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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

EL SALVADOR

PROJECT PAPER

AGRARIAN REFORM CREDIT

AID/LAC/P-051/3

Loan Number: 519-T-028 D
Project Number: 519-0263

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BEST AVAILABLE COPY

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input checked="" type="checkbox"/> C A = Add C = Change D = Delete	Amendment Number <u>4</u>	DOCUMENT CODE <u>3</u>
2. COUNTRY/ENTITY El Salvador		3. PROJECT NUMBER <u>519-0263</u>		
4. BUREAU/OFFICE IAC		5. PROJECT TITLE (maximum 40 characters) <u>Agrarian Reform Credit</u>		

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY <u>12 31 85</u>		7. ESTIMATED DATE OF OBLIGATION (Under 'E' below, enter 1, 2, 3, or 4) A. Initial FY <u>80</u> B. Quarter <u>3</u> C. Final FY <u>85</u>		
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	R. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
ADD Appropriated Total	380	9,620	10,000	5,375	70,250	75,625
(Grant)	(380)	(120)	(500)	(2,075)	(150)	(2,225)
(Loan)	()	()	(9,500)	(3,300)	(70,100)	(73,400)
Other U.S.	1.					
	2.					
Host Country		3,500	3,500		36,500	36,500
Other Donor(s)						
TOTALS	380	13,120	13,500	5,375	106,750	112,125

9. SCHEDULE OF AID FUNDING (\$000)									
APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	230	030	044	1,625	51,500	600	21,900	2,225	73,400
(2)									
(3)									
(4)									
TOTALS				1,625	51,500	600	21,900	2,225	73,400

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) <u>055</u> <u>011</u> <u>031</u>				11. SECONDARY PURPOSE CODE <u>130</u>	
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)					
A. Code	R	COOP	FOFY	PART	
B. Amount					

13. PROJECT PURPOSE (maximum 480 characters)
 To increase the availability of credit to the agrarian reform and traditional small farm sectors and improve the capacity of the national financial system to deliver such credit.

14. SCHEDULED EVALUATIONS				15. SOURCE/ORIGIN OF GOODS AND SERVICES			
Interim	MM YY	MM YY	Final	MM YY	<input checked="" type="checkbox"/> 000	<input checked="" type="checkbox"/> 941	<input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 79 page PP Amendment)
 To increase Development Loan Assistance by \$21.9 million for: 1) capitalization of the Integral Credit Line in the BFA to serve Phase I and Phase III agrarian reform beneficiaries and other small farmers (\$19.9 million) and 2) procurement of vehicles (\$1.8 million) and training (\$200,000) and to increase Grant Development Assistance by \$600,000 for technical assistance to the BFA.

17. APPROVED BY	Signature	18. DATE DOCUMENT RECEIVED IN AIDAV, CR 1 OR AIDAV DOCUMENTS, DATE OF DISTRIBUTION	
	Title	Date Signed	MM DD YY
	Martin V. Dagata Director	Tom G. Bobout Controller	<u>03 13 84</u>

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PROJECT AUTHORIZATION
(Amendment No. 4)

Name of Country: El Salvador
Name of Project: Agrarian Reform Credit
Number of Project: 519-0263
Number of Loan: 519-T-028 /D

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Agrarian Reform Credit Project for El Salvador ("The Project") was authorized on June 20, 1980, and amended on June 11, 1981, December 30, 1981, and May 12, 1983 (hereinafter, as so amended "Authorization").

A. Project Purpose

Section 2 of the Authorization is hereby deleted in its entirety and the following new Section 2 is substituted therefor:

"2. The Project ("Project") will increase the availability of agricultural credit to the agrarian reform and traditional small farm sectors and improve the capacity of the national financial system to deliver such credit".

B. Loan and Grant Increase

The amount of the loan funds authorized for the Project is hereby increased by \$21,900,000 (the "FY 1984 Loan Increment"), increasing the aggregate amount of the loan to \$73,400,000; and the amount of grant funds authorized for the Project is hereby increased by \$600,000, increasing the aggregate amount of the grant to \$2,225,000. Upon compliance with the Conditions Precedent to Disbursement by the Cooperating Country, A.I.D. may disburse Loan Funds to reimburse the BFA for eligible credit extended through the Integral Line, from January 1, 1984, provided that evidence of such credit is furnished to A.I.D. in form and substance satisfactory to A.I.D.

C. Repayment Terms

The Government of El Salvador (the "Cooperating Country") shall repay the FY 1984 Loan Increment to A.I.D. in U.S. dollars within forty (40) years from the date of first disbursement of the FY 1984 Loan Increment, including a grace period of not to exceed ten (10) years.

The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the FY 1984 Loan Increment at the rate of (i) two percent (2%) per annum during the first ten (10) years and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the FY 1984 Loan Increment and on any due and unpaid interest accrued thereon.

D. Conditions Precedent to Disbursement

Prior to disbursement of the FY 1984 loan increment or the issuance by A.I.D. of documentation pursuant to which disbursement of the FY 1984 loan increment will be made to finance credit activities, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

1. A description of the mechanism by which at least \$2.06 million for disbursement to Phase III beneficiaries will be made available to other financial institutions by the BFA.
2. New executed sub-agreements between BFA, FINATA, and CENTA regarding the provision of credit to Phase III beneficiaries, including disbursement targets, promotion, and monitoring responsibilities and amounts disbursed.
3. The executed Trust Fund Agreement and training plan for the Credit Agent Program, by which credit agents working out of participating financial institutions will provide credit services to the agrarian reform sector, as described in Annex I ("Project Description") of this Amending Agreement.
4. Plans for monitoring provision of credit by the BFA to Phase I cooperatives, and Phase III beneficiaries, including a monthly reporting system by credit agents.
5. The terms of the refinancing lines for Phase I cooperatives, on a one-time-only basis for the 1984/85 crop cycle, including a description of steps that the BCR will take to ensure that the BFA and other financial institutions present their refinancing applications to the BCR in an acceptable and timely manner for implementation in the 1984/85 crop cycle.
6. Identification of an Agrarian Reform Policy Coordinating Committee for Phase I of the reform, which will consist of the Presidents of the BCR, the BFA, ISTA, the Minister of Agriculture, and other key GOES officials whose decision making affect the agrarian reform process. The committee will meet as

needed to consider information and analysis provided from the technical level in order to formulate appropriate and timely policies regarding the agrarian reform.

E. Covenants

Unless A.I.D. otherwise agrees in writing:

1. The GOES agrees that within 60 days of the signing of this Amendatory Agreement it will cause the BFA to provide to USAID, in form and substance acceptable to USAID, a detailed, written evaluation of loan recuperation and collection procedures, including strategies for uniform application of such procedures to the entire BFA portfolio.
2. The GOES agrees that within 90 days of the signing of this Amendatory Agreement it will cause the BFA to provide to A.I.D., in form and substance acceptable to USAID, the steps that the BFA has taken to establish all necessary ledgers to account and provide accurate reports for all project Loan and Counterpart funds and reflows from project Loan and Counterpart funds, separately from the accounting and reporting of other sources of funding. Such reports will be provided to USAID on a quarterly basis, to be certified annually by the BFA's external auditor.
3. The GOES agrees that within 90 days of the signing of this Amendatory Agreement, it will cause the BFA to complete and provide to A.I.D., in form and substance acceptable to USAID, evidence that contractual arrangements have been made for appropriate technical assistance necessary to undertake a detailed and comprehensive study addressing the problem of meeting agricultural credit needs through local savings generation and mobilization.
4. The GOES agrees that, within 120 days of the signing of this Amendatory Agreement, it will enable and cause the BFA to develop policies, approved in writing by USAID, for either writing off (including forgiveness) or eliminating (not including forgiveness) bad debt and interest from Balance Sheet accounts in a manner that is consistent with Generally Acceptable Accounting Principles, standard banking practice, and GOES law, and within the following 60 days to implement these policies.
5. The GOES agrees that within 180 days of the signing of this Amendatory Agreement, it will provide evidence to A.I.D., in form and substance acceptable to USAID, that the BFA has taken whatever action is necessary to insure that postings are up to

date (no more than two weeks delay in posting source documentation to official records) and that all of its agencies' accounts have been completely reconciled to home office records.

6. The GOES agrees to cause the BFA to present to A.I.D., in form and substance acceptable to USAID, by December 31, of each year for the next three years, beginning with December 31, 1984, a disbursement plan for all reflow funds resulting from the Loan and Counterpart Assistance provided under the project by sector, including the traditional sector and Phases I and III of the agrarian reform sector.

7. The GOES agrees that a total of \$10.3 million from all funding sources, including any amounts carried over from Amendatory Agreement No. 3, will be provided through the BFA to Phase III beneficiaries, and that of the \$10.3 million total, at least \$2.06 million of new loan funding will be made available by the BFA to other financial institutions for disbursement to Phase III beneficiaries. Any loan amounts carried over from prior amendments will be limited to disbursement by the BFA. Disbursements to Phase III beneficiaries will be made between January 1, 1984 and March 31, 1985.

8. The GOES agrees that it will cause the BCR, the BFA and ISTA to meet on a quarterly basis to evaluate the provision of credit to Phase I cooperatives and to make appropriate recommendations; and the BFA, FINATA and CENTA to meet on a quarterly basis to evaluate the provision of credit to Phase III beneficiaries and to make appropriate recommendations. A.I.D. and mixed banks will be invited to such quarterly meetings.

9. The GOES agrees that it will cause the BFA to assign vehicles purchased with A.I.D. loan funds, provided under this Amendatory Agreement, on a priority basis, first to field credit agents working with agrarian reform clients and secondly to other credit agents or for other project purposes.

10. The GOES agrees that the terms of the refinancing lines will remain in effect for the 1984/85 crop cycle only, and that new terms and the general utilization of any additional refinancing will be renegotiated with A.I.D. prior to December 31, 1984.

11. The GOES agrees to provide to A.I.D., in form and substance acceptable to USAID, quarterly reports regarding the utilization of the refinancing lines, on a calendar year basis, beginning with the quarter ending March 31, 1984.

F. Waivers

Competition in the procurement of goods is hereby waived and a single-source negotiated contract with AMC International Headquarters is hereby authorized in order to permit the procurement of approximately 120 AMC CJ-7 Jeeps, and spare parts with a value of approximately \$1,800,000.

G. Project Assistance Completion Date

The Project Assistance Completion Date is December 31, 1985.

2. Except as expressly amended or modified hereby, the Authorization remains in full force and effect.

Frank B. Kell

for M. Peter McPherson
Administrator

May 16, 1984
Date

Clearances:		
GC:HFry	<i>HFry</i>	Date <i>5/11/84</i>
AAA/LAC:MDBrown	<i>MB</i>	Date <i>5/8/87</i>
AAA/PPC:RDerham	<i>RS</i>	Date <i>8/11</i>

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ANNEXES

ATTACHED

- A. Logical Framework
- B. Statutory Checklist
- C. Borrower Request for Assistance
- D. 611(e) Certification
- E. Draft Authorization for Supplement
- F. Financial Plan and Analysis Annex
- G. New BFA Lending Policies
- H. Norms and Procedures for promoting and providing credit to Phase III beneficiaries
- I. Summary Training Plan

UNATTACHED

- A. FINATA Private Technical Assistance Plan
- B. FINATA/CENTA Technical Assistance Coordination Plan
- C. FINATA Phase III Identification Card Program
- D. Procedures for implementing new BFA Lending Policies

ACRONYMS AND TERMS

ABANSA	-	Salvadoran Banking Association
BCR	-	Central Reserve Bank
BFA	-	Agricultural Development Bank
CENTA	-	National Agricultural Technology Center
DIECRA	-	Integrated Development of Campesino Enterprises of the Agrarian Reform
FESACORA	-	Salvadoran Federation of Agrarian Reform Cooperatives
FINATA	-	National Finance Institute for Agricultural Lands
IDB	-	Interamerican Development Bank
IPM	-	Integrated Pest Management
Integral Credit	-	Credit provided through one financial institution to meet all financing requirements of the borrower, including production and investment credit needs.
Investment Credit	-	Credit used to finance over longer periods, e.g. 3-5 years, farm improvements or machinery and equipment contributing to longer term farm development.
ISTA	-	Salvadoran Institute for Agrarian Reform
MAG	-	Ministry of Agriculture and Livestock
OSPA	-	Sectoral Office for Agricultural Planning
PERA	-	Office of Agrarian Reform Planning and Evaluation
Production Credit	-	Credit used to finance agricultural inputs and/or labor related to a particular crop with repayment terms of one year
STC	-	Servicios Técnicos del Caribe

-/-

PROJECT NO. 519-0263

PROJECT PAPER AMENDMENT NO. 4

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

USAID/El Salvador recommends authorization of a \$21.9 million increase in Loan Funds and a \$600,000 increase in Grant Funds for a fourth supplement to the Agrarian Reform Credit Project (No. 519-0263). Cumulative Life of Project cost will total \$112,125 million (GOES \$36.5 million, A.I.D. Loan \$73.4 million; and A.I.D. Grant of \$2.225 million).

USAID/El Salvador further recommends that the authorized Project Assistance Completion Date (PACD) be extended from December 31, 1984 to December 31, 1985.

Due to the continuing economic crisis resulting from prolonged civil strife in El Salvador, USAID/El Salvador also recommends that the Loan be authorized under the most concessional lending terms, i.e. that the Government of El Salvador repay the loan to A.I.D. in United States Dollars within 40 years from the date of first loan disbursement, including a grace period not to be exceeded ten years, and that the rate of interest be set at 2% during the grace period and 3% thereafter.

B. Borrower/Grantee

The Government of El Salvador will continue to be the Borrower/Grantee. The major implementing agency will continue to be the Agricultural Development Bank (BFA). The GOES will use the A.I.D. loan to provide a capital contribution to the BFA for the purposes described below.

C. Summary Description

1. Goal and Purpose

The goal of the Project is to improve the economic and social well-being of the agrarian reform beneficiaries and other small producers through increased agricultural production and employment. To this end, the Project's purpose is to increase the availability of credit to the agrarian reform and traditional small farm sectors and improve the capacity of the national financial system to deliver such credit.

2. Background and Project Activities

The assistance provided by this project is helping the BFA to meet the credit demand of its growing portfolio of Phase I cooperatives and Phase III clients. However, since the BFA currently attends to about

1/3 of the Phase I cooperatives, not all credit needs of the agrarian reform sector are being met through the project. In the process of examining the whole agrarian reform credit delivery system, USAID has identified the following constraints to providing credit to the agrarian reform sector and to its beneficiaries achieving financial viability:

Financial

- The credit needs of all Phase I cooperatives are not being entirely financed.
- Overdue, outstanding debt of prior years, at high interest rates, is impeding the approval of new, fresh loans needed to purchase inputs for the current crop year.
- While Phase I cooperatives lack intermediate credit to make investments to increase production, IDB funds available for capital improvements are not being utilized.

Institutional

- There is poor coordination among institutions, financial and other, in providing credit and technical assistance to the agrarian reform sector.
- On many Phase I cooperatives, planning and management are inadequate.
- Financial institutions do not take a sufficiently active role in promoting and supervising credit to Phase I cooperatives.

The constraints described above are to be addressed by four Project elements managed by the BFA and the BCR, in coordination with other financial institutions, ISTA, FINATA, and CENTA:

a) Credit

The credit element will provide \$18.9 million of new credit for the BFA's expanding Phase I and Phase III operations, and \$1 million for the traditional sector making for a total of \$19.9 million to be provided to the Integral Line of Credit with development assistance loan funds.

b) Refinancing

This element will facilitate the use of existing BCR credit refinancing lines and add \$12.0 million from PL-480 local currency generations to the BCR/AID consolidated line. The result will be a reduction of four interest points in the cost of refinancing to Phase I cooperatives; enhanced prospects of solvency and, therefore, eligibility for new credit for cooperatives using the consolidated line.

c) Institution Building

The institution building element will improve the capacities of all financial institutions to attend to the credit needs of their agrarian reform clients through the following activities.

-Credit Agent Program

Placement of two program managers in the BCR and 24 new credit agents in the six or seven financial institutions which, together, service the majority of Phase I cooperatives for the purpose of generating bankable investment projects for as many of the Phase I cooperatives as possible. Under this Supplement PL-480 local currency generations totalling \$800,000 will fund this activity. These funds will provide the agents' salaries and related administrative costs, transportation, and short-term training. This element will facilitate the disbursement of up to 22.0 million of IDB funds. Financial institutions will be assisted to provide in-kind credit to the cooperatives in the form of BFA fertilizers and to apply IDB funds to eligible investment projects.

-Technical Assistance to the BFA

The project will provide 70 person months of technical assistance to expand continuing programs in the functional areas of financial reporting and analysis, farm credit management, loan recuperation, accounting, training and organization; and to initiate programs in data processing and loan review procedures.

-Coordination Program

Specific efforts leading to enhanced coordination among cooperating financial institutions and agrarian reform implementing entities are included in this supplement. These include: BFA training provided to credit agents of other financial institutions, active BCR leadership in the provision of refinancing, and quarterly Phase I review meetings between BFA and ISTA and Phase III review meetings between BFA, FINATA, and CENTA. Such coordination will lead to accelerated placement of managers and accountants on Phase I farms; improved planning for Phase I farms, increased Phase III applications for credit; and improved technical assistance and extension being provided to Phase III beneficiaries.

d) Integrated Pest Management

This element will expand field level research and extension in cotton Integrated Pest Management (IPM) from 7,000 mz. to 11,000 mz. in the western part of the country and will introduce cotton IPM in eastern El Salvador. The objective of the IPM element is to define economical

and practicable IPM packages for cotton and other crops in order to maintain and, in some cases, increase production, while lowering pesticide costs on agrarian reform farms. PI-480 local currency generations in the amount of \$200,000 will fund this element to December 31, 1985.

SUMMARY FINANCIAL PLAN
(\$ 000)

	<u>Proposed Supplement</u>			<u>Total Project</u>		
	AID	AID	GOES	AID	AID	GOES
	Grant	Loan		Grant	Loan	
1. BFA Credit	--	19,900		--	69,900	16,700
2. BCR Investment Credit Line	--	--	--	--		3,900
3. BCR Spec. Line of Credit for Refinancing	--	--	12,000	--	--	12,000
4. Agrarian Reform Operational Support	--	--	800	--	--	3,300
5. Vehicles and Equipment	--	1,800	--	--	3,100	--
6. Technical Assistance	600	--	--	2,225	--	--
7. Training	--	200	200	--	200	200
8. Integrated Pest Management	--	--	200	--	200	400
9. Contingency	--	--	--	--	--	--
TOTAL	600	21,900	13,200	2,225	73,400	36,500

II. Background

A. Project Results to Date

1. Summary

a. Programmed Disbursements:

By December 31, 1983, the BFA had disbursed, from the Integral Credit Line, the following amounts programmed by Amendatory Agreement No. 3 for the 1983/1984 crop year :

- \$31,269 million or 88% of the total \$35,500 million programmed loan and counterpart funds.

- \$17,406 million or 80% of the total \$21,637 million programmed for Phase I and Phase III beneficiaries.

In compliance with Amendatory Agreement No. 3 the BFA estimates that by June 1, 1984 an additional \$4.231 million will have been disbursed to Phase III beneficiaries. With these additional disbursements, the targets of \$35.500 million, to all sectors, and \$21.637 million, to the agrarian reform sector, will have been met.

b. Institution Building

1. During calendar year 1983 the following institution building objectives were achieved:

-Field operations were strengthened through the transfer of 109 personnel from regional offices to field agencies and the addition of 102 new field agents (for all sectors). This contributed to an increase in disbursements from the Integral Credit Line to the agrarian reform sector from a combined total of \$17.930 for the 1981/1982 and 1982/1983 crop years combined to \$21.637 million for the 1983/1984 crop year alone.

-All financial targets set in Project Paper Supplement No. 3 for the beginning of the year were exceeded.

-Administrative cost as a percentage of banking revenue decreased from 59% in 1982 to 47% in 1983.

-The loan recuperation rate increased from 65% to 83%, consequently improving liquidity and increasing the availability of funds from reflows.

-The training plan was completed and the BFA is now prepared to initiate an extensive training program.

c. Integrated Pest Management

-Field testing was carried out in a 7,000 manzana area.

-CENTA extension agents provided technical assistance and training in cotton IPM to Phase I cooperatives.

-As a result, the average annual pesticide application rate for cotton in the test area was reduced from 25 to 15 applications, while maintaining yields.

2. Credit Element.

At the commencement of the agrarian reform, neither the BFA nor other financial institutions had adequate financial resources and institutional capacities to deal with the new sector's demand for financial services.

Accordingly, the Project is providing the BFA with both financial resources to capitalize its credit lines and technical assistance to strengthen its institutional capacity to manage the new and expanded lines of credit. Given the initial tenuous viability of the Phase I cooperatives and Phase III parcels which created a lower than expected real credit demand, and the BFA's still evolving credit delivery capabilities, amounts programmed and disbursed through the Project in the first two years of the agrarian reform were lower than those of the last supplement and that which is proposed. For the two year period comprised by the 1981/82 and 1982/83 crop years (i.e. from April 1, 1981 through March 31, 1983) a total of \$17,930,000 was disbursed to the agrarian reform sector by the BFA under the Project. This compares with \$17,406,100 estimated disbursements to the agrarian reform sector for the 83/84 crop year (April 1983 to March 1984) alone. The increases over the previous two crop years were: 1) Phase I Cooperatives--from \$5,706,370 in 1982/1983 to \$14,935,200 in 1983/1984 and; 2) Phase III beneficiaries from \$797,000 in 1982/1983 to \$2,470,900 in 1983/1984.

The total BFA/AID programming for the reform sector in the 1983/84 crop year was ambitious and placed considerable strain on the BFA's institutional capabilities. In spite of the BFA's activities to service the reform sector, which included the completion of farm plans and regular visits by BFA agents, total disbursements from all sources of funding to the reform sector during the year did not reach programmed levels. However, as noted above, significant increases in providing credit to Phase I and Phase III beneficiaries were achieved.

The following three tables present, for the 1983/84 crop year, BFA programmed disbursements from all sources as of January 1983, actual disbursements through December 31, 1983, and estimated disbursements through March 31, 1984.

TABLE 2

BFA 1983/84 CROP YEAR PRODUCTION AND
INVESTMENT CREDIT PROGRAM
JAN., 1983 THROUGH MARCH 31, 1984 FOR THE 1983/84 CROP YEAR
(\$000)

S o u r c e	S E C T O R			Total
	Tradi- tional	Phase III Beneficiaries	Phase I Coop.	
AID-0263-Loan	1,063.2	6,701.6	14,935.2	22,700.0
AID-0263-Count.*Amd.3	12,700.0	100.0	-0-	12,800.0
IDB-642-124	-0-	-0-	11,303.1	11,303.1
IDB-605	3,175.2	49.2	-0-	3,224.4
BCR-Short Term	25,807.6	2,808.8	1,383.6	30,000.0
BCR-Investment	1,922.4	77.6	-0-	2,000.0
BFA-Recuperations-Net	35,876.0	108.0	236.0	36,220.0
T O T A L	80,544.4	9,845.2	27,857.9	118,247.5

*Count-counterpart

TABLE 3

BFA DISBURSEMENTS
JAN., 1983 THROUGH DECEMBER 31, 1983 FOR THE 1983/84 CROP YEAR
(\$000)

S o u r c e	S E C T O R			Total
	Traditio- nal	Phase III Beneficiaries	Phase I Coop.	
AID-0263-Loan	1,063.2	2,470.9	14,935.2	18,469.3
AID-0263-Count.*Amd.3	12,800.0	-0-	-0-	12,800.0
AID-0263-Count-*Amd.2	2,437.7	-0-	-0-	2,437.7
IDB-642-124	-0-	-0-	4,164.1	4,164.1
IDB-605	4,590.0	1,666.4	-0-	6,256.4
BCR-Short Term	-0-	-0-	-0-	-0-
BCR-Investment	960.5	-0-	-0-	960.5
BFA-Reflows	30,069.1	295.3	1,122.3	31,486.7
T O T A L	51,920.5	4,432.6	20,221.6	76,574.7

*Counterpart

TABLE 4
BFA ESTIMATED DISBURSEMENTS
FROM JANUARY 01, 83 THROUGH MARCH 31, 1984 FOR 1983/84 CROP YEAR
 (\$000)

S o u r c e	S E C T O R			Total
	Traditio- nal	Phase III Benefic.	Phase I Coops	
AID-0263-Loan	1,063.2	2,470.9	14,935.2	18,469.3
AID-0263-Count.*Amd.3	12,800.0	-0-	-0-	12,800.0
AID-0263-Count-*Amd.2	2,437.7	-0-	-0-	2,437.7
IDB-642-124	-0-	-0-	4,533.4	4,533.4
IDB-605	4,590.0	1,666.4	-0-	6,256.4
BCR-Short Term	1,400.0	-0-	-0-	1,400.0
BCR-Investment	960.5	-0-	-0-	960.5
BFA-Reflows	30,069.1	295.3	1,122.3	31,486.7
T O T A L	53,320.5	4,432.6	20,590.9	78,344.0

*Counterpart

For the purpose of crop reporting, the Salvadoran crop year begins April 1 of each year and terminates the following March 31. Presented here is a very brief description of how BFA credit programming and delivery system coincides with the crop reporting schedule.

By January of any given calendar year (Yr. 1), the BFA estimates the credit that will be contracted for the crop year commencing the following April and terminating on March 31 of the next year (Yr. 2). Almost all that credit is disbursed from January through December (Yr. 1), with very little being disbursed between January 1 and March 31 of the next year. In those first three months of the next year, most of the funds disbursed by the BFA are for the following crop year.

Table 2, therefore, presents, levels of credit that the BFA expected to contract for credit to finance inputs for the 1983/84 crop year (April 1, 1983 through March 31, 1984). Almost all of this credit was expected to be disbursed during calendar year 1983. Given the explanation provided in the preceding paragraph, the difference between Table 3, which presents disbursements through December 31, 1983 and Table 4, which presents estimated

disbursements through March 31, 1984, is minimal. It should be noted that the \$6.7 million which was programmed in the BFA Production and Investment Credit Program for disbursement to Phase III beneficiaries was considered ambitious by both the BFA and A.I.D. Prior to the 1983/84 crop year, the BFA had only disbursed \$797,000 to Phase III beneficiaries from the Integral Credit Line. Promoting and providing credit to Phase III beneficiaries presented a new and difficult challenge to the BFA. To allow the BFA a reasonable amount of time to achieve the target, Amendatory Agreement No. 3 included a covenant by which GOES agreed to allocate \$6.7 million, for use by Phase III beneficiaries by June 1, 1984, without reference to crop year attribution. By December 31, 1983, the BFA had disbursed nearly \$2.5 million to 10,737 Phase III beneficiaries. The BFA estimates that the \$6.7 million target will be reached by disbursing \$4.23 million for Phase III 1984/85 crop year needs by June 1, 1984.

Generally the tables reveal substantial differences, between amounts which the BFA intended to contract and disburse and amounts actually disbursed. The tables document the following disbursement schedule: to Phase I cooperatives, \$20.591 million as of March 31, 1984 or 74% of the programmed total of \$27.588 million to Phase III beneficiaries, \$8.663 million as of June 1, 1984 or 88% of the programmed total of \$9.845 million; to the traditional sector, \$53.321 million or 66% of the programmed total of \$80.544 million, as of March 31, 1984.

The lower than anticipated disbursement to the BFA's agrarian reform and traditional clientele can be attributed to several factors:

a. The civil strife continues to be a limiting factor in some important agricultural zones, principally the eastern part of the country. Areas planted with cotton and sugar are vulnerable to guerilla sabotage as are cattle herds, which explains, in part, the reduced cotton planting and the slow rate at which the national herd is being repopulated. Thirteen Phase I cooperatives serviced by the BFA did not receive credit during 1983-84 principally due to their location in areas of conflict.

b. Very localized, but serious drought conditions continued into the 1983/84 crop year and were responsible for substantial reductions in the production of basic grains.

c. World prices for El Salvador's principal export commodities: coffee, cotton, and sugar cane have been depressed in recent years and production suffered accordingly. In recent months, prices for all three commodities improved. With an increased quota for exports to the United States, the outlook for sugar cane is encouraging and while coffee prices have stabilized, the long-range

outlook for that commodity remains depressed. World-wide demand for cotton has increased over a year ago and prices for it have improved. However, internal policies relating to the pricing of inputs, the level of production costs eligible for financing and the foreign exchange rate at which exports are priced may have prevented cotton producers from maximizing benefits from enhanced world prices for cotton.

d. Many BFA Phase I cooperatives do not have qualified managers to plan and supervise production and investment projects.

e. FINATA estimated that all 30,000 Phase III beneficiaries holding definitive or provisional titles on its roster at the beginning of the 1983/84 crop year would apply for loans. Slightly over one-third of that group actually did apply. A large number of beneficiaries who, before the reform, had obtained mostly in-kind financing from the land's previous owner or financed their own production requirements are not cognizant of the procedures to solicit formal credit from the BFA.

f. The Special Line of Credit for refinancing established at the BCR was not utilized due to less than favorable terms and lack of coordination between the BCR and the BFA. The BFA rescheduled loans to some cooperatives by deferring the due date to the end of the next crop cycle.

g. Of the \$11.3 million programmed for BFA Phase I cooperatives under IDB loan number 642-124, only \$4.164 million was disbursed by December 31, 1983. The reasons for this are the lower than anticipated demand related to a, b, and c, above, and the lack of Phase I investment projects involving the purchase of new machinery and property improvements.

