

PD-ABQ-623



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D.
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C/O AMERICAN EMBASSY
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ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM. Stephen Grant, Acting SO1 Team Leader *sg*
SUBJECT: Project Assistance Completion Report-Operational
Program Grant No 519-0399-G-00-2105-00, Reconciliation
Credit and Income Generation Project with Catholic
Relief Services (CRS)

In accordance with ADS 203 Managing for Results Monitoring and
Evaluation Performance, and USAID/El Salvador policy (MOM) 680
and 770), attached is the Project Assistance Completion Report-
Operational Program Grant No 519-0399-G-00-2105-00,
Reconciliation Credit and Income Generation Project with the
Catholic Relief Services (CRS) The PACD for the Operational
Program was July 31, 1996

The attached report summarizes the accomplishments of the
Project There are no outstanding actions

RECOMMENDATIONS

That you approve the attached Project Assistance Completion
Report

Approved *Jennett C. Ellis*
Disapproved _____
Date *15 July 1998*

Attachment Project Assistance Completion Report

Drafted by MRodriguez, SO4 *Latin* date *June/30/98*
Cleared by TCornick, SO1 (in draft) date 6/30/98
CADams, CONT (in draft) date 7/1/98
LPizarro, OCG (in draft) date 7/2/98
PKranstover, SDO (in draft) date (7/7/98)
DKennedy-Iraheta, A/DDIR *OKL* date *7/9/98*

PROJECT ASSISTANCE COMPLETION REPORT
OPERATIONAL PROGRAM GRANT No. 519-G-00-21005-00
GRANT: RECONCILIATION: 519-0399-G-00-2105-00
CREDIT AND INCOME GENERATION PROJECT

I. SUMMARY OF THE PROJECT

The Project officially began on July 1, 1992. This village bank, agricultural credit, and institutional building Project was implemented by Catholic Relief Services of El Salvador (CRS) and selected Caritas offices, and was originally scheduled as a two year project. USAID granted two extensions to the Grant, the first through July 31, 1995 and the second through July 31, 1996, to ensure that the Project fully achieve its objectives.

USAID committed \$1,000,000 to the Grant. The counterpart contribution to the Project was \$304,847 and Caritas was to contribute with \$52,372, either in cash or in kind. The total Project budget was \$1,357,219.

The Project life was four years and, allowed both CRS and Caritas to improve their capability to administer village bank and agricultural credit projects, thus allowing for long term programmatic sustainability in all components. More importantly, upon Project conclusion, all parties can be assured that the Project has achieved its overall goal to contribute to an increase in food security among its beneficiaries.

A. Goal and Purpose of the Project

The goal of the Project is to improve income of poor Salvadorans. The purpose of the Project is to assist CRS in expanding its support of productive enterprise initiatives through credit and technical assistance to targeted low income beneficiaries.

B. Project Components

The Project consists of three components: Village Banking activities, Rotating Agricultural Loan Fund (RALF) activities, and Administrative activities. These components incorporated pilot projects initiated by CRS in 1991: Caritas Santa Ana Village Banking and Institution Building, and Diocesan Support of Small Agricultural Production.

C Analysis Present Status of the Project

Village Banking Component

The Village Banking Component of the Project continues to be administered by three Caritas offices Caritas Sonsonate, Caritas San Vicente and Caritas Santa Ana

Caritas Santa Ana has over seven years of experience managing a village bank project The project is managed by two promoters, an accountant, a coordinator and an assistant coordinator They have reached high levels of savings Santa Ana as other Caritas offices, began working with the traditional FINCA methodology Over time, Caritas modified the original model, without undermining its solidarity guarantee One example of this variation to the methodology is that Santa Ana intended to reach only women, but decided to extend it to reach men as well Now, 15% percent of project beneficiaries are men The level of solidarity among members is 95%

Caritas Sonsonate currently supports 20 banks with 213 clients

CRS trained Caritas offices in village banking and administrative topics, including the National Office Representative from all Caritas offices are invited to participate along with counterparts in institutional building events, and as a result, the capacity to administer credit projects in all Dioceses has improved

