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

rec'd 5/2/79
abs 5/10/79

1. Mission or AID/W Office Name
USAID/Peru

2. Project Number
527-W-057

3. Project Title
Rural Enterprises Development

4. Key project dates (fiscal years)
a. Project Agreement 11/25/1974 Signed (FY 75)
b. Final TCD Obligation 1980
c. Final TDD input July 31, 1980 delivered

5. Total U.S. funding - life of project
\$ 8,300,000

6. Evaluation number as listed in Eval. Schedule
3

7. Period covered by this evaluation
FROM: January 1977
TO: February 1, 1979 *
Month/year Month/year

8. Date of this Evaluation Review
February 1, 1979 *
month/day/year

9. Action Decisions Reached at Evaluation Review, including items needing further study (Note--This list does not constitute an action request to AID/W. Use telegrams, airgram, SPARS, etc., for action)

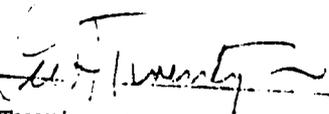
1. Interest rates need to be re-evaluated and increased.
2. Bank's data processing capacity needs to be upgraded to comply with regular reporting requirements.
3. Program remainder of Technical Assistance Funds.
4. Additional personnel and vehicles needed.
5. Streamlining the loan review process.

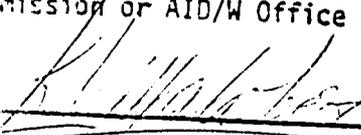
10. Officer or Unit responsible for follow-up
Mission Project Manager
"
"
"
"

11. Date action to be completed
ACTION COMPLETED
12/6/78

* The evaluation formed a part of the intensive review process for the development of Rural Enterprises II PP. The findings which affected the operation of the ongoing project were communicated to the BIP in writing on 6/29/78. The BIP took action on all points and communicated these to A.I.D. on 12/6/78. The process included a meeting between the USAID/Mission Director, Project Manager and BIP Senior Management.

12. Signatures:

Project Officer
Signature: 
Name: Lee Twentyman
Date: March 2, 1979

Mission or AID/W Office Director
Signature: 
Typed name: Ricardo Villalobos
Date: March 2, 1979

13. SUMMARY - Summarize in about 200 words the current project situation, mentioning progress in relation to design, prospects of achieving purpose, major problems encountered, etc.
14. EVALUATION METHODOLOGY - Describe the methods used for this evaluation, i.e. was it a regular or special evaluation? was it in accordance with the Evaluation Plan in the PP with respect to timing, study design, scope, methodology and issues? What kinds of data were used and how were they collected and analyzed? Identify agencies and key individuals participating and contributing.
15. Documents to be revised to reflect decisions noted page 1 (other side:)
- Project Paper (PP) Logical Framework CPI Network Financial Plan
- PIO/T PIO/C PIO/P Project Agreement Other
- This evaluation brought out ideas for a new project -- a Project ~~Identification Document~~ (PID) will follow.

13.- Project Summary

The Rural Enterprises Development Loan No.527-W-057 - Industrial Bank (BIP) portion has approved more than 3000 credits to small rural enterprises. USAID accounting records show sub-loan disbursements reaching approximately US.\$6.1 million or approximately 75% of the total allocation.* The original loan allocation for the BIP was increased by the full deobligated sum from the ORDEZA portion amounting to US.\$2,300,000 by Amendment No.1 to the Loan Agreement dated August 3, 1977. The Project fell behind in its disbursements (dollar terms) due to rapid appreciation (over 200%) of the US dollar vis-a-vis the sol during a 12 month period. As a result a one year extension to the TCD and TDD was granted by AID/W -- current TDD and TCD are July 31, 1980 and January 31, 1980 respectively. The Project started its sub-lending operations in four Peruvian departments but as a result of program success it was extended to an additional four sierra departments through Amendment No.1 to the Loan Agreement.

During the initial stage, sub-lending operations were sluggish due to administrative constraints but during the last three years the lending levels have increased considerably, and the Bank has consistently met its lending targets (in sol terms). The evaluation revealed several administrative actions which were needed to further improve the Fund's performance. At this writing the BIP and A.I.D. have discussed all of these points and the BIP has taken action, resolving them. These actions are summarized below:

1. Interest rates for the Fund were originally established to be promotional in nature to assist the FDR** Fund in meeting its objectives of assisting the sierra entrepreneur who does not normally have access to regular commercial credit lines. A.I.D. does not now support this concept of negative interest rates which are as low as 5% to 11% per year. National interest rates have risen substantially since the establishment of the FDR's interest rate schedules. The FDR's current rates should continue to increase so that they are consistent with other development lines of credit available in Peru.

2. The Mission has been receiving implementation reports on an irregular basis. The problem is that the Project is too large to allow efficient hand manipulation of data. The evaluation revealed the need to computerize the FDR Fund's data base.

* Includes \$800,000 disbursement in process.

** FDR is the name of the revolving credit fund which was created with A.I.D. funds.

3. Technical assistance funds have not been fully utilized. These funds need to be programmed for the purchase of additional vehicles for the four new departments (resulting from Amendment No.1), increased BIP data processing capability, short-term training and international travel.

4. Loan Amendment No.1 was signed on August 3, 1977 and extended the FDR Fund's operation into four new sierra departments (Huancavelica, Cajamarca, Apurimac, and Huánuco). While lending activities are being carried out in these new departments, most notably the departments of Huánuco and Cajamarca, additional personnel and vehicles are needed to allow FDR operations to reach their full potential.

