

CLASSIFICATION
PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol: U-111

1. PROJECT TITLE Municipal Development Bank II			2. PROJECT NUMBER 522-0165	3. MISSION/AID/W OFFICE Honduras
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)				
<input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION				
5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	
A. First PRO-AG or Equivalent FY _____	B. Final Obligation Expected FY _____	C. Final Input Delivery FY _____	A. Total \$ 8.4 m	B. U.S. \$ 5.0 m
			7. PERIOD COVERED BY EVALUATION From (month/yr.) 5/80 To (month/yr.) 9/82 Date of Evaluation Review _____	

B. 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

A. Lending Policy

1. Consider the possibility of using project funds to finance less sophisticated and costly structures than those built to date.
2. Follow the policy of funding sub-projects only in those cases where effective demand for services has been detected and municipalities have the proven capacity to repay the loans.
3. Include in future sub-project loans covenants conditioning disbursements to effective maintenance of existing infrastructure.

William Smith	7/15/83
William Smith	7/15/83
William Smith	7/15/83

E. Institutional Development and Improved Management System

1. To prevent IANMA from becoming an institution dedicated essentially to the administration of central government grants, support the IANMA's president proposal for the promulgation of a new law authorizing:
 - (a) the adoption of measures to improve the volume and autonomy of municipal revenues;
 - (b) the establishment of new links between the central government agencies and municipalities so that they can participate as equal partners in areas of mutual concern.

William Smith	7/15/83
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B. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

<input type="checkbox"/> Project Paper	<input checked="" type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	_____
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify) _____
<input checked="" type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

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

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

William Smith, Project Officer
Orlando Hernández, Evaluation Specialist
James Licks, Evaluator

12. Mission/AID/W Office Director Approval

Signature: *[Signature]*
Typed Name: Anthony J. Cantorini
Date: 6/11/83

	Officer Responsible for Action	Date Action to be Completed
2. Propose BANMA to systematically gather socio-economic and financial information on municipalities and project monitoring and performance and create a Municipal Data Base Management System (DEMS) for the storage and retrieval of such information.	William Smith	11/15/83
3. Motivate BANMA to study the possibility of establishing this DEMS with the financial support of the Census and Statistics Directorate, CONSUPLANE and the Municipal Technical Assistance and Advisory Agency of the Ministry of the Interior.	William Smith	11/15/83
4. Propose BANMA to use the DEMS to improve BANMA's internal financial management system and to clearly define and implement policies that may help BANMA become a sound financing institution.	William Smith	11/15/83
5. Recommend BANMA to establish a long term BANMA Development Plan defining funding sources, lending policy, project eligibility criteria, disbursement target levels, cash flow and liquidity.	William Smith Ray Baum	11/15/83

C. Municipal Development and Impact

1. Consider providing much more advisory technical assistance than actually planned to participating municipalities so as to set up efficient and effective revenue generating services.	William Smith	11/15/83
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13. Summary

There have been two AID projects intended to strengthen BANMA's financial and technical capacity to function as a development banking institution capable of carrying out an extended lending and assistance program to municipalities. The first one, known as Loan 522-W-022, was implemented during the 7/74-1/80 period. The second one, Project 522-0165, was designed as a three-year undertaking beginning in May 1980 and expected to end in May 1983.

The first project had a total budget of \$6.71 million. 61% of that amount was financed by an AID loan and the remaining 39% was financed through counter-part contributions. Through this initial project, 53 sub-projects were carried out in 27 municipalities. These sub-projects included 22 fiscal cadastre programs, 17 markets, 2 bus terminals and 2 slaughterhouses. It was concluded that this project had met a real demand of the municipalities involved, given the few alternative sources of support existing in the country. In addition, through this first project (a) there was a 500% increase in BANMA's net capital, (b) there was a 300% increase in the bank's total assets, (c) the proportion of operating expenses in relation to loan portfolio and municipal bond investments decreased from 17 to 9%, and (d) the total debt in relation to capital was reduced from 194 to 83%.

