

PROJECT EVALUATION SUMMARY (PES) – PART I

Symbol U-447

1. PROJECT TITLE Agribusiness Employment/Investment Promotion			2. PROJECT NUMBER 596-0097	3. MISSION/AID/W OFFICE ROCAP
			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <u>84-1</u>	
			<input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION	
5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY <u>81</u>	B. Final Obligation Expected FY <u>81</u>	C. Final Input Delivery FY <u>84</u>	A. Total \$ <u>14,800</u>	From (month/yr.) <u>Sept. 1981</u>
			B. U.S. \$ <u>6,000</u>	To (month/yr.) <u>Oct. 1983</u>
			Date of Evaluation Review <u>Nov. 1983</u>	

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

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., alrgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
Continue to work with Central Banks in order to resolve the problems caused by the lack of foreign exchange.	LAAD	

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

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

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

A. Continue Project Without Change

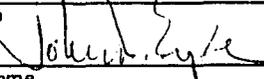
B. Change Project Design and/or Change Implementation Plan

C. Discontinue Project

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


Rafael Franco
ROCAP Evaluation Officer

12. Mission/AID/W Office/Director Approval

Signature 

Typed Name
John R. Eyre

Date
12/22/83

13. Summary

LAAD-CA has faced considerable external problems and constraints which have affected project implementation. Worsened regional business conditions, foreign exchange shortages and nationalization of its Nicaragua portfolio required that LAAD-CA devote a major portion of its time to managing its old portfolio, working with its clients on rescheduling debts and with Central Banks on converting local currency into the foreign exchange needed to meet repayment requirements. One consequence was that less time was available to identify and develop new subloans during the early period of the project.

In spite of the generally poor investment environment, there has been satisfactory progress toward the attainment of project objectives. Based on information and data provided by both LAAD-CA and sub-borrowers, it appears that the impact of the subloans will be strongest in terms of foreign exchange earnings generated. Impact on income, based on independent producer purchases, also appears to be very good. The area where the impact is expected to be less significant is in the creation of new employment opportunities.

LAAD-CA's procedures for subloan identification, assessment and approval are well established and are one of the strong features of its operations. LAAD-CA has managed to keep its staff small while maintaining consistently high quality in the management of its portfolio. All sub-borrowers stated complete satisfaction with their relationship with LAAD-CA and with the rapidity with which it processes and disburses loans.

LAAD-CA's present strategy is to: (a) draw down quickly the remainder of the AID loan with subloans that meet project objectives; (b) continue to be active and visible in agribusiness lending; (c) continue to maintain appropriate levels of cash flow, liquidity and bad debt reserves by working with Central Banks to receive dollar payments from sub-borrowers; (d) maintain profit levels and thereby credibility with international lenders; (e) avoid foreign exchange problems by concentrating on short-term export oriented subloans which include retention arrangements in the U.S., and by making loans in Panama (which uses the U.S. dollar as its currency); and (f) be prepared to make term loans in the future.

This strategy has evolved over the past two-three years in response to the continuing economic crisis in Central America, and in particular to the shortage of foreign exchange. While this has led to a somewhat smaller number of subloans, primarily with older, more established clients, the consultant and the Mission agree that it is appropriate at this time and will allow LAAD-CA to remain in a position to broaden its lending activities once conditions permit.

14. Evaluation Methodology

This is the first evaluation of the loan and it covered the period September, 1981, to October, 1983. The evaluation focused on the subloans made by LAAD-CA under AID Loan No. 596-T-017. The assignment was carried out by one consultant, a senior development economist, over an 18 day period. Findings are based on information obtained from visits throughout the region to the sites of each of the 8 subloans which were active at the time of the evaluation, as well as from interviews with LAAD-CA, its borrowers and ROCAP.

The purpose of the evaluation was to:

1. Review LAAD-CA's procedures for identifying and assessing potential subloans, including analysis of the technical, financial and risk criteria taken into account in determining subloan feasibility.
2. Identify problems and constraints affecting project implementation.
3. Assess the extent to which progress toward the project goals is being attained, with particular attention to the outputs established in the Project Paper.
4. Recommend appropriate changes to improve project implementation.

15. External Factors

The political and economic problems of Central America have had an impact on LAAD-CA operations. Over the past three to four years, the economic problems have led to a reduction in foreign bank lending, an increase in capital flight, a reluctance to invest by both local and foreign businessmen, and a reduction in demand in both local and regional markets.

These factors, among others, have combined to create a severe shortage of foreign exchange throughout Central America. The lack of foreign exchange has caused observable changes in LAAD-CA's lending strategy, since it lends and requires repayment in U.S. dollars. The most notable strategic difference is a stronger orientation on financing nontraditional agricultural exports which, because they earn foreign exchange, also generate the hard currency needed to repay debts.