Global repayment for the village bank component is currently at 91%

Caritas village banks are reaching poor urban and rural residents The average loan size to the beneficiaries is \$137 00, and over 50% of all banks supported by Caritas are located in remote areas Therefore, the Project has been successful in providing financial services to populations that wouldn't have had this opportunity otherwise

Rotating Agricultural Loan Fund (RALFs)

The RALF component was administered by five Caritas offices (San Vicente, Sonsonate, Zacatecoluca and Santiago de Maria), and administered by a National Coordinator based out of Caritas National Office Oversight of this component was provided to Caritas by an agronomist from CRS/El Salvador Over the four years of project implementation, 84 RALF were inaugurated, of these 67 remain active Members of RALFs have received training on a wide variety of subjects, including soil conservation, sustainable agriculture techniques, seed selection, post harvest

management, and RALF administration Caritas staff has also participated in training ranging from post-harvest management to RALF administration, to community development

Overall repayment of the RALF loan fund is at 66%, which is higher in comparison to the performance of other basic grain credit projects supported in El Salvador

Repayment of the RALF debt fund is exacerbated each time the government decides to forgive debt to small farmers

II FINANCIAL STATUS

The Project budget was spent in the following manner

Line Item	Obligations (\$)	Expenditures (\$)	Balance (\$)
Operational Cost	274,053 00	270,541 81	3,511 19
Training/T A	27,594 00	27,594 00	0
Seed Capital/loan Fund	414,902 00	414,902 00	0
Audits	20,691 00	20,690 43	0 57
Evaluations	30,000 00	30,000 00	0
CRS Overhead (22 58%)	173,487 00	163,219 94	10,267 06
Capital Equipment	40,273 00	40,272 70	0 30
Financial Management	19,000,00	10,133 29	8,866 71
TOTALS	1,000,000 00	977,354 17	22,645 83

Total Counterpart contribution provided was \$357,219 00

All unliquidated balances were returned to USAID Washington

III PROJECT ACCOMPLISHMENTS

Village banking accomplishment vis a vis the objectives

Objective one Create 30 village banks with a total of 900 members in two years

The three Caritas offices which administer the village banking

component (Santa Ana, San Vicente and Sonsonate) operate a total of 57 banks, with 1,160 members, of which 84% are women. Caritas Santa Ana manages 19 banks and Caritas Sonsonate manages 20 banks.

Objective 2 Generate net savings of \$125 per member over two years

Through the three Dioceses, project beneficiaries currently hold \$50,000 as part of the internal account, for a net saving of \$43 per member. The accumulated amount of savings generated over the four-year Project is higher, but is not an accurate indicator, given that many members have withdrawn from village banks, and have taken their savings with them.

Objective 3 Strengthen Caritas's capacity to manage village banking projects through training of personnel in the FINCA village banking model.

Training of Caritas staff in the Village Banking methodology was completed in the first year of Project activities. The original village bank methodology has been modified in all three Caritas offices to better meet the needs of the clients (without undermining the solidarity of the original model) and is now called community banking¹. Caritas staff was trained in the new model of community banking during the last quarter of 1995.

Caritas capacity to manage Village bank projects has been further enhanced through participation in financial and administrative training held during 1995 and 1996.

Rotating Agricultural Loan Fund Accomplishments Vis a vis Objectives

Objective one Create approximately seventy five community based

1

The community bank methodology allows clients to receive initial loans in amounts between \$50 and \$150, depending on their capacity to save, and the capacity of their business. Internal account use is highly decentralized, and banks are encouraged to save during each cycle, and to re-lend all internal account funds to both members and non-members of the bank. Basic Business management training is an integral part of the community bank methodology, and all members must receive training in the various training modules for the program. Each year, members meet with the credit committee and the bank promoter to discuss business needs, to determine new loan amounts for the next year. "Graduation" of clients from the program is assisting them to continued access to financial services which are more appropriate for their business needs.

rotating agricultural loan funds

Caritas currently provides financial and technical assistance to 1,282 farmers within 67 rotating agricultural loan funds (RALFs) A total of 84 RALFs were created, but 17 were disbanded for non-payment of loans

Objective 2

Increase agricultural production of beneficiaries by a minimum of 25 -50% (depending on the areas worked in) by the end of the project