3. Institution Building

All of the factors listed above, except for the first three, which are exogenous to this Project, indicate that the larger institutional framework must be addressed, in addition to ongoing institution building at the BFA. Coordination among the BFA, the BCR, other financial institutionals, FINATA, CENTA and ISTA is essential to providing agrarian reform beneficiaries with credit. This larger institutional framework is examined at length, under D. Constraints to the Effective Provision and Use of Credit for the Agrarian Reform Sector, presented below.

The institution building activities at BFA produced positive results. The project-funded technical assistance is contributing to the following management and organizational improvements:

- ongoing support to the administrative reorganization which took place in early 1983. This includes supporting efforts such as completion of a training needs assessment, and a training plan for BFA personnel, and the presentation of courses such as "control and monitoring of loans" given to supervisors and coordinators in the agrarian reform credit program.
- continued financial performance reporting including comparative financial statement analyses between critical months in 1982 and corresponding months in 1983.
- improved monitoring of loan disbursement and recuperation, including a pilot project with positive results which will be applied on a wider scale.
- improvement of internal control and accounting operations.

These technical assistance efforts contributed to improved performance by the bank over the past year. While, according to official, published bank financial statements, the bank's portfolio had increased from \$56 million on December 31, 1979 to \$150 million in December of 1982, by December 31, 1983 the portfolio reached approximately \$175 million. Over the past year, as of December 31, 1983, adjusted capital increased \$46.8 million to \$79.6 million; the liquidity ratio increased from 2.8:1 to 4:1; working capital increased from \$72.6 million to \$96.6 million. Loan recuperation also improved. Amendatory Agreement No. 3 proposed that recuperation of loans increase from \$65.7 million in calendar year 1982 to \$76.2 million in calendar year 1983. By December 31, 1983, the amount recuperated in the year had reached \$76.1 million.

In spite of such improvements in the BFA's management of a growing portfolio, there are still weak areas which require technical assistance and a stronger effort by the BFA. The preceding discussion of credit points to some of these areas. Solutions for correcting institutional weaknesses are discussed below in the Project Supplement Description.

Although the BFA actively promotes the provision of credit to the agrarian reform sector and employs field agents who work with Phase III beneficiaries and Phase I cooperatives and regularly visit their clients, credit needs of many of the beneficiaries are not being met. The BFA needs to work closely with ISTA, FINATA, CENTA and other institutions to reduce risk and facilitate the approval of greater amounts of credit.

Discussions with the BFA, ISTA, FINATA and USAID identified another area needing improvement, that of loan application processing. This process needs to be streamlined, especially during the planting months of April through June when the field agencies must attend large numbers of applicants and some beneficiaries are discouraged from applying for credit because of long lines and waiting periods. Phase I and Phase III beneficiaries must be encouraged to apply early, from January through March, for needed production credit.

Credit approval, as well as internal reporting, loan disbursement, monitoring and recuperation would be greatly improved by better information processing equipment and systems.

In summary, the major areas requiring improvement which, heretofore, have not been sufficiently emphasized in technical assistance, are credit approval and information processing. Ongoing technical assistance is required for improvement in the areas of: training, financial reporting and analysis, accounting, and portfolio and recuperation management.

4. Integrated Pest Management

Over the past year, in the pilot area where cotton IPM techniques are being researched and extended to Phase I farms, the annual insecticide application rate on cotton was reduced from an average of 25 applications to 15 with no decrease in yield.

B. Complementary A.I.D. Assistance

Project Paper Supplement No. 3 presented descriptions of all other A.I.D. projects which provide assistance to the agrarian reform sector. Of these, the new Agrarian Reform Sector Support project (519-0265) is the most relevant and is directly linked to the success of this project. Project 519-0265 provides \$30.0 million in loan funds and \$4.9 million in grant funds to the GOES to increase the efficiency and effectiveness of the agrarian reform by (a) accelerating the land transfer process, (b) improving the ability of the GOES to provide essential resources and services to agrarian reform beneficiaries while increasing the managerial capacity of the agrarian reform cooperatives, and (c) encouraging expanded private sector investment in agri-business enterprises directly related to the agrarian reform.

The Agrarian Reform Sector Support Project addresses many of the problems identified in the Agrarian Reform Credit Project. For example, technical assistance provided by Project 519-0265 counterpart-funded CENTA extension agents will improve planning and consequently increase the demand for credit on Phase III parcels. Also, the ISTA efforts to incorporate the uniform management and accounting system on Phase I cooperatives, and to assist Phase I cooperatives to recruit and hire competent managers and accountants, will generate an

increased demand for the credit available through the BFA and other financial institutions. Recently, ISTA provided USAID with a document containing the institutional and financial arrangements to recruit and hire managers and accountants and, over the past year, developed an extensive list of candidates for such positions. These arrangements assign the BFA and other financial institutions a major role in the selection of managers and accountants. Such support activities will require close collaboration among the institutions directly involved: For Phase III -- FINATA, CENTA and the BFA; for Phase I -- ISTA, the BFA, other financial institutions and CENTA.

C. Other Donor Assistance

The status of IDB funds provided through the BFA did not change significantly from the situation described in the previous Project Paper Supplement. Table 5, presented below, provides information on the availability of IDB funds as of January 1, 1984. It should be noted that these funds are available not only to BFA agrarian reform clients, but also to those of other financial institutions.

The previous supplement disclosed that the BFA had considerable difficulty disbursing the IDB loans due "principally to the administrative and operational difficulties resulting from the assignment of Phase I cooperatives among a variety of financial institutions." The loans were negotiated at a time when all Phase I Cooperatives were placed under the BFA. Subsequently, over half the then existing cooperatives were assigned to other financial institutions. Upon further analysis, USAID found that most other financial institutions do not have the technical field staff to generate bankable projects to utilize the IDB funds.

TABLE 5

IDB LOAN FUNDS
Available as of January 1, 1984
(US \$000)

IDB Loan No.

605 (Decree 207 and Traditional)

Purchase of fertilizers	120
Purchase of livestock	600
Agro industrial projects	880
IDB Administrative Costs	55
TOTAL	1655

642 (Phase I)

Purchase Fertilizers	7800
Purchase insecticides and other chemical inputs	5880
Purchase Machinery	4680
Improve Property	2920
IDB Administrative costs	120
TOTAL	21400

124 (Phase I)

Improve property	4400
IDB Administrative costs	40
TOTAL	4440

GRAND TOTAL 27495

USAID recently held a number of discussions with the IDB, BFA, BCR and mixed banks to define mechanisms to "mobilize" disbursement from the \$25.8 million available from IDB loan No. 642-142 to Phase I cooperatives for the purchase of fertilizers, machinery, equipment, livestock and, other needed farm improvements. The terms agreed upon by these institutions are described below:

The mobilization of IDB funds for the acquisition of fertilizers will be accomplished in close consultation between the BCR and BFA and other financial institutions. BFA will revise present norms

to make all IDB funds available to all the financial institutions financing fertilizer purchases of Phase I cooperatives. Existing norms include only funds to buy farm machinery and equipment. The revised norms will include two categories;

1. Provision by the BFA of fertilizers and pesticides to all Phase I cooperatives.

2. Intermediate loans to finance the purchase of farm machinery and equipment, and farm improvement projects, including cattle projects currently being negotiated with IDB. (A large number of Phase I cooperatives have good potential for cattle projects.)

In the case of fertilizers and pesticides, participating financial institutions will provide these products in kind to the cooperatives utilizing BFA stocks, by directing their Phase I cooperatives to BFA warehouses. Such fertilizer and pesticide stocks imported by the BFA are funded with IDB advances which will be liquidated as the BFA distributes the stocks to Phase I cooperatives.

In the case of investment projects requiring intermediate loans, the BFA will require the guarantee by the financial institution to BFA, but the BFA will be active in helping to identify and evaluate projects for those financial institutions that do not have sufficient technical staff and are willing to accept BFA assistance. This arrangement will have two benefits. It will reduce costs to the financial institutions and will expedite processing loan applications both to the institution giving the guarantee to the BFA and to the BFA itself which will sign the loan directly with the cooperative. The BFA will contract additional technical staff to help promote this program and to identify and design the projects, working in close coordination with the financial institutions.

D. Constraints to the Effective Provision and Use of Credit for the Agrarian Reform Sector

The foregoing review of the Project's credit and institution building activities with the BFA reveal a number of larger problems in providing credit to the agrarian reform sector. The agrarian reform credit constraints described below were identified through discussions with the BFA, BCR, ISTA, FINATA, other agrarian reform implementing institutions, a number of mixed banks and with campesino organizations. USAID concludes that many of the problems confronted by the BFA in providing credit to the reform sector, discussed above, form part of larger sectorial constraints to the effective provision and use of credit for the agrarian reform sector. The major constraints are discussed below.

1. Financial Constraints

- a. The credit needs of many Phase I cooperatives are not being well attended.

The agrarian reform can be successful only if the credit needs of the 317 Phase I Cooperatives are addressed. BFA is now responsible for 129 cooperatives and the remainder, or 188, are assigned to other financial institutions. The BFA has progressively been expanding its portfolio. In the last half of 1983, and the beginning of 1984, the BFA took on 35 additional cooperatives. Additional transfers are being considered. The underlying cause of these transfers is that the mixed banks, by and large, have played a passive role in servicing the cooperatives. Presently, only the successful Phase I cooperatives, which approach the banks with viable projects, receive investment credit. Discussions with the BFA, BCR, other financial institutions, and ISTA indicate that to actively attend the needs of all Phase I cooperatives the ratio of cooperatives to agents should average 3 to 1.

- b. Overdue, outstanding debt of prior years, at high interest rates, is impeding the approval of new credit needed to purchase inputs for the current crop year.

Many cooperatives are unable to repay overdue loans or refinanced amounts at present terms and, as a result, are rendered insolvent and cannot obtain new loans needed for current production and for investment.

The constraint is twofold. On one hand, previously established BCR refinancing lines for coffee and cotton and the AID/BCR Special Line offer refinancing at what are essentially unattractive terms to Phase I cooperatives. Interest is high for the cooperatives at 11%. The pay-back period is eight years with equal payments every year. Many cooperatives which were refinanced cannot comply with these terms and are not paying back refinanced amounts.

On the other hand, not all financial institutions are fully utilizing existing refinancing mechanisms. They have not refinanced and instead have charged a penalty interest on past due loans, increasing their earned interest on an accounting basis. In this process, cooperatives are financially damaged by: 1) increases in interest payment obligations and 2) limitation of new credit to basic needs only, thus precluding the financing of new investment projects which could increase production and income. It is a vicious circle.

The above problems in refinancing are complicated by a considerable gap between refinancing demand and currently available refinancing sources. The BCR recently informed A.I.D. that \$42.7 million are needed to refinance outstanding balances of cooperatives through crop year 1982/83. Of the \$42.7 million needed, \$20 million are available from the A.I.D./BCR Special Line and \$10.5 million are available from the BCR coffee and cotton lines, making for a total of \$30.5 million available. Therefore, there is a refinancing deficit of \$12.2 million dollars.

c. While Phase I Cooperatives lack credit to become more viable and increase production, available IDB funds are not being utilized.

As presented in Table 5, \$25.8 million are available for Phase I cooperatives through the BFA from the IDB. However, for reasons explained below, these potentially low cost funds (to other financial institutions) have not moved very well. Instead, financial institutions have been utilizing more expensive BCR lines of credit which increases their costs.

To be eligible for disbursement from IDB loans, which can fund both production and investment, the BFA is required to grant loans and disburse funds directly to Phase I cooperatives. This situation results from the fact that at the time of the IDB loans' negotiation and signature in 1980 all Phase I cooperatives were BFA clients. Later during that year, about two thirds of Phase I cooperatives were reassigned to other financial institutions. The IDB has maintained the original requirements in spite of BFA proposals to channel loan funds to non-BFA Phase I cooperatives with BFA functioning as a discounting institution for other financial institutions. The IDB continued requiring the BFA to sign loans directly with cooperatives.

After long negotiations, the IDB agreed to accept sales of fertilizers made by the BFA to non-client Phase I cooperatives. The amount sold under this arrangement is not large because it is strictly on a voluntary basis between the financial institutions and the cooperatives.

Recently, the BFA negotiated a mechanism with the other financial institutions whereby it grants loans directly to cooperatives to buy farm machinery and equipment with the provision that the financial institutions guarantee repayment of such loans to the BFA by terms of an "aval". In turn, the BFA offered a four point spread to the financial institutions for the supervision of the loans. Thirty-two cooperatives have already received loans for farm machinery and equipment under this arrangement.

Reasons for low amounts disbursed are:

1. Other financial institutions, particularly the mixed banks, behave as commercial operations and are being very cautious in granting intermediate (machinery and equipment) loans to cooperatives, most of which have weak management and have difficulties in repaying outstanding balances of production loans granted during the first two years of the agrarian reform program.
2. Most financial institutions do not have sufficient technical staff to work with the Phase I cooperatives. The developmental needs of the cooperatives are alien to their commercial bank practices.

2. Institutional Constraints

- a. There is inadequate coordination among agrarian reform institutions, financial and other, in providing credit and other factors of production to the agrarian reform sector.

There is a need for better coordination among all of the institutions involved in the agrarian reform to make its beneficiaries credit worthy. The BFA and other banks must cooperate with ISTA in the placement of cooperative managers and accountants, in devising farm plans, and in providing technical assistance. The BFA and FINATA must hold regular meetings to monitor activities identifying and reaching Phase III beneficiaries, and to provide planning, and arrange technical assistance by CENTA extension agents.

b. On many Phase I cooperatives the management and, consequently, planning are inadequate:

In the past, poor planning or no planning at all by cooperatives has been a constraint to providing needed credit to Phase I cooperatives. Under Project 519-0265, Agrarian Reform Sector Support, it is planned that all Phase I cooperatives will be provided with qualified managers and accountants. The BFA and other banks are participating in the selection of such managers and accountants. One of the chief responsibilities of these professionals will be to obtain needed credit for their coops. This will require an active role, on their part, in working with the BFA and other financial institutions. As required by covenant in Amendatory Agreement No. 3 of this Project, the BFA and ISTA signed a working agreement to carry out this program and all of the banks are being encouraged to facilitate the program.

c. Financial institutions do not take a sufficiently active role in promoting and supervising credit to Phase I cooperatives.

In order to meet credit needs of Phase I coops, the BFA and other financial institutions must also become more active in identifying credit needs and providing loans to the cooperatives and Phase III beneficiaries. Traditionally, financial institutions assume a passive role in the credit application process: they wait for the client to come to them. This modus operandi characterizes the financial institutions' handling of their Phase I clients. The BFA is carrying out an outreach program with 41 credit agents assigned to Phase I cooperatives and 73 credit agents assigned to Phase III beneficiaries. Since more than half of the Phase I cooperatives are assigned to other financial institutions, those institutions must be given incentives to plan outreach activities. There is a need for the BFA and other financial institutions to plan and execute a comprehensive, coordinated effort to reach all agrarian reform beneficiaries. Financial institutions must not only help to increase the number and improve the quality of plans for agrarian reform beneficiaries but the financial institutions' own planning, in general, must be better meshed with the whole credit and production processes. For example, farm plans and credit applications must be approved well before the beginning of the planting season. When considering credit applications of Phase I cooperatives which have overdue loan balances, a careful analysis must be made to determine whether such cooperatives are viable and whether overdue amounts can be refinanced before the application for new credit is rejected.

3. Studies Conducted to Address Financial and Institutional Constraints

As part of its continuing and collaborative program with the GOES to identify appropriate policy alternatives for the agrarian reform sector, USAID programmed for 1984 a set of analytical activities to identify policy and structural constraints to the optimal performance of the agricultural credit delivery system, particularly as it relates to the agrarian reform sector.

a. Agrarian reform credit delivery assessment

The first of the activities is an evaluative study currently being conducted by the Ministry of Agriculture's Office of Agrarian Reform Planning and Evaluation (PERA) to assess the adequacy and timeliness of credit delivered to agrarian reform beneficiaries. The following constraints were identified by PERA as critical to the delivery of credit for agrarian reform beneficiaries.

Delays perceived as excessive have been associated with agricultural credit approval and disbursement procedures. Despite the BFA's efforts to facilitate credit delivery, agrarian reform beneficiaries continue to complain about its loan approval process. Bank management contends, on the other hand, that agrarian reform beneficiaries and other small farmers do not prepare and submit their loan applications in time for the BFA to respond within a reasonable timeframe. The PERA evaluation will analyze the process.

Throughout the implementation of Phase III, there have been complaints on the part of some beneficiaries that their provisional title does not guarantee them access to production credit as they believe it should, and that the BFA does not accept it as a guarantee and requires additional forms of collateral. The bank maintains that there is nothing in the agrarian reform legislation guaranteeing holders of provisional titles access to credit. Furthermore, the BFA indicated that during the current crop year it rejected only 52 of the 10,737 credit applications it received from clearly identified Phase III beneficiaries. This aspect will also be evaluated.

The slow rate by which credit lines specifically reserved for agrarian reform beneficiaries have been disbursed is an indicator of an administrative constraint preventing the BFA from channeling programmed credit to intended beneficiaries. Whatever the nature of the constraint it has manifested itself in the form of complaints from beneficiaries representing Phase I cooperatives with livestock operations that they cannot obtain sufficient credit even from sources designated to serve them. Based on the data to be generated by evaluation study's survey work, PERA will attempt to determine the number of cooperatives and Phase III beneficiaries who have tried to take advantage of special lines of credit but whose applications were rejected and the reasons for the rejections.

The effects and disposition of restricted accounts for Phase I cooperatives is proving to be a factor limiting the prospects of those enterprises operating with them from attaining financial viability. Briefly, the restricted accounts permit ISTA to direct the earnings or a portion of the earnings of a cooperative in excess of those required to liquidate its production credit obligations into an account to be used to amortize the cooperative's agrarian debt. The impact of this procedure on cooperative operations has not been fully assessed. The managers and leaders of cooperatives who have had earnings transferred to restricted accounts maintain that the procedure seriously constrains the financial viability and flexibility of their enterprises. The survey instrument to be used in the data collection portion of this exercise contains a series of questions intended to determine if the cooperative enterprise to be interviewed has a restricted account, the bank administering the account, the date on which it was restricted for the first time; details of the procedure with respect to commodity, amount, and date of execution; amount, date, and end use of any withdrawals, and current status of the account. The agrarian debt and its impact on the agrarian reform process will be the subject of an assessment to be conducted at a later date in 1984. A more detailed description of that assessment is presented below.

Many of the questions to be asked of the Phase I beneficiaries in the evaluation study will also be directed to Phase III beneficiaries to be selected by random sample. Recognizing the inherent differences between Phase I and Phase III enterprises, a specific questionnaire will be developed for the Phase III beneficiaries. The questionnaire will solicit information regarding the beneficiaries experience with institutional credit sources.

The beneficiary will be asked if he/she has applied for credit from a financial institution in the time since the initiation of the agrarian reform, the amount requested, the disposition of applications, and any explanations that may have been advanced for a rejected application. If a beneficiary applied for credit in the current crop year, he will be asked to list the commodities to be financed with corresponding amounts requested and approved, terms, approximate date of application submission, and approximate approval date. He will be asked to describe the status of his current obligations with the bank and his participation in the BFA'solidarity group lending program.

To complete the data gathering portion of this exercise, a questionnaire will be administered to financial institutions servicing the agrarian reform sector. That instrument will request information of lending institutions relative to their experience lending to agrarian reform beneficiaries, both cooperatives and Phase III beneficiaries. Specifically, representatives of the institution will be asked to describe by crop year the number and financial status of the cooperatives their institution serviced. With regard to their lending

to the Phase I cooperatives, the questionnaire will solicit information pertaining to the frequency with which agents of the financial institution visited assigned cooperatives, the average period of time transpiring between the date on which a cooperative applies for a loan and the date on which it is disbursed. In those cases where disbursement delays are recognized, the bank or financial institution representatives will be asked to list factors delaying the timely processing and approval of agrarian reform credit applications. For those institutions administering restricted Phase I cooperative accounts, respondents will be asked to describe from their institution's point of view the impact of those accounts on their clients' financial viability. They will also be asked to briefly describe their ability based on experience to access special lines of credit for the agrarian reform as administered by the BFA. If the bank or financial institution has been lending to Phase III beneficiaries, its representative will be asked to describe the prerequisites by which beneficiaries apply for credit. They will be specifically asked to describe the function of the provisional title in the approval process.

b. Census of agrarian reform cooperatives

In late 1983, the Salvadoran Federation of Agrarian Reform Cooperatives (FESACORA) initiated a nation-wide census of the Phase I cooperatives. The census is an ambitious undertaking intended to generate farm level data describing the cooperatives' resource base, infrastructure, cropping and production patterns, employment, and financing while institutionalizing within FESACORA the capacity to generate and analyze this type of information in a manner that will compensate in part for the lack of baseline data that constrained the inauguration of the agrarian reform and is a constraining factor in its continuing implementation. Much of the data to be collected under this census will be both complementary and supportive of PERA's analytical program and for that reason PERA has been forthcoming with both technical and logistic assistance for the census.

c. Socio-economic profiles of agrarian reform beneficiaries

In addition to the agrarian reform credit delivery system assessment described above, PERA has scheduled two agrarian reform profiles for its 1984 program, one describing the socio-economic conditions of the Phase I beneficiaries and the other the Phase III beneficiary population. As with the previous exercise of this nature conducted in late 1982, credit will be an important subject for review. The Phase III beneficiary profile of 1982 provided important insights into the credit utilization patterns of that population. These two profiles will contain expanded and refined credit components to generate the information needed to provide the analytical basis for estimating the demand for credit, including investment credit, in the agrarian reform sector. The Phase I beneficiary profile questionnaire will contain a set of questions devoted to generating data on the beneficiary population's participation in their cooperative enterprises. More specifically, the information to be derived from this aspect of the exercise will permit analysts to quantify the beneficiaries' accumulated equity in their cooperatives and predict how it will influence their

management behavior, particularly as it might relate to investment decisions. In the case of the Phase III beneficiary profile, a section of the questionnaire will be devoted to producing information that will assess and distinguish the behavior of provisional and definitive title holders as it relates to the use of both production and investment credit. A similar approach will be used to distinguish the production credit use patterns and investment intention of beneficiaries with oppositions pending against their title applications and those whose applications went unopposed.

d. Agrarian debt policy analysis

Of particular interest to USAID is the debt structure of the Phase I cooperatives as it impacts on the success of this project and the financial viability of the agrarian reform cooperatives. The debt structure of the Phase I cooperatives in most cases consists of three components: the "agrarian debt", that is, the cooperative's obligation resulting from an assessment based on scheduled payments to compensate former landowners; emergency credit extended in 1980 under the BFA-ISTA emergency lending facility; and production and investment credit extended since 1980.

Questions have arisen as to the equity of procedures employed in the adjudication of compensation payments to former landowners and whether or not determined values bear an appropriate relationship to the economic value of land transferred to cooperatives, and hence to their income producing potential and repayment capabilities.

USAID will conduct with the GOES a policy analysis of agrarian reform debt. The study will develop alternative policy options to redress the debt service burden of agrarian reform cooperatives and evaluate these in terms of their financial impacts on the Phase I cooperatives, their financial impacts on ISTA and the country's financial institutions, and both financial and economic implications of their impacts on public sector revenues and expenditures. This last issue is of particular importance to USAID and will receive special attention. The proposed methodology is to establish, through sampling, debt restructuring requirements of the cooperatives. Once that is established, the fundamental question becomes one of how to execute a restructuring program in a manner that is affordable and would contain only minimal adverse financial and fiscal effects.

e. 1983/1984 crop year lending to the agrarian reform sector

Finally, PERA included, in its 1984 schedule of activities, the publication of a document that will report on the national financial system's lending to the agrarian reform sector during the 1983/84 crop year. That document will contain among other things, a definitive determination of the amounts of credit provided to and utilized by the agrarian reform sector for production and refinancing.

A schedule for the above analytical exercises is presented in this Project Paper Supplement's section describing evaluation arrangements.

III. PROJECT SUPPLEMENT RATIONALE

The present supplement was designed to address the constraints to providing credit to the agrarian reform sector, with a view towards addressing the credit needs of the 317 cooperatives to the extent possible with available resources. In exploring ways to address the credit needs of the 317 cooperatives, discussions were held with the director of ABANSA, and with the commercial banks (referred to as mixed banks) which are members of ABANSA. The discussions highlighted a fundamental difference in attitude between the mixed banks and the BFA. BFA, being a development bank, takes a more active role in developing projects for agrarian reform beneficiaries. Most of the mixed banks, do not take an active role in designing projects for their cooperatives and, as a result, extend credit only to those cooperatives which are financially and administratively capable of presenting applications and projects on their own initiative. Other financial institutions are willing to take on what they consider the "development" activities of making field visits and designing farm plans and crop and investment projects as long as the administrative costs of engaging in these activities are met.

Within the GOES, some thought was given to assigning all of the Phase I cooperatives to the BFA. Implementation of such a reordering would be a long and complicated process which presently would place an unmanageable burden on the BFA as an institution. Also, commercial banks prefer to retain Phase I cooperatives which are good clients. In view of these circumstances, GOES reassigned to the BFA cooperatives in generally poorer financial condition. During 1983 and early 1984, 35 additional Phase I cooperatives were assigned to the BFA, bringing the BFA total to 129. Another 13 might be reassigned soon.

A.I.D.'s assistance under Amendment No. 4 takes this overall institutional framework into account. This year's supplement proposes a set of integrated, comprehensive project elements. While the financial institutions' capacity to actively attend to the agrarian reform sector will be improved, and consequently, demand for credit will increase through the generation of bankable investment projects, refinancing will make cooperatives solvent and eligible for new credit. New credit, in turn, will be made available from new project loan funds and more accessible IDB funds. To accomplish this, the constraints discussed above will be addressed as follows:

A. Financial

To address the credit needs of the 317 cooperatives, A.I.D. will continue to provide credit from development loan funds through the BFA, for its Phase I clients. Grant funded technical assistance will continue to emphasize the strengthening of BFA field activities and efficient coordination between the field agencies and central office. To improve the delivery of credit to viable cooperatives, the project will provide GOES counterpart for a BCR administered trust fund to finance the salaries of new field credit agents in other financial institutions to supervise cooperatives with existing loans and to work with less financially viable cooperatives to develop bankable projects and to solicit and process applications. These counterpart funds will also be used to pay for other administrative costs directly stemming from the effort to meet the credit needs of the agrarian reform sector.

While a greater number of credit agents work to generate projects for available new credit, solvency will be promoted by an expanded and improved refinancing mechanism. This supplement proposes to address the constraint of overdue debt from prior years as follows: existing refinancing lines will offer more attractive terms to Phase I cooperatives; and the refinancing gap of \$12.2 million will be closed by the addition of counterpart, PL-480 generated funds to the newly established consolidated line of credit for refinancing.

The provision of field credit agents, described above, will increase demand for the available IDB funds through the generation of new investment projects to acquire machinery, cattle and to make infrastructural improvements on Phase I cooperatives. The movement of IDB production credit will be stimulated by the the use of fertilizer supplies from BFA warehouses through the granting of a 4 point interest spread by the BFA to the intermediate financial institutions.

B. Institutional

The contracting of credit agents by other financial institutions to work exclusively and directly with Phase I cooperatives will contribute to better planning by the financial institutions in assessing credit needs of the cooperatives and in providing credit. To attend to Phase I cooperatives recently transferred from other financial institutions to the BFA, the BFA is in the process of hiring 21 new credit agents.

Better planning will result from improved coordination among all institutions involved in Phases I and III. In the implementation of Agrarian Reform Credit and the Agrarian Reform Sector Support projects, USAID will continue to foster coordination through planning meetings. Recently, under the credit project, FINATA met several times with the

BFA to agree on the number of Phase III beneficiaries expected to apply for credit in the 1984/85 crop year (25,000) and necessary measures to reach that target. Based on mutually agreed upon targets, the BFA will be able to plan the use of its loan sources. FINATA and the BFA are conducting joint meetings with CENTA of the Ministry of Agriculture and Livestock to coordinate the provision of technical assistance to Phase III beneficiaries. Also, FINATA recently contracted a private sector firm to provide technical assistance to approximately 3,000 beneficiaries.

An important Phase I coordination effort will include the BFA's participation in the selection and placement of managers and accountants on Phase I cooperatives under the Agrarian Reform Sector Support project. Most of the placements are expected to be completed during the 1984 calendar year. As soon as cooperatives have managers and accountants, BFA credit agents will be better able to plan and supervise credit.

While activities to improve the overall institutional framework discussed above are being carried out, complementary improvements in the BFA will be made. For example, as more credit plans are generated by a greater number of credit agents and improved coordination among institutions, the BFA will streamline its loan application review process in order to provide new credit to agrarian reform beneficiaries in a timely manner.