5. The two departments which have the largest FDR Fund portfolio are Cuzco and Huancayo. These two departments appear to have reached physical limitations in expanding the number of sub-loans which they can make. Increased sub-loan approval authority at the Branch level would help evaluate this problem along with additional personnel and vehicles.

14.- Evaluation Methodology

This third evaluation of the Project has been conducted within the guidelines of the Project Paper's evaluation plan. The evaluation has been a joint effort of the BIP, A.I.D. and two short-term contracted consultants. The purpose of the evaluation was to appraise the degree to which project targets are being attained, to identify constraints hindering project implementation, to recommend appropriate actions, and finally form : an integral part of the intensive review process for developing a proposed follow on A.I.D. loan. The evaluation was carried out over a period of several months. The approach to data collection was as follows: (i) review of baseline data contained in Mission implementation files and BIP Lima based headquarters; (ii) determination in Lima of additional information necessary for the evaluation; (iii) communication to field offices of necessary data requirements; and (iv) field visits to obtain and verify information and to interview sub-borrowers on a random basis.

The short-term consultants (contracted for four weeks each) focused on economic, financial, administrative, and sociological issues.

16.- External Factors

This project was conceived and initiated its implementation after a drastic restructuring of the Industrial Sector by the Revolutionary Government. Since then, two important events have taken place:

(i) issuance by the GOP of a decree law defining and expanding the field of actions of small enterprises, providing also more simplified procedures for forming such enterprises; and (ii) greater reliance by the GOP on the private sector for accelerating industrial growth, even in areas previously reserved for the State. These two factors have had a favorable impact on the Project in expanding the effective demand for funds.

Although the host government still considers urban and rural industry development a priority sector, the financial crisis has forced GOP agencies to curtail their operational budgets in support of already established development programs. The industrial sector institutions are not exempt from this austerity.

17.- Goal Findings

The goal of this Project is to generate and increase income of the rural poor in the Peruvian Sierra and Ceja de Selva. The sub-goal is to increase employment and productivity levels in the target area.

Specifically, the activities of this Project in the selected rural areas are intended to contribute to:

- i) the creation of employment;
- ii) the development and strengthening of rural enterprises;
- iii) the generation and distribution of income; and
- iv) a higher level of economic activity in several of the poorer regions of Peru.

To date more than 3000 credits have been extended for the creation and expansion of small enterprises. A recent study calculates the cost per permanent job created to be averaging less than \$2,500. This figure is considered to be outstanding for rural enterprises programs in general and compares well the \$50,000 needed to create a permanent job in the larger scale Peruvian industrial sector. Projects have been averaging value added coefficients in 30%-50% range depending on geographical location, 15% is normally considered to be good. (Note: this data was developed during the intensive review for Rural Enterprises II PP which contains a more in-depth evaluation of the Project than space here allows.)

18.- Purpose Findings

The purpose of this Project is to develop and expand rural small enterprises by improving the access of such firms to credit and related technical assistance.

End of Project Status

1. A revolving credit fund serving the financial and technical needs of small enterprises in eight sierra departments.

Indicators of Achievement

The fund is currently lending in all 8 departments, has disbursed approximately \$10.2 million (loans + counterpart), to more than 3000 enterprises with a delinquency rate of less than 7%.

2. Small enterprises development lending terms incorporated within the BIP.

Indicators of Achievement

Bank is operating the program using lending terms which are considered "developmental". As evidenced by the Bank's use of the following:

- i) debt/equity ratios of up to 90/10
 - ii) adoption of flexible collateral requirements accepting the following conditions to meet loan guarantees:
 - 100% mortgage value
 - 100% equipment purchased
 - 250,000 soles Banco de la Nación loan guarantees
 - use of cosigners
 - iii) no restrictions on working capital as percentage of total loan
 - iv) loan terms are averaging 5-6 years.
3. Institutionalization of the small enterprise lending concept within the Industrial Bank.

Indicators of Achievement

The FDR Unit has been created which reports directly to the BIP's financial Manager. Further the BIP has fully institutionalized technical assistance to the sub-borrower no longer relying on A.I.D. financing and private consultants to do so.

19.- Input Findings

Up to the time of the evaluation, the availability of Inputs either from A.I.D. or the BIP has not been a serious problem. The institutionalization of the sub-borrower component did however require that technical assistance funds be reprogramed. The re-programed funds will finance additional vehicles, calculators, data management equipment and training.

With respect to outputs it should be mentioned that Project financial resources are being mobilized as expected (i.e. creation and expansion of new rural enterprises). So far more than 3000 credits have been extended. The Project Administration Unit is operating as a Unit under the Financial Manager of the BIP. Also, as was indicated in the summary, the Project is operating in eight Peruvian Sierra Departments instead of four as originally designed. The Project has been actively promoted and publicized through regional round table discussions, radio, newspapers, word of mouth, and pamphlets.

20.- Unplanned Effect

No unplanned effects have been detected by the evaluation with respect to changes in social structure, environment, health or economic situation.

21.- Changes in Design

The evaluation reveals that the original project design is still valid. The technical assistance funds had to be reprogramed as a result of the unexpected institutionalization of the technical assistance component.

This loan has already been redesigned through the transfer of money away from ORDEZA the other implementing agency to the Industrial Bank -- no additional changes to project design are needed.

22.- Lessons Learned

That institutional changes come slowly and that more time should be allowed for that process to take place.

23.- Special Comments or Remarks

Please see the Rural Enterprises II PP for an in-depth review and analysis of small rural enterprises lending in Peru.