CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Control Symbol U-447

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
SOLIDARIOS DEVELOPMENT FUND	598-0587	REGIONAL
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY)	
	[X] REGULAR EVALUATION	[ ] SPECIAL EVALUATION

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 79	B. Final Obligation Expected FY 83	C. Final Input Delivery FY 83	A. Total $ 4,000,000 B. U.S. $ 4,000,000	From (month/yr.) February, 1980 To (month/yr.) April, 1981 Date of Evaluation Review

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
Mexico (FMDR) The Mexican Development Foundation has the capacity to effectively utilize greater amounts of SOLIDARIOS revolving loan funds for the development of its network of economic activities. p.10, p.16	SOLIDARIOS	September 30, 1983
Uruguay (IPRU) a. Establish a financial mechanism with SOLIDARIOS to preserve the monetary value of loan funds under the existing economic circumstances. p.26 b. That SOLIDARIOS assess the Uruguayan Foundation's credit operations after use of the first disbursement of loan funds. p.27	SOLIDARIOS M. Lofstrom	September 30, 1981
General Recommendation That SOLIDARIOS develop a procedure for maintaining the value of its subloans to NDFs in those countries where foreign exchange devaluations and high rates of inflation are eroding the value of the funds. p. 8	SOLIDARIOS	

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- [ ] Project Paper
- [ ] Financial Plan
- [ ] Logical Framework
- [ ] Project Agreement
- [ ] Implementation Plan e.g., CPI Network
- [ ] PIO/T
- [ ] PIO/C
- [ ] PIO/P
- [X] Other (Specify) Implementation Ltr
- [ ] Other (Specify)

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. [X] Continue Project Without Change
- B. [ ] Change Project Design and/or [ ] Change Implementation Plan
- C. [ ] Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

AID/W SOLIDARIOS Project Officer, M.H. Lofstrom
SOLIDARIOS Secretary General, Enrique A. Fernandez

12. Mission/AID/W Office Director Approval

Signature [signature]

Typed Name Marshall D. Brown, LAC/DR

Date Ay 4 1981

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ASSESSMENT OF A.I.D. GRANT

(Project No. 598-0587)

SOLIDARIOS DEVELOPMENT FUND

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A.I.D./LAC/DR

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Alternative Policies, Inc.

TABLE OF CONTENTS

TABLE OF CONTENTS (cont'd)

ASSESSMENT OF AID GRANT (PROJECT No. 598-0587)

SOLIDARIOS DEVELOPMENT FUND

PART I: SUMMARY AND Findings

1. Introduction

1.01. SOLIDARIOS, a private development federation based in the Dominican Republic, was formed in 1972 in order to mobilize financial and technical resources to a membership of National Development Foundations (NDFs) located in Latin America and the Caribbean. In 1978 AID authorized a $4 million grant to SOLIDARIOS, of which $3.55 million was to be used as seed capital to increase SOLIDARIOS' capacity to lend financial support to its members, which now number thirteen in a total of twelve countries. The remainder of the grant was to be used by SOLIDARIOS to provide institutional and technical support to the NDFs, essentially to help them overcome administrative weaknesses. The purpose of the grant was to reach low income groups through NDF programs that promote and finance sub-projects "having significant economic benefits," and to develop programs "that can bring about self-reliance and broadened awareness of community options."

1.02. Funding in the first year of the project was limited to four NDFs identified as the strongest members in a financial analysis conducted by the Inter-American Development Bank in 1977, prior to their loan to

SOLIDARIOS. The four NDFs are: Guatemala, Mexico, Dominican Republic and Nicaragua, which among them have received the majority of the SOLIDARIOS/AID funds to date. In compliance with a condition precedent to the AID grant, SOLIDARIOS contracted a management survey team 1/ to assess the capacity of the other nine foundations to effectively manage and on-lend the remaining funds (approximately $2 million) to the ultimate beneficiary. The field assessments and most of the follow-up visits were completed by the survey team in 1979 and 1980, which recommended that disbursements be made to all the NDFs except those in Guayaquil (Ecuador), and in Honduras, and in those cases appropriate steps were recommended to establish the institutional capacity to effectively utilize SOLIDARIOS/AID funds.

1.03 To date, approximately 61 percent or $2.2 million of AID's funds have been disbursed, with loans of $600,000 approved by SOLIDARIOS and pending disbursement. NDFs to which funds have either been disbursed or committed are: Bolivia, Colombia, Costa Rica, Quito (Ecuador), Uruguay, and the four larger foundations in Mexico, Guatemala, Nicaragua and the Dominican Republic. On May 15, 1981, the Project Authorization was amended to allow funds to be disbursed in FY 1982 and in the first half

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1/ The Development Group for Alternative Policies, Inc.

of FY 1983 to all NDFs including those in Guayaquil (Ecuador), Honduras, Trinidad and Tobago, Argentina and Haiti.

