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AIRGRAM

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DATE SENT

June 27, 1978

FROM - Amembassy/SANTIAGO
E.O. 11652: N/A
SUBJECT - Project Evaluation Summary (PES)
REFERENCE -

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Attached please find Project Evaluation for Agricultural Production Credit Loan 513-T-067, Project No. 513-0294.

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DRAFTED BY njv:AMNathanMelsz	OFFICE PO	FILE NO. 308	DATE 6/26/78	APPROVED BY R. F. Apodaca, AID Representative
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A. I. D. AND OTHER CLEARANCES

UNCLASSIFIED
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PROJECT EVALUATION SUMMARY
(Submit to MO/PAV after each project evaluation)

Mission or AID/W Office Name USAID/Chile			2. Project Number 513 0294
Project Title Agricultural Production Credit, Loan 513-T-067			
Key project dates (fiscal years) Project Agreement Signed 7/26/76 b. Final Obligation 9/22/79 c. Final Input delivered 1/22/80			5. Total U.S. funding - life of project \$ 14,000,000
Evaluation number as listed in Eval. Schedule 1	7. Period covered by this evaluation From: 7 76 Month/year TO: 6 78 Month/year		8. Date of this Evaluation Review 6 15 78 Month/Day/Year
Action Decisions Reached at Evaluation Review, including items needing further study (Note--This list does not constitute an action request to AID/W. Use telegrams, airmgrams, SPARS, etc., for action) PPIS Component budget to be modified			10. Officer or Unit responsible for follow-up A, Nathanielsz
			11. Date action to be completed 9/30/78

Signatures:

Project Officer	Mission or AID/W Office Director
<i>Paul Fritz</i>	<i>Richard F. Apodaca</i>
Paul W. Fritz	Richard F. Apodaca
June 15, 1978	June 15, 1978

13. SUMMARY

The loan authorization was delayed by three months due to the inclusion of limits on assistance to Chile in the FAA and the resulting need to clarify funding availabilities (the loan amount was eventually cut from \$15 to \$14 million). The corresponding delays in loan signing and in meeting the conditions precedent made it impossible to initiate loan disbursement for agricultural credit during the 1976-1977 crop year as planned in the PP. Thus the three crop years during which the loan funds will be disbursed are now 1977-1978, 1978-1979 and 1979-1980. Subloan approvals for the first crop cycle exceeded the target slightly. Disbursements for the second crop year are expected to equal or exceed the Project Paper projections. Evaluation efforts to date indicate that the credits financed under the loan are reaching the target group.

The PPIS component is broken down into assistance to the National Statistics Institute (INE) in processing the 1975-1976 Agricultural Census and assistance to the Office of Agricultural Planning (ODEPA) in improving its capacity to formulate effective policies and programs for rural development. Although there have been serious delays in the processing of the census data, due largely to institutional inertia in INE, the ODEPA activities have moved ahead satisfactorily, with some redesign as noted below.

There has been little progress under the remaining component of \$.5 million for assisting INDAP, the small farmer credit agency, to make institutional improvements. However, a number of worthwhile and necessary activities have been identified for financing under this component.

14. EVALUATION METHODOLOGY

The evaluation was carried out through extensive field trips between January and May 1978 to review the credit operations. The field trips were intended to gather first hand information on whether the credits were reaching the target group. The nature of, location of, and the progress under the PPIS and the INDAP i.a. components permits the Mission to use this evaluation format to record its implementation review.

15. DOCUMENTS TO BE REVISED ...

Financial Plan
(PPIS Component)

16. EXTERNAL FACTORS

There have been no major changes in the project setting which have had an impact on the project. Project assumptions remain valid.

17. GOAL

The goal of the project is to improve incomes, farm productivity, and employment opportunities of Chilean small farm families; and achieve greater agricultural production. Specific data on progress towards this goal will be provided when the PPIS component becomes sufficiently advanced to collect and process data concerning these indices. An important indicator of the effectiveness of the credits is the delinquency experience. A determination of the actual repayment records for the first year of operations must await the due date of more of the subloans, particularly those for investment purposes. The Mission's contacts with banks, INDAP, and farmer groups such as cooperatives indicate that delinquency will be very low. In other words, it appears that the farming operations financed under the Project to date generally have brought adequate financial returns to the credit users.