Against this background of relative success, Project 522-0165 was approved. The budget for the new project was \$9.33 million. AID's contribution, both in the form of a loan and a grant, represented 51% of that amount. The counter-part contribution, representing the remaining 49%, was to be financed by the central government, the municipalities involved and BANMA. The declared project goal was to improve the quality of life of the poor who live in intermediate cities and towns, or who depend on these central places for essential services. Two interrelated project purposes were defined. One, to increase the financing of infrastructure improvement in intermediate cities and towns, particularly in poorer municipalities which have previously been unable to obtain such financing. And two, to improve the ability of municipalities both to generate additional revenue and to administer their own project during and after construction. It was expected that 85 municipalities would be benefitted through project activities. Project funds were to be used to finance 100 infrastructure sub-projects, 20 labor intensive programs in poorer municipalities, 24 administrative reform sub-projects, a training program for municipal employees and additional technical assistance as needed for project selection and design.

BANMA has formally complied with the condition precedent to the initial disbursement. This condition required BANMA to provide AID with satisfactory indication that criteria for the selection and approval of sub-projects with partial grant financing had been developed.

As of March 15, 1983 BANMA has not complied in writing with the condition precedent to subsequent disbursements. This condition requires the bank to provide AID with satisfactory indication that measures had been taken to allow poorer municipalities to be eligible for BANMA financing. The bank was expected to provide these municipalities with some kind of relief, including the possibility of being exempted from the 5% BANMA bond requirement. Although no formal policy has yet been adopted by BANMA, it is common practice to demand the 5% capitalization deposit from all municipalities, but to make loans to poorer municipalities on softer terms (e.g., lower interest rates, longer grace and repayment periods). Despite the fact that AID is still expecting current practice to be formalized and appropriate policy documents to be submitted for approval, no action was taken in the past to stop further disbursements. The decision made in September 1982 to suspend the project temporarily depended primarily on the problem faced by the bank to recuperate the sub-loans made to municipalities. This problem is discussed in more detail further down.

Covenants in this project can be grouped into three categories: financial resources, management questions and sub-project implementation aspects. Table No. 1 summarizes these covenants by categories and gives an indication of their status as of March 15, 1983.

Table No. 1 - Status of Covenants
as of March 15, 1983

Category	Covenants	Status
Financial Resources	-GOH's contribution of \$2.0 million during the LOP and annual contribution of \$0.5 million thereafter and through 1989.	-Contributions met for 1980 and 1981. (1)
	-BANMA's contribution of \$1.5 million during the LOP.	-Contributions met for 1980 and 1981. (1)
Management Questions	-Continue using procedural manuals adopted under the first project.	-Done.
	-Contract satisfactory external audit services during LOP.	-Done.
	-Revise existing interest rate structure to permit higher rates for sub-loans to municipalities with higher repayment capacities.	-Efforts made to deal with issue subsequent to 8/82 midterm evaluation.
	-Establish an evaluation program as integral part of the project.	-Done subsequently to 8/82 midterm evaluation.
Sub-Project Implementation	-Pursuant to a written plan, maintain personnel policy assuring retention of qualified professionals on its staff.	-Completed subsequent to 8/82 midterm evaluation.
	-Do not use project funds to finance the paving of streets and the construction of municipal office buildings, cementeries or parks.	-Done.
	-To submit for AID approval all subprojects in which the combination of loan and grant financing exceeds \$100,000.	-Default at outset of project. Problems not solved.
	-To assure timely availability of construction materials.	-Done.

(1) Source: USAID/Honduras, Quarterly Report of October-December 1981, p. 65.

One of the major issues pointed out by the project evaluation conducted in August 1982 was that the bank had complied essentially with covenants regarding financial resources and sub-project implementation, but that it had defaulted in some covenants regarding management questions. That is, by August 1982 BANMA (1) had not yet revised the interest rate structure to permit higher rates for sub-loans made to municipalities with higher repayment capacities, (2) had not yet established an evaluation program as an integral part to the project, and (3) had not yet established a definite personnel policy assuring the retention of qualified professionals. As a consequence of the evaluation actions were taken to correct matters, and by March 15, 1983 (1) the interest rate structure had been revised upward, (2) the internal evaluation program for sub-projects had been set up, and (3) a written personnel policy plan had been prepared. That is, the interest rate structure was raised to a minimum of 12% and a maximum of 19%; repayments of sub-loans were to be monitored monthly through a recently established system of continuous auditing of implemented sub-projects, and the salaries of the bank's technicians were raised from 25 to 58% with respect to 1980 standards. In addition, fringe benefits for BANMA employees were improved substantially, particularly with respect to training opportunities.