1.04. In April 1981, AID undertook an evaluation of the SOLIDARIOS project. A visit was made by the project evaluation team to the Mexican Development Foundation (FMDR), one of the oldest of the SOLIDARIOS Foundations and a recipient of SOLIDARIOS/AID funds over the past three years, and to the Uruguayan Institute of Socio-Economic Promotion (IPRU), the newest member of SOLIDARIOS which is in the process of drawing down on SOLIDARIOS funds. An assessment of the programs to which SOLIDARIOS funds have been or will be applied in each case was thus designed to provide a perspective on the process of assisting an NDF that was already structured for, and experienced in, handling credit, and another NDF which must develop or expand its capacity to do so effectively. At the same time, these assessments need to be viewed in the context of the management survey team's assessment of nine of the thirteen SOLIDARIOS NDFs.

2. Assessment of NDFs

2.01. Full reports on the visits to Mexico (FMDR) and Uruguay (IPRU) constitute Parts II and III of this paper. In the case of the FMDR, the SOLIDARIOS/AID funds, though a small portion of the foundation's budget, have proven to be of considerable importance. The FMDR has developed over the past twelve years an impressive institutional structure that presently allows it to reach 100,000 people around the country and involve them in their own development. Its strategy of using funds it has raised to guarantee and leverage commercial loans for the campesino groups it assists has been highly successful, but the FMDR had previously lacked a sizeable loan fund of its own that could give it the flexibility to respond quickly to undertaking what it itself deemed important. The SOLIDARIOS funds have provided the FMDR with that independence and flexibility. One of the major uses of these funds, approximately seventy percent of which have been disbursed so far, has been the financing of irrigation well construction in central Mexico. Although it is difficult to assess the impact of these projects, as the drilling and construction in most cases are still in process, the promise for increased production and incomes, as well as the commitment of the campesino groups involved, is considerable.

2.02. The disbursement of SOLIDARIOS funds has been delayed in the case of IPRU as a result of adverse economic and financial conditions in Uruguay and by the related apprehension on the part of IPRU about quickly developing a large credit program. IPRU's problems reflect those of Southern Cone development institutions, in general, which must operate in highly inflationary environments with a constant foreign exchange risk inherent in the acceptance of U.S. dollar denominated loans. In this respect, the evolution of the IPRU situation should be instructive to both SOLIDARIOS and AID. It appears that, with AID's consent, IPRU will ultimately use SOLIDARIOS monies to guarantee commercial loans to campesino and artisan groups that it has helped develop and to the cooperative-type organizations, Sociedades de Fomento Rural (SFRs), into which they are incorporated. The SFRs have proven to be effective mechanisms for the promotion of group formation and socioeconomic development, even with limited availability of resources. As in Mexico, the SOLIDARIOS/AID funds will fill a critical gap for IPRU: in this case, the provision of guarantees for medium-term and long-term loans for the construction of warehouses and barns, as well as for irrigation and other equipment. For the most part, only short-term commerical and government credits are now available, and in the absence of government programs even access to these is limited. A visit to the state of Canelones, one of the two project areas on which IPRU will focus with SOLIDARIOS financing, demonstrated both the need for all types of credits and the potential for organizational and economic development once that financing is available.

2.03. A look at the operations and experiences of the thirteen NDFs, including the FMDR and IPRU, yields a number of insights. First, while no NDF can compare in size at the moment to government programs in its own country, the majority of them play an important development role. Furthermore, they constitute alternatives for foreign aid agencies when other implementing institutions may not be appropriate, and they may provide models that government agencies can emulate or adopt. On the other hand, there is a considerable amount of differentiation among the NDFs in terms of philosophy, operating style, size, success to date, and present status. The four largest and oldest foundations, for instance, have over time struck a balance between social and economic development goals, focussing both on group formation and increases in productivity. Others, particularly the newer, Southern Cone NDFs (as expressed in the reports of the management survey team), view credit as essentially a tool to stimulate awareness, social organization, and self-sustaining socioeconomic development.

In the cases of both these groups however, the SOLIDARIOS/AID program has had or will have an important impact, as it enables organizations working with and through well structured networks of beneficiary groups to provide financing where and when needed and on reasonable terms. The same cannot be said about a third group, which is comprised of two or three foundations. These, by and large, have not built structures that over time can become independent and self-sustaining, as they generally work on an individual basis with small producers or with small, unrelated groups of such producers. Furthermore, these NDFs have had serious internal problems over the past two years, involving their staffs, their leadership, or their directorates. As a result, SOLIDARIOS funding of these NDFs has not been extensive to date. SOLIDARIOS has demonstrated considerable discretion in this regard, and can be expected to continue to enhance institutional capacity rather than over burden the weaker NDFs with excessive credit that can not be absorbed.

3. Lessons to be Learned

3.01. As discussed above, the SOLIDARIOS experience has demonstrated the capacity of many private non-governmental development organizations (NGOs) to handle credit received from international sources and to involve and assist local groups when assistance from other domestic sources is lacking. It has also illustrated the range of institutions that exist in the private development sector, in terms of quality, competence, and capacity. In other words, NGOs overseas can provide an excellent vehicle for considerable amounts of aid, but shortcomings can easily be exacerbated in these and less experienced organizations if inappropriate amounts of aid are made available to them at inappropriate stages in their development.

3.02. At the same time, the SOLIDARIOS loan program has proven critical to the NDFs -- even those with large amounts of funding from other sources -- as it offers them an assured source of funds and enables them to plan their own programs with some security. Otherwise, there does not exist a constant source of external financing for NDFs; this is a continual source of problems for other NGOs that, like the NDFs, are not routinely considered as implementing institutions under the lending programs of AID, the World Bank, and other international aid institutions.