C. Agricultural Credit Demand from the BFA and Other Financial Institutions.

The provision of an adequate supply of credit to support agricultural production in the agrarian reform sector continues to be a vital element in the stability of the Salvadoran economy. In 1982, the 178,530 direct beneficiaries (including family members) of Phase I cooperatives produced 14 %, 34 % and 37 % of the country's coffee, cotton and sugar, respectively. Exports from the entire agricultural sector generated 65 % of annual foreign exchange receipts which are used for the purchase of vital industrial raw materials imports and other imported goods and services.

A number of factors have combined during the past four years to depress the entire agricultural sector (including the agrarian reform sector) and as a result, the economy as a whole. Some of these factors are exogenous to El Salvador, such as continued low world market prices for the major cash crops and isolation from access to foreign credit. Some of the factors are related to conditions existing in El Salvador, such as continued high level of rural violence, dislocation resulting from agrarian reform, and this year's weather conditions, which reduced the harvest of most major crops. Analyses by USAID indicates that planting and production by the agrarian reform sector will show a slight

increase in 1984/1985, given the efforts to strengthen financial viability of reform beneficiaries through this project and the Agrarian Reform Sector Support project. Furthermore, through USAID's policy dialogue with the GOES, we expect to see improved price incentives for agricultural producers, beginning with cotton. However, domestic financial resources are not sufficient to provide the necessary production credit. The availability of external financial resources to meet the demand for such credit during the 1984/1985 crop year continues to be crucial for the production of additional cash crops to generate vital foreign exchange. In addition, the agricultural sector is at the point where further increases in production can be realized only through improvements in farm infrastructure and machinery, which will have to be financed by medium and long-term loans from external sources of funds, and which must be part of a concerted effort by all agrarian reform institutions to improve the viability of Phase I farms and Phase III beneficiaries.

The following table presents projected agricultural demand for the 1984/85 crop year, by sector:

TABLE 7

PROJECTED AGRICULTURAL DEMAND FOR NEW CREDIT FOR 1984/1985
IN US\$000

Source	Tradit. Sector	Phase I	Decree 207	TOTAL
BFA	62 613	30,602	10,300	103,515
Other Financial Institutions	132,761	31,214	-	163,975
TOTAL	195,374	61,816	10,300	267,490

Source: BFA/USAID estimates

The analysis of the total credit required for BFA clients, made by the BFA and modified by the joint analysis of consultants from STC and USAID staff, concludes that demand for new loans will reach \$103.6 million for the 1984/85 crop year for both the traditional (\$62.6 million) and agrarian reform sectors (\$40.9 million). Most of the credit provided to meet this demand will be disbursed during the 1984 calendar year.

The following table shows the BFA/STC/AID estimates by sources of funds (in \$ millions).

TABLE 8

1984/1985 CREDIT DEMAND
(In \$ Millions)

<u>Source</u>	<u>BFA/STC Projected</u>
BFA own funds	8.2
BCR Discount Line	10.0
BFA Reflows (from IBD,AID)	56.0
IDB Loans	3.8
SUB-TOTAL Funds available	<u>78.0</u>
CREDIT DEMAND	103.5
UNFINANCED GAP	<u>25.5</u>

Source: BFA/USAID Estimates

IV. PROJECT SUPPLEMENT DESCRIPTION

A. Project Goal and Purpose

The goal of the Project is to improve the economic and social well-being of the agrarian reform beneficiaries and other small producers through increased agricultural production and employment. To this end, the Project's purpose is to increase the availability of credit to the agrarian reform and traditional small farm sectors and improve the capacity of the national financial system to deliver such credit. In prior supplements the project purpose made reference only to the BFA. This supplement will expand the purpose of the Project to include addressing the credit needs of the agrarian reform sector clients of all national financial institutions, and improving the capacity of those institutions to deliver needed credit.

B. Project Elements

1. Credit

a. Description

The objective of this element is to continue to provide the BFA with funds to meet the demand for credit by the BFA's agrarian reform beneficiaries. Under this supplement, the credit needs of the traditional small farmer will be met in part by loan funds under this supplement, but mostly by the BFA's own sources of funds, provided by reflows from prior A.I.D. and I.D.B. assistance. A.I.D. funds will be channelled by the GOES directly to the BFA as an addition to capital, to the Integral Credit Line established in 1982. The eligibility criteria and procedures for disbursement are being modified by the BFA to streamline the loan approval and disbursement process (See Annexes G and H for complete description of procedures). The table below presents the BFA's credit program for the 1984/85 crop year by source of funds and by sector. The BFA plans to disburse most of the funds during the 1984 calendar year.

TABLE 9
BFA

1984/1985 CROP YEAR PRODUCTION AND INVESTMENT CREDIT PROGRAM
BY SOURCE OF FUNDS (In \$ 000)

	<u>Tradit. Sector</u>				TOTAL
	Banking Window	Develp. Window b/	Decree 207	Phase I Reformed Sector	
1. AID-0263	- 1,000	5,500	13,400	19,900	
2. AID-0263 pipeline	-	4,231	1,356 a/	5,587	
3. AID-0263 reflows	- 21,994		569 6,445	29,008	
4. BID-642-124-605	-	805	- 3,001	3,806	
5. BID-642-124 reflows	-	-	- 6,400	6,400	
6. BID-0605 reflows	- 14,050		-	14,050	
7. AID-251 reflows -	- 2,600		-	2,600	
8. BID-119 reflows	- 4,000		-	4,000	
9. BCR-short-term 10,000		-	-	10,000	
10. BFA-own funds	694 7,470		-	8,164	
TOTAL	10,694	51,919	10,300	30,602	103,515

Source: BFA/STC/USAID

a/ BFA applied this amount to disbursements to Phase I cooperatives prior to the initial project authorization date of June 28, 1980. The disbursements were, therefore, ineligible and were reinstated.

b/ Less than \$40,000 in total assets.

(1) Phase III

The \$10.3 million allocated to Phase III beneficiaries under the loan for the 1984/85 crop year represents the demand of approximately 25,000 provisional and definitive Phase III title holders. The average amount of credit programmed for beneficiary for the 1984/85 crop year is consistent with the \$4,432,600 loaned to 10,737 Phase III beneficiaries or, \$412.00 per beneficiary for the 1983/84 crop year. FINATA and the BFA met early in February 1984, to agree on a target for the number of Phase III beneficiaries who would apply and be approved for credit. FINATA estimated that, by the beginning of the crop year, approximately

42,000 Phase III beneficiaries will hold either definitive or provisional titles, and that more than half of that group will apply for credit from the BFA. Accordingly the BFA, and USAID programmed loan funds (\$4.231 million pipeline of Amendatory Agreement No. 3 and \$5.5 million of this amendment) and Project loan reflows (\$569,000) for 25,000 beneficiaries at last years average credit per beneficiary, \$412.00. Of the \$5.5 million in new loan funds, approximately \$2.06 million will be made available for disbursement by mixed banks. At the average rate cited above, this amount will provide credit to about 5,000 beneficiaries.

During the 1983/84 crop year, the BFA provided credit to 10,737 Phase III beneficiaries or 36% of the estimated 30,000 who held either definitive or provisional title. For the 1984/85 crop year, FINATA, BFA and CENTA will implement certain actions designed to increase the number of Phase III applicants for credit to 25,000. The actions are:

- FINATA will issue identity cards to Phase III beneficiaries who hold definitive or provisional title. Information on applying for credit to the BFA will be distributed with the cards.

- FINATA and the BFA will air a radio campaign to promote BFA credit for Phase III title holders.

- FINATA, through a series of meetings will provide credit information and prepare Phase III beneficiaries for subsequent meetings with BFA credit agents, in which loan applications will be filled out.

- FINATA will provide the BFA and CENTA with lists of all Phase III beneficiaries (definitive and provisional title holders).

- The BFA will institute an automatic lending program under which Phase III beneficiaries with good repayment records will be automatically approved for credit. This will free up BFA agent and other staff time for new or riskier Phase III credit applicants.

- The BFA will increase its number of Phase III credit agents from the 58 it had last year to 73 this year.

- The BFA will initiate a special campaign to promote investment credit for Phase III beneficiaries holding definitive titles. These beneficiaries have a tangible stake in making property improvements, purchasing machinery and equipment, etc.

- CENTA recently hired 145 extension agents to work mostly with Phase III beneficiaries. These agents will carry out field work in accordance with action plans jointly developed by FINATA, BFA, and CENTA.

- FINATA will contract private sector technical assistance for Phase III cooperatives who have organized into cooperatives.

(2) Phase I

The total amount programmed for Phase I cooperatives reflects credit needs of approximately 129 cooperatives after cooperatives were transferred from other financial institutions to the BFA during 1983. By the beginning of 1984, approximately 129 cooperatives were under the BFA. Total credit estimated for this number is \$30,602 million or approximately \$240,000 per cooperative. These amounts are consistent with the BFA historical average per year, per cooperative, increased by about 15% to accommodate both new demand created by newly placed Phase I cooperative managers and stepped-up BFA field activities and additional transfers of cooperatives from other financial institutions.

b. Implementation

Close coordination between the BFA and FINATA and the BFA and ISTA will be required to meet disbursement targets to reach loan applications targets. A condition precedent to disbursement in Amendatory Agreement No. 4 will require new sub-agreements between the BFA, FINATA and CENTA for Phase III coordination. The sub-agreements will include disbursement targets as well as steps to be taken to reach such targets.

Quarterly meetings will be held among all institutions involved, including A.I.D. to review disbursements under the project and to make appropriate recommendations.

As described in the disbursement schedule of the Implementation Plan, this year's supplement will increase credit available through the Integral Credit Line. The 1984/85 Credit Program, presented above is illustrative, for estimating purposes. The \$19.9 million proposed in this supplement will be available for disbursement from January 1, 1984 through March 31, 1985, for either the 1984/85 or the 1985/86 crop year.

2. Refinancing

a. Description

The objective of this element is to make Phase I cooperatives solvent and, therefore, eligible for new credit programmed for agrarian reform by the BFA and other financial institutions.

Presently, there are two refinancing lines available to Phase I cooperatives: the BCR cotton/coffee line and the BCR/A.I.D. line. The cotton/coffee line has been utilized and the present refinanced balance in that line is \$10.5 million for cotton and \$186,000 for coffee. Phase I cooperatives are having difficulties repaying these amounts because of the interest rate (11%) and the terms of equal payments not based on capacity to pay. Also, the BCR estimates that an additional \$15.1 million are needed to refinance overdue coffee and cotton loans.

The BCR/A.I.D. line was established in 1983, but problems have been encountered in its utilization. Prior to September, 1983, the interest paid by cooperatives stood at 11%, and as was the case with the cotton/coffee line, repayment terms were not based on repayment capacity. In September 1983, the BCR published terms of the BCR/A.I.D. line. The terms were not acceptable and had to be modified for the following reasons: 1) the line only provided for production credit and did not include refinancing of investment credit; 2) repayment terms were not clearly based on capacity to repay; 3) the interest rate of the line was not stated in the terms, although it was understood to be 6%; 4) the expiration date of January 31, 1984 was unreasonable; 5) terms included reference to the agrarian debt (although no funds were used for the agrarian debt) and 6) cotton and coffee refinancing were not included.

In December 1983 and January 1984, the BFA and A.I.D., each, recommended through correspondence that: 1) the line include investment credit; 2) repayment terms be based on repayment capacity; 3) the interest rate be 6% for cooperatives; 4) the eligibility period be extended; 5) the agrarian debt be excluded from refinancing and, 6) cotton and coffee be included in the line. Also, in January, USAID began to hold discussions with the BFA, other financial institutions, and the BCR, on the need to meet the total refinancing gap and on improving and speeding up utilization of refinancing lines. The discussions identified total refinancing needs, including renegotiation of already refinanced amounts, as presented in the following table.

The discussions led to a consensus on procedures to make terms and conditions of each line compatible in order to facilitate effective refinancing, as described below.

TABLE 10
AMOUNTS TO BE REFINANCED THROUGH CROP
YEAR 1982-83, BY COMMODITY AND BANK
(\$000)

Institution	Coffee	Cotton	Other	Total
BFA	2,278.3	6,853.0	10,598.7	19,730.0
Hipotecario	1,843.8	7,823.0	1,960.1	11,626.9
Salvadoreño	9.7	1,658.3	1,221.5	2,889.5
Comercio	177.8	1,055.8	1,434.8	2,668.4
Cuscatlán	456.8	1,796.9	78.2	2,331.9
FEDECREDITO	88.8	83.4	923.5	1,095.7
Crédito Popular	-	899.2	151.2	1,050.4
Agrícola Comercial	48.6	269.5	471.1	789.2
Capitalizador	58.5	445.0	27.5	531.0
Totals	4,962.3	20,884.1	16,866.6	42,713.0
%	12	49	39	100

Source: BCR

Under the proposed refinancing mechanisms, the terms of the currently refinanced amounts will be renegotiated between financial institutions and with Phase I cooperatives. In effect, the amount available for refinancing will nearly meet the refinancing demand of \$42.7 million: \$10.5 million from the cotton/coffee lines; \$20.0 from the previously established AID/BCR Special Line of Credit; and \$12.0 of new counterpart PL-480 generated local currency.

After the currently refinanced amounts (totaling \$14.5 million as shown below) are renegotiated and new refinancing agreements are negotiated, the \$42.5 million will be available for refinancing at

approximately a 6.0% interest rate to the cooperatives. Repayment will be based on the cooperatives capacity to pay and therefore may vary from year to year. Repayment by the banks to the BCR will be at 4.0%. Reflows from the BCR/AID line will be made available to refinance future overdue amounts. Therefore, refinancing will be a continuing process.

Table 11, presented below, compares the present refinancing situation with the proposal under this supplement.

In resolving overdue amounts of Phase I cooperatives there are basically three alternatives: 1. To forgive and write-off such amounts; 2. To refinance such amounts at the lowest rate of interest possible given the financial structure over an eight to ten year period; and 3. To refinance such amounts at higher rates of interest which approach the market rate on new credit, with equal annual payments over an eight year period. The first alternative is legally complicated and would involve setting a dangerous precedent. Also, it is inappropriate given the improved financial viability and repayment record of many Phase I cooperatives during 1983 and the probability of continued improvements in 1984/85 and future crop years. The difference between the 11% and the 6% interest rates under the second and third alternatives could reach several hundred thousand dollars per cooperative per year and would have a negative impact on the cooperatives capacity to pay refinanced principle amounts.

Based on these considerations, the BCR, BFA, and the mixed banks concluded that the second alternative was the most appropriate if applied on a one-time-only basis for the 1984/85 crop cycle.

The BCR, BFA, and mixed banks have concluded that the refinancing lines, with interest at 6% and payment based on capacity to pay, will result in improved repayment of refinanced overdue debt, as well as current production credit because of various factors (the rate on new production and investment credit being provided by the BFA, and mixed banks and on AID and IDB credit lines continues at about 13%):

-Payment of principle will be based on capacity to pay, including improved production and income estimates for the 1984/85 crop cycle;

-The drop in interest rates from 11% to 6% will considerably lower amounts paid by the cooperatives. In some cases the difference in the first year payment is several hundred thousand dollars.

-There was a large increase in loan recuperation during 1983. As described in the Financial Analysis, the BFA recuperation rate increased from 65% in 1982 to 84% in 1983

-Placement of farm managers and accountants on Phase I cooperatives is proceeding at an accelerated pace (50 managers have been placed and 100 additional are being processed for placement). This will contribute to improved financial viability of Phase I cooperatives.

-Other support activities such as improved coordination among the institutions involved in agrarian reform process, and improved and greater technical assistance provided to the Phase I cooperatives will also result in improved financial viability of the Phase I cooperatives.

-While production on Phase I cooperatives is expected to rise, prices are also expected to increase. In addition, the GOES is also seeking ways to speed up payments to Phase I cooperatives for produce.

The process for approving cooperative applications for refinancing is a careful two-step process. This involves approval at the BFA/mixed bank level and then a careful review by the BCR before a cooperative is approved for refinancing. A review of this process, including representative examples of Phase I cooperatives is presented in the Financial Analysis Annex.

TABLE 11
AVAILABLE RESOURCES
FOR REFINANCING PHASE I COOPERATIVES
((\$000))

Item	Amount Out- standing	Interest. Rate Paid by Coops	Interest Rate Paid by banks
<u>Present situation</u>			
1. Outstanding refinanced balance	10,507.2	11.0%	9.0%
2. Outstanding refinanced AID/BCR line	4,000.0*	11.0%	9.0%
3. Outstanding debt in financial institutions	28,205.8	14.00%	-
TOTAL	<u>42,713.0</u>	<u>12.98%</u>	<u>9.0%</u>
<u>Consolidated Line for Refinancing</u> <u>Under Amendment No. 4</u>			
1. Outstanding balance			
Cotton/Coffee BCR line	10,507.2	6.0 %	4.0%
2. Revised and Augmented AID/BCR line	32,205.8	6.0 %	4.0%
TOTAL	<u>42,713.0</u>	<u>6.0 %</u>	<u>4.0%</u>

Benefit to Coops

* BCR line of C38 million (\$15.2 million).

** Assuming that 50% is past due causing interest rate to increase from 13% to 14% due to penalty interest charged.

***For additional information on refinancing, see Project Background, D. Constraints to the Effective Provision and Use of Credit for the Agrarian Reform Sector.

b. Implementation

The lines will administer by the BCR program managers described below in the Credit Agent Program under 3. Institutional Building and will be closely coordinated with the BFA and others institutions. Financial institutions will be required to present applications for refinancing within 60 days of the signing of Amendatory Agreement No. 4 of the Project Agreement. The BFA is ready to present refinancing applications totaling approximately \$19.0 million to the BCR, pending modification of the refinancing mechanism. USAID is proceeding with negotiations to settle on a rapid implementable mechanism before or soon after April 1, 1984, the beginning of the crop year.

3. Institutional Building

a. Description

The analysis of the BFA's disbursement and institutional performance, as well as the review of the agrarian reform credit sectoral constraints, presented in the Project Background, reveal major problems which relate to the entire institutional framework of the Project. For this reason, to the extent that A.I.D. and counterpart project resources permit, the objectives of the institutional building element is to improve the capacities of financial institutions to attend the credit needs of the agrarian reform sector. Three activities under this element are proposed.

- Credit Agent Program

a. Description

The objective of this activity is to service the credit needs of all Phase I cooperatives by maintaining an average cooperative to agent ratio of 3 to 1. This program will consist of placing an average of three credit agents in each of the banks which have, together, the largest numbers of Phase I clients, and providing two managers in the BCR to administer and supervise the program. A total of 24 agents will identify and develop credit plans as well as production and investment projects for Phase I cooperatives. These projects will identify timely opportunities to utilize credit available through the IDB funds mobilization element described above. The credit agents will also mobilize the \$3.9 million AID/BCR investment credit line established by Amendatory Agreement No. 2. In addition to the salaries and support costs of 26 agents, the activity will provide funds to finance the transportation and training of each of the agents. Training will include short courses in: general farm

planning and management, development of financial plans, identification and design of investment projects, credit supervision, methods of financing, identification of technical assistance needs, and other appropriate topics.

b. Implementation

To finance this activity, a trust fund will be established in and administered by the BCR. The BCR will disburse funds to the mixed banks to pay for salaries and other support costs, including training and transportation of the 24 credit agents and two BCR program managers. The BFA, as well as other financial institutions will be included in the trust fund to accommodate the fluid situation of Phase I cooperative assignments as described earlier. Presently, the BCR evaluates agricultural credit activities of the BFA and other financial institutions annually in order to determine bonus interest points (up to two) in addition to the customary two points. This evaluation process will be increased to include quarterly progress reports and be made part of BCR supervision activities to be focused on the agrarian reform sector. The two BCR program managers will supervise utilization of the refinancing mechanism described above.

USAID negotiations to establish the credit agent program have confirmed interest on the part of the BCR to establish and supervise the program, by financial institutions in incorporating the agents into their organizations and by the BFA in providing short-term training to the credit agents.

-Institution Building at the BFA

a. Description

The following activities will continue as part of the project's continuing effort to consolidate and strengthen the BFA's reorganization.

- (1) Completion and implementation of the job classification plan together with an established system of performance evaluation and motivation.
- (2) Implementation of a new training program, on a bank wide basis.
- (3) Improvement of internal auditing and expansion of the auditing function to include management audits at the field agency level.
- (4) Maintenance of the following attained financial performance targets:

- Maintain liquidity ratio above 4.0
- Maintain working capital above of \$90.0 million.
- Maintain loan recuperation rate above 80%,
- establish threshold level for loan recuperation and attain that level.

- (5) BFA utilization of the BCR special Line of Credit for refinancing and, correspondingly, increased lending to Phase I cooperatives that have been refinanced under that line.
- (6) Streamlining of the BFA loan review and approval process, through the introduction of an automatic loan processing mechanism. This mechanism will entail the automatic approval of loan applications, up to certain levels, made by BFA clients with solid repayment records, including those who are agrarian reform beneficiaries. This will make more BFA staff time available for new or less financially viable clients.

b. Implementation

To help carry out the above activities, the project will finance 70.0 person months to extend technicians presently providing technical assistance and to cover new identified needs, as presented below under C. Project Amendment Inputs.

To monitor technical assistance being provided to the BFA for institutional building; BFA, STC, and A.I.D. staff will meet together every quarter to review progress. Such meetings will be based on timely presented, concise quarterly reports by the STC.

- Coordination Program

a. Description

This supplement's institution building efforts will address the institutional framework as a whole in relation to providing credit to the agrarian reform sector. There are certain constraints, which to be addressed, require coordination among all of the institutions which are charged with contributing to the viability of Phase I cooperatives and Phase III beneficiaries. ISTA and FINATA are responsible for promoting viability and especially for assuring that Phase I and III units are properly managed; the BCR, the BFA, and the private banks are responsible for providing credit inputs; MAG and its divisions, such as CENCAP and CENTA, are charged with providing training and technical assistance inputs into the agrarian reform program. All of these inputs are indispensable for achieving production targets and financial viability. At USAID's recommendation, several meetings have taken place among these institutions, with positive results. In the future USAID will promote quarterly meetings at the technical level, as described below, under b. Implementation.

In order for effective coordination to take place and for important issues to be resolved and constraints to be addressed, decisions must be made and policy directives must emanate from the highest GOES levels. For example, once the policy analysis on the impact of agrarian debt is completed, recommendations from the analysis must be translated into policy. This will be accomplished only through effective and coordinated policy formulation by key GOES leaders. This effective coordination does not now exist and is particularly important as a means of dealing with Phase I issues. For this reason, USAID will advocate not only coordination at the technical level, as described above, but also at the highest policy-making level.

These activities will not require any resources in addition to those already provided by Projects Nos. 0263 and 0265. Coordination will be an orientation in the implementation of both projects (an orientation reinforced by covenants).

b. Implementation

USAID will require quarterly review meetings at the technical level, with the participations of institutions by covenant as follows: for Phase I- BFA/ISTA/CENTA; Phase III- BFA/FINATA/CENTA, and other appropriate MAG entities, such as CENCAP for Phases I and III. USAID will also covenant the GOES to identify an "Agrarian Reform Policy Coordinating Committee" for Phase I, which will consist of the highest GOES officials whose decision making have an impact on the agrarian reform. The committee will include the Presidents of the BFA, BCR, ISTA, and the Minister of Agriculture, among other appropriate decision makers. This committee will meet as necessary and will review information and analysis provided by the technical levels. These activities will not require project funding.

4. Integrated Pest Management

This element will expand field level research and extension in cotton IPM from 7,000 mz. to 11,000 mz. in the western part of the country and will introduce cotton IPM in eastern areas of El Salvador. The objective of the IPM element is to define economical and practicable IPM packages for cotton and other crops in order to maintain and, in some cases, increase production, while lowering pesticide costs on agrarian reform farms. By the PACD of December 31, 1985, CENTA will be able to expand IPM techniques to other crops. By this time, the ROCAP regional IPM project which contemplates the provision of training, technical assistance, and diagnostic services in IPM by regional institutions for a variety of crops, will have been initiated. That regional project should assist CENTA in the extrapolation of IPM techniques to other crops.

C. Project Amendment Inputs

1. AID Financed

a. Loan Funded

Of a total of \$21.9 million:

- (1) \$18.9 million will be provided to the Integral Line of Credit for loans to the Agrarian Reform Sector; \$1.0 million will be provided to the traditional sector
- (2) \$1.8 million will be provided to the BFA to purchase 120 additional vehicles (jeeps) and spare parts, principally for credit agents working with agrarian reform beneficiaries.
- (3) \$.2 million will be provided to the BFA for foreign exchange to finance short courses in the U.S. and Geographic Code 941 countries as outlined in the BFA training program.

b. Grant Funded

The BFA will use \$600,000 to provide 70.0 person months of technical assistance in the following areas:

<u>TECHNICAL ASSISTANCE TO BE FUNDED WITH GRANT FUNDS</u>	
	<u>Number of Person Months</u>
Financial Specialist	12.0
Credit Services Advisor	12.0
Accounting Advisor	12.0
Credit Advisor (collections)	7.0
Electronic Data Processing Advisor	1.5
Farm Credit Advisor	12.0
Planning Advisor	12.0
Other	<u>1.5</u>
TOTAL	70.0

2. GOES Counterpart Contribution

The GOES will make available local currency contribution of \$13.2 million from PL-480 generated funds to finance the following activities:

- a. -\$12.0 million as a contribution to the newly established BCR Consolidated Line of Credit for refinancing.
- b. -\$800,000 million for 26 credit agents to be placed in the BCR and other financial institutions through a BCR administered trust fund. Transportation for the 26 agents will be also financed by the trust fund.
- c. -\$200,000 for the local currency cost of courses to be held in-country under the BFA training plan.
- d. -\$200,000 for continuing IPM activities to the proposed PACD of 12/31/85.

V. PROJECT AMENDMENT FINANCIAL PLAN AND ANALYSIS

A. Financial Plan

The following tables show: the financial plan proposed by this supplement; projected 1984 expenditures; projected 1985 expenditures; the life of project financial plan; and the costing of project outputs/inputs under this supplement. Financial plans for Amendments 1, 2, and 3 are presented in the Financial Plan and Analysis Annex.

TABLE 12

Summary Cost Estimates and Financial Plan
(US \$ 000)

Supplement

S O U R C E	A I D		H O S T C O U N T R Y		T O T A L
	FX	LC	FX	LC	
<u>Development Loan Funds</u>					
Credit					
- Special Line of Credit					
- Integral Line of Credit		19,900			19,900
- Investment Line of Credit					
Refinancing				12,000	12,000
Vehicle and Equipment	1,800			-0-	1,800
Integrated Pest Management				200-	200
Operational Support				800	800
Training	200			200	400
Contingency					
Sub-Total Loan	2,000	19,900		13,200	35,100
<u>Development Grant Funds</u>					
Technical Assistance	600				600
Sub-Total Grant	600				600

TABLE 13

Projection of Expenditures for Fiscal Year 1984
(US \$ 000)

S O U R C E	Loan	A I D Grant	Total	Host Country	TOTAL
<u>USE</u>					
Credit					
- Special Line of Credit					
- Integral Line of Credit	16,000		16,000		16,000
- Investment Line of Credit					
Refinancing				12,000	12,000
Vehicles and Equipment	1,800		1,800		1,800
Integrated Pest Management					
Operational Support				400	400
Training	100		100	100	200
Contingency					
Technical Assistance		300	300		300
TOTAL	17,900	300	18,200	12,500	30,700

TABLE 14

Projection of Expenditures for Fiscal Year 1985
(ULS \$ 000)

<u>S O U R C E</u>	<u>Loan</u>	<u>A I D Grant</u>	<u>Total</u>	<u>Host Country</u>	<u>TOTAL</u>
<u>USE</u>					
Credit					
- Special Line of Credit					
- Integral Line of Credit	3,900		3,900		3,900
- Investment Line of Credit					
Refinancing					
Vehicles and Equipment					
Integrated Pest Management				200	200
Operational Support				400	400
Training	100		100	100	200
Contingency					
Technical Assistance		300	300		300
<u>TOTAL</u>	<u>4,000</u>	<u>300</u>	<u>4,300</u>	<u>700</u>	<u>5,000</u>

TABLE 15

Summary Cost Estimates and Financial Plan
(US \$ 000)

Life of Project

S O U R C E	A I D		H O S T C O U N T R Y		T O T A L
	FX	LC	FX	LC	
<u>USE</u>					
<u>Development Loan Funds</u>					
Credit					
- Special Line of Credit		11,100		3,900	15,000
- Integral Line of Credit		58,800		12,800	71,600
- Investment Line of Credit				3,900	3,900
Refinancing				12,000	12,000
Vehicle and Equipment	2,900	200			3,100
Integrated Pest Management	200			400	600
Operational Support				3,300	3,300
Training	200			200	400
Contingency					
Sub-Total Loan	3,300	70,100		36,500	109,900
<u>Development Grant Funds</u>					
Technical Assistance	2,075	150			2,225
Sub-Total Grant	2,075	150			
TOTAL	5,375	70,250		36,500	112,125

TABLE 16

COSTING OF PROJECT OUTPUTS/INPUTS
(In \$ 000 or equivalent)

Project Inputs	Project		Outputs (see log frame)			Total
	a.1.2.+3	b.1+2	c.1d1+d2	e.6	f 1	
<u>A.I.D. Appropriated:</u>						
- Integral Life of Credit	19,900					19,900
- Vehicles and Equipment				1,800		1,800
- Training				200		200
- Technical Assistance				600		600
<u>Host Country</u>						
- IPM					200	200
- Refinancing		12,000				12,000
- Operational Support			800			800
- Training			200			200
Total	19,900	12,000	1,000	2,600	200	35,700

B. Financial Analysis*

The Regional Inspector General for Audit, Latin America, in audit report No. 1-519-84-2, dated January 18, 1984 identified three major problems which affect the BFA's operation:

- High operating costs
- Poor rate of loan recuperation; and
- Weak fiscal, accounting, and credit management controls.