With respect to disbursement of AID funds, the project is far behind the target schedule. As of September 30, 1982, when further disbursements for new projects were stopped, only 39% of the \$0.25 million grant and 19% of the \$4.75 million loan had been disbursed. In terms of outputs, by that same date, funds had been either earmarked or committed only for 13 out of the 100 planned construction sub-projects and 8 out of the 24 planned administrative reform sub-projects. In addition, no specific labor intensive projects had been designed and the training unit to be organized to give courses to municipal employees had not been yet established. It was only as a consequence of the midterm evaluation findings that BANMA prepared a training plan for municipal employees. This plan was approved by AID in January 1983, and it is now being implemented.

The midterm evaluation offered two explanations for the poor performance observed in project implementation. One is political and the other is technical. Politically speaking, during the the first part of the project Honduras returned to a democratic process after several years of military regime. As a consequence, (a) previously appointed municipal administrations were reluctant to commit themselves to loan agreements over an uncertain future given up-coming elections, and (b) the bank's president himself reportedly got involved in political activism to the detriment of project activities. This is an era now behind us. With respect to technical aspects, in the past poorer municipalities found it difficult to produce, as part of their counterpart contribution, acceptable designs for the infrastructure sub-projects to be constructed. This was especially true of public markets. Consequently, either municipalities encountered problems in finding contractors willing to do the civil works or facilities with inadequate designs were constructed. BANMA has now determined to include the cost for the design of facilities in the sub-loans approved. In addition, a list of qualified engineering firms to produce these designs has been drawn.

The evaluation has questioned BANMA's institutional and administrative capacity to function as an efficient implementing agency because of the following reasons.

- (1) BANMA essentially relies on ad hoc inter-institutional arrangements to gather data on such basic questions as municipal revenues. There is no established system for the collection of relevant socio-economic data which could allow managers to make sound sub-project approval decisions based on (a) the effective demand for the services to be provided, and (b) the repayment capacity of beneficiary municipalities. As a consequence, no priorities have been defined with respect to the kinds of projects to be implemented.
- (2) The interest rate structure applied up to February 1983 did not take into account the country's rate of inflation. Officially, this rate was estimated at 10% for 1981 and 1982. Nevertheless, BANMA had been charging from 9 to 12% interest, with an overall interest average of 10.38%. Based on expected inflation figures for the following years, the evaluation report suggested that BANMA was likely to face decapitalization over time.
- (3) BANMA had a fragile capacity to design, monitor and report on its sub-projects. This was partially a consequence of the work load of the Engineering Division. Previously, this Division was staffed with an inadequate number of underpaid junior engineers who had little work experience. Despite the fact that at the time the evaluation was conducted there had been an increase in site visits, the functions of the Engineering Division personnel were limited to passive verification of construction supervision reports.
- (4) At the outset of the project, BANMA's presidential office was unable to adequately coordinate and support the activities of the Divisions of Technical Services and Operations. Lack of leadership and working guidelines have hindered the qualified staff of these divisions to improve the bank's policies, performance standards and criteria. It was not until February 1982, when a new president was sworn in, that the situation began to change.

Subsequently to the evaluation, three important improvements in the problem areas detected have been observed. First, a credit policy manual was developed. This manual stipulates that sub-loan eligibility depends on good credit background, sound municipal revenue generating activities and efficient municipal management. Second, and as it was already mentioned, the interest rate structure was revised upward. This was intended to be a responsive measure to (a) the different repaying capacity of municipalities and (b) the country's inflation rate. And third, the staff in the Engineering Division now has the minimum professional qualifications needed to carry out their duties. Currently, all contracted engineers at BANMA have at least the licence needed to practice.

One noteworthy purpose of the project is being accomplished: with project funds BANMA has been able to provide financing to poorer municipalities. While the average annual revenue of BANMA I municipalities was \$313,442; that of BANMA II municipalities was \$110,159. That is, about one third of the

annual revenue of those previously benefitted. Despite this significant charge concerning the target group, the evaluation has come to the following conclusions with respect to the services being financed through project funds.