3.03. It appears that the demand for credit from the stronger NDFs will make it incumbent upon SOLIDARIOS in the future to continue soliciting international contributions to its loan fund. As long as SOLIDARIOS remains flexible in disbursing credit funds to NDFs on the basis of need and institutional capacity, such contributions would institute wise investments. SOLIDARIOS must also remain sensitive and responsive to the particular financial circumstances of each foundation. Perhaps of greatest importance is SOLIDARIOS' ability to lend funds to be used as guarantee funds by those NDFs which either have found that to be the most effective approach in their countries, or which are constrained by the need to maintain the integrity of their loan funds in a highly inflationary environment.

3.04. SOLIDARIOS' approach to expanding its membership has been to seek out existing institutions that are lacking in financial and technical resources, and to collaborate and assist in strengthening their programs. On the other hand, new foundations located in Haiti and Jamaica are currently being considered for membership, and SOLIDARIOS is pursuing its search for development organizations working with base level groups in northeast Brazil and Chile in an effort to expand the scope of its NDF network.

The success of SOLIDARIOS in channeling resources to NDFs demonstrates that it has developed for itself an important role in Latin America and the Caribbean for assisting NDFs in solving base level economic and social problems. This signifies an important transfer of capabilities from U.S. organizations that once played an important part in the creation of NDFs in Latin America, to a third world representative, private organization, directly serving the needs of its membership.

3.05. In summary, there has been substantial progress made to date in achieving the purpose of the grant. SOLIDARIOS has proven that it can reach low income groups through its network of private NDFs by promoting and financing subprojects that produce significant economic benefits. SOLIDARIOS/AID funds have allowed NDFs the flexibility to provide medium-term investment credit and technical assistance to base level groups most in need of those resources. Likewise, most of the NDF programs supported by SOLIDARIOS have helped move community groups toward a position of self-reliance and have provided alternative courses of action for community development.

PART II: FMDR/MEXICO

1. Findings and Recommendations

1.01. Over the past twelve years, the Fundacion Mexicana de Desarrollo Rural (FMDR) has made an important contribution in the rural areas in which it has worked. Although relatively small in a country as large as Mexico, the foundation has been particularly effective in establishing an institutional structure for rural development and in utilizing limited funds to secure significant amounts of financing from private banks for compesino groups. It is currently reaching and assisting more than 15,000 families and over 100,000 people in various parts of the country.

1.02. The FMDR has grown rapidly, though not as fast as its leadership had anticipated and desired. Projections in 1979 called for an expansion in the number of _centrales_ -- or local, decentralized, administrative bodies -- from 29 to 47 by 1981; today there are 31 _centrales_ operating in seventeen states, but they assist almost twice the 600 _campesino_ groups that they worked with two years ago. Its loan-guarantee program has grown accordingly, and this makes particularly impressive the loan repayment rate by _campesino_ groups of 98 percent. The foundation's ability to grow faster has been impaired by a number of financial factors, including the major devaluation of the peso in 1976 and the recent high rate of inflation. Its consequently slowed growth may be to its advantage, however, allowing it to consolidate and focus more on institutional and social development rather than the number of _centrales_ and _campesino_ groups created and the amount of credit extended. Emphasis might be placed, for example, on preparing more of its 31 _centrales_ for independent operation, going beyond the five that have already achieved this status.

1.03. That is not to say that more funds are not needed by the FMDR. The loan of SOLIDARIOS/AID Funds has been of particular importance to the foundation, for it represents one of the few resources available to the FMDR for direct on-lending to beneficiaries. The sub-loans have been well utilized, especially for the financing of the construction of wells for irrigation. This is a primary need of many communities, especially those in central Mexico, which face natural constraints to increasing their farm income. This type of support is what FMDR feels it should provide, and the SOLIDARIOS loan allows it to sever its dependence on restricted government loan sources and provide direct credit assistance in a timely way to those _campesino_ groups which it has helped form. Thus, the FMDR has found an appropriate use for the SOLIDARIOS funds and would have the capacity to expand its direct lending activities with another loan of similar magnitude.

2. Background

2.01. Despite the growth in agricultural production that Mexico has experienced since the 1950s, major problems still persist in its rural sector. Concentrated agricultural holdings, underemployment, and a high population growth rate that fuels migration to the cities (and to the United States) are among the many indicators that the official programs initiated to date have not provided adequate responses to existing problems.

2.02. The FMDR was created in 1969 by a group of Mexican businessmen to help address these problems. The foundation's efforts in assisting the small farmers are based on the belief that marginalization and disintegration of the rural sector can only be overcome through collective pursuits in which _campesinos_ shape their own development. This is particularly important in Mexico, where the majority of _campesinos_ live on _ejidos_ but each tends to work separately from his neighbors. The foundations general objective, therefore, is to assist in the organization of _campesinos_ and to increase employment and productivity by providing credit, technical assistance, and managerial and promotional services.