*A table presenting Methods of Implementation and Financing is presented in the Procurement Plan on p. 74.

The analysis presented below covers four areas: 1) Operating Costs; 2) Comparative Financial Indicators; and 3) Loan Recuperation. The discussion on operating costs and loan recuperation is based on official, published BFA financial reports and information and analysis provided to USAID by STC advisors. The BFA financial reports indicate that in 1982 and especially 1983, much progress was made in reducing administrative costs as a percentage of income and in reducing the cost of short-term borrowing. This progress is borne out by 1982 and 1983 comparative financial statements audited and published in an audit report dated February 24, 1984 by Rivera, Menendez and Associates, the BFA's external auditors. These financial statements are presented in the Financial Plan and Analysis Annex. Official published statements by the BFA and analysis performed by the STC also indicate that the recuperation rate as uniformly measured for 1982 and 1983 improved considerably. The fiscal, accounting and credit management controls are areas of concentration of STC Technical Assistance and will continue to be. Progress in these areas is also discussed in the institutional analysis.

1. Operating Costs

The financial analysis presented in Amendment No. 3 provided a detailed discussion of the BFA's financial performance from 1978 through 1982. That analysis revealed that the lowest period in the BFA's financial performance occurred in 1980, and that a recovery program was initiated as a result of the recommendations made in early 1981. The recovery program included taking steps to reduce BFA's outstanding debt with the BCR, contracting additional agents to improve the supervision of field operations, increased utilization of farm plans in the loan approval and repayment schedule processes, and implementation of a set of procedural changes to strengthen the BFA's fiscal, accounting and credit management controls.

One of the areas of concern in the audit conducted by the Regional Inspector General for Audit dated January 18, 1984 was the high operating cost of the BFA, consisting of high administrative expenses and the high cost of short-term borrowing. It should be noted that the IG's opinion was based on 1981 financial information. The financial analysis of Amendment No. 3 revealed that, due to the implementation of the measures described above, BFA's financial performance improved considerably by the end of the 1982/83 crop year. According to BFA financial statements, and financial statements published by the external auditors in the audit report, that improved performance continued into the current crop year. Tables 17, 18 and 19 presented below, indicate that while revenue rose in 1983, expenses, as a percentage of revenue, decreased significantly, while BFA's loan portfolio and number of loans contracted rose, administrative expenses, as a percentage of gross income, dropped. BFA's cost of capital or interest paid dropped sharply. This is due to the large reduction in the BFA's debt with the BCR.

TABLE 17

BFA. PROFIT AND LOSS STATEMENT FOR THE BANKING OPERATIONS
1978-1983
(\$000,000)

ITEM	1978	1980	1981	1982	1983
Revenue	5.2	11.6	16.8	17.2	23.2
Expenses:					
Adm. Expenses	4.7	7.5	8.9	9.5	10.8
Interest Paid	1.1	5.3	5.2	3.8	3.2
Other	0.4	0.6	0.8	0.8	1.1
TOTAL EXPENSES	6.2	13.1	14.9	14.1	15.1
Net Profit before bad debt adjustment	(1.0)	(1.8)	1.9	3.1	8.1
Bad debt charges	-	1.0	5.4	5.9	12.1*
Net profit	(1.0)	(2.8)	(3.5)	(2.8)	(4.0)

Source: BFA/STC

* In 1983, because of a large net profit before bad debt expense, the BFA was able to allocate a substantial amount to the bad debt reserve. This is in accordance with the bad debt reserve and loan recuperation strategy described below. Accordingly a large extraordinary adjustment was made and the bad debt reserve was increased \$12.1 million. External auditors found that approximately \$5.3 million apply to 1983 while \$6.8 million apply to prior years.

TABLE 18
BFA'S NET PROFIT, 1978-1983
(\$000,000)

Year	Banking Operations	Other Operations	TOTAL
1978	(1.0)	1.0	--
1980	(2.8)	2.9	0.1
1981	(3.5)	4.2	0.7
1982	(2.8)	3.7	0.9
1983	(4.0)	5.3	1.3

SOURCE: BFA Profit and Loss Statements

TABLE 19
Comparative Financial Indicators
1978 through
(\$000)

	Dec.31 1978	Dec.31 1979	Dec.31 1980	Dec.31 1981	Dec.31 1982	Dec. 31. 1983
1. Working Capital	4,542	(5,524)	(50,500)	(54,039)	72,681	96,576
2. Liquidity Ratio	1:1	.9:1	.6:1	.6:1	2.76:1	4:1
3. Quick (Acid Test) Ratio	.12:1	.05:1	.05:1	.18:1	.70:1	.6:1
4. Administrative Cost as % of income	90%	78%	65%	52%	59%	47%
5. Reserve for Bad Debt	\$2.6M	\$3.2M	\$4.2M	\$9.6M	\$15.5M	\$27.3M*

Source: BFA/STC

* Includes \$6.0 M for uncollectable interest.

The most noteworthy development in the BFA's income statement trends (see Table 17) is that the BFA turned a large increase in profit from its banking operations. Over recent years, the BFA has been dependent on other operations, mainly the sale of fertilizers and other inputs, to make a profit. It should be noted, however, that interest income is accounting income and increased because of a growing portfolio. Some of the interest income will never be received and should be offset by appropriate charges to the bad debt expense and corresponding credits to the bad debt reserve. A large adjustment (\$12.1 million) was made and the reserve (provision) for bad debt (shown as an offset to loans receivable and interest receivable on the balance sheet). Eventually loans and interest receivable which are deemed uncollectable will be written off against this reserve account. This will take place when the BFA and GOES agree on a debt forgiveness/write off policy.

2. Comparative Financial Indicators

Comparative financial indicators (uniformly measured by BFA and STC over the past several years), presented above in Table 19, also demonstrate the BFA's strengthened banking operations. The improvements in working capital (from \$72.6 in 1982 to \$96.6 million in 1983) and the liquidity ratio (from 2.76:1 in 1982 to 4:1 in 1983) were due to BFA's reduction of short term debt liability to the BCR and to the increase in current assets. Current net loans receivable, which are current assets, show no change, since both current loans receivable and the corresponding offset in the reserve for bad debts increased. The most liquid current assets were also stable. This is borne out by consistency in the acid test (quick) ratio (From .7:1 in 1982 to .6.1 in 1983). In the case of the BFA, the acid test ratio represents the ratio of the BFA's most liquid current assets, such as cash on hand and in transit, to short term debt, mostly with the BCR. The improvement in the liquidity ratio indicates that the BFA is in a stronger position to control short term debt, which in prior years seriously threatened the BFA's financial viability.

In terms of meeting the credit needs of the agrarian reform sector, the improvement in liquidity means that the BFA should be in a better position to provide short term or production credit to its clients.

3. Loan Recuperation

The Financial Analysis of Supplement No. 3, estimated the recuperation rate to be 60% for the 1982/83 crop year and predicted that corrective steps being taken would result in a 76% recuperation rate in the 1983/84 crop year. The recuperation rate for 1983 reached 82.7%. The target was surpassed. Further, Amendatory Agreement No. 3 expressed the target in dollars, i.e. that, by the end of the 1983 calendar year, the BFA would "increase loan recuperations from \$65.7 million to \$76.2 million". By December 31, 1983, the dollar value of loans recuperated had reached \$79.6 million.

Loan recuperation is one of the strongest areas of the STC technical assistance and such technical assistance coupled with the BFA's own efforts had a very positive impact on loan recuperation. There is a continuing need for improvement, however. A sizable portion (at least 50%) of the delinquent loans should be written off as uncollectable. In recognition of this, the BFA, under STC guidance, implemented a recuperation rate and bad debt reserve policy. This policy can be explained by describing how the recuperation rate was calculated for calendar years 1982 and 1983 as of December 31, of each of those years, respectively.

The recuperation rate is calculated by dividing the actual amount recuperated by a estimated "recoverable" amount. The recoverable amount is an estimated amount recoverable out of the total amount becoming due during a specified period of time, usually one year. In the case of the BFA, the recoverable amount is established in the beginning of the year by adding the following amounts: 1) all short-term loans becoming due during the period; 2) 20% of all intermediate loans and 10% of all long-term loans; 3) 50% of all overdue amounts; and 4) 20% of all loans disbursed during the period. Based on this, the recuperation target is established. The calculations for 1982 and 1983 follow:

1982

	<u>Recoverable</u> <u>(in US\$000)</u>
Short-term loans (100%)	59,226
Investment loans (20% of 5 yr. loans and 10% of 10 yr. loans)	7,554
Overdue loans (average of 50%)	13,600
Amount disbursed (20%)	<u>13,600</u>
Recoverable	93,980
Amount recuperated by December 31, 1982	<u>\$61.2</u> =65%
Recoverable	94.0

<u>1983</u>	<u>Recoverable</u> <u>(in US\$000)</u>
Short term loans (100%)	54,160
Investment loans (20% of 5 yr. loans, 10% of 10 yr. loans)	7,413
Overdue loans (average of 50%)	21,046
Amount disbursed (20%)	<u>13,606</u>
Recoverable	96,219
Amount recuperated by December 31, 1983	<u>79.6</u> = 82.7%
Recoverable	96.2

If only 50% of overdue loans are assumed to be uncollectable, then the bad debt reserve should approximate that amount plus interest. For Calendar Year 1983, because of high income the BFA was able to make a large extraordinary adjustment and credit the bad debt reserve (provision) by \$12.1 million. The bad debt reserve now totals \$27.3 million, \$21.0 million for unrecoverable loans (see calculation above) and \$6.3 million for unrecoverable interest. Thus, for the first time ever, the BFA realistically dealt with the fact that 50% or more of overdue loans are uncollectable. However, more than 50% of overdue loans are uncollectable. The technical assistance will focus helping the BFA to estimate uncollectable loans and interest and to accordingly make adjustments to the bad debt reserve.

Approximately \$42.1 million or 26% of the \$163.8 BFA agrarian reform and small farmer portfolio are overdue, as presented in the following table:

Table 20

BFA AGING OF ACCOUNTS AT DECEMBER 31, 1983
ANALYSIS OF PORTFOLIO
(US \$000)

No of Loans	133,458
Total Balance (\$)	163,789
No. of Overdue Loans	44,341
Amount of Overdue Loans (\$)	42,719
Percent of Portfolio Overdue (%)	26
Amount Overdue 61-120 days (\$)	618
Amount Overdue more than 120 days (\$)	42,101

*Source BFA

There are several conclusions to be made from this analysis of overdue balances and the recuperation rate. The technical assistance in this area, as well as the BFA's own efforts, must be continued. The BFA, with technical assistance, has undertaken a pilot project in loan recuperation at the Sonsonate agency. The pilot project involves improved monitoring by field agents, supervisors and the BFA central office through the use of computer print outs, feedback to agents, reports to management, etc. The results have been positive. The techniques for improved portfolio management tested by this pilot activity must be applied by the BFA on a country-wide basis.

C. Assessment of BFA Financial and Internal Controls and Audit Capability

1. The implementing agency for this project is the Agricultural Development Bank (BFA) which is classified as an Intermediate Credit Institute (ICI). USAID/ES is required to "assess the organization's financial management procedures and related internal control". Furthermore, "PP's are to include an evaluation of the need for audit coverage in light of

potential risk and are to describe planned contract and project audit coverage by the host government. Project funds should be budgeted for independent audits unless adequate audit coverage by the host country is reasonably assured....."

2. Scope of Work

In an attempt to address the above requirements, USAID met with the following officials:

BFA officials

- President
- General Manager
- Financial Manager
- Internal Auditor
- Chief of Data Processing (EDP)
- Chief of Accounting Division

External Officials

- The Bank External Auditor, Rivera Menéndez, Cia
- STC advisor, Enrique Salas

USAID obtained and partially reviewed the following reports:

BFA Financial Statements for the years 1981, 1982, and 1983, prepared by the external auditor;

BFA Financial Statements for the years 1981, 1982, and 1983, prepared by the internal auditor;

BFA Internal Audit Manual

BFA Accounting System Handbook

BFA Credit Resolution Regulations

Reconciliation Status prepared by STC advisor to the Financial Manager dated February 6, 1984;

Reconciliation of AID funds as of December 31, 1982.

In addition, USAID examined the following AID internal documents:

-The IG audit report No. 1-519-84-2 dated January 18, 1984;

- USAID's own response to the IG draft audit report;
- The Controller's Office records;
- The draft project paper amendment No. 4.

3. Findings

The BFA, as a financial institution that has expanded rapidly in the last four years, has both strengths and weaknesses in its financial management procedures and related internal control.

a. Areas of Strength:

1. BFA maintains all the mandatory books and records prescribed by the Central Bank (BCR).
2. BFA written procedures and policies have been improved and revised in the last few years to cope with the responsibility assigned to the bank as a primary source of credit for agrarian reform beneficiaries.
3. In 1983, BFA reorganized its administrative and management structure in order to increase the rate of recuperations and to speed up bank response to credit applications. As a result, the loan recuperation rate has increased and field operations have been strengthened through transfer of personnel from regional offices to field agencies and the addition of new field agents.
4. The Internal Audit Office has been reorganized and strengthened by the addition of staff. In 1983, all field agencies were audited. The office has plans to audit every agency once a year with one follow-up visit. Deficiencies and recommendations are reported on a timely basis to the appropriate officials.
5. The BFA is audited twice a year by the Superintendent of Banks. The Court of Accounts has a permanent staff of 7 professionals stationed at BFA and they are continuously auditing bank transactions.
6. EDP Division reports that it has completed the reconciliation of the records of six agencies. This Division also has plans to complete reconciliations of the records of the rest of the agencies with the main office.

7. BFA management has been receptive to suggestions made from both internal and external sources to improve efficiency and carry out the bank's responsibilities.

8. BFA has established safeguards to preclude the possibility of charging loans to more than one source of funding.

b. Areas of Weakness

1. Both internal and external auditors have indicated that collection procedures are not applied uniformly in accordance with written procedures.

2. Lack of a clear cut BFA policy for writing off bad debts. Inadequate analysis to identify uncollectable accounts.

3. Posting is not current. It has improved in the last few months and is currently about two months behind.

4. BFA has not completed reconciliation of branch office records with home office records.

5. The EDP equipment is obsolete and inadequate to satisfy the bank's requirements.

6. Need for improved and expanded technical assistance in the areas of finance, management, credit, EDP and administration.

7. The bank's clientele consists of high risk, marginal and small producers. It has limited latitude in selecting its clients and the type of activities the bank is mandated to finance makes the bank more vulnerable.

8. Slow follow-up on internal and external audit recommendations.

Conclusion

Based upon our limited review, the above observations and the proposed additional technical assistance in Amendment No. 4, it is USAID's opinion that the BFA does have the minimum level of financial management procedures and related internal control required for proper utilization and safeguarding of AID funds.

No additional audit coverage is required for the project with the exception of the condition precedent recommended below.

Recommendations

To insure that BFA's financial management procedures and related internal control provide adequate control and accountability of AID funds, the following areas for improvement should be dealt with by covenants in the Amendatory Agreement (see IX. Conditions, Covenants and Negotiating Status on p. 77.):

- a. that internal control is adequate to insure proper utilization and accountability of AID funds separately from all other sources of BFA funding. (On March 9, 1984 USAID received a positive opinion from the external auditors on the BFA's internal control and financial management. The opinion is presented in Annex F.)
- b. that the BFA establish all necessary ledgers and records to account and provide accurate reporting for all AID funds, both new and reflows from prior AID funds, separately from other sources of funding.
- c. that the BFA develop and implement written procedures for the writing off and subsequent control of bad debts in accordance with GOES banking regulations.
- d. that the BFA provide a written evaluation to USAID of its implementation practices with respect to its collection procedures and, if necessary, a plan to insure more uniform and satisfactory application.
- e. that postings be up to date (no more than two weeks delay in posting source documentation to official records) and that all agencies' accounts have been completely reconciled to home office records.

VI. PROJECT AMENDMENT ANALYSES

A. Economic Analysis

During the 1982-1983 crop year, the most recent for which data are complete, a total of \$987 million was lent by El Salvador's financial institutions to the agricultural sector. An estimated \$246 million, or 25 percent of this amount, was allocated to the agrarian reform subsector. Phase I cooperatives received about \$166 million, or two thirds, of the total. The BFA provided \$23.2 million, or 14 percent, of the total financing for Phase I. The remainder was provided by the commercial banks, with 54 percent; the national mortgage bank, 18 percent; INCAFE, 11 percent; and Fedecredito, the remaining 3 percent.

The planned allocation of BFA credit to and within the agrarian reform subsector appears in Tables I and II. The first details the distribution of credit by crop for Phase I and Phase III producing units. The following Table employs the same approach to examine the distribution of credit by hectares planted for each crop.

The figures in both Tables lead, in general, to the same conclusions. Phase III producers have concentrated on the production of domestic foodstuffs while the Phase I cooperatives specialize in the production of cash crops for foreign markets. While the distribution of land planned for financing under Phase I and III is roughly equal -- 47.7 percent for the latter as opposed to 52.3 percent for the former -- the distribution of funds to be disbursed is skewed toward the Phase I producers with their export crops. Despite the high priority given to corn, which is cultivated mostly by Phase III producers, the larger cooperatives are to receive slightly more than 80 percent of all lending planned by the BFA for the subsector.

Among the crops financed, specific data on production costs and revenues are available for only three of them. Appearing in Table III, they are corn, rice and beans. The higher productivity which inputs financed through the availability of credit makes possible for these crops, together with their cost and revenue implications, is striking. In the most dramatic case, that of rice, the net revenue per hectare increases from a loss of \$126 with traditional technologies to a positive \$317 with capital intensive production techniques! It is assumed, ceterus paribus, that the cash crops have yielded, on the average, even higher returns. Otherwise, it would be difficult to explain why the larger, more efficient, Phase I units have continued to produce such crops when other alternatives were available.

While the precise cost and revenue configurations of the other crops are lacking, they can certainly be estimated within a range which permits reasonable conclusions to be drawn concerning their potential profitability. For example, if per hectare costs of production for such crops are assumed to be considerably higher than those appearing in Table III, and if revenues are assumed to be corresponding lower, and an acceptable rate of return is still forthcoming, a reasonable degree of confidence that the Project is an efficient use of Agency resources appears to be justified.

Utilizing precisely such an approach, a benefit/cost analysis of Project activities was undertaken. The results are summarized in Table IV.

Beginning with costs, components A and B contain AID, GOES and BCR contributions as appearing in the original Project Paper and subsequent amendments, through 1985. It is assumed that a final follow-on activity will then be carried out, extending Project activities through 1987. It should be stressed that the necessity for, as well as the level of, such activities has yet to be determined. To bias the project in a manner that leads to conservative results, the level of financial activity during this period, i.e. costs, has deliberately been set at a level that appears to be exaggerated.

The next two cost categories, those for the BFA and the commercial banks, are somewhat unusual. The conventional approach in analyzing an agricultural credit project would simply be to include the improved inputs which borrowed capital makes possible, plus interest, as on farm costs rather than as costs to the financial institutions which make the loans. Precisely because this is a credit project, however, it was considered more useful to the reader to indicate the sources of supply of all of the financial resources involved in the project. The BFA and commercial bank credits listed, it must be emphasized, are only those which are clearly additional to those that they are receiving from AID, the GOES and the BCR. In the BFA's case, only reflows from the resources provided by the donors have been estimated through 1987. In the case of the commercial banks, on the other hand, the small stream of credits which appears estimates the bankers lending to Phase III producers. It is assumed that it will remain small due to the high per unit cost of servicing such clients. Given that the commercial banks previously provided credits to all of the producing units included in Phase I, it is extremely doubtful that they would provide net additional real resources to those enterprises in the foreseeable future.

Estimates of the BFA's costs for administering its agrarian reform activities are based upon that organization's own estimates. It is noteworthy that such costs are substantially higher than the amount which the GOES is providing. It is assumed that the real level of such costs will decline after 1987. Once the extension agent program is established and running smoothly, the institution should be able to get by with fewer of them.

The final component of project costs are the on farm costs. They are the additional costs undertaken by the producers themselves in connection with the more highly productive production packages made possible with credit availability. Usually, labor is a very substantial component in this category -- c.f. Tables III and IV, for example. Thus far, however, the BFA's loans to Phase I cooperatives have included full wage remuneration to their members. They are thus included in the credit lines of the financial institutions discussed previously.

Project benefits, again in the interests of skewing the analysis in conservative fashion, are limited to those obtained from the increased production which results from more highly productive technology packages. The stream of benefits, it must be emphasized, is illustrative. It is not supported by specific data for most of the crops which the BFA finances. It is also conservative in comparison to the results noted earlier for corn, rice and beans. For purposes of illustration, the year 1990 has been selected. Gross benefits for this year are estimated at \$135,000,000 while total costs for the same year are \$121,210,000. Assume for the moment that 100,000 hectares approximately one third of the land included in the agrarian reform at the moment and about four times the amount of land financed in 1983 are

financed by the BFA this year. The production cost per hectare would be \$121,210,000 divided by 100,000, or \$1,212. Net revenues per hectare, on the other hand, would be \$135,000,000 - \$121,210,000 = \$13,790,000 divided by 100,000, or \$137.90 per hectare. Note that this figure is well below the net revenue per hectare figures obtained for corn, rice and beans.

Two forms of rate of return were calculated for the net benefit stream, or NBS. They were the net present value, or NPV, and internal rate of return, or IRR. With a discount rate of 12 percent, the NPV of the NBS is a healthy \$69,159,000. To determine how the NPV would be affected by increasing costs or declining benefits, a sensitivity analysis was performed. The resulting matrix appears in Table V. The figures disclose that while strongly positive, the NPV, is highly sensitive to both reductions in benefits, and to increases in costs. If either remains constant, the other may vary by as much as 10% in an adverse direction with the NPV remaining positive. Likewise, both costs and benefits can move in adverse directions by 5 percent and retain the positive NPV. These are the limits, however. Further adverse movement by either variable or by both in combination will result in a negative NPV.

The IRR resulting from the NBS was 38.7 percent. Sensitivity testing was also carried out in a manner analogous to that conducted for the NPV. The resulting matrix of IRR values for increases in cost and reductions in benefits appears in Table VI. The IRR proved slightly less sensitive than the NPV to adverse movements in costs and benefits. It remains positive with a 15 percent increase in cost, benefits held constant, or a 10 percent reduction in benefits, with costs held constant.

Before closing the present discussion, it is important to emphasize once more that the benefit cost analysis which was undertaken is indicative that with reasonable assumptions as to costs and benefits, the Project appears to be able to utilize resources efficiently. Likewise, the analysis seems to demonstrate that some care should be taken to reduce, insofar as it is within the discretion of Project management to do so, adverse pressures on both the cost and the benefit side. A final cost-benefit analysis is contained in Annex VII.

TABLE I 1/

PLANNED BFA FINANCING BY MAJOR CROP
FOR AGRARIAN REFORM SECTOR AND OVERALL, 1984
(In 000s of Colones)

	<u>1</u> <u>207</u>	<u>2</u> <u>153&154</u>	<u>3</u> <u>1+2</u>	<u>4</u> <u>Total BFA</u> <u>Credit</u>	<u>5</u> <u>1 as %</u> <u>of 3</u>	<u>6</u> <u>2 as</u> <u>% of</u> <u>3</u>	<u>7</u> <u>1 as</u> <u>% of</u> <u>4</u>	<u>8</u> <u>2 as</u> <u>% of</u> <u>4</u>	<u>9</u> <u>3 as</u> <u>a %</u> <u>of 4</u>
Corn	\$11,522	\$4,121	\$15,643	\$69,570	73.7	16.3	16.6	5.9	22.5
Maicillo	1,319	725	2,044	8,712	64.5	35.5	15.1	8.3	23.4
Beans	2,074	1,146	3,220	11,928	27.7	72.3	17.4	9.6	27.0
Rice	1,648	4,310	5,958	17,656	34.7	65.3	9.3	24.4	33.7
Vegetables	738	1,391	2,129	6,013	16.9	83.1	12.2	23.1	35.3
Fruit	36	177	213	545	4.4	95.6	6.6	32.5	39.1
Cotton	1,021	22,117	23,138	51,085	2.3	97.7	2.0	43.3	45.3
Coffee	174	7,158	7,693	23,626	10.2	89.8	0.7	30.3	31.0
Sugar	685	6,400	6,724	16,605	7.2	92.8	4.1	38.5	42.6
Refinan- cing	2,232	28,800	31,032	50,905	4.3	95.7	4.4	56.6	61.0
Other	2,225	19,461	21,686	74,330			3.0	26.2	29.2
<u>Total</u>	\$23,674	\$95,806	\$119,480	\$330,975	19.8	80.2	7.2	28.9	36.1

1/ BFA Plan Crediticio 1984

TABLE II

PLANNED BFA FINANCING FOR AGRARIAN REFORM SECTOR
IN RELATION TO AREA PLANTED FOR 1984 IN MANZANAS 1/

	<u>1</u> <u>207</u>	<u>2</u> <u>153&154</u>	<u>3</u> <u>1+2</u>	<u>4</u> <u>Total</u> <u>Manzanas</u>	<u>5</u> <u>Total</u> <u>Manzanas</u>	<u>6</u> <u>1 as %</u> <u>of 3</u>	<u>7</u> <u>2 as %</u> <u>of 3</u>	<u>8</u> <u>3 as</u> <u>% of</u> <u>4</u>	<u>9</u> <u>3 as %</u> <u>of 5</u>
Corn	20,448	4,952	25,400	119,343	347,950	80.5	19.5	21.3	7.3
Maicillo	6,734	1,365	8,099	39,195	n.a.	83.1	16.9	20.7	n.a.
Beans	6,097	1,555	7,652	27,966	80,500	79.7	20.3	27.4	9.5
Rice	1,659	3,119	4,778	15,942	18,000	34.7	65.3	30.0	26.5
Vege- tables	613	940	1,553	4,583	n.a.	39.5	60.5	33.9	n.a.
Fruit	36	166	202	508	n.a.	17.8	82.2	40.1	n.a.
Cotton	414	8,753	9,167	20,557	52,550	4.5	95.5	44.6	16.7
Coffee	405	4,790	5,195	12,970	268,000	7.8	92.2	40.1	1.9
Sugar	569	6,777	7,346	16,931	55,000	7.7	92.3	43.4	13.4
Other	776	9,007	9,783	13,086	n.a.	7.9	92.1	74.8	n.a.
<u>Total</u>	37,751	41,424	79,175	271,081		47.7	52.3	29.2	

1/ One manzana is equivalent to approximately 70 percent of one hectare, or 1.7 acres.

TABLE III

PRODUCTION COSTS AND BENEFITS PER HA.
(US \$)

	<u>Corn</u>		<u>Rice</u>		<u>Beans</u>	
	<u>Without</u>	<u>With</u>	<u>Without</u>	<u>With</u>	<u>Without</u>	<u>With</u>
<u>Gross Costs</u>	364	831	622	1171	482	725
Seeds	15	30	80	100	80	80
Fertilizer	--	150	--	250	--	150
Pesticides	--	27	--	42	--	40
Herbicides	--	57	--	70	--	--
Capital Cost	20	50	108	108	--	--
Land	85	85	120	120	60	60
Labor	220	330	280	357	280	318
Internal						
Transport	8	20	8	16	4	8
Contingency	16	37	26	48	22	34
Interest	--	45	--	78	--	35
(Credit)		(460)		(600)		(230)
<u>Gross Benefit</u>	366	1056	496	1488	693	1170
<u>Net Benefits</u>	2	225	-126	317	211	445

Source: BFA and MAG/DGEA.