- (1) No hierarchy of services to be provided has been established. In some of the infrastructure sub-projects, designs are analyzed only with respect to the size of the facilities to be constructed. This is particularly true for markets. The complexity of the design (e.g., graded lot with minimum sanitary facilities versus enclosed, covered building with internal divisions for commercial use with full water and electrical facilities) is generally ignored.
- (2) The rate of facility use is not always as high as expected. In some cases this problem is rather acute. For example, for various reasons markets constructed in Sonaguera, Sava and La Ceiba, all financed through BANMA I, were still vacant as of June 30, 1982. As already pointed out, this is an indication that projects may be approved without knowledge of effective service demand. The link between unknown service demand and low facility use is supported by the fact that service demand is not based on architecture when the latter is defined in terms of design and supervision costs. With respect to BANMA I, no relationship has been found between these and project use. Despite these problems, nevertheless, recognition should be granted to the Technical Services Division for taking the initiative of consulting community representatives, other than municipal authorities, as well as sub-project beneficiaries with respect to sub-project design. Broader-base participation in sub-project design seems to be a step in the right direction to solve the problem of low facility use.
- (3) Municipalities are not assuming responsibility over the maintenance of facilities constructed. Project maintenance is rather acute in water and sewerage systems. These difficulties result from (a) the low level of municipal revenues and (b) the dependency of some municipalities with respect to central agencies. The evaluation has suggested that further participation of municipalities in sub-project design and implementation may help resolve the maintenance problems indicated. It would only be prudent for the bank to keep an eye on its investments by occasional inspection of the infrastructure sub-projects.

Fiscal cadastre and administrative reform sub-projects are effective in increasing local revenues. A sample study of 8 such projects financed under BANMA I demonstrated that municipal revenues increased in these cases from 38 to 388% over a one to two year period. Furthermore, municipalities with administrative reform sub-projects showed better loan repayment performance than those without them. As of June 30, 1982 those in the first case had paid 78.5% of due payments and those in the second case had paid only 56.5%. Interestingly enough, however, in those municipalities having administrative reform programs, improved revenues were not related to improved payments with respect to simultaneous infrastructure loans. As of June 30, 1982 municipalities with both administrative reform programs and infrastructure

projects showed a mean repayment performance of 77.2% of their due payments. Those with only administrative reform programs showed a mean repayment performance of 82.6%. The fact that increased revenues through BANMA I loans did not lead to overall improved repayment has been interpreted in terms of the attitude of municipalities with respect to BANMA credit. Repayment of BANMA loans is not a first priority for many municipalities. The expectancy that central agencies should subsidize municipal undertakings, especially under an elected administration, and the fact that BANMA itself has no effective sanctions or rewards related to repayment performance have both contributed to such attitude. Poor repayment performance has generally resulted in rescheduling of payments, and in certain cases a low repayment record under BANMA I did not limit access to BANMA II.

Because most of the personnel trained under cadastre programs financed by BANMA I was removed after elections, it is likely that repayment performance for previous loans will be affected. In addition, many of the newly elected municipal authorities do not have the necessary training and expertise in municipality management. Their lack of skills could also have repercussions in the repayment of new loans. It is expected that the recently developed Training Plan for CY 83 will help resolve some of the staff qualification problems indicated. This Training Plan is intended both for BANMA I and BANMA II municipal employees. Nevertheless, extensive technical assistance to municipalities will still be needed. Experience in other developing countries indicates that municipalities require considerable training, advice and cajoling when setting up revenue generating services. For such training and technical assistance to have continuing benefits, the high turnover of trained personnel must be avoided whenever possible.

Concern over poor repayment performance records should become one of BANMA's priorities. The bank's capacity to be a self sustaining financial institution (if that is possible) depends mostly on the loan recovery. As of June 30, 1982 only 64% and 44% of the total payments due (e.g., commission, interest and principal) for BANMA I and BANMA II had been paid. Given the interest rate structure problem mentioned earlier, if such loan repayment levels prevail BANMA will be able to maintain an active operation only if it receives government transfers and/or continuing inflow or loan payments. The evaluator has suggested that "if neither are forthcoming, BANMA should expect to terminate operations in approximately five years."

An audit report prepared in May 1983 by A.I.D. gives the following explanations for poor repayment performance on the part of municipalities.