3. Operations of the FMDR

3.01. While the FMDR's central office in Mexico City is responsible for staff training, evaluation, and new program initiatives, its principal obligation is to promote decentralization of program responsibility through the creation of regional service centers. These regional centrales work directly with campesino groups, promoting their organization, responding to their initiatives, and providing planning advice and loan guarantees. Each central has its own board of directors and is free to develop its own programs, hire staff, and raise its own funds. The centrales are similar to the FMDR itself in that they are directed and funded in part by local businessmen. They call upon the FMDR's resources, both financial and human, when their own are insufficient to meet a particular need. Nevertheless, the relative autonomy of these centrales allows campesino groups to collectively pursue the satisfaction of their collective needs at the local level without having to deal with a distant, centralized organization.

3.02. It is also significant that the centrales are designed to be eventually governed by the campesinos themselves. Of the 31 centrales, five have already become centros campesinos, which comprise campesino groups and have their own boards of directors. The five are located in Maravatio, Jerecuaro, Octolan, San Luis Potosi, and Ixtlahuaca. These centros and their member groups continue to receive support from the local central, which has become a service center and which also helps in the formation of new campesino groups which often subsequently join the centro.

3.03. Similarly, it is the board of directors of the FMDR that takes the initiative in creating new centrales. The process usually begins with board members generating interest among businessmen in a particular locale and stimulating a local fund raising campaign; a central must have US $250,000 before the FMDR will provide financial support. The foundation will then assist the local board in selecting and training a manager for the central who thereafter is charged with generating the formation of local groups and helping them establish priorities and select projects to undertake. Usually the manager receives assistance in these activities from a small staff and from the Operations Department of the FMDR.

3.04. The centrales typically work with groups of approximately twenty campesinos, who have come together to collectively solve their problems. Cooperative efforts to meet such needs as the purchase of farm inputs and the marketing of crop surpluses have led to formal meetings, the election of leaders, and the proliferation of rural groups. Credit and other critical services remained unobtainable until a larger organizational effort and the creation of centrales made these services accessible to the already formed campesino groups. The FMDR and the centrales have also helped organize additional small-farmer groups to implement short-term, group oriented projects. Furthermore, several groups have been brought together to undertake, with long-term financing, more complex endeavors such as the purchase of farm machinery, the initiation of irrigation projects, and the construction of small silos.

3.05. Both the FMDR and its regional centers provide training and operate financial mechanisms designed to meet the needs of local groups. The FMDR offers training in finance, accounting, administration, and project planning to managers and campesinos in the centrales to enhance the efficient operation of the centers and allow for increased campesino participation in management. The centrales, in turn, provide training to the general campesino membership and their groups in similar technical areas. An educational effort is also carried out at all levels and is viewed as essential to program development because of its emphasis on campesino organization. This effort promotes an improvement of the farmer's knowledge and awareness of his or her socioeconomic position in the local environment; the enhancement of the farmer's ability to plan and design projects; more widespread participation in projects and with it an appreciation of project responsibility; and an understanding of the importance of group commitment. In addition, the FMDR has established a marketing office to assist those centrales and centros whose marketing problems cannot be resolved locally. In such cases, the studies prepared on various products by the foundation and the personal attention that it provides can be very useful. To date, ten centrales have recieved marketing assistance from the FMDR.

4. Institutional Capacity

4.01. The internal structure of the FMDR has evolved over the years in order to be able to respond to the growing number of centrales and groups that it has helped create. Currently the foundation has a competent staff divided into five departments under the very skillful Executive Director, Arturo Espinoso, who has been the FMDR's inspiration and guiding force since the 1960s. The largest department is Operations, which is headed by an antropologist. He, two veterinarians, an agronomist, and two other staff members provide promotional support, technical assistance, and marketing advise, to the centrales and they are also in charge of evaluation. Staffs of one-to-three people constitute the Department of Technology Transfer, Education, Fund Raising, and Administration. The staff is clearly overextended by the amount of travelling they must do in a country as large as Mexico and with centrales located in all parts of the country. There has thus been some discussion about opening up regional offices of the FMDR. This would seem to be a practical move and would allow the FMDR personnel to spend more time helping the centrales develop their institutional capacity.

5. Credit Mechanisms

5.01. In 1974, with the encouragement of the FMDR, the Mexican government established a guarantee program, called the Fondo Especial de Garantias y Asistencia (FEGA), to help campesinos leverage credit from the financial system. Sixty-to-eighty percent of each loan is backed by the Banco Nacional de Mexico (BANAMEX). The FMDR took advantage of this opportunity to help centrales establish guarantee funds in local commercial banks to provide twenty percent of the backing for loans to campesino groups, with the remaining sixty and twenty percent being provided by BANAMEX and the private banks, respectively.

5.02. The regional guarantee facility is utilized by a group until the capital that it has generated through profitable economic activities has enabled the group to establish and expand its own financial base. Capitalization also takes place through the inflow of foreign contributions, the collection of fees from members for the use of machinery, and by charging yearly membership quotas. The central, on the other hand, can help cover its costs by contracting with the lending institution to provide technical assistance and receive a three percent commission that FEGA would normally pay to furnish technical assistance. Furthermore, the central, and particularly the centro campesino as it seeks to cover its costs and thus increase its independence, may add a margin to the funds it on-lends to campesino groups. In the meantime, at the national level, the FMDR has been able to leverage from the banking system five times the amount of funds it has raised, eighty percent of which comes from sources within Mexico. It also furnishes the technical support needed for the project and proposal preparation required by the banks, and it also operates a small fund to supply short-term gap financing to centrales without sufficient resources in the case of delays in bank disbursements.