TABLE IV

ECONOMIC CASH FLOW
COSTS AND BENEFITS PER HA.
(US \$)

	<u>Corn</u>		<u>Rice</u>		<u>Beans</u>	
	<u>Without</u>	<u>With</u>	<u>Without</u>	<u>With</u>	<u>Without</u>	<u>With</u>
<u>Gross Benefits</u>	366	1056	496	1488	693	1170
<u>Gross Costs</u>	254	704	482	1056	306	596
Seed	15	30	80	100	80	80
Fertilizer	--	195	--	325	--	195
Pesticides	--	28	--	42	--	40
Herbicides	--	57	--	70	--	--
Capital Cost	20	50	108	108	--	--
Land	85	85	120	120	60	60
Labor	110	165	140	179	140	159
Internal						
Transport	8	20	8	16	4	8
Contingency	16	37	26	48	22	34
Credit						
Delivery	--	37	--	48	--	30
(8% of credit)						
<u>Net Benefits</u>	112	352	14	432	387	574
<u>Increase</u>						
<u>Benefits</u>		690		992		477
<u>Increased</u>						
<u>Costs</u>		450		574		290
<u>Cash Flows</u>		240		418		187

TABLE V

MATRIX FOR SENSITIVITY TESTING OF NPV
PERCENTAGE CHANGES IN NPV

	<u>Cost</u> <u>Increase</u>			
	0%	5%	10%	15%
0	0	-0.35	-0.70	-1.05
5	-0.40	-0.75	-1.10	-1.45
10	-1.15	-1.15	-1.50	-1.85
15	-1.20	-1.55	-1.90	-2.25

% Benefit
Decrease_

TABLE VI

MATRIX FOR SENSITIVITY TESTING OF IRR
IRR VALUES FOR CHANGES INDICATED

	%Cost Increase			
	0	5	10	15
0	38.7	30.0	21.5	9.8
5	29.9	20.6	7.0	0
10	19.0	3.0	0	0
15	0	0	0	0

%Benefit Increase

Table VII
BENEFIT COST ANALYSIS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
I. COSTS										
A. AID										
BFA CREDIT	9500	1600	16200	22700	16000	3900	15000	10000		
VEHICLES & EQUIPMENT			530	700	1800		2000			
INTEGRATED PEST MANAGEMENT			200							
TRAINING					100	100	200	100		
TECHNICAL ASSISTANCE	500		625	500	300	300	500	350		
CONTINGENCY			70				500	500		
SUB-TOTAL	10000	1600	17625	23900	18200	4300	18200	10950		
B. GOES AND BCR										
BFA CREDIT	3500	400		12800			10000	5000		
BCR INVESTMENT CREDIT LINE			3900				2500			
BCR REFINANCING LINE					12000		5000			
OPERATIONAL SUPPORT			2500		400	400	750	750		
TRAINING						100	250	250		
INTEGRATED PEST MANAGEMENT				200	100	200	250	250		
SUB-TOTAL	3500	400	6400	12800	12400	500	18500	6000		
C. BFA										
PRODUCTION CREDIT			1000	1000	12500	20000	25000	30000	65000	80000
ADMINISTRATION				2340	2500	2500	2500	2500	2000	2000
DEFAULTS AND MISC.					6000		2500			
SUB-TOTAL	0	0	1000	3340	21000	22500	30000	32500	67000	82000
D. COMMERCIAL BANKS										
PRODUCTION CREDIT		150	200	200	225	225	250	300	350	400
ADMINISTRATION	20	30	50	110	220	330	750	800	800	800
OTHER	5	8	9	11	22	33	100	150	200	250
SUB-TOTAL	25	188	259	321	467	588	1100	1250	1350	1450
E. ON FARM COSTS										
LABOR		77	1068	2568	3563	4719	5663	6607	7551	7650
INVESTMENT (INTEREST)	537	806	855	1158	2300	3450	3700	3850	4000	4225
SUB-TOTAL	537	883	1923	3726	5863	8169	9363	10457	11551	11875
F. TOTAL COSTS	14062	3071	27207	44087	57930	36057	77163	61157	79901	95325
II. GROSS BENEFITS										

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BENEFIT COST ANALYSIS (Continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
I. COSTS										
A. AID										
BFA CREDIT										
VEHICLES & EQUIPMENT										
INTEGRATED PEST MANAGEMENT										
TRAINING										
TECHNICAL ASSISTANCE										
CONTINGENCY										
SUB-TOTAL										
B. SOES AND BCR										
BFA CREDIT										
BCR INVESTMENT										
CREDIT LINE										
BCR REFINANCING LINE										
OPERATIONAL SUPPORT										
TRAINING										
INTEGRATED PEST MANAGEMENT										
SUB-TOTAL										
C. BFA										
PRODUCTION CREDIT	105000	115000	120000	125000	125000	127500	127500	130000	130000	130000
ADMINISTRATION	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000
DEFAULTS AND MISC.										
SUB-TOTAL	107000	117000	122000	127000	127000	129500	129500	132000	132000	132000
D. COMMERCIAL BANKS										
PRODUCTION CREDIT	500	600	750	900	1000	1100	1200	1300	1300	1300
ADMINISTRATION	800	800	800	800	800	800	800	800	800	800
OTHER	200	200	200	200	200	200	200	200	200	200
SUB-TOTAL	1500	1600	1750	1900	2000	2100	2200	2300	2300	2300
E. ON FARM COSTS										
LABOR	7650	7650	7650	7650	7650	7650	7650	7650	7650	7650
INVESTMENT (INTEREST)	5060	5280	5520	5750	5750	5865	5865	5980	5980	5980
SUB-TOTAL	12710	12940	13170	13400	13400	13515	13515	13630	13630	13630
F. TOTAL COSTS										
	121210	131540	136920	142300	142400	145115	145215	147930	147930	147930
II. GROSS BENEFITS										
INCREASED PRODUCTION	135000	147500	155000	165000	170000	170000	170000	175000	175000	175000
III. NET BENEFITS										
	13790	15960	18080	22700	27600	24885	24785	27070	27070	27070

BENEFIT COST ANALYSIS (Continued)

Discount Rate	0.12
IRR Guess	0.36
NPV	69159.49
IRR	0.386555

COST INFLATOR	1
BENEFIT DEFLATOR	1
ELASTICITY	0.000007

B. Institutional Analysis

The responsibility assigned to the BFA as the source of credit for the majority of the agrarian reform beneficiaries continues to place a heavy burden on the administrative capacity of the BFA. Since the presentation of Project Paper Supplement No. 3, 35 additional cooperatives have been added to the roles of the BFA, which with the 94 originally assigned to the BFA, makes for a total of 129. The BFA is solely responsible for providing credit to all Phase III beneficiaries.

The BFA has adequately carried out its responsibility to supply the demand for credit by the agrarian reform sector over the past four years. In order to do so, however, the BFA placed a great burden on its administrative structure and was forced to seek more expensive funds from the BCR to meet new credit demand.

For this reason, the project has been oriented towards both providing a needed source of credit and improving the institutional capabilities of the BFA. Last year, to accomplish the latter task, the BFA, with the assistance of STC, designed a program to reorganize its administrative and management structure. The primary objective of the reorganization was to consolidate the administration of the BFA and direct additional resources into the credit related functions of the bank to speed up the BFA response to credit applications and to increase the rate of loan recuperations. In order to accomplish this, regional office personnel were shifted to the Central Office and to the local BFA agencies. This step was intended to both strengthen field activities and to remove a layer of bureaucracy between the Central Office and the local agencies. The reassignment of regional office personnel is illustrated in the following tables.

TABLE 23

REASSIGNMENT OF REGIONAL OFFICE PERSONNEL

Classification	Previous	Present	Agencies	Total
	Location Regional Office	Location Central Office		
Professionals	15	6	9	15
Administrative	78	21	57	78
Field Technicians	36	16	20	36
Service and Other	24	1	23	24
TOTAL	153	44	109	153

TABLE 24

PERSONNEL INCREASED TO ATTEND FIELD ACTIVITIES

Classification	Central Office	Agencies	Total
Professionals	2	10	12
Administrative	-	7	7
Field Technicians	-	-	102
TOTAL	2	119	121

The reorganization proposed several major changes which coincided with the shifting of regional personnel:

-That several units, including the planning unit and the development and special studies unit report directly to the President, and analyze, make recommendations and supervise implementation of bank policy with the objective of improving the medium and long-range planning of the bank.

-That the Office of Human Resources be strengthened and organized into several units performing classification, selection contracting, compensation, and personnel development functions.

-That an Information Processing Office be incorporated under the Office of Financial Management to facilitate the flow of information required to produce a series of financial reports for management decision making.

In terms of 1983 financial performance, the results of the reorganization described above have been positive. Although the staff increased from 1,260 to 1,496, total administrative cost, as a percentage of income decreased from 55% in 1982 to an estimated 48% in 1983. Amendatory Agreement No. 3 established the following financial targets as a function of the ability of BFA management to implement the reorganization of the bank begun in late 1982:

- Increase current ratio from 2.5 to 4.2.
- Increase working capital from \$61.2 million to \$86 million.
- Increase loan recuperations from \$65.7 million to \$76.2 million.
- Obtain medium term, loan-interest refinancing for the overdue debt accumulated by BFA clients from the 1980/81 to 1982/83 crop years.

Reports from BFA indicate (see the Financial Analysis in the preceding section) that as of December 31, 1983, all of the targets had been met. The current ratio, at 4:1 working capital, had reached \$96.6 million, and the loan recuperation had reached \$79.6 million.

Of equal significance is the BFA's ability to provide credit to the agrarian reform sector as planned in the beginning of the crop year. As described in detail in preceding sections, as of December 31, 1983, the BFA had disbursed \$24.7 million to the reform sector and estimates that it will disburse approximately \$29.3 million of the \$37.6 million target programmed in the beginning of the 1983/84 crop year.

The reorganization is a difficult and evolving process, which requires the completion of long, complicated supportive tasks. Three such supportive tasks are: 1) completion of a training needs assessment to be followed by the elaboration of a training plan; 2) completion of an operations manual, and 3) completion of job descriptions for all personnel. In addition to tasks specifically in the management area, there is a need for a continuation of all areas of expertise provided by the STC technical assistance team. The bank requires on-going technical assistance in financial management, human resources and organization and methods, credit systems, portfolio control and recuperations, and accounting. Over the past year, it has become more and more evident that assistance in information systems and planning is needed to improve the bank's institutional capacities and to enhance the reorganization.

In their October 31, 1983 report, the STC advisors raised the following concerns:

-That the elimination of the regional offices, coupled with a reduction in the upper limit loan amount which can be approved at local agencies, resulted in delays in loan approvals and disbursements.

-That the transfer of the Legal Unit from the Credit Division to the General Managers Office resulted in the lack of coordination in providing legal back-stopping to credit activities.

On the other hand, the same report noted progress in the supervision of loans and collection department, where new personnel were hired and trained.

C. Social Soundness Analysis

Under this supplement, the Agrarian Reform Credit Project's beneficiary population will be expanded to include the cooperative membership of all 317 Phase I agrarian reform enterprises as well as actual and potential Phase III beneficiaries, and other small farmers. As of December 31, 1983, the agrarian reform process in El Salvador had

transferred effective control of 426 properties exceeding 500 hectares (1,245 acres) in size to an estimated 31,359 farm laborers and their families. The 426 properties were formed into 317 cooperatives or what are sometimes referred to as productive units. The farm land included in these units totals approximately 215,760 hectares (539,400 acres), an area that represents 15 % of the country's land in farms.

As of the same date mentioned above, 60,733 former renters and sharecroppers have applied for title to land parcels to which they previously had only tenuous access. The 60,733 farmers who applied for Phase III benefits are heads of households with an estimated 364,398 members. When added to the household membership of the Phase I beneficiaries, the agrarian reform population represents approximately 25 % of the rural poor population in El Salvador. The land area that has been affected by Phase III's implementation is estimated to total 115,292 hectares (228,230 acres) and represents 8 % of the country's farm land. The critical elements of Phase III process, titling and transfer, continue. At the close of 1983, 55,287 provisional and 5,456 definitive titles had been issued to Phase III beneficiaries. In one of its first acts as a legislative assembly, having completed its charge to draft a new constitution, El Salvador's congress extended the filing data for Phase III land transfers to June 30, 1984.

The country's new Constitution recognizes and protects the agrarian reform process as it has developed since the proclamation of Decrees 153 and 154 (the Basic Law of Agrarian Reform) and 207 in 1980. Also included in the new Constitution is a definitive resolution of Phase II of the reform process. Articles 104 and 105 of the document place the maximum agricultural holding that a single individual, either natural or corporate, may own at 245 hectares (605 acres). The definition of Phase II through the constitution's limitation on agricultural holdings will make an estimated 21,000 hectares (51,870 acres) of land available to potential agrarian reform beneficiaries. Still pending is legislative action to determine the exact procedures to effect Phase II transfers, the precise legal definition of the small farmer beneficiary group, and the mechanism to finance transfers.

As discussed in previously published documents describing this project, the various phases of the Salvadoran agrarian reform process are distinct in concept and implementation. There is, however, one underlying current in the process, the low living standards of the respective beneficiary populations as indicated by their restricted access to the goods and services needed to satisfy basic human needs. Housing, education, water delivery, and sanitation in rural El Salvador are inadequate by any recognized standard.

It is the intent of this agrarian reform program to convert the beneficiary population's newly determined control over an important segment of the country's agricultural wealth into increased production

and income which in turn will be translated into an improved standard of living for this portion of the rural poor population. Agricultural credit has been and will continue to be an important element in this process.

1. Phase I Beneficiary Population

The most immediate effect of the first phase of the agrarian reform in El Salvador was to change the status of workers on expropriated haciendas from that of peonage to that of cooperative associates of multimillion dollar agricultural enterprises. Problems and opportunities, some of which are discussed here, abound.

In its report entitled Agrarian Reform in El Salvador which was published in January, 1983, the consulting firm of Checchi and Co. reported on the results of a survey its team conducted to assess the quality of life on Phase I cooperatives. The survey was limited in scope and conducted in part to verify the findings of previous exercises. Its respondents were randomly selected from the rosters of seven cooperatives and its results tended to reinforce the findings assessments conducted by the Office of Integrated Campesino Enterprises of Development (DIECRA) and the Office of Agrarian Reform Planning and Evaluation (PERA). Although no attempt was made to expand the survey to the universe of Phase I beneficiaries, its findings are informative and are summarized here.

The respondent's average age was 38 years. The average level of education attained was two years with 32 % responding that they had not received any formal education at all. As an indicator of the next generation's level of education, respondents reported that 26 % of their school-aged children were not attending school. Interestingly, a survey of the Phase III beneficiary population conducted in the same period of time reported similar education levels for that population.

On the average, respondents had five children and 42 % of them indicated that they had lost at least one child. Other indicators of the beneficiaries' quality of life were not encouraging. Only 19 % of them had access to tap water, while 57 % of them drew their water supply from a well. Compounding sanitation problems was the fact that only 28 % of them reported having a latrine.

Electricity, like potable water, was also reported as a limited service by the responding beneficiaries. One third of them reporting that their dwellings were connected to the electrical grid.

For those respondents reporting a wage income, the average daily earnings was 8.90 colones, an amount that coincided with estimates of average earnings estimated by the DIECRA organization.

With respect to the operation of their cooperatives, 55 % of the respondents indicated that their cooperatives were well managed. The factor most frequently cited by the respondents as constraining the optimal operation of their cooperative was credit. When asked how they felt the government could more effectively support their cooperative, the most frequent reply was punctual credit.

With the expansion of rural employment as one of the stated goals of the agrarian reform, there is continued interest in the generation of employment in the reformed sector as an indicator of the reform's progress. Comparing employment data measured in terms of man-days worked for the Phase I cooperatives during the 1981/82 and 1982/83 crop years, the two most recent years for which data is available, indicates that there was a slight deterioration in the situation. In general terms, there was a decrease of 1.1 million man-days worked on the Phase I enterprises between the 1981/82 and 1982/83 crop years. There were 12,847,000 man-days worked on the properties during 1981/82 and 11,939,000 in 1982/83, a reduction of 7 %. The commodities accounting for the reduced utilization of available man power were basic grains and cotton. There were modest increases in the employment generated by the production of coffee, sugar, and livestock. Table 11 compares employment generated on the Phase I cooperative by commodity.

TABLE 25

PHASE I EMPLOYMENT GENERATED BY COMMODITY
(000 Man-Days of Work)

<u>COMMODITY</u>	<u>Crop Year</u> <u>1981/1982</u>	<u>Crop Year</u> <u>1982/1983</u>
Corn	1,193	664
Beans	364	226
Rice	352	254
Sorghum	154	88
SUB-TOTAL	2,063	1,232
Coffee	4,888	4,973
Cotton	2,457	2,079
Sugar	1,102	1,281
SUB-TOTAL	8,447	8,333
Livestock	1,607	1,646
Other	730	729
TOTAL	12,847	11,939

Source: Tercera Evaluaci3n del Proceso de la Reforma Agraria, Ministerio de Agricultura y Ganadería, Proyecto Planificaci3n y Evaluaci3n de la Reforma Agraria, San Salvador, El Salvador, Octubre, 1983.

The reduced employment per commodity noted above can be attributed to corresponding reductions in area cultivated. Comparing the two crop years, there were 11,136 fewer hectares cultivated in crop year 1982/83 than there were in the 1981/82 crop year. The 1982/83 performance represents a 13.6 % decrease in area cultivated when compared to the previous crop year. Table 12 below summarizes and compares area cultivated by principal commodities on the Phase I properties during the two most recent crop years for which verified data is available.

TABLE 26

COMPARATIVE PHASE I CULTIVATION BY COMMODITY AND CROP YEAR
(Hectares)

Comparative	C r o p Y e a r s		Percentage
	1981/1982	1982/1983	Change
Corn	16,047	8,924	- 44
Beans	4,240	2,632	- 38
Rice	4,108	2,965	- 28
Sorghum	<u>2,964</u>	<u>1,712</u>	- 42
SUB-TOTAL	27,359	16,233	- 41
Coffee	18,992	19,320	- 2
Cotton	19,095	16,154	- 15
Sugar New Planting	906	1,534	69
Sugar Maintenance	<u>10,100</u>	<u>11,259</u>	11
SUB-TOTAL	49,093	48,267	- 2
Others	<u>10,001</u>	<u>10,192</u>	- 2
TOTAL	86,453	74,682	- 14

Source: Tercera Evaluaci3n del Proceso de la Reforma Agraria, Ministerio de Agricultura y Ganaderia, Proyecto Planificaci3n y Evaluaci3n de la Reforma Agraria, San Salvador, El Salvador, Octubre, 1983.

As with employment generated on the cooperatives, the largest relative reductions recorded in area cultivated were in basic grains. The area planted with corn is a dramatic indicator of the Phase I basic grain production pattern. In the 1981/82 crop year, 16,047 hectares of the Phase I cooperatives were planted with corn. The following crop year that area was reduced to 8,924 hectares, a 44 % reduction.

With the exception of cotton, there were modest increases in the area cultivated with the traditional export crops. Reflecting a pattern prevalent through the entire agricultural sector, the Phase I

cooperatives planted 2,941 fewer hectares of cotton in crop year 1982/83 than they did in 1981/82, a 15 % decrease. New sugar plantings increased from 906 hectares in crop year 1981/82 to 1,534 hectares in 1982/83, a 69 % increase, while coffee cultivation during the same period increased by a modest 1.7 %, 18,992 hectares in 1981/82 to 19,320 hectares in 1982/83. The expanded sugar and coffee cultivation are encouraging, but are not enough to compensate for the reduced cultivations recorded in basic grains and cotton.

Reasons given for the reduced area worked include violence in important agricultural zones and in the case of basic grains the purchasing activities of the country's grain marketing board. At the on-set of the 1981/82 crop year, the grain marketing board published attractive prices for basic grains. Farmers responded with expanded planting of those commodities. However, due to limited resources the marketing board was not able to purchase basic grains at its announced prices, leading producers the following year to shift cultivation into other commodities.

ISTA has a social promotion program for the Phase I cooperatives, which promotes three general social development functions; identification and programming of training opportunities, housing, and community development. The program's coverage is incomplete. Only 168 of the Phase I cooperatives have a full time social promotor assigned to their operations. Another 49 cooperatives have part-time promotors and the remainder are not serviced in this regard. In recognition of the importance of community development to the integral development of the agrarian reform enterprises, U.S.A.I.D. included a community development activity in its "Agrarian Reform Sector Support" project. This activity is providing resources to ISTA's Farm Promotion and Organization Division enabling it to expand its supportive services to its promotors and the cooperatives they serve. The expanded program is assisting cooperatives to secure services of the public health and education systems. In addition to assisting the cooperatives to procure services from external sources, this activity has placed a priority on the development of pilot projects of a self-help nature that will train beneficiaries as rural health paramedics and literacy agents, construct low cost housing units on the cooperatives, and distribute seed and plant material.

The training opportunities mentioned above are intended in large part to compensate for management deficiencies encountered in the agrarian reform cooperative enterprises and are developed around four topical areas; rural administration, social promotion, technology transfer, and associative business education. During the first eight months of 1983, the Ministry of Agriculture and Livestock's Agricultural Training Center presented 255 courses, 68 seminar workshops, and 144 field days to 8,557 agrarian reform beneficiaries and other small farmers. Training opportunities for agrarian reform beneficiaries will be expanded under a training component in a companion project to this one, "Agrarian Reform Sector Support" (519-0265).

Along with to credit and training, the Phase I cooperatives will need extensive access to technical assistance services to assure the economic viability of their enterprises. Providing the cooperatives and other small farmer beneficiaries with appropriate levels of technical assistance has proven to be a difficult undertaking for the Salvadoran public agricultural sector given its budgetary and manpower constraints. Table 13 below contains data representing areas planted with various commodities on Phase I cooperatives during the 1982/83 crop year and compares them to the portions cultivated with the benefit of technical assistance.

TABLE 27

PHASE I PLANTING AND TECHNICAL ASSISTANCE DELIVERED
Crop Year 1982/1983
 (Hectares)

<u>Commodities</u>	<u>Total</u>	<u>Planted/Technical</u>	
<u>Commodities</u>	<u>Total</u>	<u>Assistance</u>	<u>Percent</u>
Basic Grains	16,223	10,736	66
Coffee	19,320	17,468	90
Cotton	16,154	8,330	52
Sugar Cane	12,793	5,792	45

Technical assistance, like training, for agrarian reform beneficiaries is receiving important development assistance support under the "Agrarian Reform Sector Support" project. During the life of that project, the GOES agricultural research and extension system will receive \$9,677,000 to expand its institutional capacity to develop and deliver appropriate production technologies to Phase I cooperatives, potential Phase II beneficiaries, actual and potential Phase III beneficiaries, and other small farmers.

In addition to the training, social promotion, and technical assistance support activities encompassed under the "Agrarian Reform Sector Support" project; U.S.A.I.D., under the same project, included support for a contracting facility that will permit Phase I cooperatives to procure the professional services of qualified farm managers and/or accountants. This particular activity is in direct response to managerial deficiencies that have been identified on the cooperatives and will be financed through a direct subsidy to them. The subsidy will be provided on a decreasing scale over a four year period, after which the participating cooperatives will finance the services entirely from their own revenues. With this type of managerial service in place on the cooperatives, the probability that they will be able to maximize the credit and other supportive resources to ensure their financial viability will be enhanced.

2. Phase II Potential Beneficiary Population

As was mentioned above, the Salvadoran Constituent Assembly completed work on the agrarian reform process prior to publication of the new Constitution. The two outstanding issues pertaining to the agrarian reform before the Assembly, the incorporation of the process into the country's basic law and the definition of Phase II parameters, were resolved with the approval of Articles 104 and 105. Briefly, the two articles provide that individual owners, may own no more than 245 hectares. The limit does not apply to partnerships and jointly held properties. While Phase II limits have been determined by the new Constitution, their full impact on the dynamics of the agrarian reform process have not been fully assessed. Using data contained in the 1971 Census of Agriculture, estimates of the land area that will be affected by Phase II total 33,373 hectares. Subtracting land already affected by Phase I and Phase III leaves an estimated 21,000 hectares for distribution to potential Phase II beneficiaries. Still pending is the passage of legislation that will define Phase II procedural arrangements and assign its execution to a specific implementing entity.

3. Phase III Beneficiary Population

According to the terms of Decree 207, the third phase of the agrarian reform's beneficiary population, both actual and potential, consists of landless farmers who were renting or sharecropping small parcels of land in May 1980.

In January 1983, the Ministry of Agriculture and Livestock's Office of Agrarian Reform Planning and Evaluation (PERA) conducted a nation-wide survey of the rural population to estimate the size of the Phase III beneficiary population. The analysis of the survey results indicate that the beneficiary population consists of 117,000 small farmers.

Prior to conducting the nation-wide survey to determine the beneficiary population's size, PERA conducted another survey, also nation-wide in scope, to determine some of the population's socio-economic characteristics.

The analysis of the survey data indicated, as might be expected, a positive relationship between income and indicators of quality of life such as literacy, family nutrition, and housing. Phase III beneficiaries derive slightly more than 50 % of family income from their parcels with the remainder coming from wages earned from day labor obtained off the parcel. In their responses to the survey instrument's questions relating to production and yields, beneficiaries indicated that yields for commodities they produce are close to national averages, an interesting indicator of the intensity with which they cultivate their parcels given the generally inferior quality of the land on which those parcels are located.

The study contained a brief analysis of the beneficiary population's marketing activities which indicated that at least 50 % of the commodities produced on the Phase III parcels enter the country's marketing channels, and, as might be expected, the percentage of production entering marketing channels increases proportionally with the size of the parcel.

With respect to credit usage by the Phase III beneficiary population, the study documented that the percentage of beneficiaries using production credit provided by the country's financial system increased from 24 % prior to the promulgation of Decree 207 to 36 % after. Before the initiation of Phase III, 57 % of the beneficiaries financed their production requirements with their own resources. For those beneficiaries with access to parcels smaller than one manzana that percentage increased to 75 %. Table 14 below summarizes and compares financing patterns for Phase III production activities before and after the proclamation of Decree 207 by source and size of parcel.

TABLE 28
PHASE III AGRICULTURAL PRODUCTION FINANCING BEFORE AND
AFTER (1981) DECREE 207
BY PARCEL SIZE AND SOURCE

SOURCE	Before			After		
	L.T.1 Mz. Percent.	G.T.1 Mz. Percent.	Avg. %	L.T.1 Mz. Percent.	G.T.1 Mz. Percent.	Avg. %
Own funding	75	54	57	63	41	45
Banks	12	24	22	25	39	36
Private lenders	4	4	4	5	2	3
Family	1	1	1	-	1	1
Others	1	2	1	1	2	2
No information	7	15	14	6	15	14
TOTAL	100	100	100	100	100	100

The increased rate at which Phase III beneficiaries are utilizing formal credit sources, namely the BFA to finance their production requirements can be attributed to the increased availability of production credit specifically earmarked for this clientele and the BFA's efforts to distribute it to them. During the 1981/82 crop year, the first year in which there would have been specific Phase III lending, the BFA made 271 loans to this client group totalling the equivalent \$183,600 which financed production on 821 hectares. The following year, 1982/83, lending to this group was expanded to include 2,981 loans totalling \$2,901,600 and financing the cultivation of 11,314 hectares. By September 1983, BFA lending to the client group for the current crop year reached a total of 7,840 loans. The value of those loans totaled the equivalent of \$5,721,200 and financed production on 18,899 hectares. Table 15 below summarizes BFA lending to the Phase III client group during the 1981/82, 1982/83, and 1983/84 crop years by number of loans, amount lent, and area planted.

Table 29

BFA LENDING TO PHASE III BENEFICIARIES 1981/82
THROUGH 1983/84 (SEPT.)

<u>Number of</u> <u>Crop Year</u>	<u>Number of</u> <u>Loans</u>	<u>Amount</u> <u>(\$000)</u>	<u>Financed</u> <u>(Hectares)</u>
1981/82	274	183.6	821
1982/83	2,981	2901.6	11,314
1883/84 (Sept. 83)	7,841	5721.2	18,899

Source: BFA as reported in Tercera Evaluaci3n del Proceso de la Reforma Agraria, PERA, October 1983

VII. Implementation Arrangements

A. Administrative Arrangements

The GOES signatories to the amended loan and grant agreement will be the Presidents of the BCR and BFA and the Ministers of Planning and Agriculture. The loan scheduled to capitalize the integral line of credit, to purchase vehicles, and to finance foreign exchange requirements for training will be allocated to the BFA. The BCR will administer counterpart funds for refinancing and for the Credit Agent Program under trust fund agreements. Grant funds will be managed directly by USAID. The BFA's General Manager has and will continue to exercise primary project management responsibilities for the the Integral Credit Line.

USAID's Rural Development Office will have primary responsibility for the overall supervision of the project's implementation in a manner consistent with the goals and purposes described in this document. As project implementation requirements necessitate, the Rural Development Office will utilize the services and support of USAID's Projects Program, Management and Controller's Offices to insure that the project resources and services descibed herein are provided in an adequate and timely manner.

As a part of its overall project management responsibilites, USAID will conduct quarterly, or more frequently if conditions necessitate, project review meetings in conjunction with the BFA executive and project management staffs and representatives of the technical assistance contractor, STC. As part of its preparation for these meetings, the BFA will prepare and submit to USAID a financial statement detailing credit disbursements and drawdowns on the Integral Credit Line. Concurrent with the submission of the BFA's financial statement, STC's chief of party will submit a report describing the progress made and

problems encountered by the advisory team contracted under the terms of the technical assistance contract's scope of work. A consolidated quarterly report describing the progress of both the BFA and the STC advisory team in the attainment of project goals, factors constraining progress encountered, and problems pending or anticipated will be presented to USAID's Rural Development Office. Also, AID will participate in the quarterly meetings, held between the BFA and ISTA for Phase I; and between the BFA, FINATA and CENTA for Phase III.