A socio-economic study conducted of the RALF component separated agricultural production into four basic crops corn, beans, sesame seeds and sorghum Production levels vary for each crop in each Diocese, in some, production levels for a certain crop are higher, and in others, are lower Consolidating all figures, the study demonstrates that overall production levels for corn and sorghum remained the same as levels before the project (26 and 19 qq/mz respectively) On the other hand, production levels of beans and sesame decreased

Agricultural production levels were hindered by a number of factors throughout the life of the Project Among these are quality of the land, the implementation of sustainable agricultural techniques, the market for agricultural products, and most importantly, unfavorable weather conditions Santiago de Maria, San Miguel and parts of San Vicente and Zacatecoluca suffered the consequences of a drought during one full agricultural cycle in 1994

Objective 3 Strengthen Caritas' capacity to manage agricultural projects through institutional strengthening of the agricultural technical team

During the implementation of the RALF component, training was provided to project agronomist, Caritas accountants and management staff in technical and administrative topics over the four-year life of the Project

Accountants attended CRS-sponsored trainings on financial reporting techniques Technical assistance from the CRS accounting office was provided directly to Caritas Diocesan offices in order to maintain appropriate auditing and accounting standards throughout the life Project

IV EVALUATION AND AUDITS

A. Evaluations

In order to properly fulfill the requirements of socio-economics impact measurement, and provide statistical information to contribute to the findings of the mid-term evaluation of the Project, a socio economic impact of the village bank and RALF component was conducted in May 1995 by the Public Opinion Institute (IUDOP) of the Universidad Centroamericana Jose Simeon Cañas (UCA) The most significant findings of the impact study include

Village Bank Component Findings

80% of the bank members interviewed experienced sales growth since joining their village bank Sales increases are shown to be directly related to the amount of people working in the microenterprise

95% of bank members are involved in commercial activities Within commercial activities, 50% of clients are involved in commercial food activities

There is a high level of satisfaction among bank members and their participation in village bank 86 7% of clients report their lives have improved since joining their village bank

The amount of money available for daily food consumption among bank members has increased 24% from US \$3 61 to US \$4 49 (31 58 colones to 39 35 colones) since involvement in the Project

52 7% of bank members interviewed report having made improvements in their houses or businesses since joining the Project

Overall school attendance among families participating in village bank component has not increased through participation in the Project

Bank members dedicate on average between 7 and 10 hours daily on their businesses

Rotating Agricultural Loan Fund (RALF) Component findings

Farmers participating in the project are subsistence farmers that produce mainly corn, beans, sorghum and sesame

The Project has contributed to changes in farming techniques which are beneficial to both production and environment Although use of different techniques differs depending on the area surveyed, in general

30% of beneficiaries surveyed are utilizing contour farming
33% of farmers have decreased the use of pesticides
53 9% are using the method of dead barriers to decrease soil erosion
62 2% of farmers no longer "slash and burn" the remains of old crop
35% of farmers use live barriers
50% of farmers use certified seeds
8 out of 10 people surveyed depend exclusively on RALF funds to buy agricultural inputs

Families rely on crop for food security during droughts, family consumption of crop during a drought increases from 66% to 90%

Following the impact studies, a mid term evaluation was conducted of the overall Project in 1995 in order to provide suggestions to assist project implementors best fulfill the Project objectives and more specifically, the activities outlined in the Grant extension plan The conclusions of the final evaluation included the following

1 Village banking and the provision of agricultural credit are effective interventions to assist communities that live in extreme poverty, increasing their incomes and their quality of life

2 The solidarity among village bank members increases the efficiency in carrying bank operations

3 The financial and administrative sustainability of the Project has been partly achieved, in some Dioceses it is high as 100% in others is as low as 50%

4 The training element of the Project, if stronger would have had a positive impact on long-term project sustainability

5 Communication channels among the different actors of the project were unclear, which contributed to misunderstandings within project implementation A communications system which allows for timely and flexible exchange of information is necessary

6 The repayment rates may have been greater if the system had been computerized to facilitate greater control and decision-making with respect to the administration of the portfolio

7 Village bank loan amounts are low, which makes it difficult for bank members to substantially improve their standard of living