6. Use of SOLIDARIOS Funds

6.01. While the US$540,000 in SOLIDARIOS and AID funds that is being made available to the FMDR only adds marginally to the amount that FMDR now leverages annually for campesino groups, it does add an important element of flexibility to the foundation's operations. It gives the FMDR more resources with which to provide gap funding to groups which have had to endure delays in loan disbursements by private banks. It also makes it possible for the foundation to support activities for which the government may have little interest in guaranteeing loans or for which no guarantee program exists at all. Artisan and small business projects fall within this latter category, and the FMDR always loans to groups of enterprises in order to promote the organization needed as a bases for sustained development.

6.02. As of April 1981, the FMDR had drawn down on $375,000 of AID's funds from SOLIDARIOS to finance the construction of wells, the purchase of agricultural machinery, and artisan activity in an area in central Mexico, north of Mexico City. The foundation lends at 14 percent, which is the preferential rate charged by the government, directly to the group, while the local central provides the technical assistance, guarantees the full amount of the loan, and collects its repayment. Two centrales -- in Queretaro and Maravatio -- and the centro campesino at Celaya have been the focus of the FMDR's SOLIDARIOS program to date with a total of fifteen groups projected to eventually become beneficiaries. Two more centrales may become involved this year if the foundation can secure additional funding.

6.03. The central at Queretaro is three years old and is composed of eighteen groups, with another ten groups presently information. Two of these ten took the initiative themselves, with other groups serving as models; this is a process that the FMDR would like to encourage. Joint activities within the established groups, such as the introduction of new technologies and cooperative marketing, have helped to increase employment and double incomes (e.g., through the use of tractors opening new lands for production and wells permitting double cropping). In the small town of San Migueleto, a group of ten people receive financial support via the FMDR from SOLIDARIOS for the production of soccer balls and other athletic equipment. The success of this project can be measured by the extra income (80 persons/day) that some eighty people in the community -- mainly women who can care for their children and animals at the same time -- are earnings by providing the artisanship for the production of soccer related equipment. It can also be measured by the reduction in the number of people who now migrate to the capital four months a year in search of additional income from unskilled factory work.

6.04. In Celaya, a centro campesino has been formed, consisting of 28 groups that are represented on the centro's board. The central continues to operate and to provide advice to the centro and the groups. Four of the groups (all of them ejidos) have irrigation projects financed by FMDR/SOLIDARIOS/AID. In the town of Los Garcia, however, a considerable amount of drilling for water has been accomplished, but none has yet been found and technical problems have resulted in delays. Part of the problem is that the front-end contract signed by the FMDR with the engineering company gives the latter no incentive to hurry in its search for a water source, as the initial payment need only be returned if no water is found. There is still considerable enthusiasm within the group, however, as the promise of irrigation and double cropping means an opportunity to increase incomes substantially. With most of the members presently living on the margin and depending upon occasional work in Mexico City or across the border, such an increase has considerable significance.

7. FMDR Financial Analysis

7.01. The FMDR possess a solid financial base as evidenced by its strong net capital position at the end of fiscal year 1980. (See Part II, Annex I). A steady campaign to raise international grant funds that are matched by contributions from the Mexican business community, has enable the foundation to build a net capital account that represents 60 percent of its $4.6 million in total assests. The Foundation's institutional guarantee fund of $2.3 million is currently leveraging approximately $11.5 million in loans to campesino groups by means of the Government backed FEGA program (Fondo Especial de Garantias y Assistencia). These funds are only exposed by a 2 percent annual loan loss rate which is easily made up by FMDR's earnings (See Part II, Annex II).

7.02. Interest income generated by FMDR's loan program and short term investments in high yielding petroleum bonds, combined with a relatively low operating budget has allowed the foundation to produce net income in excess of $1 million each of the last two fiscal years. These earnings have in turn been added to paid-in capital thus strengthening further the overall financial condition of the foundation.

The direct loans made to campesino groups with SOLIDARIOS/AID funds have the following plan for disbusement:

Disbursed		
	Celaya Central (4 groups)	$105,869
	Queretaro Central (2 groups)	122,550
To be Disbursed 6/30/81	Celaya and Queretaro (6 groups)	$147,581
Planned Disbursement by 12/31/81		
	Morelia, Marabatilla, Chihuahua (Centrales)	$120,000
	Patzcuaro (Small Industry and Artisan Shops)	$ 44,000
	Total	$540,000

Annex I

FMDR COMPARATIVE BALANCE SHEETS

(In 000's $U.S.)

	1979	1980
Cash & Short-Term Accts./Rec.	887	504
Direct Loan Portfolio	766	715
Institutional Guarantee Fund	1,017	2,358
Fixed value certificates (1 yr.)	781	871
Fixed Assets	151	168
Deferred Income	11	20
Total Assets	$3,613	$4,636
Short-term Debt	1,187	1,433
Long-term Debt	58	409
Net Capital	2,368	2,794
Total Liab. & Capital	$3,613	$4,636

Annex II

FMDR COMPARATIVE INCOME STATEMENTS

(In 000's $U.S.)