B. Implementation Plan

The implementation schedule below lists the various activities that will be completed as part of the project's continuing implementation and the dates of their expected completion, with the exception of technical assistance which lists begin dates.

<u>Implementation Schedules</u>		<u>Target Date</u>	
1.	Project Authorization Amendment	April 3, 1984	
2.	Project Agreement Amendment Signed	April 9, 1984	
3.	30 day covenants met	May 9, 1984	
4.	Vehicles ordered	May 9, 1984	
5.	45 day covenants met	May 23, 1984	
6.	60 day covenants met	June 9, 1984	
7.	CPs to disbursement met	June 9, 1984	
8.	Project Completion Report on Credit Element	May 30, 1984	
9.	180 day covenants met	Oct. 9, 1984	
10.	Procurement of Advisory Services under Technical Assistance Contract		
		<u>Begin Date</u>	<u>End Date</u>
	Financial Specialist (12.0 PM)	4/1/84	3/31/85
	Credit Services Advisor (12.0 PM)	4/1/84	3/31/85
	Accounting Advisor (12.0 PM)	4/1/84	3/31/85
	Credit Advisor (collections) (7.0 PM)	10/1/84	3/31/85
	Electronic data Processing Advisor (1.5 PM)	2/11/85	3/31/85
	Farm Credit Advisor (12.0 PM)	6/1/84	5/30/85
	Planning Advisor (12.0 PM)	6/1/84	5/30/85
	Other TA (1.5 PM)		
	Total (70.0 PM)		

9. Quarterly Reports Presented
- No. 1 July 30, 1984
 - No. 2 Oct. 30, 1984
 - No. 3 Jan. 30, 1985
 - No. 4 April 30, 1985
10. Project Activity Completion Date Dec. 31, 1985

C. Procurement Plan

To acquire 120 new jeeps for BFA field activities, Handbook No. 11, Chapter 3, Section 2.2.5 Proprietary Procurement and Section 2.2.6 Waiver - Negotiation with a single source will be followed. In accordance with guidelines set at in Section 2.2.5, the GOES, including the BFA, standardized its vehicle fleet with AMC vehicles. Further, in accordance with Section 2.2.6 AMC headquarters is the single source of supply for export transactions. The waiver, as outlined above, is included in the draft Project Authorization Amendment.

The Project's technical assistance as described in Chapter III B of this paper ("Description of Supplemental Assistance - Grant Funds") will be procured through an amendment extending and incrementally funding USAID's current contract with Servicios Tecnicos del Caribe, STC. The continued use of this contractor in the project's implementation is justified by ongoing USAID review of contract compliance and the documentation of satisfactory performance. The Regional Contracting Officer, who currently has the authority to negotiate contracts up to \$5 million will review, negotiate and execute the amended contract in consultation with USAID.

The following table presents Methods of Implementation and Financing as required by the AA/M December 30, 1983 memorandum on payment verification policy implementation guidance for A.I.D. project funding:

Method of Implementation and Financing

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Approx. Amt. (US\$000)</u>
1. BFA Credit (L)	HC Reimb.	19,900
2. Vehicles and Equip.(L) (HC Contracting per HB 11)	Direct L/Comm.*	1,800
3. TA (G) (Direct AID contract)	Direct pay *	600
4. Training (L) (PIO/Ps)	Direct pay *	200
Total A.I.D. Loan and Grant Funding		<u>22,500</u>

* Justification for using these methods of financing instead of HC reimbursement is that El Salvador lacks access to foreign exchange to apply HC reimbursement to these foreign exchange items.

D. Disbursement Schedule

As detailed in Chapter V, AID will disburse \$19.9 million under this project supplement to capitalize an integral line of credit which will finance the production credit and investment requirements of agrarian reform beneficiaries and other small farmers. The project disbursement plan projects disbursement of the \$19.9 million scheduled to finance the integral line of credit from January 1, 1984 to March 31, 1985. All disbursements will be made in the form of reimbursements for BFA loan disbursements made from January 1, 1984 through March 31, 1985. BFA loan disbursements made prior to the Authorization Amendment (from January 1, 1984), will be eligible for reimbursement. The greatest demand for BFA production credit occurs in the months of March through September, 1984 and it is expected that the largest reimbursements will be made for those months.

Technical assistance resources, along with GOES funds allocated for BFA operational support, will be disbursed in their entirety prior to the amended Project Activity Completion date of December 31, 1985.

Project funding allocated for the procurement of vehicles will be disbursed in its entirety on/or about June 30, 1984.

The following briefly summarizes scheduled disbursements under the amended project:

1. \$19.9 million for the Integral Credit Line by March 31, 1985;
2. \$1.8 million for the purchase of 120 jeeps and spare parts by June 30, 1984;
3. \$200,000 to finance the foreign exchange of the training program by April 30, 1984;
4. \$600,000 for technical assistance by June 30, 1985.

VIII. Evaluation Arrangements

Project Paper Supplement No. 3 to this project scheduled an evaluation of project supported activities to be conducted November 1983.

The USAID's project design and implementation schedule precluded the initiation of a specific evaluation for the Agrarian Reform Credit Project in its most recent evaluation cycle. That evaluation was rescheduled for August 1984. The recommended issues to be addressed in the previous set of evaluation arrangements are still valid and current. To review and summarize, the evaluation will analyze and report on the following project related issues:

The proportion of potential clients receiving credit number the Integral Line of Credit; the rate at which loan applications are received, processed and approved; the end uses of credit extended to agrarian reform

beneficiaries; the ability of the BFA to supervise its agrarian reform portfolio through the adequate staffing of its field operation; the rate at which loans are being repaid; the rate at which farm financial plans are being prepared and submitted to the BFA and other financial institutions as support for loan applications, the degree to which cooperatives are participating in the preparation of financial plans, the technical adequacy of the plans, and the degree to which the banking system as a whole is utilizing the financial plans in meeting the production and investment credit needs of the reform sector.

The Agrarian Reform Credit Project evaluation will draw upon and incorporate its report, where appropriate, the observations and findings of the policy studies and documents describing the constraints to providing credit to the agrarian reform sector as discussed in Section B.3 of this paper; the agrarian credit delivery assessment, the results of the census of the Phase I cooperatives, the two agrarian reform beneficiary profiles, and the agrarian debt policy analysis.

Table 30 below provides a schedule for the Agrarian Reform Credit project evaluation and other credit related analytical activities.

TABLE 30

AGRARIAN REFORM CREDIT EVALUATION AND ANALYSIS SCHEDULE

Activity	Implementory Agency	Commencement Date
Agrarian Reform Credit		
Delivery Assessment	PERA	March 1984
Phase I Census	FESACORA	December 1983
Report on National Financial System Lending to the Agrarian Reform Sector during 1984-85		
Crop Year	PERA	March 1984.
Phase I Beneficiary Profile	PERA	April 1984
Phase III Beneficiary Profile	PERA	April 1984
Agrarian Debt Policy Analysis	To be contracted	May 1984
Agrarian Reform Credit Project Evaluation	To be contracted	August 1984

In addition the evaluation scheduled for August 1984 will include a detailed financial and institutional analysis of the BFA. The financial analysis will include a review of the IG audit completed in January 1984, the audit report completed by external auditors in February 1984, and quarterly information prepared by the BFA and STC as background. The analysis will further make recommendations regarding the financial viability of the BFA and need for future A.I.D. institutional strengthening activities as well as infusions of loan capital.

IX. Conditions, Covenants, and Negotiating Status

A. Negotiating Status

The wide range of constraints to the effective provision and use of credit for the agrarian reform sector was considered in planning this Project Supplement. For this reason, the project elements go beyond providing credit and technical assistance to the BFA, and encompasses refinancing, support to other financial institutions, and coordination among all institutions involved in the agrarian reform. USAID is now negotiating with the BCR and other financial institutions so that the improved consolidated refinancing line and the credit agent program may begin as soon as possible. The conditions and covenants recommended below will assure that the wide scope of the supplement be implemented.

B. Conditions Precedent and Covenants

Conditions Precedent to Disbursement

Prior to disbursement of the FY 1984 loan increment or the issuance by A.I.D. of documentation pursuant to which disbursement of the FY 84 loan increment will be made to finance credit activities, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

1. A description of the mechanism by which \$2.06 million for disbursement to Phase III beneficiaries will be made available to other financial institutions by the BFA.
2. New executed sub-agreements between BFA, FINATA, and CENTA regarding credit to be provided to Phase III beneficiaries.
3. The executed Trust Fund Agreement and training plan for the Credit Agent Program, to which, participating financial institutions are signatories as described in Annex I of the Amendatory Agreement.
4. Plans for monitoring provision of credit by the BFA to Phase I cooperatives, and Phase III beneficiaries including a monthly reporting system by credit agents.
5. The terms of the new consolidated line for refinancing, including a description of steps that the BCR will take to ensure that the BFA and other financial institutions present their refinancing applications to the BCR in an acceptable and timely manner.
6. Identification of an Agrarian Reform Policy Coordinating Committee for Phase I of the reform, which will consist of the Presidents of the BCR, the BFA, ISTA, the Minister of Agriculture, and other key GOES officials whose decision making affect the agrarian reform process. The committee will meet as needed to consider information and analysis provided from the technical level in order to formulate appropriate and timely policies regarding the agrarian reform.

Covenants

Unless A.I.D. otherwise agrees in writing:

1. The GOES agrees that within 60 days of the signing of this Amendatory Agreement it will cause the BFA to provide to USAID, in form and substance acceptable to USAID, a detailed, written evaluation of loan recuperation and collection procedures, including strategies for uniform application of such procedures to the entire portfolio.

2. The GOES agrees that within 90 days of the signing of this Amendatory Agreement it will cause the BFA to provide to A.I.D. the steps that the BFA has taken to establish all necessary ledgers to account and provide accurate reports for all A.I.D. funds and reflows from A.I.D. funds, separately from the accounting and reporting of other sources of funding. Such reports will be provided to USAID on a quarterly basis, to be certified annually by the BFA's external auditor.

3. The GOES agrees that, within 180 days of the signing of this Amendatory Agreement, it will enable and cause the BFA to develop and initiate implementation of policies for writing off bad debt and interest.

4. The GOES agrees that within 180 days of the signing of this Amendatory Agreement, it will cause the BFA to take whatever action is necessary to insure that postings are up to date (no more than two weeks delay in posting source documentation to official records) and that agencies' accounts have been completely reconciled to home office records.

5. The GOES agrees that to cause the BFA to present, in January of each year for the next 3 years and in form and substance acceptable to A.I.D., a disbursement plan by sector for all reflow funds resulting from the Loan.

6. The GOES agrees that \$8.24 million will be provided by the BFA to approximately 20,000 Phase III beneficiaries from all sources. Such disbursements to Phase III beneficiaries will be made between January 1, 1984 and March 31, 1985.

7. The GOES agrees that an additional \$2.06 million of new loan funding will be made available to BFA or other lending institutions for credit to be provided to approximately 5,000 additional Phase III beneficiaries for the 1984/85 crop year. Such disbursements to Phase III beneficiaries will be between January 1, 1984 and March 31, 1985. \$2.06 million will be available for disbursements by either the BFA or other financial institutions. Any loan amounts carried over from prior amendments will be limited to disbursement by the BFA

8. The GOES agrees that it will cause the BFA and ISTA to meet on a quarterly basis to monitor the provision of credit to Phase I cooperatives; and the BFA, FINATA and CENTA to meet on a quarterly basis to evaluate the provision of credit to be provided to Phase III beneficiaries and to make appropriate recommendations. A.I.D. will be invited to such quarterly meetings.

9. The GOES agrees that it will cause the BFA to assign vehicles purchased with A.I.D. loan funds, on a priority basis, first to field credit agents working specifically with agrarian reform clients and secondly to other credit agents or for other purposes.

10. The GOES agrees that it will cause the BCR to provide to USAID, quarterly reports regarding the utilization of the BCR/A.I.D. line for refinancing, and that the terms of that line will be renegotiated in January of each year for the next three years.

A-

Annex A
PROJECT DESIGN SUMMARY
Logical Framework
Agrarian Reform Credit Project No. 519-0265

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p><u>Program Goal:</u> To improve the socio-economic well being of all agrarian reform beneficiaries as well as the traditional small farm sector through increased agricultural production and employment.</p>	<p>-Increased incomes -Increased on-farm employment -Increased productivity on agrarian reform and traditional small farmer properties.</p>	<p>-Studies, reports and evaluations of BFA, ISTA, FINATA and MAG.</p>	<p>-Political stability and GOES commitment to continue providing supportive services. -Fair prices received by producers for export commodities and basic food stuff Equitable marketing mechanisms in place and functioning.</p>
<p><u>Project Purpose:</u> To increase the availability of credit to the agrarian reform and traditional small farm sectors and improve the capacity of the national financial system to deliver such credit.</p>	<p>END-OF-PROJECT-STATUS -BFA is providing timely credit to its clients and has a well managed agrarian reform credit portfolio. -Other financial institutions are providing timely credit and supportive services in adequate amounts to their Phase I coops.</p>	<p>BFA reports and USAID evaluations BCR evaluations of financial institutions.</p>	<p>Timely availability of GOES and AID funds</p>

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Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions																				
<u>RESULTS</u> a. Agrarian reform and traditional small scale production and investment credit requirements financed through the Integral Plan of Credit with new funds.	a. A total of 28,748 subloans contracted with project loan funds as follows: <table border="1" data-bbox="674 272 1213 478"> <thead> <tr> <th></th> <th>Amt.</th> <th>No.</th> <th>HA</th> </tr> </thead> <tbody> <tr> <td>1. Decree 207 Small</td> <td>9.7</td> <td>25,000</td> <td>42,279</td> </tr> <tr> <td>2. Producers</td> <td>1.0</td> <td>2,777</td> <td>4,694</td> </tr> <tr> <td>3. Phase I</td> <td>14.8 M</td> <td>971</td> <td>40,192</td> </tr> <tr> <td>Total</td> <td>\$25.5 M</td> <td>28,748</td> <td>87,165</td> </tr> </tbody> </table>		Amt.	No.	HA	1. Decree 207 Small	9.7	25,000	42,279	2. Producers	1.0	2,777	4,694	3. Phase I	14.8 M	971	40,192	Total	\$25.5 M	28,748	87,165	For all outputs, BCR/BFA/OTHER financial institution reports.	
	Amt.	No.	HA																				
1. Decree 207 Small	9.7	25,000	42,279																				
2. Producers	1.0	2,777	4,694																				
3. Phase I	14.8 M	971	40,192																				
Total	\$25.5 M	28,748	87,165																				
b. Refinancing line improved and expanded	b.1. \$42.5 M refinanced	PERA studies																					
c. IDB funds mobilized	b.2. financial institutions utilize refinancing c.1. loans contracted for 50% of the available \$25M																						
	AID records																						
d. Financial Institutions capacity to service agrarian reform sector improved.	d.1. 252 production projects proposals completed and approved. d.2. 252 investment projects proposals completed and approved.																						

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- e. BFA operations improved through:
- | | | |
|--|---|------------|
| 1) reorganization consolidated and | | (As above) |
| 2) financial indicators reach and | e.1+2) liquidity ratio above 4.0. | |
| | - quick ratio above 1.0 | |
| | - working capital above \$90.0million | |
| | - loan recuperation above 80%. | (As above) |
| 3) strengthening of field operations | e.3) -new field personnel hired. | |
| 4) expansion of BFA internal training program | e.4) - new training plan finalized. | |
| | - 50% in no. of BFA personnel trained. | |
| 5) Coordination of BFA with other agrarian reform institutions improved. | e.5) - quarterly meetings held among BFA/FINATA/ISTA/NAG. | |
| | - Formal sub agreements made: BFA/ISTA; BFA/FINATA | |
| 6) Improved Financial records management and reporting capability. | e.6). - new computer installed and operating. | |
| | - timely and accurate reports on BFA | |
- f. Extension of IPM field testing. f.1)- from 7,000 to 11,000mz.

In \$ Millions

<u>Inputs</u>	<u>SUPPLEMENT</u>	<u>LOP</u>
AID		
BFA Credit (DL)	19,900	69,900
Vehicles and Equipment (DL)	1,800	3,100
IPM (DL)	-	.200
Training (DL)	.200	.200
Technical Assistance (DG)	.600	2,225
Contingency	-	-
Total	\$22.5 M	\$75.625 M

<u>GOFS</u>		
BFA Credit		\$16.700
BCR Investment Credit		3.900
Operational Support	.800	3.300
IPM	.200	.600
Refinancing	12,000	12,000
Training	200	200
	\$13,200 M	\$36.500 M

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5C(2) PROJECT CHECKLIST

ANNEX B

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: A.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESP.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;
 (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

CN to be prepared.

2. FAA Sec. 611(h)(1). Prior to obligation in excess of \$100,00, will there be

- (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? (a) Yes (b) Yes
3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? N/A
4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.) N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? Yes

- 6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No

- 7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. The Project will increase the flow of international trade, foster private initiative, encourage development and use of agricultural cooperatives and improve the technical efficiency of agriculture and commerce.

- 8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). The Project will directly benefit U.S. private trade through the procurement of equipment manufactured in the U.S. and indirectly through inputs some of which will be of U.S. source and origin

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ANNEX B

Page 4 of 15

9. FAA Sec. 612(b), 636(h);
FY 1982 Appropriation
Act Sec. 507. Describe
steps taken to assure
that, to the maximum
extent possible, the
country is contributing
local currencies to meet
the cost of contractual
and other services, and
foreign currencies owned
by the U.S. are utilized
in lieu of dollars. The GOES is providing counter-
part contributions to the
project in local currency.
U.S. owned foreign currency
will be used for goods and
services supplied locally.
10. FAA Sec. 612(d). Does
the U.S. own excess
foreign currency of the
country and, if so, what
arrangements have been
made for its release? No
11. FAA Sec. 601(e). Will
the project utilize
competitive selection
procedures for the
awarding of contracts,
except where applicable
procurement rules allow
otherwise? Yes
12. FY 1982 Appropriation Act
Sec. 521. If assistance
is for the production of
any commodity for export,
is the commodity likely
to be in surplus on world
markets at the time the
resulting productive
capacity becomes
operative, and is such
assistance likely to
cause substantial injury
to U.S. producers of the
same, similar or
competing commodity? No
13. FAA 118(c) and (d).
Does the project comply
with the environmental
procedures set forth in
AID Regulation 16? Does Yes

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sabel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A

B. FUNDING CRITERIA FOR PROJEC

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 1113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance to assist rural and urban poor to help themselves toward better life, and

This project is designed to benefit the rural poor by providing them with the credit necessary to invest in and improve their agricultural lands.

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? Yes

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Yes

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e. FAA Sec. 110(b).
Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

No

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

This Project responds directly to the needs, desires and capacities of the small farmer to improve her standard of living by increasing the productive capacity of his land through the effective and efficient use of credit. Additionally, this Project provides substantial

institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

technical assistance support to the major agricultural credit institution to improve its operations.

2. Development Assistance Project
CRITERIA (LOANS ONLY)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

El Salvador has the financial capacity to repay the loan. The terms of the AID loan are reasonable and legal under the laws of the U.S. and host country.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A

c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?

N/A

3. Economic Support Fund
Project Criteria

N/A

a. FAA Sec. 531(a). Will this assistance promote economic or political

stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No
- c. FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? No
- d. FAA Sec. 509. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

- | | |
|--|--|
| <p>1. <u>FAA Sec. 602.</u> Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?</p> | <p>Yes. Standard procurement regulations, procedures and good commercial practices will be followed under the Project.</p> |
| <p>2. <u>FAA Sec. 604(a).</u> Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?</p> | <p>Yes</p> |
| <p>3. <u>FAA Sec. 604(d).</u> If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?</p> | <p>Yes</p> |
| <p>4. <u>FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a).</u> If offshore procurement of agricultural commodity or product is to be</p> | <p>N/A</p> |

financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(a). Will construction of engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas? No
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? No
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Yes

Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. FAA Competitive Practices Act, 1974. If air transportation of persons or property is financed or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes
9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? N/A
2. FAA Sec. 611(e). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Yes

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

4. Will arrangements preclude use of financing:

- a. FAA Sec. 104(f): FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family Yes

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planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 620(g): To compensate owners for expropriated nationalized property? Yes

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

d. FAA Sec. 662. For CIA activities? Yes

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

f. FY 1982 Appropriation Act, Sec. 502. To pay pensions, annuities, retirement pay, or Yes

adjusted service
compensation for military
personnel?

g. FY 1982 Appropriation
Act, Sec. 505. To pay
U.N. assessments,
arrearages or dues? Yes

h. FY 1982 Appropriation
Act, Sec. 506. To carry
out provisions of FAA
section 209(d) (Transfer
of FAA funds to
multilateral
organizations for
lending)? Yes

i. FY 1982 Appropriation
Act, Sec. 510. To
finance the export of
nuclear equipment, fuel,
or technology or to train
foreign nationals in
nuclear fields? Yes

j. FY 1982 Appropriation
Act, Sec. 511. Will
assistance be provided
for the purpose of aiding
the efforts of the
government of such
country to repress the
legitimate rights of the
population of such
country contrary to the
Universal Declaration of
Human Rights? No

k. FY 1982 Appropriation
Act, Sec. 515. To be
used for publicity or
propaganda purposes
within U.S. not
authorized by Congress? Yes



MINISTERIO DE PLANIFICACION
Y COORDINACION DEL DESARROLLO
ECONOMICO Y SOCIAL
SEIEFE-147/84

C-1

San Salvador, 8 de Marzo de 1984.

ASUNTO: Solicitud de préstamo 21.9 millones de dólares y 600 mil dólares en donación.

Señor
MARTIN V. DAGATA
Director de la Agencia para el
Desarrollo Internacional - AID -
San Salvador,

Estimado señor Dagata:

Como es de su estimable conocimiento, a partir del mes de noviembre del año próximo pasado, el Banco de Fomento Agropecuario y el Banco Central de Reserva de El Salvador, han estado trabajando en la determinación de necesidades crediticias para mantener la producción agropecuaria de nuestro país, especialmente los requerimientos para el Sector Reformado, así como del Sector Tradicional Agropecuario.

Como resultado del trabajo realizado, se ha llegado a estimar para 1984 una necesidad adicional de US\$35,700.00 a los recursos ya proporcionados por el Proyecto "Crédito para la Reforma Agraria" - No.519-0263. Por lo que solicitamos que sea considerado por ustedes una ampliación al proyecto de préstamo y donación mencionado, el cual de ser aprobado será manejado por el BFA y se utilizaría de la siguiente manera:

	(En miles de US\$ Dólares)		
	A.I.D.		GOES
	<u>Préstamo</u>	<u>Donación</u>	<u>Contraparte</u>
1) Línea Integral de Crédito BFA	19,900.0	---	---
2) Asistencia Técnica del BFA	----	600.00	---
3) Capacitación BFA	200.0	---	200.0
4) Vehículos y Equipo para el BFA	1,800.0	---	---
5) Refinanciamiento (BCR)	----	---	12,000.0
6) Programa de Agentes de Crédito (BCR)	----	---	800.0
7) Control Integrado de Plagas (CENTA)	----	---	200.0
T O T A L	21,900.0	600.00	13,200.0

.....2

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El Gobierno de El Salvador, por su parte, tal como se muestra en el cuadro anterior, se compromete a proporcionar un aporte como contra partida, por la cantidad de US\$13.2 millones de dólares en su equivalente en colones, cuya fuente de financiamiento será la generación de moneda local a través del convenio PL-480.

Esperando contar con su valioso apoyo y cooperación, me es grato reiterarle las muestras de mi distinguida consideración y aprecio.



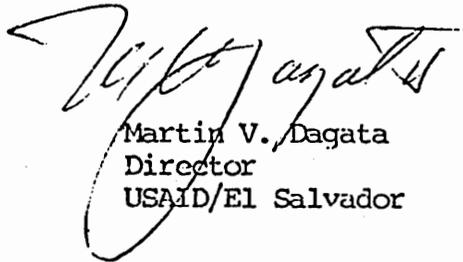
GLADYS TORRES PAZ DE ABARCA
VICEMINISTRO

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ANNEX D

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE FOREIGN ASSISTANCE
ACT OF 1961, AS AMENDED

I, Martin V. Dagata, as Director of the Agency for International Development Mission to El Salvador, having taken into account, among other things, the maintenance and utilization of projects previously financed by U.S.A.I.D./El Salvador, do hereby certify that in my judgement The Government of el Salvador and the implementing agency have the financial capacity and human resources capability to effectively utilize and maintain the proposed third supplement of the Agrarian Reform Credit Loan and Grant.


Martin V. Dagata
Director
USAID/El Salvador

March 13, 1984
Date

ANNEX E

DRAFT

PROJECT AUTHORIZATION
(Amendment No. 4)

Name of Country: El Salvador
Name of Project: Agrarian Reform Credit
Number of Project: 519-0263
Number of Loan: 519-T-028

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Agrarian Reform Credit Project for El Salvador ("The Project") was authorized on June 20, 1980, and amended on June 11, 1981, December 30, 1981, and May 12, 1983 (hereinafter, as so amended "Authorization").

A. Project Purpose

Section 2 of the Authorization is hereby deleted in its entirety and the following new Section 2 is substituted therefor:

"2. The Project ("Project") will increase the availability of agricultural credit to the agrarian reform and traditional small farm sectors and improve the capacity of the national financial system to delivery such credit".

B. Loan and Grant Increase

The amount of the loan funds authorized for the Project is hereby increased by \$21,900,000 (the "FY 1984 Loan Increment"), increasing the aggregate amount of the loan to \$73,400,000; and the amount of grant funds authorized for the Project is hereby increased by \$600,000, increasing the aggregate amount of the grant to \$2,225,000. Upon compliance with the Conditions Precedent to Disbursement by the Cooperating Country, A.I.D. may disburse Loan Funds to reimburse the BFA for eligible credit extended through the Integral Line, on January 1, 1984 and after, provided that evidence of such credit is furnished to A.I.D. in form and substance satisfactory to A.I.D.

C. Repayment Terms

The Government of El Salvador (the "Cooperating Country") shall repay the FY 1983 Loan Increment to A.I.D. in U.S. dollars within forty (40) years from the date of first disbursement of the FY 1984 Loan Increment, including a grace period of not to exceed ten (10) years. The Cooperating

Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the FY 1984 Loan Increment at the rate of (i) two percent (2%) per annum during the first ten (10) years and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the FY 1984 Loan Increment and on any due and unpaid interest accrued thereon.

D. Conditions Precedent to Disbursement

Prior to disbursement of the FY 1984 loan increment or the issuance by A.I.D. of documentation pursuant to which disbursement of the FY 84 loan increment will be made to finance credit activities, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

1. A description of the mechanism by which \$2.06 million for disbursement to Phase III beneficiaries will be made available to other financial institutions by the BFA.
2. New executed sub-agreements between BFA, FINATA, and CENTA regarding credit to be provided to Phase III beneficiaries.
3. The executed Trust Fund Agreement and training plan for the Credit Agent Program, to which, participating financial institutions are signatories as described in Annex I of the Amendatory Agreement.
4. Plans for monitoring provision of credit by the BFA to Phase I cooperatives, and Phase III beneficiaries including a monthly reporting system by credit agents.
5. The terms of the new consolidated line for refinancing, including a description of steps that the BCR will take to ensure that the BFA and other financial institutions present their refinancing applications to the BCR in an acceptable and timely manner.
6. Identification of an Agrarian Reform Policy Coordinating Committee for Phase I of the reform, which will consist of the Presidents of the BCR, the BFA, ISTA, the Minister of Agriculture, and other key GOES officials whose decision making affect the agrarian reform process. The committee will meet as needed to consider information and analysis provided from the technical level in order to formulate appropriate and timely policies regarding the agrarian reform.

E. Covenants

Unless A.I.D. otherwise agrees in writing:

1. The GOES agrees that within 60 days of the signing of this Amendatory Agreement it will cause the BFA to provide to USAID, in form

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and substance acceptable to USAID, a detailed, written evaluation of loan recuperation and collection procedures, including strategies for uniform application of such procedures to the entire BFA portfolio.

2. The GOES agrees that within 90 days of the signing of this Amendatory Agreement it will cause the BFA to provide to A.I.D. the steps that the BFA has taken to establish all necessary ledgers to account and provide accurate reports for all A.I.D. funds and reflows from A.I.D. funds, separately from the accounting and reporting of other sources of funding. Such reports will be provided to USAID on a quarterly basis, to be certified annually by the BFA's external auditor.

3. The GOES agrees that, within 180 days of the signing of this Amendatory Agreement, it will enable and cause the BFA to develop and initiate implementation of policies for writing off bad debt and interest.

4. The GOES agrees that within 180 days of the signing of this Amendatory Agreement, it will cause the BFA to take whatever action is necessary to insure that postings are up to date (no more than two weeks delay in posting source documentation to official records) and that agencies' accounts have been completely reconciled to home office records.