8 Village banks have cultivated the habits of savings, solidarity and willingness to be part of the solutions of the problems

9 Village bank and RALF methodologies should be adapted to the needs of members

10 Beneficiaries of the RALF loans have produced the basic grains necessary to guarantee their food security, but not enough to cancel their loans

11 The communities have created structures which allow for the long-term execution of the Project

The recommendations listed within the mid-term evaluation include

1 A consulting group of representatives of participating institutions should meet periodically to make decisions to provide responsible monitoring of the Project After this specific recommendation a stronger monitoring/coordination was established among USAID, CRS coordinators, Caritas Nacional and Caritas offices

2 The administrative financial system in the Caritas Diocesan should be strengthened

3 The activities within the extension should be operationalized in such a way that each actor is knowledgeable of the responsibilities assigned to them

4 CRS/ El Salvador should sign separate agreements with each Diocese to ensure that responsibilities and activities to be undertaken are clear, and completed

These recommendations were accepted and implemented by CRS except for number four since separate agreements would not be possible to sign with each Diocesan offices, as this is the responsibility of the Caritas Nacional, the subgrantee of this Project

Activities related to co-administration of the funds and the methodology, took place during the period of the extension of the Action Plan

B. Audits

A mid term audit was conducted for this Project, covering the periods of July 1, 1992, though December 31, 1993 All recommendations were minor, and subsequently overcome by CRS and Caritas

A final audit was originally scheduled for this Project, but

negotiations between USAID and CRS in July 1996 concluded that a final audit was not necessary, given that CRS/EL Salvador complied with the OMB A-133 internal audit requirements, and is audited internationally by Coopers & Lybrand

V. SUMMARY OF LESSONS LEARNED

1 Achieving 100% repayment rate in the village bank component is difficult with an organization such as Caritas which has never managed a sustainable credit program Nevertheless, this is a possible and necessary goal, although initial and monitoring supervision and monitoring of both, the project manager and the institution managing (CRS) is necessary

2 The practice of financing 100% operating costs of an institution managing a village bank credit project for the entire life does not prepare institutions to think in terms of long-financial sustainability Once Caritas offices were forced to cover their operating costs with interest income generated from project loans and own income, repayment rates increased, and the promoters became more strict with their clients

3 An information management system (financial, portfolio and impact) should be in place before a village bank credit program begins This system does not necessarily have to be computerized in the beginning, but as the program expands, computerized information systems becomes necessary

VI. RECOMMENDATIONS

1 The agricultural component was designed to provide support for farmers to improve basic grain production Because ecological conditions, including dramatic climatic variations, corn production remains a low profit, and a high risk crop Future projects should give more importance to diversifying crop production with lower risk, more profitable crops

2 Projects that include agricultural loans and small microenterprises should be planned for a period of three years, instead of two years like originally was planned for this one Otherwise there is an unnecessary pressure to liquidate the obligations This Project was extended twice and ended as a four year project

3 Future projects should provide staff training on the concept of sustainability preceding project implementation To complement this, secondary level institutions should not finance 100% of all operating costs for the microlending first institutions until the project ends, financing for operating costs should be slowly phased out as an institution's portfolio expands

4 Future microlending projects should specify a calendar of training activities, a detailed training budget, topics, actors and objectives of training plans before project implementation begins

VII. POST-PROJECT MONITORING AND FOLLOW UP ACTIONS.

A number of activities are currently taking place to ensure the long term sustainability of the components within the Project

First, Caritas offices involved in the village banking component are receiving continued financial and technical assistance through the CRS and USAID financed Sequel Matching Grant Caritas office participates in CRS sponsored training for all counterpart institutions assisted through this grant

Since July 31, 1996, Caritas staff has attended a two-day Total Quality Management workshop, and also Caritas is part of the USAID's Microenterprise 2000 Project managed by the Strategic Objective No 1, Economic Growth

Caritas offices will continue to be involved in all aspects of the Microenterprise Innovation Project (MIP), financed by AID/EI Salvador, such as the credit bureau database of delinquent clients, the trainings related to sub-sector analyses conducted, and participation in the national socio-economic impact monitoring activities

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