	1979	1980
Income		
Total Income	$1,977	$2,527
Expenses		
FMDR Operations	652	769
Support of Centrales	191	492
Other Expenses	113	89
Total Expenses	$ 956	$1,350
Net Income (Loss)	$1,021	$1,177

PART III: IPRU/URUGUAY

1. Findings and Recommendations

1.01. In February 1980, the management survey team visited IPRU (Instituto de Promocion Economico Social del Uruguay) to assess IPRU's capacity to effectively utilize credit funds made available by SOLIDARIOS. The evaluation of the management survey team concluded that IPRU was an excellent development institution working primarily with groups of poor farmers incorporated in Sociedades de Fomento Rural (SFRs). Although IPRU lacked significant experience in channeling credit to their clients, the needs of this segment of the population were such that IPRU was prepared to assume a larger financial role in order to make available medium-term and long-term loans at reasonable rates of interest. The problems of domestic inflation and continuing devaluation of the Uruguayan peso vis-a-vis the dollar, however, caused reservations on the part of IPRU and led the management team to recommend to SOLIDARIOS that it permit all or most of its loan to IPRU to be utilized as a guarantee fund in order to facilitate the full repayment of the loan by IPRU and maintain the fund's monetary value as well.

1.02. A year later IPRU is a larger and even stronger development organization in the process of concentrating its efforts both geographically and functionally. It has expanded its credit function somewhat, but it has yet to determine through what financial mechanism it will utilize SOLIDARIOS funds. In the proposal that it submitted to SOLIDARIOS in late 1980, IPRU provided detailed information on the regions and projects that will benefit from the SOLIDARIOS loan (see Section 4), but, in recognizing the continuing risks in monetary conversion, the Institute has asked SOLIDARIOS to assist in a search for systems that would diminish this risk.

1.03. The question of the most appropriate means of disbursing SOLIDARIOS/AID loan funds to IPRU -- given the hyper-inflationary economic situation and continuing currency devaluations taking place in Uruguay -- has not as yet been resolved. With an annual rate of inflation of 40 percent and approximate currency devaluations of 20 percent per year, it appears that IPRU can not justify making direct loans to its beneficiaries at a 40 percent interest charge, thereby losing approximately 20% of the monetary value of its fund. Therefore, SOLIDARIOS has proposed a guarantee fund arrangement whereby the SOLIDARIOS/AID monies would remain on deposit in the Dominican Republic earning 10 percent interest per year in U.S. dollar equivalents. IPRU would then solicit loans through a correspondent bank in Montevideo with the SOLIDARIOS funds fully backing any loss that might occur through default. In this way, SOLIDARIOS is assured of the repayment of its loan and IPRU's funds are unexposed to monetary loss resulting from Uruguayan inflation and currency instability. A decision on this matter should be voted on at the annual meeting of SOLIDARIOS membership in July of this year. Following this decision -- upon agreement by AID -- SOLIDARIOS and IPRU will arrange for the operational details to be worked out and fund allocations will be made by SOLIDARIOS for IPRU project-specific purposes.

1.04. The problem in Uruguay appears to be IPRU's uneasiness about managing large amounts of credit itself or allowing existing banking institutions (which may attempt to usurp the loan-policy-setting function e.g., Banco de la Republica, lend at relatively high rates of interest e.g., commercial banks, or not be suitably located e.g., the savings and loan cooperative in Canelones) to extend loans guaranteed by SOLIDARIOS funds. It is urged that an arrangement be arrived at quickly, expecially in light of the urgent need for funds in regions such as Trinidad. If IPRU should finally decide to on-lend the funds itself, it is recommended that, because of IPRU's inexperience with credit, funds not be applied in regions such as Mercedes, where the SFR has had a bad credit history. It is strongly recommended that IPRU's credit operations be assessed by SOLIDARIOS after its use of the first disbursement to ensure that IPRU develops an adequate in-house credit-management capability.

2. New Institutional Structure

2.01. Over the past year, the staff of IPRU has increased from 18 to 26, and a significant internal reorganization is presently in process. The staff is still of the same high calibre as reported last year but IPRU's leadership recognized that the skills of some of its top people were being underutilized. Furthermore, internal contradictions had begun to arise. The separation of the rural and urban development functions, for example, was creating competition in fund raising and inadequate communication, where a close working relationship should have been natural.

2.02. In March 1981 the reorganization process began; it should be complete by the end of June. In essence, it constitutes the consolidation of five departments into two. There will no longer be a distinction between rural and urban functions; they both now will fall within the Department of Promotion. That department will be headed by Diego Pineiro, who will thus be able to assume the degree of responsibility that the former structure denied him when he headed the rural sector program. At the moment, two divisions are being formed within the department: one for credit and technical assistance and another for *capacitacion* and communications. Each division may subdivide over time, especially the former if IPRU's credit operations rapidly expand as presently planned. IPRU must then face the serious problem of locating the experienced credit manager that it now lacks. In all, there are sixteen people in the new department, and they are to participate monthly in department planning sessions.