5. The GOES agrees that to cause the BFA to present, in January of each year for the next 3 years and in form and substance acceptable to A.I.D., a disbursement plan by sector for all reflow funds resulting from the Loan.

6. The GOES agrees that \$8.24 million, including amounts carried over from Amendatory Agreement No. 3, will be provided by the BFA to approximately 20,000 Phase III beneficiaries from all sources. Such disbursements to Phase III beneficiaries will be made between January 1, 1984 and March 31, 1985.

7. The GOES agrees that an additional \$2.06 million of new loan funding provided under this Amendatory Agreement will be made available by the BFA to other lending institutions for credit to be provided to approximately 5,000 additional Phase III beneficiaries for the 1984/85 crop year. Such disbursements to Phase III beneficiaries will be between January 1, 1984 and March 31, 1985. Loan amounts carried over from Amendatory Agreement No. 3 will be limited to disbursement by the BFA

8. The GOES agrees that it will cause the BCR, the BFA and ISTA to meet on a quarterly basis to monitor the provision of credit to Phase I cooperatives; and the BFA, FINATA and CENTA to meet on a quarterly basis to evaluate the provision of credit to be provided to Phase III beneficiaries and to make appropriate recommendations. A.I.D. and mixed banks will be invited to such quarterly meetings.

9. The GOES agrees that it will cause the BFA to assign vehicles purchased with A.I.D. loan funds, provided under this Amendatory Agreement, on a priority basis, first to field credit agents working specifically with agrarian reform clients and secondly to other credit agents or for other purposes.

10. The GOES agrees that it will cause the BCR to provide to USAID, quarterly reports regarding the utilization of the BCR/A.I.D. line for refinancing, and that the terms of that line will be renegotiated in January of each year for the next three years.

2. Except as expressly amended or modified hereby, the Authorization remain in full force and effect.

F. Waivers

Competition in the procurement of goods is hereby waived and a single-source negotiated contract with AMC International Headquarters is hereby authorized in order to permit the procurement of approximately 120 AMC CJ-7 Jeeps, and spare parts with a value of approximately \$1,800,000.

Financial Plan and Analysis Annex

1. Prior Amendment Financial Plans F-1
2. Justification for Jeeps F-5
3. Externally Audited BFA Financial Stments F-8
4. External Auditor's Letter on Internal con.F-14

Summary Cost Estimate and Financial Plan

(US \$ 000)

Original Authorization

S O U R C E	A I D		H O S T C O U N T R Y		T O T A L
	FX	LC	FX	LC	
USE					
<u>Development Loan Funds</u>					
Credit					
- Special Line of Credit		9,500		3,500	13,000
- Integral Line of Credit					
- Investment Line of Credit					
Vehicle and Equipment					
Integrated Pest Management					
BFA Operational Support					
Contingency					
Sub-Total Loan		9,500		3,500	
<u>Development Grant Funds</u>					
Technical Assistance	380	120			500
Sub-Total Grant	380	120			
T O T A L	380	9,620		3,500	13,500

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Summary Cost Estimate and Financial Plan

... (US \$,000)
First Amendment

SOURCE	AID		HOST COUNTRY		TOTAL
	FX	LC	FX	LC	
USE					
<u>Development Loan Funds</u>					
Credit					
- Special Line of Credit		1,600		400	2,000
- Integral Line of Credit					
- Investment Line of Credit					
Vehicle and Equipment					
Integrated Pest Management					
BFA Operational Support					
Contingency					
Sub-Total Loan		1,600		400	
<u>Development Grant Funds</u>					
Technical Assistance					
Sub-Total Grant					
T O T A L		1,600		400	2,000

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Summary Cost Estimate and Financial Plan

(US \$,000)
Second Amendment

SOURCE	AID		HOST COUNTRY		TOTAL
	FX	LC	FX	LC	
USE					
<u>Development Loan Funds</u>					
Credit					
- Special Line of Credit					
- Integral Line of Credit		16,200			16,200
- Investment Line of Credit				3,900	3,900
Vehicle and Equipment	530				530
Integrated Pest Management	200				200
BFA Operational Support				2,500	2,500
Contingency	35	35			70
Sub-Total Loan	765	16,235		6,400	
<u>Development Grant Funds</u>					
Technical Assistance	595	30			625
Sub-Total Grant	595	30			
T O T A L	1,360	16,265	-0-	6,400	24,025

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Summary Cost Estimate and Financial Plan

____ (US \$,000)

Third Amendment

SOURCE	AID		HOST COUNTRY		TOTAL
	FX	LC	FX	LC	
USE					
<u>Development Loan Funds</u>					
Credit					
- Special Line of Credit					
- Integral Line of Credit		22,700		12,800	35,500
- Investment Line of Credit					
Vehicle and Equipment	500	200			700
Integrated Pest Management				200	200
BFA Operational Support					
Contingency					
Sub-Total Loan	500	22,900		13,000	
<u>Development Grant Funds</u>					
Technical Assistance	500				500
Sub-Total Grant	500				
T O T A L	1,000	22,900		13,000	36,900

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JUSTIFICATION TO BUY VEHICLES FOR B.F.A.
Prepared by B.F.A./S.T.C.

Present Situation

B.F.A. has a fleet of 429 vehicles of which 369, or 86% are jeeps and motorcycles mainly assigned to the 26 bank's agencies that the B.F.A. operates throughout the national territory. Of the 429 vehicles, 271 or 63% have been in use for 5 years or more and only 101 or 24% are in good working condition. A breakdown of number of vehicles and condition is given in Tables I and II.

TABLE I

NUMBER AND YEARS OF USE OF B.F.A. VEHICLES

T Y P E	Number of Years in Use			TOTAL
	Less Than 2	2-4	5 and more	
Jeeps..	42	4	210	256
Motorcycles	60	10	43	113
Microbuses	—	2	—	2
Automobiles	—	5	16	21
Trucks	—	2	—	2
Armored Vehicles	—	3	1	4
TOTAL	102	56	271	429

TABLE II

PRESENT CONDITION OF B.F.A. VEHICLES

Condition	Number	Percentage
Good	101	24
Regular	254	59
Bad	74	17
TOTAL	429	100

Except for 40 vehicles (jeeps and motorcycles) purchased with funds provided in Amendment No. 2, the B.F.A. has been unable to maintain a sound replacement program in recent years mainly due to lack of financial resources.

The situation is even more critical,, because agrarian reform field personnel are rapidly increasing.

The number of Decree 207 beneficiaries will increase twofold during 1984-85. This increase of about 12,000 additional beneficiaries estimated to receive credit will bring the total to 25,000 to receive credit from B.F.A. in the 1984-85 cycle. In the case of Phase I cooperatives, the number to receive credit during 1984-85 from B.F.A. is estimated to increase from about 100 presently receiving credit to 150. These cooperatives need intensive supervision and not more than 3 cooperatives should be assigned to one credit agent on the average.

In addition to the increase in clientele, the reorganization of B.F.A. undertaken last year, has substantially increased supervision of bank agencies originating in the central offices. A large number of staff people are now required to spend good part of their time visiting field agencies. Areas of priority are: improving loan recuperation through the recently created Department of Portfolio Contro, and closer supervision of accounting procedures, in order to eliminate discrepancies between information manually produced by the agencies and that produced by the Computer Center.

Vehicles to Be Purchased

A total of 246 vehicles will be purchased with loan funds for \$1,900,000, while \$300,000 will be used to acquire spare parts for a total of \$2.2 million. Of the 246 vehicles to be acquired, 75 are replacements and 171 will be additional of which the great majority - 165 - are jeeps, and motorcycles. The great majority of these vehicles will be assigned to the field agencies and to personnel from the central office assigned to field supervisory work.

Table III shows a breakdown of the vehicles by type:

TABLE III

NUMBER AND TYPE OF VEHICLES TO BE PURCHASED

<u>T Y P E</u>	<u>Replacement</u>	<u>Addition</u>	<u>TOTAL</u>
Jeeps	53	97	150
Motorcycles	7	68	75
Microbuses	--	6	6
Automobiles	12	--	12
Armored vehicles to transport money	3	--	3
<u>TOTAL</u>	<u>75</u>	<u>171</u>	<u>246</u>

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Table IV shows a breakdown of the estimated cost by number and type of vehicle.

TABLE IV

ESTIMATED COST OF VEHICLES TO BE PURCHASED

<u>T Y P E</u>	<u>Number</u>	<u>Price per Unit (US \$000)</u>	<u>Total Price (US \$ 000)</u>
Jeeps *	150	10,500	1,575,000
Motorcycles	75	1,200	90,000
Microbuses	6	10,641	64,000
Automobiles	12	8,000	96,000
Armored vehicles to transport money	3	25,000	62,000
<u>TOTALS</u>	<u>246</u>	<u>-0-</u>	<u>1,900,000</u>
Spare Parts			300,000
<u>GRAND TOTAL,</u>			<u>2,200,000</u>

* USAID Note: A.I.D. will finance 120 jeeps for the 120 agrarian credit agents. Costs per jeep is estimated at \$12,000 plus \$3,000 spare parts or \$15,000 per jeep. $\$15,000 \times 120 = \1.8 million as budgeted.



CONSULTORES-AUDITORES

RIVERA MERENDEZ & Co.

APARTADO POSTAL 562
SAN SALVADOR, EL SALVADOR, C. A.

Señores.
Asamblea de Gobernadores del
Banco de Fomento Agropecuario
Presente.

Hemos examinado el Balance de Situación del BANCO DE FOMENTO AGROPECUARIO al 31 de diciembre de 1983 y los estados conexos de resultados del patrimonio institucional y de Cambios en la Posición Financiera por el año terminado en esa fecha. Nuestro examen se efectuó de acuerdo con normas de Auditoría generalmente aceptadas y por lo consiguiente incluyó las pruebas selectivas de los registros de contabilidad y aquellos procedimientos adicionales que consideramos apropiados según las circunstancias. Las cifras correspondientes a 1982 fueron examinadas por nosotros y emitimos en marzo de 1983 el dictamen sobre los mismos.

Tal como se menciona en la nota 12 a los Estados Financieros el Banco mantiene registrados valores por \$21.844.749 de saldos incobrables a cargo - de empresas en bancarrota cuyos bienes remanentes fueron ya expropiados - por el Estado. Dichos saldos carecen de garantía y su recuperación es casi imposible, sin embargo no se han creado las reservas de valuación que contrarresten dichas pérdidas al 31 de diciembre de 1983.

Como se explica en la nota 21, el Banco ha capitalizado los montos de apoyo institucional para el financiamiento de gastos de operación de uno de los programas de reforma a cargo del Banco. Estos aportes debieron manejarse como fondos en custodia con fines específicos y no capitalizarlos incrementando temporalmente el patrimonio del Banco.

En nuestra opinión, excepto por lo mencionado en los párrafos segundo y tercero, los Estados Financieros que se acompañan presentan razonablemente la posición financiera del BANCO DE FOMENTO AGROPECUARIO al 31 de diciembre de 1983 y los resultados de sus operaciones y cambios habidos en el patrimonio institucional y en su posición financiera por el año terminado en esa fecha de conformidad con principios de contabilidad generalmente aceptados aplicados en forma consistente. Los datos suplementarios incluidos en los anexos 1 - 4 fueron sometidos a los mismos procedimientos de auditoría y, en nuestra opinión, tomados en conjunto con los Estados Financieros Básicos presentan razonablemente la información en ellos contenida.

Rivera Merendez & Co.

San Salvador, 24 de Febrero de 1984.

BANCO DE FOMENTO AGROPECUARIOBalance de SituaciónPasivo y Patrimonio Institucional31 de Diciembre de 1983 y 1982

	<u>1 9 8 3</u>	<u>1 9 8 2</u>
<u>Depósitos (nota 3)</u>		
Depósitos a la Vista	¢ 10.676.409	9.483.667
Depósitos a Plazo	,5.947.500	5.913.050
Depósitos en Moneda Extranjera	<u>565.073</u>	<u>181.666</u>
Depósitos a la Vista y a Plazo	17.183.982	15.578.383
Depósitos de Ahorro	<u>8.032.221</u>	<u>18.280.666</u>
Total Depósitos	<u>25.221.203</u>	<u>33.859.049</u>
<u>Bonos Financieros de Garantía Especial (nota 15)</u>	6.100.400	6.100.400
<u>Préstamos y Descuentos del Banco Central de</u>		
<u>Reserva (nota 16)</u>		
Fondos Propios del B.C.R.	63.000.000	97.573.747
Fondo de Desarrollo Económico	9.044.785	13.025.754
Préstamos con Recursos del Exterior	<u>7.899.521</u>	<u>9.162.634</u>
Total Banco Central de Reserva	<u>79.944.306</u>	<u>119.762.135</u>
<u>Préstamos de Instituciones Financieras del Exterior</u>		
<u>incluyendo intereses y comisiones por pagar de</u>		
<u>¢236.695 (¢352.908 en 1982) (nota 16 y 17)</u>	<u>73.700.024</u>	<u>67.439.017</u>
<u>Préstamos de Instituciones Financieras del País</u>	<u>8.000.000</u>	<u>-.-</u>
<u>Otros Pasivos</u>		
Adeudos derivados del convenio P.L. 480 (nota 19)	14.731.732	29.747.944
Fondos ajenos en custodia	13.638.314	10.615.303
Otras cuentas por pagar y acumulaciones	<u>6.721.909</u>	<u>6.926.389</u>
Total Otros Pasivos	<u>35.091.955</u>	<u>47.289.636</u>
<u>Patrimonio Institucional (nota 1 y 18)</u>		
Fondo de Desarrollo Económico	219,427.392	142.066.393
Fondo de Capital para Operaciones Bancarias		
Comerciales	<u>106.305.587</u>	<u>92.242.929</u>
Total Montos de Capital	325.732.979	234.309.327
Excedentes por aplicar (nota 18)	3.275.820	2.164.812
Reservas de previsión	<u>2.655.502</u>	<u>1.669.824</u>
Total del Patrimonio Institucional	<u>331.664.301</u>	<u>238.143.963</u>
	<u>¢559.722.189</u>	<u>512.594.209</u>

BANCO DE FOMENTO AGROPECUARIOBalance de SituaciónActivo31 de Diciembre de 1983 y 1982.

	<u>1 9 8 3</u>	<u>1 9 8 2</u>
<u>Disponibilidades, incluyendo encaje legal (nota 3 y 19)</u>	£ 47.668.847	68.860.120
<u>Inversiones Financieras:</u>		
<u>Cartera global de créditos:</u>		
Préstamos otorgados (notas 4, 7, 15 y 16)	437.223.391	376.661.573
Productos por cobrar, principalmente intereses (nota 5) neto de una estimación de incobrabi- lidad de ₡15.542.758 (₡5.353.383 en 1982)	49.764.863	42.352.225
Cartera total	486.988.254	419.013.798
Menos provisión para saneamiento de préstamos (nota 7)	(52.645.993)	(32.692.306)
Cartera neta	434.342.261	386.321.492
<u>Titulosvalores en cartera (nota 8)</u>	5.639.797	2.985.628
Total inversiones financieras	439.982.058	389.307.120
<u>Inversiones Comerciales:</u>		
Inventario de insumos agrícolas y otros, al costo (nota 9).	30.842.720	14.070.911
Otros activos derivados de la actividad comercial	2.983.413	620.103
Total inversiones comerciales	33.826.133	14.691.014
<u>Otros Activos</u>		
Bienes muebles e inmuebles (nota 10) neto de una depreciación acumulada de ₡7.281.662 (₡5.556.144 en 1982)	8.766.308	10.103.588
Cargos diferidos (nota 11)	1.332.450	3.039.025
Cargos a empresas por avales pagados, (nota 12)	21.844.749	21.844.749
Otros Activos	6.301.644	4.748.584
Total Otros Activos	38.245.151	39.735.946
	<u>₡559.722.189</u>	<u>512.594.200</u>
<u>Bienes en Fideicomiso (nota 13)</u>		
<u>Cuentas de Orden y Contingentes (nota 14)</u>		

Las notas que se acompañan son parte integral de los Estados Financieros.

BANCO DE FOMENTO AGROPECUARIOEstado de Resultados31 de Diciembre de 1983 y 1982

	<u>1 9 8 3</u>	<u>1 9 8 2</u>
<u>Productos de Operación</u>		
<u>Operaciones Bancarias:</u>		
Intereses ganados	54.449.681	38.541.912
Control de inversión, comisiones y otros	2.140.676	1.418.889
Otros Ingresos financieros	<u>900.128</u>	<u>1.163.205</u>
Ingresos por Operaciones Bancarias	57.490.485	41.123.976
Menos: Intereses Pagados y Otros Gastos Financieros (nota 7)	<u>(25.521.722)</u>	<u>(21.131.902)</u>
Margen Bruto en Operaciones Bancarias	<u>31.968.763</u>	<u>19.992.074</u>
<u>Operaciones Comerciales</u>		
Venta de insumos y otros productos agrícolas (nota 19)	181.391.255	142.460.123
Menos:		
Costo de Ventas de Productos Agrícolas (nota 19)	<u>(165.252.222)</u>	<u>(130.508.861)</u>
Gastos de Venta y Comercialización Agrícola	<u>(2.876.355)</u>	<u>(2.652.262)</u>
Margen en Operaciones Comerciales	<u>13.262.678</u>	<u>9.299.000</u>
Margen Bruto de Operaciones	<u>45.231.441</u>	<u>29.291.074</u>
<u>Gastos Generales y Administrativos:</u>		
Sueldos y Prestaciones al Personal Administrativo	20.232.043	17.951.713
Alquileres	695.057	590.179
Depreciación (nota 10)	1.832.776	1.179.529
Seguros	268.747	365.926
Papelería, Materiales y Suministros	653.868	527.530
Combustibles y Lubricantes	789.879	606.074
Conservación y Mantenimiento de Equipo y locales	536.589	490.648
Otros Gastos de Operación	<u>1.596.880</u>	<u>2.062.497</u>
Total Gastos Generales y Administrativos	<u>26.605.839</u>	<u>23.774.156</u>
Utilidad en Operaciones	<u>18.625.602</u>	<u>5.516.918</u>
<u>Cargos Extraordinarios y fuera de Operación</u>		
Incremento adicional a la reserva para saneamiento de intereses	<u>(9.689.375)</u>	--
Regularización de reservas para saneamiento de préstamos (nota 7)	<u>(3.510.625)</u>	<u>(3.673.212)</u>
Amortización rebaja en precio de Insumos (nota 11)	<u>(1.625.203)</u>	<u>(807.500)</u>
Otros Cargos de Ejercicios Anteriores, neto	<u>(524.579)</u>	<u>(636.629)</u>
Regularización de Intereses Sobregiro, ISTA y otros (nota 6)	<u>--</u>	<u>1.765.235</u>
Utilidad Neta del año	<u>q 3.275.820</u>	<u>2.164.812</u>

Las notas que se acompañan son parte integral de los Estados Financieros.

BANCO DE FOMENTO AGROPECUARIO
Estado del Patrimonio Institucional
Año Terminado el 31 de Diciembre de 1983

C O N C E P T O S	Capital Divi- sión Bancaria	Capital Fondo de Desarrollo Económico	Reservas de Previsión	Excedentes por Aplicar	Total Patrimonio
Saldos al 31 de diciembre/82	¢ 92.242.929	142.066.398	1.669.824	2,164.812	238.143.963
Aportes provenientes del Ban- co Central de Reserva Nota 18	2.676.864	17.190			2.694.054
Donativo Gobierno Japonés		1.711.535			1.711.535
Capitalización de aportes del Gobierno Central, derivado préstamos de instituciones Extranjeras de Crédito (Nota 2 y 18)	10.892.955	50.705.980			61.598.935
Capitalización de aportes de contrapartida local en con- tratos de préstamos		24.433.450			24.433.450
Ajustes patrimoniales efectuados (Nota 18)				(193.456)	(193.456)
	<u>105.812.748</u>	<u>218.934.553</u>	<u>1.669.824</u>	<u>1.971.356</u>	<u>328.388.481</u>
Utilidad Neta del Ejercicio				3.275.820	3.275.820
Traspaso por asignación legal de resultados del año/82	492.839	492.839	985.678	(1.971.356)	
Saldos al 31 de Diciembre/83	<u>¢106.305.587</u>	<u>219.427.392</u>	<u>2.655.502</u>	<u>3,275.820</u>	<u>331.664.301</u>

Las notas que se acompañan son parte integral de los Estados Financieros.

BANCO DE FOMENTO AGROPECUARIO

Estado de Cambios en la Posición Financiera

Años Terminados el 31 de Diciembre de 1983 y 1982

	1 9 8 3	1 9 8 2
<u>Fuentes netas de Recursos Financieros</u>		
<u>Recursos Provenientes de Operaciones:</u>		
Utilidad neta del año	\$ 3.275.820	2.164.812
<u>Menos</u> : Aplicaciones Directas al Superávit por Contribución complementaria al Fondo de Funcionarios y Empleados del B.F.A. (nota 18)	193.456	826.555
	<u>3.082.364</u>	<u>1.338.257</u>
<u>Más</u> : Cargos extraordinarios a operaciones del ejercicio :		
Para el incremento adicional de Reservas de Sancamiento.	13.200.000	--
Amortización de Cargos Diferidos	1.775.203	807.500
Recursos netos derivados de operaciones	<u>18.057.567</u>	<u>2.145.757</u>
<u>Otras Fuentes de Recursos:</u>		
Aportes y Utilidades provenientes del B.C.R. (nota 18)	2.694.054	1.017.231
Capitalización Donativo Japonés de fertilizantes	1.711.535	--
Capitalización de Aporte del Gobierno Central, deriva- do de Préstamos otorgados por Instituciones Inter- nacionales de crédito (notas 2 y 18)	61.598.935	66.257.918
Recuperación adeudos del I.S.T.A. (nota 6)	--	75.038.500
Incremento en saldos de Préstamos recibidos de Institu- ciones Extranjeras	6.261.007	11.332.248
Préstamos de Instituciones Financieras Locales	8.000.000	--
Incremento en Fondos Ajenos en Custodia	3.023.011	5.027.419
Disminución neta en Otros Activos	1.090.186	1.430.274
Patrimonialización aportes locales en proyectos BID/AID	24.433.450	--
Disminución en Inversiones Comerciales - Insumos Agrí- colas	--	25.400.661
Aumento en saldos de créditos derivados del convenio P.L. - 480	--	5.708.230
	<u>126.869.745</u>	<u>193.358.238</u>
<u>Utilización de Recursos Financieros:</u>		
Aumento en Cartera neta global de Créditos	62.645.363	19.694.597
Títulosvalores obtenidos	2.654.169	853.733
Disminución en monto de los depósitos	8.637.846	5.357.645
Cancelación neta del endeudamiento con el B.C.R.	39.717.829	159.956.815
Disminución en otros adeudos y acumulaciones	254.480	450.356
Aumento en Inversiones Comerciales - Insumos Agrí- colas	19.135.119	--
Cancelación neta de Créditos derivados del Convenio P.L. - 480	15.016.212	--
	<u>148.061.018</u>	<u>186.313.146</u>
<u>Aumento (Disminución en Saldos de Efectivo)</u>	<u>(21.191.273)</u>	<u>7.045.092</u>
	<u>\$126.869.745</u>	<u>193.358.238</u>

Las notas que se acompañan son parte integral
de los Estados Financieros.

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CONSULTORES-AUDITORES

RIVERA MENENDEZ Y CIA.APARTADO POSTAL 582
SAN SALVADOR, EL SALVADOR, C. A.
Marzo 9 de 1984

Señores
Asamblea de Gobernadores
Banco de Fomento Agropecuario
Presente

Por este medio estamos ratificándoles que nuestro examen de los Estados Financieros del Banco de Fomento Agropecuario, al 31 de diciembre de 1983, se efectuó de acuerdo con normas de auditoría generalmente aceptadas y que dichos estados financieros fueron preparados de acuerdo con principios de contabilidad generalmente aceptados, aplicados en forma consistente con el año anterior. Nuestro dictamen sobre los estados financieros mencionados se emitió con fecha 24 de febrero de 1984.

Deseamos ratificarles además, que nuestro examen comprendió, entre otros procedimientos de auditoría, la evaluación general del sistema de control interno del Banco, como base para la determinación del alcance y amplitud de las pruebas selectivas a efectuar, y la oportunidad de aplicación de las mismas con miras a dictaminar sobre la razonabilidad con que dichos estados financieros presentan la posición financiera del Banco al cierre del ejercicio fiscal, los resultados de sus operaciones y los cambios habidos en su posición financiera por el año entonces terminado. La mencionada evaluación del control interno comprendió los procedimientos establecidos para el mejor control de fondos de programas total o parcialmente financiados por Instituciones Internacionales de Crédito.

Es nuestra opinión, basado en el examen efectuado del control interno existente, que los procedimientos y aspectos normativos de administración y control de fondos que se aplican en el Banco a esta fecha, son razonablemente adecuados en las circunstancias que vive el País, para garantizar de buen grado el manejo de los fondos confiados al Banco.

RIVERA MENENDEZ Y CIA.

Lic. Mauricio Rivera, Socio

Introduction

The BFA loan portfolio totals approximately \$170 million. Of this amount, \$42 million is overdue. The BFA has analyzed the overdue portion of its portfolio, and concluded that \$19.9 of the overdue amount, attributable to 79 cooperatives, can be collected if refinanced under the terms described on pages 34 through 36. By January, 1984, the BFA had already approved most of the refinancing applications from the 79 cooperatives and submitted them to the BCR for approval. The chief criteria which the BFA and the BCR have been using in the approval process is that the cooperative be able to pay 1984/85 crop year production credit, as well as the interest payment and part of the principle payment. The cases presented below were collected by STC advisors to illustrate the financial circumstances of Phase I cooperatives being refinanced. The first example presents 1983 information, while the following four examples present 1984 estimates. It should be noted that profit projections are considered to be optimistic by STC and USAID.

1. "Escuintla"

Outstanding debt 12/31/83	\$1.96million
profit after payment of 1983/84 credit	.421
first year refinancing pay- ment at 6%	.295
remainder to pay principle and to purchase inputs for the next crop year	.126

2. "El Angel"

Outstanding debt 3/31/84	\$1.027million
estimated profit after payment of 1984/85 credit	.260
first yr. refinancing pay- ment at 6%	.062
remainder to pay principle and to purchase inputs for the next crop year	.198

3. "Santa Agueda"

outstanding debt 3/31/84	.705
estimated profit after pay- ment of 1984/85 credit	.215
first yr. refinancing pay- ment at 6%	.043
remainder to pay principle and to purchase inputs for the next crop year	.172

4. "San Rafael"

outstanding debt 3/31/84	.702
estimated profit after pay- ment of 1984/85 credit	.203
first yr refinancing pay- ment at 6%	.042
remainder to pay principle and to purchase inputs for the next crop year.	.161

BANCO DE FOMENTO AGROPECUARIO.

NORMAS PARA RESOLUCION DE CREDITO

UNIDAD DE DESARROLLO Y ESTUDIOS ESPECIALES.

ENERO 1984.

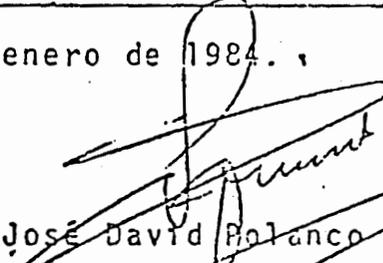
ANNEX G

BANCO DE FOMENTO AGROPECUARIO

ORDEN DE INSTRUCTIVO

- | | |
|--------------------|--|
| I- PROPOSITO : | NORMAS PARA RESOLUCION DE CREDITO. |
| II- DISTRIBUCION: | Limitada. |
| III- ANEXO: | Un Ejemplar de las Normas. |
| IV- OBSERVACIONES: | Las presentes Normas entrarán en vigencia a partir del 1º de febrero de 1984, según Resolución de Junta de Directores No. JD-6/84 emitida en la Sesión No. JD-2/84 de fecha 11 de enero de 1984. |

San Salvador, 18 de enero de 1984.


José David Polanco Abregó
Gerente General



y ch.

NORMAS PARA RESOLUCION DE CREDITOS

I- CONSIDERANDO:

- 1- Que el Art. 19 de la Ley del Banco de Fomento Agropecuario señala, entre las atribuciones de la Junta de Directores, acordar las medidas administrativas y las políticas que sean necesarias para lograr los objetivos del Banco, emitir los reglamentos específicos que sean necesarios y aprobar las solicitudes de préstamos mayores de ₡ 50.000.00
- 2- Que el Art. 21 de la misma Ley faculta al Presidente -- del Banco, para autorizar préstamos que no excedan de ₡ 50.000.00 y aprobar las operaciones relacionadas con la gestión ordinaria del Banco, actuando dentro de las condiciones y limitaciones que determina la citada Ley y las que establezcan los Reglamentos Internos y la Junta de Directores.
- 3- Que la experiencia ha demostrado que el crédito agrícola, por su naturaleza, requiere una resolución oportuna; en consecuencia su trámite debe ser dinámico y ágil por lo cual es conveniente crear Niveles de Resolución de créditos que satisfagan la demanda de los clientes.
- 4- Que la demanda de servicios del Sector Agropecuario se ha incrementado en los últimos años y para satisfacerla el Banco requiere adecuar sus normas y procedimientos para el logro de los objetivos y metas.