18. PURPOSE

The approved project purpose is to increase the volume of credit available to Chilean small farmers and improve its utilization (i.e., improve the effectiveness of small farmer use of credit and the allocation of scarce credit resources nationally). There are six end of project status measures (EOPS).

(1) 26,250 additional INDAP clients over 1975 total (estimated at 25,000). INDAP estimated that the number of its total clients had increased to 37,859 as of December 31, 1976 and to 47,117 as of December 31, 1977. Of this latter amount, 33,830 farmers were served during the crop year, with the balance of its

portfolio consisting of credits made in prior years. (This represents 66% of the portfolio target of 51,250.) However, this high rate of increase was due not only to the A.I.D. funds, but also to increases in INDAP's own funding outside of the A.I.D. loan and access to an IBRD loan being channelled through the Central Bank.

With respect to the Project funds committed or disbursed in the agricultural year ending April 1978, an estimated 16,900 farmers were reached under INDAP component as shown on Table I attached. This represents 64% of the increase projected as this ECP.

As shown in Table I, INDAP's credits for short term production loans are slightly less than half the \$570 individual subloan amount estimated in the PP. This appears due to the combination of two factors. First, small farmer credits during the previous years (1975-76) were at an extremely high interest rate, ranging from 40% to 70% in real terms. Although yields were good, particularly for wheat, most farmers had great difficulty in meeting their credit obligations. Thus, in the 1977-78 agricultural cycle, the same farmers were reluctant to borrow more than their minimum needs. Moreover, with respect to wheat, the farmers were able to save part of their previous year's output for seed. INDAP expects the average size of its production loans to be much higher during the current crop cycle.

(2) Increase INDAP volume from \$6.6 million to \$22.6 million in 1979. INDAP's volume of new loans increased to \$14,750,000 as of December 31, 1977 (with a total portfolio of \$27,027,000). The 1977 credits were from the following sources:

A.	INDAP resources	7,600,000
B.	A.I.D. Loan (including GOC contribution)	4,500,000
C.	IBRD Loan	<u>2,750,000</u>
	Total	14,750,000

The subtotal of INDAP and A.I.D. resources is \$12.1 million. Another \$10.75 million remains under the INDAP component of the Project. Thus, the ECP target of \$22.6 million is still attainable, assuming that subloan recovery rates remain reasonable.

(3) % INDAP loans delinquent decline from 60% in 1975 to 10% in 1979. ✓
INDAP has not yet perfected its accounting system to give precise figures on subloan delinquency. Part of the problem is with the difficulty in readjusting subloan balances for inflation in accordance with changes in the Consumer Price Index (CPI). Part of the loan component for INDAP t.a. will be used to assist INDAP improve its financial information system. INDAP's best estimates are that as of December 1977 28% of the farmers making up the total portfolio (including from past years) are delinquent in credit repayment. USAID's own discussions with INDAP field officers indicate they expect a delinquency rate of less than 10% on the A.I.D. financed subloans made in the 1977-1978 crop years. In any event, a downward trend is readily observable from the 1975 levels.

(4) 11,250 banking system recipients through this program by 1979. Commercial and private bank interest in and use of the program has been much higher than anticipated. Eight different private sector financial institutions participated during the first year. The A.I.D. loan and GOC component for the banking system credits is \$9.0 million. As of April 30, 1978 (roughly the end of the crop year) some \$3.9 million had been disbursed or committed in approved subloans under this activity. This amount benefitted an estimated 3,948 families. Thus, with approximately 43% of the Project funds disbursed or committed under this activity, some 35% of the EOPS objective has been achieved. The average size subloans for production credits under the banking system component is \$1,303 compared with an average which we estimated in the PP of \$800 (see Table I). This reflects the increase in the average size of parcel being distributed to new land recipients since the time when the PP was written. Accordingly, it seems likely that 11,250 farmers will be reached or surpassed through the Project during its life, taking into consideration the effect that rollovers will have during the disbursement period. (As funds are repaid, they become available for relending under the same Project criteria.)