2.03. The Department of General Administration, headed by Luis Murias, has been expanded to take advantage of his skills, as well. The department will likely include three divisons: accounting, intendencia (personnel, assets, etc.), and programming and evaluation. This last division, which has not yet been formed, would have as a primary role the evaluation of programs carried out by the Department of Promotion.

3. Present and Planned Programs

3.01. At the time of the management team assessment, IPRU was supporting the rural development efforts of SFRs in Durazno, Trinidad (Flores), Mercedes (Soriano) and Canelones. It also was involved in urban-based community development in the northern city of Tacuarembo and was working in Montevideo to establish an artisan marketing center and to assist production cooperativies. Over the past year IPRU has continued to focus on these sites as it attempts to apply its limited resources where there exists the most need. Eighty percent of Uruguayans live in urban areas, and the real incomes of the majority have fallen rapidly over the past ten years. The economic welfare of those in the rural areas, where two-thirds of farms comprise only five percent of the country's farmland, has also continued to suffer. Sixty percent of these small farms (less than fifty hectares in size) are located within one hundred kilometers of Montevideo in the state of Canelones and much of the rest are in the central part of the country, where IPRU is also active. The government has provided few services to small farmers and made things even more difficult for them three years ago when it removed price supports.

3.02. IPRU's experience with credit to date has been very limited. With the exception of loans made to farmers in the vicinity of Trinidad, the credit extended so far has been focused on the urban centers of Montevideo and Tacuarembo. In Montevideo, IPRU's program involves support, in the form of credit, training, and technical assistance, for artisan groups, production cooperatives, and small family enterprises. Its goal is the consolidation of these base-level groups and the formation of regional centers to service them. In Tacuarembo in northern Uruguay, IPRU has been able to work with a progressive municipal government and with a group of community organizations to promote community development efforts that will benefit 3,000 families in poor neighborhoods on the perimeter of the city. IPRU is presently planning to expand its activities in Tacuarembo to promote associative forms of production, as it is doing in Montevideo.

3.03. In Montevideo, IPRU itself administers the lending program; in Tacuarembo this function is handled by the local savings and loan cooperatives in conjunction with an Administrative Committee. IPRU plans to form such committees elsewhere, especially in rural areas, to analyze and administer loan requests forwarded by SFRs and other cooperative-type entities. The Administrative Committee will consist of representatives from IPRU, the local SFR, and eventually the local savings and loan cooperative.

3.04. IPRU's largest program is in the northeastern part of the state of Canelones. The large part of the farmers there are small landholders growing principally corn. Working capital is critical to them, but requirements and loan terms imposed by banks make such credit virtually unavailable to the small producer. Without assistance from the government, small producers have had to rely upon one another and private entities such as IPRU. Many SFRs have been formed over the years, and IPRU sees as an important part of its work the fortification of them and the development of a regional SFR federation, which would in time assume its support role; IPRU aims to effect the full transfer of responsibility by 1985. Through the SFRs production inputs can be bought more cheaply and goods marketed more efficiently. Many SFRs still lack warehouses for storge of grains, so this is a use to which IPRU plans to put part of the

SOLIDARIOS loan. Agro-industrial processing will be undertaken at the federation level, once the federation is fully established.

3.05. The range of problems faced by the small farmers of Canelones led IPRU to launch an Integrated Rural Development Program in 1978 that has sought to encompass and benefit 7,000 small farmers. IPRU's objectives have been an increase in family incomes, the stimulation of active participation in the SFRs, and the transformation of SFRs into regional instruments for development. So far, the results have been mixed, with IPRU handicapped by a shortage of funds. The institute currently has proposals into the Inter-American Foundation, P.A.C.T., Miserior, and Development and Peace and the IDRC of Canada for a number of projects that it has planned. These proposals are, for the most part, for grants to establish revolving loan funds for working capital. While such financial support is badly needed, it still leaves a demand for longer-term credit which only SOLIDARIOS can satisfy at this time.

3.06. An example of this financial gap can be found at the SFR in the town of Tapia, northeast of Montevideo. The SFR is composed of about one hundred farmers with holdings averaging approximately twenty hectares in size. The Sociedad is sixteen years old, but without access to credit, it inevitably cut back operations until a few years ago when IPRU began providing services and securing short-term loans. In the absence of longer-term credit, however, the Tapia SFR has been unable to contract storage space that it needs for the inputs and the production of its members. As a result, much of the economic advantages of collective activity has been negated, with the membership forced to face the whims of both the free market and the marketing intermediaries. Without greater results to show its members, the Tapia SFR has yet in practice to be fully rejuvenated. Only 35 of its members are active and its manager works as only a part-time volunteer without office facilities. A long-term loan via IPRU from SOLIDARIOS would do much to meet the farmers' needs and to reactivate the SFR as a development institution.

3.07. In nearby Santa Rosa, the SFR is stronger, but its needs are the same. Its membership is approximately 1,200 or almost 75 percent of the families in the area. A major stimulus for membership has been the existence of a cooperative general store. On the other hand, while individual producers have received short-term loans at relatively high interest rates from the Banco de la Republica and the local savings and loan cooperative, the SFR has been unable to secure medium to long-term credit for warehouse construction and for the purchase of a much needed truck. Financing from SOLIDARIOS would meet these needs and thus enable the Santa Rosa SFR to secure higher prices for its members' production and to cut out the intermediary who currently markets their goods.

