock. It is reasonable to forecast up to a 50 percent return on investment by year-end 1990. However, the Fondo's improved financial performance has not mobilized significant additional private investment capital through the sale of Class B and C shares.

SUMMARY (Continued)

(i) Beneficiaries: There is evidence that the project has had a positive economic impact on participants. The total number of livestock producing families involved in the project to date is estimated at between 800 and 900. Due to the need for the Fondo to become a financially viable and self-sustainable business entity, the original beneficiary selection criteria were modified. Now that it has reached financial stability the Fondo can consider a renewal of the initial project focus on smaller operations.

(j) Home Farms: The Fondo has four farms which its overall operations by producing replacement heifers for its cow herd, growing and fattening male calves, and serving as holding for livestock in transit. The farms are productive profit centers whose operations are consistent with the Fondo's primary objectives.

4. RECOMMENDATIONS

Principal Recommendations: The Fondo should: (a) establish a clear, concise and timely productivity-indexed cost and revenue accounting system for each depositor's contract; (b) turn its attention to building up a quality cow herd to preclude excessive exposure to a downturn in export and local prices; (c) be careful to not neglect its FONDOSAL operation, which is an effective income generation activity; (d) focus beneficiary technical assistance on regularly scheduled palpation of cows, improving nutrition, and eliminating cows with reproductive disorders or other limitations; (e) be careful to orient beneficiaries prior to placement of cattle, emphasizing the rudiments of good herd management; and (f) continually reassess eligibility for its programs, and immediately eliminate from the program any participant who has low productivity or demonstrates signs of mismanagement.

Please refer to Attachment B for a more detailed listing of these and other recommendations.

5. LESSONS LEARNED

The principal lessons learned can be summarized as follows:

- A for-profit, private sector organization cannot, in times of serious financial adversity, be expected to support for long those goals or activities, which are not considered essential to its survival. Conversely, this type of organization can only be expected to actively support social benefit goals when it is in a relatively secure economic position.
- An enterprise which is expected to become a self-sustainable and profit-oriented business should not be given long-term concessionary terms. If it cannot stand alone without strong concessionary support, and cannot raise sufficient private sector support, it should not be undertaken as a profit making private sector activity.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

- A. Outline of Basic Project Identification Data.
- B. Evaluation Recommendations.
- C. Final Evaluation of the Small Farmer Livestock Improvement Project. This evaluation report was submitted to AID/W on January 18, 1991.

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

USAID/Honduras believes the final evaluation of the Small Farmer Livestock Improvement Project 522-0209 presents an accurate picture of the Fondo Ganadero's current financial and operational status, and correctly portrays it as demonstrating behavior "consistent with that of a serious private sector enterprise." However, some additional comment is merited concerning the lessons learned based upon the Mission's experience with the project.

The financial self-sufficiency of nascent private sector entities established for or tasked with implementing development projects simply cannot be assumed and left to chance. It must be recognized from the outset that survival is the primary objective for any private entity, and that attainment of financial self-sufficiency must therefore be a principal focus of project implementation. Unfortunately, the actions required to attain financial self-sufficiency, and to achieve development objectives, can all too easily be mutually exclusive. Within this context, the evaluation team's statement of lessons learned can be more accurately stated as: "A private sector organization cannot be expected to support for long those goals or activities which are not considered essential to its survival, and can only be expected to actively support social benefit goals once it attains a relatively secure economic position."

In recognition of this, the design of private-sector implemented projects must carefully define and balance development and financial self-sufficiency factors to ensure their compatibility. Carrying out an enterprise feasibility study and developing a business plan for any private sector implementing entity is a must if these factors are to be appropriately balanced.

Finally, the principal output contained in the Project Logframe as a precondition for achieving the Project purpose was "Establishment of a FONDO GANADERO in Honduras." The project's successful establishment of a broadly based, producer controlled, profitable livestock corporation during a period when the Honduran livestock industry was experiencing a marked decline in production constitutes a considerable achievement. The further evidence that the Fondo Ganadero is having a substantial development impact of the purpose level, combined with the prospects for expanding that impact over time, qualify the Small Farmer Livestock Improvement Project as a successful undertaking.

BASIC PROJECT IDENTIFICATION DATA

1. Country: Honduras
2. Project Title: Small Farmer Livestock Improvement
3. Project Number: 522-0209
4. Project Dates:
 - a. First Project Agreement: 9/28/83
 - b. Final Obligation Date: 3/15/86
 - c. Most Recent Project Assistance Completion Date (PACD): 9/29/90
5. Project Funding:
 - a. A.I.D. Bilateral Funding (Grant and/or Loan): US\$ 13.0 million
 - b. Other Major Donors: -
 - c. Host Country Counterpart Funds: 4.5 million
 - Total: US\$ 17.5 million
6. Mode of Implementation: Fondo Ganadero de Honduras, S.A. de C.V., with Technical Assistance under A.I.D. Direct Contracts with Winrock International and Servicios Técnicos del Caribe.
7. Project Designers: USAID/Honduras and the Government of Honduras
8. Responsible Mission Officials:
 - a. Mission Directors:

Anthony Cauterucci	9/83 - 5/86
Carl Leonard	5/86 - 11/86
John A. Sanbrailo	12/86 - PACD
 - b. Project Officers:

Brian Rudert	9/83 - 5/85
Kurt A. Rockeman	6/85 - 11/87, 9/88 - 8/89
Michael Maxey	12/87 - 8/88
Delbert McClusky	9/89 - PACD
9. Previous Evaluations: Interim Evaluation - 11/10/87

EVALUATION RECOMMENDATIONS

The following recommendations have been discussed with the Fondo Board of Directors and management, who have accepted and are taking action to implement them.

1. Financial Status and Management:

(a) A clear, concise and timely productivity-indexed cost and revenue accounting system should be established for each depositor's contract.

(b) The profits and costs of each phase of the three-phase livestock production system should be evaluated on a quarterly basis.

(c) Fondo staff should select participants in accordance with strict criteria based on the participant's ability to perform on an economically successful basis.

(d) Senior Fondo staff should evaluate both staff and participants by the same productivity based standard.

(e) Fondo staff responsible for contract management should be given economic incentives for meeting productivity goals.

2. Livestock-on-Deposit Program: The Fondo must turn its attention to building up a quality cow herd to preclude excessive exposure to a downturn in export and local prices.

3. In-kind Credit Program: The In-kind Credit program has a place in the Fondo's inventory of intervention tools, and should reappear under more stable economic conditions.

4. Infrastructure Credit Program: This program should be continued through short periods of economic adversity whenever possible.

5. Production of Mineral Supplements: The Fondo must be careful to not neglect its FONDOSAL operation, which is an effective income generation activity.

6. Beneficiary Technical Assistance and Training: The focus of beneficiary technical assistance should be palpating cows on a scheduled basis, improving nutrition, and eliminating cows with reproductive disorders or other limitations. Beneficiaries should be given an orientation prior to placement of cattle, emphasizing the rudiments of good herd management.

7. FONDO Home Farms: The Fondo management should ensure that the financial resources and management time necessary to manage these properties does not interfere with management of the LOD program.

8. Beneficiary Selection: The Fondo should continually re-assess eligibility for its programs, and immediately eliminate from the program any participant who has low productivity or demonstrates signs of mismanagement.