- (1) Some municipalities have used sub-project income for purposes other than repaying the subloan. In these cases, income is deposited in the general account for the municipalities.
- (2) Sub-project feasibility studies overestimated the demand for services.
- (3) Collection procedures are inadequate. BANMA's actions are limited to sending payment notices without taking progressive actions when delinquency occurs.

- (4) Subprojects are not always properly managed by municipalities thus not generating expected income. Adequate fees for the use of facilities are not charged. In addition, cities do not promote the use of constructed facilities.
- (5) BANMA makes new loans to municipalities that have defaulted on previous loans.
- (6) Facilities might be poorly designed, thus discouraging efficient use. Examples of this are leaking roofs, poor locations and failure to provide adequate access.

Table No. 2 summarizes the bank's balance sheet of April 30, 1982.

Table No. 2 - Summary of the April 30, 1982 Balance Sheet
(Dollars)

Disposable Assets		
(Cash on hand, bank deposits and checks)		0.7 million
	Loans to Municipalities (Municipal contributions, central government transfers and both AID projects.)	12.3 million
Investments	Reservoir for inter-bank financial operations (Demand deposits made by government agency pension funds and public foundations. Approximately 50% for 5-year term and other 50% short term term demand ranging from 3-12 months.)	16.5 million
Total		29.5 million

According to the evaluation, "BANMA's long term liquidity for maintaining a loan portfolio is dependent on the recovery of loans to municipalities." Furthermore, "in the short run, it is dependent on central government transfers and third party deposits. If a substantial amount of its current demand deposits were to be called in on short notice, BANMA would face a serious liquidity problem."

14. Evaluation Methodology

A midterm evaluation conducted in the months of July and August 1982 over a four-week period to assess the progress observed in the achievement of the project's purposes and goal. The management questions related to BANMA's operations were evaluated through interviews with key BANMA and AID officials and through analysis of relevant BANMA records. To assess aspects related to sub-project implementation three municipalities were visited. These municipalities were all located in the Yojoa-Sula area. The selection of

sites to be visited was based on the following criteria: (a) size and degree of isolation of municipality, (b) type of subproject, (c) time elapsed since sub-projects were implemented, and (d) difficulties confronted with facility use and the repayment of loans.

This report summarizes the major findings of that evaluation. Whenever pertinent, it also summarizes the major improvements observed in project implementation from September 1982 to March 1983 as a consequence of that evaluation.

15. External Factors

1. During the first two years of the project Honduras passed through a political transition period, going back to a democratic regime after several years of military rule. Because of his involvement in political activities in preparation for the elections, the previous BANMA president was apparently unable to provide the needed leadership for project implementation. In addition, loans seem to have been given to municipalities based on political rather than financial criteria. Probably for political reasons, the previous president authorized delinquent municipalities under BANMA I to receive additional funding under BANMA II.
2. For municipal authorities that had been appointed by the previous government, holding elections and returning to civil rule meant the end of their administration. By and large they believed that newly elected authorities should be allowed to carry out their own municipal development plans and as a consequence were reluctant to sign loan agreements for sub-projects whose implementation would continue after they were no longer in power.
3. Newly elected administrations brought in their own working teams. As a consequence, most of the previously trained cadastre personnel was fired. This may affect the capacity of municipalities to implement their administrative reform programs and in turn hinder their loan repayment capacity.
4. As a result of the present economic recession affecting Honduras, municipalities are reporting reductions in their tax revenues. This would discourage them from applying for BANMA loans for development projects.

16. Inputs

As of September 30, 1982 all project funds had been obligated, yet only 39% and 19% of the loan and grant funds had been respectively disbursed. Table No. 3 shows the breakdown of funds obligated, accrued and disbursed by project accounts. It also indicates existing pipeline as of that date.