Que para agilizar el trámite de las solicitudes de crédito de los clientes del Banco, es necesario clasificar -- los créditos en 3 categorías:

1. Crédito Automático
2. Crédito de Tramitación Normal
3. Crédito con Riesgo

II- CREDITO AUTOMATICO

1. DEFINICION

Se considerará como crédito automático, aquel otorgado mediante un trámite ágil, para:

- Asegurar que el crédito sea oportuno
- Reducir costos de trámite
- Estimular al cliente en el cumplimiento de sus obligaciones.

2. SUJETO DE CREDITO AUTOMATICO

- Personas Naturales
- Personas Jurídicas

3. REQUISITOS

Condiciones para Personas Naturales

- Tener capacidad legal para obligarse
- No ser mayor de 60 años de edad
- Gozar de buena salud aparente
- Gozar de solvencia moral y económica

Condiciones para Personas Jurídicas

- Tener capacidad legal para obligarse
- Gozar de solvencia moral y económica

HISTORIAL CREDITICIO

- Haber cancelado satisfactoriamente sus compromisos en cualquier Agencia del Banco, sin refinanciamiento durante los tres últimos ciclos agrícolas y/o 2 créditos refaccionarios.
- No tener compromisos en mora de créditos vigentes.

EXPERIENCIA TECNICO-ADMINISTRATIVA

- Haber manejado satisfactoriamente durante los últimos tres ciclos agrícolas explotaciones similares.

4. OTROS REQUISITOS

- Tener documento que le garantice la explotación de la tierra durante el período de duración del crédito.
- Que el crédito que solicita no exceda en un 20% del área o unidades o un 50% del monto del crédito anterior más elevado en su historial dentro del mismo rubro, habiéndolo cancelado satisfactoriamente.
- Que los proyectos sean económicamente rentables y técnicamente factibles.

5. GARANTIAS

- Las garantías que se exigirán para este tipo de financiamiento serán las que tradicionalmente ha ofrecido y de acuerdo a las normas vigentes.

6. PROCEDIMIENTO

- El sujeto de crédito automático, previamente calificado, presentará su solicitud de crédito, los documentos

de garantía, la identificación de las personas que participarán en el crédito y los documentos que le garantice la explotación de la tierra.

El Agente de crédito encargado preparará el Resumen y Resolución de Crédito y lo someterá al nivel de aprobación correspondiente.

La contratación de este tipo de crédito se hará en un documento diseñado para tal propósito, en donde se deberán relacionar las hipotecas abiertas, si las hubiere.

Los desembolsos se harán inmediatamente después de haber suscrito el contrato.

III- CREDITOS CON RIESGO

1. DEFINICION

Es aquel crédito otorgado a personas naturales o jurídicas cuya recuperación sea dudosa.

2. SUJETO DE CREDITO CON RIESGO

- Personas Naturales
- Personas Jurídicas

3. CRITERIOS PARA CLASIFICACION

- Clientes nuevos
- Clientes con crédito para pago de deuda y/o refinanciamiento.
- Clientes que solicitan crédito para proyecto cuyo monto de financiamiento sea mayor de 90% del total autorizado por el Banco Central de Reserva para cada Rubro Agropecuario, exceptuando aquellos créditos solicitados por clientes calificados para créditos automáticos.

- Clientes antiguos del Banco que presentan proyectos diferentes a los que han venido explotando.
- Clientes que presenten proyectos no tradicionales, por ejemplo:
 - Cúrcuma
 - Cardamomo
 - Vid
 - Manzano
 - Orégano
 - Menta
 - Chan
 - Cártamo
 - Jojoba
 - Okra
 - Añil y
 - Otros
- Clientes cuya edad sobrepasan los 60 años.

4. GARANTIAS

Las garantías exigidas para este tipo de créditos serán las señaladas por la Ley del Banco y las normas de crédito vigentes, y serán aceptadas a satisfacción del nivel de Resolución correspondiente.

5. PROCEDIMIENTO

El solicitante presentará en la Agencia respectiva la documentación requerida.

El Agente de Crédito encargado deberá planificar el proyecto en el campo, el que será presentado al nivel de Resolución correspondiente.

Una vez aprobado el proyecto se deberá contratar en el instrumento legal diseñado al respecto.

Los desembolsos de estos proyectos deberán ser controlados estrictamente, de manera que se garantice al Banco la correcta inversión de los recursos.

IV- CREDITO DE TRAMITACION NORMAL

1. DEFINICION

Se considera crédito de tramitación normal, aquel otorgado a personas naturales o jurídicas, que no califiquen-- dentro del crédito automático, ni que reúnan características del sujeto de crédito con riesgo.

V- NIVELES DE RESOLUCION DE CREDITOS

Para el otorgamiento oportuno de los créditos se establecen los niveles de Resolución de Crédito siguientes:

1. Coordinador de Créditos
2. Jefe de Agencia
3. Comité de Agencia
4. Comité de Oficina Central
5. Junta de Directores

Estos niveles resolverán las solicitudes de la manera siguiente:

<u>NIVEL DE RESOLUCION</u>	<u>AUTOMATICO</u>	<u>NORMAL</u>	<u>CON RIESGO</u>
Coord. de Créditos	Hasta \$25.000	-	-
Jefe de Agencia	Hasta \$50.000	-	-
Comité de Agencia	-	Hasta \$25.000	Hasta \$ 5.000
Comité Of. Central	-	Hasta \$50.000	Hasta \$25.000
Junta de Directores + de	\$50.000 + de	\$50.000 + de	\$25.000

VI- INTEGRACION DE LOS COMITES

1- COMITE DE AGENCIA

Jefe de Agencia
 Coordinador de Crédito
 Coordinador Financiero

El jefe de Agencia será el Presidente del Comité y el -
 Coordinador de Créditos actuará como Secretario.

El Coordinador de Créditos sustituirá en las funciones
 al Jefe de Agencia en su ausencia.

El Coordinador de Créditos y el Coordinador Financiero
 tendrán suplentes, los que serán propuestos por el Comi
 té, dentro del personal de mayor experiencia y procu -
 rando ser de la misma profesión, el nombramiento de es
 tos miembros será autorizado por el Presidente del Ban
 co.

2. COMITES DE OFICINA CENTRAL

En Oficina Central existirán dos Comités integrados de
 la manera siguiente:

Comité "A"

Subgerente de Operaciones
 Subjefe del Departamento de Créditos Agropecuarios
 Jefe de la Sección de Cobranza del Departamento Jurídico

El Subgerente de Operaciones será el Presidente del Co
 mité y el Subjefe del Depto. de Créditos Agropecuarios
 el Secretario.

El Subjefe del Depto. de Créditos Agropecuarios susti -

tuirá en las funciones al Subgerente de Operaciones en su ausencia.

El Subjefe del Departamento de Créditos Agropecuarios y el Jefe de la Sección de Cobranza del Departamento Jurídico tendrán suplentes, los que serán propuestos por el Comité dentro del personal de las respectivas unidades, procurando que sean los de mayor experiencia; el nombramiento de estos miembros será autorizado por el Presidente del Banco.

Comité "B"

Subgerente de Programas

Jefe del Departamento de Créditos Agropecuarios

Jefe de Sección Contratación y Asistencia Legal.

El Subgerente de Programas será el Presidente del Comité y el Jefe del Departamento de Créditos Agropecuarios el Secretario.

El Jefe del Departamento de Créditos Agropecuarios sustituirá en las funciones al Subgerente de Programas en su ausencia.

El Jefe del Departamento de Créditos Agropecuarios y el Jefe de Sección de Contratación y Asistencia Legal tendrán suplentes, los que serán propuestos por el Comité, dentro del personal de las respectivas unidades, procurando que sean los de mayor experiencia; el nombramiento de estos miembros será autorizado por el Presidente del Banco.

VII- NORMAS GENERALES

A- La Junta de Directores resolverá:

1. Las solicitudes de crédito de las Haciendas del Sector Reformado.
2. Las solicitudes de crédito de las Asociaciones Cooperativas del Sector Tradicional que lo requieran - por primera vez o que no hayan cumplido a cabalidad sus obligaciones.

B- Otras disposiciones:

1. Las Resoluciones de los Comités serán tomadas por - unanimidad y en caso de desacuerdo, la solicitud se pasará a consideración del nivel inmediato superior. De igual manera se procederá con los créditos denegados, adjuntando las razones de traslado al nivel superior. Los Comités se reunirán en Sesión las veces que sea necesario, ya sea por acuerdo previo o o por convocatoria del Secretario. Los secretarios de los Comités prepararán los expedientes que se someterán al Comité, revisándolos previamente para - establecer si contienen la documentación completa y la información necesaria para su resolución.
2. En los límites autorizados debe de considerarse incluidos los saldos deudores, si los hubiere.
3. Las prórrogas o modificaciones en las condiciones - de los préstamos, tales como cambios en la forma de pago, ampliación de plazo, deben ser resueltas por el nivel inmediato superior al que aprobó original-mente el crédito.

4. Las solicitudes de crédito para empleados del Banco y sus familiares que estén dentro del cuarto grado de consanguinidad y, segundo de afinidad, serán resueltas por la Junta de Directores; a excepción de las solicitudes de los que califiquen como crédito automático.
5. Las ampliaciones de crédito para recolección de cosechas por montos menores de ₡ 50.000.00. Serán resueltos por el Jefe de Agencia en forma automática contra presentación de recibos que deberán pignorar se.
6. Para la implementación de las presentes normas la Administración deberá elaborar la reclamación respectiva, la cual deberá ser aprobada por la Presidencia del Banco.
7. Esta resolución deja sin efecto todas las disposiciones anteriores que la contravengan.

Las presentes normas entraran en vigencia a partir del 1ro. de febrero de 1984.

18-1-84
:zaf.

DESCRIPCION DE LA POLITICA DE CREDITO DEL PROGRAMA 207EN SUS ASPECTOS DE ORDEN OPERATIVO

- 1- Se considera esencial que para la aprobación de los créditos para los beneficiarios del Decreto 207, los proyectos hayan sido elaborados por técnicos en el campo específico en que se desarrollarán. Para los desembolsos de los créditos aprobados, los proyectos deberán ser supervisados por el personal del Programa 207, para la adecuada utilización de los fondos y el desarrollo normal del proyecto.
- 2- El nivel de aprobación que discuta las solicitudes de los beneficiarios del Programa deberá analizar la viabilidad técnica, económica y de mercado y asegurarse que justifique el proyecto. Las consideraciones anteriores servirán de base para emitir la resolución de aprobación o rechazo de los créditos.
- 3- Los rubros a financiar de los diferentes destinos y los montos máximos están establecidos en cada una de las líneas de financiamiento disponibles para el Programa.
- 4- Con fondos del Programa 207 el área a financiar será la adquirida a través de FINATA, que nunca será mayor de 10 Mzs. por beneficiario; sin embargo, los usuarios con áreas adicionales a las adquiridas de FINATA, se financiarán en forma integral usando los fondos disponibles en las agencias, pero manejados con tarjetas diferentes.
- 5- Al aprobarse los créditos, el Banco proveerá los insumos a través de sus Almacenes, y solo en casos excepcionales se aceptará que sean adquiridos en casas comerciales, previa autorización de la Gerencia Comercial, la cual proveerá en fecha oportuna una lista de precios e insumos disponibles.
- 6- Las tasas de interés que se utilizarán son las establecidas por la Junta Monetaria para cada línea disponible en el Banco.
- 7- La garantía a exigir en los créditos del Programa, será la cosecha del proyecto propuesto, ya que aquellos que sean aprobados habrán demostrado su viabilidad. Solo en casos excepcionales de alto riesgo como clientes con débil historial crediticio el Banco podrá exigir garantías de existir éstas, ya que darán una mayor seguridad para la aprobación y recuperación de los préstamos.
- 8- Los lineamientos específicos del Programa serán dictados por la Gerencia de Créditos a través de la Jefatura del mismo. La Jefatura del Programa determinará el tipo de información, su periodicidad y los formatos a utilizar en el transcurso de las actividades, según las necesidades de información de los niveles superiores del Banco.

- 9- Los diferentes formularios a utilizar por el Programa serán seleccionados o diseñados por el Programa de Reforma Agraria, sujetos a las normas generales en vigencia.
- 10- No se tramitarán solicitudes a usuarios con record crediticio o aspectos personales inaceptables para el Banco. En grupos organizados en los que algunos de sus miembros se encuentren morosos con el Banco, éstos podrán ser excluidos o su situación normalizada para que el grupo sea considerado sujeto de crédito.
- 11- En grupos organizados o en proceso de organización en los que existan diferencias en la tenencia de la tierra, deberán considerarse como beneficiarios del Decreto 207 aquellos en los que más de uno de sus miembros sea beneficiario de dicho Decreto.
- 12- Los niveles de aprobación de créditos del Programa serán los mismos que actualmente han sido autorizados por la Junta Directiva del Banco. En las reuniones donde se analicen las solicitudes de beneficiarios del Programa, tendrán participación los zonales del mismo, con derecho a voz, a fin de que expresen sus objeciones y/o recomendaciones en la aprobación o rechazo de casos específicos.
- 13- Para el procesamiento de las solicitudes de crédito del Programa se seguirán los mecanismos ya establecidos para dicho propósito el beneficiario de FINATA presentará su identificación por medio del carnet provisional o definitivo, extendido por la Financiera Nacional de Tierras Agrícolas, del cual quedará una fotocopia en el expediente.
- 14- Beneficiarios individuales dispersos (con un área menor de 3 Hzs. se le dará un tratamiento similar a los usuarios de subsistencia.
- 15- Para los créditos de los proyectos ganaderos de leche y de crianza la garantía será la prenda a adquirir y el período para cancelar el crédito será de (4) años máximo.

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SEGUIMIENTO DEL PROCESO DESDE LA PRESENTACION DE LA
SOLICITUD HASTA LA RECUPERACION DEL CREDITO SOLICITADO,
DE BENEFICIARIOS DEL DECRETO 207

Los pasos o el detalle del séguimiento que a continuación se describe, es para dar a conocer el proceso así como el contenido o sea los datos, documentos, etc., que dentro o adjunto a la solicitud de crédito tienen que proveerse o ser incluidos, para la agilización y/o el ahorro de tiempo tanto para el solicitante como para los funcionarios del BFA al tramitar solicitudes de crédito.

- 1- La presentación de documentos, las garantías que se solicitan y la descripción del o los proyectos a financiar variarán según las diferentes condiciones de los solicitantes, lo que se determinará en el primer contacto con funcionarios del Banco.
 - 1.1 Clientes con créditos vigentes al momento de la entrevista.
 - 1.2 Clientes sin créditos vigentes al momento de la entrevista, pero que han sido clientes del Banco.
 - 1.3 Clientes nuevos o que nunca han tenido créditos en el Banco y que por lo tanto deben ser investigados.

- 2- Con el llenado de la solicitud a los beneficiarios del Decreto 207 se les elaborarán formatos adicionales propios del Programa.
 - 2.1 Descripción de los proyectos.
 - 2.2 Boleta de evaluación del usuario

- 3- Es importante efectuar el registro de la solicitud con él o la recepcionista a-cargo de esta función en cada agencia.

- 4- Planificación de los créditos
 - 4.1 Con los clientes nuevos, proyectos dudosos, etc. la planificación se realizará en el lugar donde se llevarán a cabo el o los proyectos.
 - 4.2 Con los clientes del BFA (antiguos) la planificación se realizará en las agencias, excepto en aquellos casos cuando el proyecto sea mayor o distinto a lo planificado y realizado en años anteriores.

- 5- Aprobación o denegación del crédito solicitado por el nivel respectivo de aprobación.

Es necesario conocer los requisitos que exigen los diferentes niveles de aprobación al elaborar las solicitudes de crédito.

6- Contratación del crédito aprobado

Es necesario asistir a los usuarios sobre este particular, pues no se pueden efectuar desembolsos antes de la contratación.

7- Desembolso de fondos para el destino planificado, aprobado y contratado.

Este procedimiento está reglamentado para los usuarios del Decreto 207.

8- Visitas de campo para verificar lo realizado, proveer asistencia técnica y relacionar el uso de fondos con el estado de los proyectos en el campo.

Este procedimiento también está reglamentado para los usuarios del Decreto 207.

9- Llevar a cabo gestiones y/o acciones encaminadas a facilitar la recuperación de los créditos, en efectivo o mediante el comprometimiento de fondos de cosecha en proceso de liquidación o venta.

Esta es una importante actividad u obligación para los Agentes de Crédito asignados al Subprograma 207.

Requisitos que deben cumplir los beneficiarios del Decreto 207, antes de que se considere la solicitud de crédito.

Los beneficiarios del Decreto 207 han sido subdivididos en Individuales, grupos solidarios y cooperativas; por lo tanto los documentos que presentará cada tipo de cliente o usuario varía de un tipo de cliente a otro.

Para una mayor agilización de la solicitud, los documentos que a continuación se detallan según el tipo de cliente, serán solicitados por el Agente de Crédito con anticipación al llenado de la solicitud de crédito.

Individuales

- 1- Presentación de la Cédula de Identidad Personal del solicitante y de la persona que va actuar como codeudor. Estas deben encontrarse vigentes y debe anotarse por el Agente el lugar donde fueron extendidas.
- 2- El codeudor puede ser la esposa o un hijo mayor que haya cumplido 21 años, esto será presentado por el solicitante para cualquier crédito a solicitar.
- 3- Presentación del carnet que lo identifica como beneficiario del Decreto 207:
 - Carnet definitivo
 - Carnet provisional

- 4- Presentación del último recibo de pago o cancelación del crédito del ciclo anterior (no necesario para los beneficiarios del Decreto 207 que se presentan al B.F.A. por primera vez).
- 5- Se solicitará garantía adicional o real a aquellos solicitantes que han hecho mal uso del crédito anterior, la que se presentará al Agente de Crédito que atiende la solicitud.
- 6- Cuando el Banco solicita fiador, este presentará su estado económico actual al Agente de Crédito que atiende la solicitud.

El fiador se solicita en casos que el cliente cae en mora no justificada y no tiene garantía adicional o real para solicitar un refinanciamiento.
- 7- Se presentará carta orden irrevocable a favor del BFA aceptada por INAZUCAR, INCAFE y COPAL, cuando se van a financiar los proyectos de caña de azúcar, café y algodón. En el caso del INCAFE esta carta se presentará posterior a la aprobación del crédito (requisito para contratar).
- 8- Presentación de los datos necesarios para que el Agente de Crédito elabore un plan del proyecto a financiar según lo exige el formulario adoptado por el Subprograma 207.

Grupos Solidarios

- 1- Presentación de la Cédula de Identidad Personal de cada miembro que forma el grupo, éstas deben encontrarse vigentes y debe anotar el Agente de Crédito el lugar donde fue extendida.
- 2- Presentación de los carnets que los identifica como beneficiarios del Decreto 207, esto para cada uno de los miembros que forman el grupo:
 - Carnet definitivo
 - Carnet provisional
- 3- Presentación del último recibo del pago o cancelación del crédito del ciclo anterior (no necesario para los beneficiarios del Decreto 207 que se presentan al BFA por primera vez).
- 4- Se solicitará garantía adicional o real a aquellos grupos solidarios que han hecho mal uso del crédito anterior, la que se presentará al Agente de Crédito que atiende la solicitud.
- 5- Se presentará carta orden irrevocable a favor del BFA aceptada por INAZUCAR, INCAFE, COPAL, cuando se van a financiar los proyectos de caña, café y algodón. (Igual que el inciso No. 7 de los individuales).
- 6- Presentación de los datos necesarios para que el Agente pueda elaborar un plan del proyecto a financiar para cada uno de los miembros del grupo solidario según lo exige el formulario adoptado por el Subprograma 207.

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Cooperativas

- 1- Presentación de la Cédula de Identidad Personal de cada miembro de la Junta Directiva, estas deben encontrarse vigentes y debe anotarse por el Agente, el lugar donde fue extendida.
- 2- Presentación de los carnets de cada miembro de la Junta Directiva que los identificarán, como beneficiarios del Decreto 207.
 - Definitivo
 - Provisional
- 3- Listado de todos los socios de la Cooperativa, con su número de Cédula de Identidad Personal vigente, donde ha sido extendida y dirección particular de cada socio.
- 4- Copia de personería jurídica que extiende el MAG.
- 5- Acta de constitución
- 6- Constancia de deuda con otras instituciones, casas comerciales, referencias bancarias y de otra índole.
- 7- Punto de Acta donde la Asamblea General autoriza a la Junta Directiva a que se solicite el crédito para los destinos que se incluyen en la solicitud.
- 8- Copia de los últimos dos balances elaborados (General y de Comprobación).
- 9- Se presentará carta orden irrevocable a favor del BFA aceptada por INAZUCAR, INCAFE y COOPAL, cuando se van a financiar los proyectos de caña de azúcar, café y algodón; (igual que el número 5 de Grupos Solidarios).
- 10- Record de las últimas tres cosechas obtenidas en los ciclos agrícolas anteriores de café, caña de azúcar, algodón.
- 11- Licencia para llevar a cabo la siembra del proyecto del algodón emitida por el MAG.
- 12- Los datos necesarios para que el Agente pueda elaborar el plan del proyecto a financiar, según lo exige el procedimiento adoptado por el Programa 207.
- 13- En caso de compra de maquinaria o equipo, se presentará al Agente de Crédito que atiende a la Cooperativa tres (3) cotizaciones. Cada cotización de distinta casa comercial.
- 14- La Cooperativa contará con una estructura administrativa y contable dentro de ella y como requisito el BFA le administrará técnica y contablemente.
- 15- Planos y presupuestos de mejoras (obras a construir).

Programa Reforma Agraria- Decreto 207

ANNEX I

TRAINING PROGRAM
(Summary by STC Advisor)

Project will address training needs of the B.F.A. as an important element of the institution building program. The Project will also address the training needs of the agricultural credit sections of the mixed banks and other institutions financing Phase I cooperatives.

The B.F.A.

The B.F.A. has designed, with the assistance of S.T.C. advisor, an 18 months training program (mid 1984 through December 1985) consisting of two major components: (1) in-country training and (2) short-term training abroad.

In the case of in-country training, 100 training sessions of approximately a duration of three days each, and grouped in 54 courses, will be delivered throughout the duration of the program. The total number of participants is estimated at 4,200 but since the same person may be attending several training sessions, the actual number of persons benefited will be much less. Table I summarises the training program to be conducted and financed with project funds.

TABLE 1

B.F.A. IN-COUNTRY TRAINING PROGRAM

<u>Priority Area</u>	<u>Number of Courses</u>	<u>Number of Training Sessions</u>	<u>Number of Participants</u>
Credit	11	30	1,745
Portfolio Analysis and Recuperation	4	4	114
Ag. Technology	18	41	1,380
Accounting	6	9	431
Auditing	5	5	112
Organization & Methods	4	4	67
Executive Skills and General Management	<u>7</u>	<u>7</u>	<u>350</u>
TOTAL	54	100	4,200

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The above table does not include training in electric data processing that is being funded separately under Amendment No. 3.

The 100 training activities will be conducted in San Salvador and in different parts of the country and most of them will be held from Thursday through Saturday to reduce, as much as possible, interruptions in B.F.A.'s operations.

In conducting courses and training sessions specific needs of major programs will be taken into account. For example, in the area of credit, where 30 training sessions will be held, special consideration will be given to the needs of field personnel assigned to work with Phase I and Phase III clients.

Similarly, special attention will be given to the personnel assigned to work with B.F.A. traditional sector in the 4 courses to be given in portfolio analysis and recuperations, since in this sector past due loans have been accumulated since the creation of the B.F.A.

To conducting in courses, the B.F.A. will rehabilitate a conference room and a library. Presently, B.F.A. has to rent space in hotels in order to conduct training courses.

The training program abroad will have two components:

1. Sending people for periods of up to one month to receive on the job at foreign institution's training in the same or related areas to those in which they are working in B.F.A. Selected institutions will have successful programs in the areas where B.F.A. personnel will be sent to work. This technique of "learning by doing" is proven to be effective and could be of great help in satisfying B.F.A. training needs.

An estimated total of 45 persons will be sent abroad to receive this type of training during a period of time of 18 months.

2. Sending people for periods of one to two months to courses being offered by universities or through training program institutions. A total of 14 technicians will be sent for a total period of 23 person-months of training in financial planning, credit, accounting, management, auditing and supervision among others.

The total estimated cost of the B.F.A. program is \$600,000. Table II gives a break down of program components and cost.

TABLE II

B.F.A. TRAINING PROGRAM AND ESTIMATED COST*
(US\$ 000)

	<u>In Country</u>	<u>Abroad</u>	<u>TOTAL</u>
Number of Training Sessions	100 ^{1/}	—	100
Number of Participants	4,200	68	4,268
Cost	314,000 ^{2/}	286,000	600,000

1/ Grouped in 54 major courses

2/ Includes \$64,000 to rehabilitate a conference room and a library.

* USAID Note: Foreign Exchange necessary for 12 of the total 18 months of the training abroad will be funded by this loan funds under supplement (i.e. 12/18 x \$286,000 = approx. \$200,000). GOES counterpart will fund 12 month requirements of the in-country costs (\$200,000).

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Other Financial Institutions Including ISTA

There are 12 financial institutions, apart from B.F.A., providing credit to Phase I cooperatives of which 10 are mixed banks. In addition, ISTA is involved because it is guaranteeing loans granted to Phase I cooperatives.

Presently, there are about 50 credit agents in these institutions that are directly or indirectly involved in granting loans to Phase I cooperatives. This number will increase with the contracting of additional credit agents under this project.

The training needs of these personnel is varied and will necessitate a special effort and a broad and challenging approach. The mixed bank is limited to approach the evaluation of credit applications brought to them, which normally include only production credit. With very few exceptions, these institutions do not do any promotion nor they really assist Phase I cooperatives in identifying and designing new investment projects.

Since the project will finance the contracting of additional technicians to provide better credit to cooperatives, and financial institutions are willing to assist in identifying and designing new projects, it is very important to develop a training program to both credit-financial institutions to the actively providing credit to Phase I cooperative through planning projects and to train agents in investment project design and supervision.

Project funds of \$100,000 will be used, during a period of 18 months, to conduct a training program for the 10 to 12 personnel of the 12 institutions involved in financing Phase I cooperatives.

The thrust of the training program will be a series of seminars and short-term courses that will include concerned personnel from all the financial institutions providing credit to Phase I cooperatives, the B.C.R. and ISTA.

In certain courses and seminars, Phase I cooperatives leaders and managers will also be included. The program will be conducted in-country and training abroad.

Credit agents and others will receive training in:

- 1) Identification, design, and presentation of investment projects in property improvements, equipment acquisition, cattle, crops, etc.
- 2) Orientation to the banking system in relation to agrarian reform; available credit, sources: B.F.A./I.B.D., B.C.R. other sources.
- 3) Technical areas as appropriate.
- 4) Credit supervision and recuperation.

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AMENDMENT

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: El Salvador
Project Title: Agrarian Reform Credit
Project Number: 519-0263
Life of Project Amendment: One year
IEE Prepared by: Peter B. Lapera, USAID/El Salvador
Date April 2, 1984
Action Recommended Negative Determination

Concurrence: James S. Hester
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I. Project Description

The project purpose is to increase the availability of credit to the agrarian reform and traditional small farm sectors and improve the capacity of the national financial system to deliver such credit. To this end, the project will continue to provide loan funds to the BFA for credit to be disbursed through the Integral Credit Line. Under the supplement, the Project will provide \$18.9 million of new credit for the BFA's expanding Phase I and Phase III operations, and \$1 million for the traditional sector making for a total of \$19.9 million to be provided to the Integral Credit Line with development assistance loan funds. The project will continue to provide grant-funded technical assistance directed at the institutions building effort in the BFA. This supplement adds \$600,000 in grant funds.

To improve and enhance the delivery of credit to the agrarian reform sector, and to make that sector more financially viable, counterpart funding will finance the following activities for a total of \$13 million dollars: Refinancing of Phase I cooperatives collectable overdue loans; and the placement of field credit agents in other financial institutions to generate investment projects for Phase I cooperatives in order to drawdown available investment credit.

The supplement will also continue counterpart funding of the important Integrated Pest Management element. One of the objectives of this element is to reduce production costs through reducing pesticide applications while maintaining or increasing crop production.

II. Discussion of Impacts

In 1983 in a 7,000 manzana test area located on Phase I cooperatives pesticide applications were reduced from an average of 25 to 15 on an annual basis, while production was maintained, and, in many cases, increased. Although under this supplement the test area will be increased by 4,000 mz. to 11,000 mz., no pesticides other than those described in the original IEE will be applied.

The IPM element will be closely coordinated with the FY 84 regional project, 596-0110, Integrated Pest Management which proposes, on a regional level: research; training; diagnostic services and an information management center. The proposed the regional project fully incorporates the results and the planned activities under the IPM element of this project.

III. Recommendation

From the above discussion, it is determined that the project supplement will not have a significant direct effect on the environment. A negative determination is recommended.

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