16. Inputs

ROCAP inputs to the project consist of funds to finance agribusiness activities over a three year period. Funds have been available on a timely basis. LAAD-CA anticipates drawing down on the remainder of the AID loan much sooner than the September 30, 1984, PACD. The Mission will not have any difficulty providing the resources to meet an accelerated disbursement schedule.

17. Outputs

The project's outputs as stated in the Log Frame are:

1. Sub-project identification, promotion and development.
2. Technical assistance provided to sub-projects.

The consultant determined that progress towards meeting intended outputs has been satisfactory. LAAD's procedures for identifying potential sub-borrowers were found to be adequate.

Procedures for assessing potential sub-borrowers are well established and are one of the strong features of LAAD-CA operations. In analyzing a potential subloan, LAAD-CA reviews: (1) adequacy of management; (2) availability of raw materials supplies; (3) existence of a reliable market for the finished product, (4) the existence of adequate transportation, warehousing and handling services; (5) technical soundness; (6) profitability; and (7) ability to repay. The comprehensive nature of the assessments provides LAAD-CA with excellent information on which to base a decision to fund or not to fund a subloan.

As a means of further assessing project progress, the consultant made additional calculations on the potential economic impact of the subloans with the following results:

1) Exports

Assuming full disbursement of the AID loan, the increase in exports as a result of the loan is projected to be \$17.5 million, thereby exceeding the Project Paper objective of \$15 million.

2) Imports

Imports, consisting mostly of equipment needed for producing and/or processing the export commodities, are estimated to increase by \$3.5 million. This is significantly less than the \$7-\$8 million estimated in the project design and reflects, on one hand, the inability to import because of foreign exchange shortages and, on the other, the fact that a large portion of materials needed for agribusiness production are available locally. Also, most of the sub-borrowers under the loan to date are not new enterprises and, therefore, do not require major capital investments that might involve importing equipment and materials.

3) Foreign Exchange

The projected increase in foreign exchange earnings (once all of the AID funds are disbursed) is estimated to be \$12.9 million. This exceeds the Project Paper estimate of \$7.2 million and is a direct result of the expected higher level of exports.

The area where the impact of the subloans is expected to be least significant is direct new plant employment and income. An increase of 126 new workers and a corresponding payroll increase of \$131,000 has been projected. However, the impact on small farmer participation (considered to be indirect employment) is expected to be significant. An estimated 5000 small farmers are projected to provide raw materials to agribusiness firms borrowing funds under the loan.

With reference to the second output, technical assistance, LAAD-CA has provided only limited assistance to its borrowers. The borrowers contacted described LAAD's activities as strictly

those of a lender. While several borrowers need to improve managerial, marketing and technical skills, they also recognize their problems and appear to have the capability to resolve them. However, they are unable to satisfy all the technical assistance requirements of their raw material suppliers (small farmers, independent fishermen). Every sub-borrower who purchased his raw material from such suppliers cited opportunities where technical assistance and training could be fruitfully applied. They also indicated a willingness to contribute to financing the cost of such assistance and would welcome LAAD-CA's help in identifying sources for the assistance.

18. Purpose

The project purpose is to expand private agribusiness investments in Central America. The problems and constraints caused by the lack of foreign exchange and the worsening of business conditions in Central America have had an adverse effect on agribusiness operations in the region and have created a special challenge for LAAD-CA in working to achieve the stated purpose. LAAD-CA has been successful thus far in dealing with these problems and constraints and has provided resources to expand private agribusiness activities in the region. Although these problems remain, LAAD-CA continues to identify potential sub-borrowers in the small and medium sized agribusiness sector who also offer the possibility of increased employment and income of the rural poor. By continuing with its efforts, LAAD-CA is expected to achieve the purpose that has been set for the project.

19. Goal/Subgoal

The goal of the project is to improve the standard of living of the Central American rural poor. The subgoal is to stimulate economic and agricultural growth, create employment, and increase rural incomes.

20. Beneficiaries

The primary beneficiaries of the project are the rural poor. In the subloans made at the time of the evaluation, agribusinesses receiving financing have reached this target group through some direct employment generation in the industries, but, more significantly, through backward linkages to the production of raw materials and the employment opportu-

nities they have created. Specifically, the evaluation noted that subproject activities have encouraged small farmers to increase or diversify production in order to supply raw materials to the processing facilities.

21. Unplanned Effects

Worsened regional business conditions, foreign exchange shortages and nationalization of its Nicaragua portfolio have affected project implementation. LAAD-CA staff time has been devoted to resolving problems with its older portfolio which developed as a result of this situation. Consequently, LAAD-CA's ability to identify and develop new subloans was somewhat restricted in the early period of the loan. However, having resolved some of these problems, implementation is proceeding smoothly.

22. Lessons Learned

LAAD-CA is a useful channel through which AID/ROCAP can direct funds to benefit the private sector in Central America. Its operations complement well AID's Caribbean Basin Initiative in Central America.

23. Special Comments or Remarks

None

ATTACHMENT: Evaluation Report of the
Agribusiness Employment/Investment
Promotion Project