(5) New credit users' incomes increase by 30% from 1976 to 1979. Additional implementation progress on the PPIS component must be made before income impacts can be estimated. ODEPA has collected baseline data on some 800 INDAP clients for the 1975-1976 crop year. Once the PPIS reaches a more advanced stage of implementation, ODEPA will be able to process and analyze these surveys and undertake new surveys in order to obtain comparable

data. Although the farm level income data are not yet ready, the USAID and GOC are proceeding with the second year credit activities based on subjective assessment that positive income effects are being made. This is visible through field visits and the high expectations of good credit recovery.

(6) Continuous evaluations being made of public agricultural credit policies. CDEPA has been completely reorganized in order to incorporate the PPIS activity as a fundamental operational instrument. Now that the reorganization is complete and the A.I.D. financed computer terminals are in place and operational, the PPIS will begin its substantive role of policy formulation and evaluation.

19. OUTPUTS AND INPUTS

The following adjustments are made in the projection of inputs for the credit component:

	<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>	
	<u>May 77 - Apr.78</u>		<u>May 78 - Apr.79</u>		<u>May 79 - Apr.80</u>	
	<u>Original</u>	<u>Actual</u>	<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>
INDAP	4,250	4,500	6,500	6,500	4,250	4,000
Banking System	<u>3,000</u>	<u>3,900</u>	<u>3,000</u>	<u>5,100</u>	<u>3,000</u>	<u>-</u>
	7,250	8,400	9,500	11,600	7,250	4,000

Although the \$0.5 million INDAP (a. component has not met disbursement targets, USAID considers that it remains to be an important part of the project. Reasons for the delay include:

- (a) Initially, a pending reorganization within the Ministry of Agriculture created uncertainties about INDAP's organizational structure and therefore resulted in a reluctance to proceed with this activity until the nature of INDAP's future structure became clear;
- (b) an understaffed planning office and high turnover (three chiefs of planning) continue to make it difficult for this unit to dedicate time and effort to the task of institutional improvement; and

- (c) apparently inadequate interest at INDAP's highest levels concerning administrative or management aspects as contrasted with technical or program matters. ✓

Only tentative breakdowns of this component have been made at this time. However, in general terms, (funding must be focused on the problem of improving: (a) financial management information system of INDAP; and (b) the programming, budgeting, evaluation cycle of INDAP in a manner that strengthens the capacity of INDAP's regional offices to participate in and influence resource allocation. The industry wide studies mentioned in the PP under this activity no longer are priority given these other urgent needs.

Under the \$1.5 million PPIS component changes in the inputs and outputs within the A.I.D. funding levels will be necessary. ODEPA currently is working on a revised plan for the PPIS. The basic change will involve substantial reduction in the A.I.D. funding of surveys with such costs to be picked up by regular GOC budget allocations. The A.I.D. funds thus saved would be used for technical assistance and possibly for additional equipment acquisitions. ODEPA currently is making its proposal to the National Planning Office (ODEPLAN). Once GOC assurance of additional funding for the surveys is obtained, ODEPA will request USAID to approve appropriate adjustments to the loan budget. USAID is in agreement in principle. (See Item 21 A below.)

20. UNPLANNED EFFECTS

None.

21. CHANGES IN DESIGN OR EXECUTION.

A. PPIS. The original design for the PPIS component included \$527,000 for surveys, the principal one being a massive farm level national survey of some 7,000 farms that would be made annually. Based on the advice of the resident advisor contracted with loan funds, the PPIS is being modified to reduce the emphasis on a single farm survey instrument. Instead, the PPIS will use a data bank approach that will have information from many sources, including a variety of surveys.

This change is supported by USAID particularly in view of the delays in processing the 1975-1976 Agricultural Census. The lack of this information creates serious difficulties in designing reliable samples for survey work. In developing the original implementation plan, USAID seriously overestimated INE's administrative capacity to carry out the work involved in processing the census. INE does not appear to be able to cope very well with GOC requirements concerning the acquisition of additional staff or equipment. USAID has urged INE several times in writing and at meetings to give greater priority to the census. Although some progress has taken place, the census processing will not be completed until December 1979, approximately two years behind schedule. Nevertheless, A.I.D. loan expenditures on census processing and procurement data processing equipment for INE are still warranted. The census will still form an important part of ODEPA's information system and serve as a basic building block for agricultural statistics. Funding of the computer processing time will alleviate a serious budget constraint that would otherwise add to the actual delays. Procurement of equipment for INE has been recommended by several consultants to USAID as essential elements for any statistical institute. While such equipment will have little direct impact on the statistical work carried out under the Project, it will provide INE with a capacity for expediting future data processing needed for the agricultural sector.