TABLE NO. 3
 BREAKDOWN OF USE OF A.I.D. FUNDS
 AS OF SEPTEMBER 30, 1982

		<u>Obligated</u>	<u>Accrued</u>	<u>Disbursed</u>	<u>Pipeline</u>
	No. 037 (Food & Nutrition)	750,000	94,000.00	286,035.00	369,965.00
LOAN	No. 038 (Health)	3,000,000	142,116.00	499,787.00	2,358,097.00
ACCOUNTS	No. 039 (Selected Development Activities)	1,000,000	6,480.00	100,954.00	892,566.00
GRANT ACCOUNT		250,000	14,500.00	99,601.00	135,899.00
T O T A L		5,000,000	257,096.00	986,377.00	3,756,527.00

17. Outputs (As of 9/30/83)

<u>Expected Results at the End of the Project</u>	<u>Accomplishments</u>
24 Administrative Reform Sub-Projects completed	3 being implemented <u>5 completed</u> 8 Total
20 Labor Intensive Sub-Projects completed. Financial support through the Selected Development Activities Account.	No specific labor intensive sub-projects implemented with the indicated account funds. However, 3 health account sub- projects and 1 food and nutri- tion account sub-project use high proportions of hand labor.
100 Infrastructure Sub-Projects completed	5 being implemented <u>8 completed</u> 13 Total
21 Courses for Municipal Employees	6 courses taught.
Training Program for Bank Personnel	1 local accounting course for BANMA's accountants 1 overseas course for BANMA's Chief Accountant Observational visits to Panama by several BANMA employees.

18. Purpose

There are two project purposes.

- (1) Increase BANMA's financing of infrastructure improvements in intermediate cities and towns, particularly in poorer municipalities which previously have been unable to obtain such financing.
- (2) Improve the ability of such municipalities to both generate revenue and manage their own projects.

The first purpose is being accomplished. The average annual revenue of BANMA II municipalities is \$110,159. That of BANMA I municipalities was \$313,442.

The Training Program for municipal employees began to be implemented in January 1983. It has been recommended by the evaluation that extensive technical assistance be provided to beneficiary municipalities so that they can adequately learn to manage sub-projects and resources so that new public facilities can be eventually constructed. No information is yet available with respect to the impact of BANMA II administrative reform projects on municipality revenues.

19. Goal

To improve the quality of life of the poor who live in intermediate cities and towns, or who depend on these central places for essential services.

20. Beneficiaries

Administrative reforms are intended to consolidate local governments, giving municipalities the possibility of increasing their financial capacity to implement with their own resources projects intended to improve local services. Water systems are expected to have an important impact in the health status of the inhabitants of beneficiary towns. Markets are expected to have economic benefits in terms of regional marketing systems. All of the infrastructure sub-projects, including bus terminals, are also considered as revenue generating activities for the beneficiary municipalities.

The following table shows the population in the municipalities/towns benefitting from BANMA loans up to September 30, 1982.

Types of Sub-Projects	Benefitted (1) Population
Administrative Reforms	166,638
Water Systems	31,719 (2)
Markets	109,663
Terminals	73,037

(1) Data cannot be added up because some municipalities have more than one sub-project.

(2) It excludes the town of La Lima.

21. Unplanned Effects

The bank has exhibited some apparent reluctance to fully utilize the "other" line item for projects other than "administrative reform" type projects. This was once discussed with the new bank president but no results have been obtained yet. The question must be raised again. The bank should be motivated to finance more projects under the Health and Food and Nutrition accounts.

22. Lessons Learned

1. Institutional development is a long process, often requiring 10 years or more. An important proportion of sub-projects financed under the BANMA I loan were implemented at the end of that project. At the time the final BANMA I evaluation was conducted, too little time had elapsed to adequately determine if the bank had already acquired the capacity to perform as a sound financial institution with minor AID guidance and minor outside technical assistance. It may be that the delinquency rates observed both in BANMA I and BANMA II loans are a consequence of prematurely allowing the bank to operate more on its own and to have more flexibility in the use of funds.
2. Projects involving the implementation of substantial infrastructure sub-projects need to be supported by AID officials with the sufficient technical expertise to comment on the design of facilities to be constructed. The absence of careful monitoring in the implementation of infrastructure sub-projects may lead to approval of costly and overdesigned facilities.
3. One of the project objectives is to benefit poor municipalities. To insure loan repayment it is important to reduce sub-project costs. Designs for infrastructure sub-projects need to be simplified. The possibility of adopting either skeleton or modular designs for those sub-projects should be analyzed. Simpler designs would not only allow lower initial investment and higher loan repayment performance, but also give facility user the possibility of altering the configuration, improving and/or expanding them in accordance with their financial capacity and needs.
4. Financial institutions such as BANMA must take immediate actions on delinquent payments. The reasons for poor loan repayment performance must be carefully analyzed so that solutions can be rapidly developed and implemented.