3.08. IPRU is no longer working in Artigas and Salto in the north, nor in Mercedes in the west, allowing it to concentrate its rural development activities in Canelones and in the area surrounding Durazno, Trinidad, and Florida in central Uruguay. Two years ago, the SFR of Mercedes, which was marketing fruit for its members, encountered severe mangerial and financial problems and suspended operations. It could be reactivated at any time, but it would require new leadership and it would be to its advantage to move into another area, such as milk production. It would be advisable that, at least for the time being, IPRU not apply SOLIDARIOS funds to the Mercedes SFR, as was orginally planned.

3.09. Good use of those residual funds could be made in Durazno, Trinidad, and Florida. The SFRs in that area are receiving training and technical assistance (particularly in accounting) from IPRU for the mangement of milk production operations. The most urgent need for credit is in Trinidad, where there has been a strong demand for working capital for over a year and where long-term credits for the construction of barns are imperative. Four years ago, a national law was passed, requiring all dairy farmers to house their cows in barns for health reasons. The city of Trinidad is now enforcing that law, but neither it nor the central government has a program to finance barn construction. Therefore, the SOLIDARIOS loan takes on particular importance to small dairy farmers in central Uruguay.

4. Proposal to SOLIDARIOS

4.01. Late in 1980, IPRU presented a proposal to SOLIDARIOS for $185,000 (and to PACT for a $35,000 grant) to finance investments by the SFRs in Canelones and Flores, of which Trinidad is the capital, and by their members. (A request for funding for the Mercedes SFR is being reconsidered by IPRU; those funds might instead be lent in Durazno.) An estimated hundred loans totalling about $50,000 will be made in Flores for the construction of barns and warehouses. Most of the remaining $210,000 (including the requested PACT grant) will be lent to or through eight SFRs in Canelones principally for warehouse construction, as well as for irrigation equipment and working capital. The working capital loan program will make credit available to some farmers for the first time, while reducing the cost of borrowing of others from five percent to 2.5 percent per month.

4.02. The IPRU proposal is well thought out, with loan terms and procedures delineated for each sub-program. The Institute, however, has already fallen behind its own disbursement schedule, which was to have begun in January 1981. Disbursements were to have been made over the course of the year, benefiting approximately 3800 people by January 1982. It now appears that the program will be delayed at least half a year and more likely close to a year, as IPRU does not want to rush into its first experience with substantial amounts of credit until it has completed its internal reorganization and has had a chance to reflect then on the relative advantages of the use of various financial mechanisms. Although there is an urgent need for credit, especially in Trinidad, the cautiousness on the part of IPRU is understandable. It is clear, however, that IPRU has a good amount to accomplish before it receives SOLIDARIOS funds, having to either work out financial arrangements if IPRU is to employ a guarantee fund, or having to fortify its credit division by refining loan procedures and hiring an experienced credit manager.

5. IPRU Financial Analysis

5.01. In compliance with the recommendations made by the management survey team in February, 1980, IPRU has been successful in securing funding sources necessary for its program expansion and coverage of operational expenses, particularly those expenses falling due in the first half of 1981. In a period of one year, IPRU has increased its total assests by 60 percent while maintaining a strong debt to equity ratio, (less than one-half to one). (See Part III, Annex I and II).

5.02. SOLIDARIOS has played a major role in supplying IPRU with the financial and technical assistance it needs to launch its loan fund mechanism. In order to provide financial management and technical expertise, SOLIDARIOS contracted a financial analyst from the Colombian Caja Agraria organization to assist IPRU in establishing a system of loan procedures and provide instruction in portfolio review techniques. The transformation of IPRU's accounting system to that of "accounting by fund" was recently accomplished with the help of SOLIDARIOS' technical assistance staff. Consequently, IPRU is now in conformance with standard accounting procedures and is in a position to effectively manage and monitor SOLIDARIOS/AID loan funds.

Annex I

IPRU COMPARATIVE BALANCE SHEETS

	1979	1980
Cash and Short-Term Receivables	34,077	94,185
Grant Projects	86,194	58,487
Loans Receivable	1,644	30,293
Fixed Assets	2,526	14,742
Deferred Income	308	3,626
Total Assets	$124,749	$201,333
Short-Term Payables	3,568	41,187
Project Grants	111,129	153,198
Paid-in Capital	10,052	6,948
	$124,749	$201,333

Annex II

IPRU COMPARATIVE INCOME STATEMENTS

(In 000's $U.S.)

	1979	1980
Income		
Donations	35,220	37,771
Operation Expense Grants	25,235	32,496
Interest Earned	4,892	6,190
Sale of Inventory	—	2,328
Other Income	7,757	4,302
Gross Income	$73,104	$83,087
Expenses		
Costs		
Purchases		4,075
Other		1,217

	1979	1980
Expenses (cont'd)		
Project Disbursements	19,307	33,220
Personnel Services	34,811	30,379
Admin. Expenses	2,900	11,749
Gross Expenses	$57,018	$80,640
Net Income (Loss)	$16,086	2,447