B. The A.I.D. loan originally envisaged that the credit funds would be spent only for agricultural production subloans. During the negotiation of the Loan Agreement, provision was made to permit investment credits, both for on farm purposes as well as for off farm investments necessary for processing the production. Financing of off farm investments through the banking system was subsequently restricted to special situations requiring GOC and USAID prior approval when became apparent that: (a) large investments could use up a substantial amount of A.I.D. funds with limited spread effects; and (b) in some cases it would be difficult to determine the real beneficiaries of the investment.

Both USAID and GOC agree on the necessity of financing on farm investments (infrastructure) in addition to production credits.

Until on farm infrastructure investments are made, the small farmer will not be able to make lasting improvement in his income level. It was recognized that this type of investment could put a cash drain on the fund for large subloans legally being made to farmers meeting the eligibility criteria (12 basic irrigated hectares or less). To assure that benefits would be spread as widely as possible, USAID and the GOC agreed on a \$25,000 subloan limit in addition to the then existing acreage limitation.

INDAP has placed about 19% of its A.I.D. financed operations in medium and long term investment credits in such activities as bee and honey production, and leveling and irrigation, sheep and cattle, dairy and fruit orchards. In making investment credits INDAP applies standards developed especially for small farmer needs. The standard bee and honey production investment credit averages \$1,456 and represents one of the lowest cost investment approaches. INDAP also offers packages of up to \$9,085 for small farmers to invest in cattle. These loans are appropriate for low income farmers in the unirrigated rangeland usually along the coastal mountain range and the Andean foothills in the southern portion of Chile's central valley.

The above type of operations represents a substantial departure from INDAP past approach of subsistence with low recovery rates. INDAP's approach is to use external funds to try to graduate its clients to the banking system by offering them an opportunity to build up their equity through these medium and long term development credits.

22. LESSONS LEARNED

With respect to the banking system activity of the credit component, direct USAID contacts with the interested banks proved to be very useful in: (a) making sure that the banks fully understood the nature of the Project and intended beneficiary; and (b) supplementing the Central Bank's monitoring of the compliance to the lending regulations.

With respect to the PPS component, USAID authorized loan funding of a Chilean professional, employed by the World Bank, as a resident advisor. The contract was executed by USAID based on the authority granted by the Borrower and includes funding of his transfer to Chile and allowances similar to that of a direct hire USAID employee. The advisor has proven to be very effective. This approach, in which A.I.D. handles all funding arrangements and charges the loan directly, may be applicable in other situations where there are opportunities to reverse the brain drain by returning expatriates to work in their own countries under A.I.D. projects.

Agricultural Credit Loan
513-T-067
Credit Component

TABLE I

AVERAGE SIZE OF SUBLOANS (as of 4/30/78)
(dollars)

	<u>ON FARM FINANCING</u>			<u>OFF FARM INVESTMENTS</u>	<u>TOTAL FINANCING</u>
	<u>OPERATIONS</u>	<u>INVESTMENTS</u>	<u>SUB-TOTAL</u>		
<u>BANKING SYSTEM</u>					
a) Amount	2,555,719	837,640	3,393,359	512,693	3,906,052
b) Beneficiaries	1,961	67	2,028	1,920	3,948
c) Average	1,303	12,502	1,673	267	989
<u>INDAP</u>					
a) Amount	3,672,536	825,253	4,497,789	-	4,497,789
b) Beneficiaries	16,123	744	16,867	-	16,867
c) Average	228	1,109	267	-	267
<u>TOTAL</u>					
a) Amount	6,228,255	1,662,893	7,891,148	512,693	8,403,841
b) Beneficiaries	18,084	811	18,895	1,920	20,815
c) Average	344	2,050	418	267	404

A. Urrutia
6/15/78