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A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE

IDENTIFICATION DATA

A. Reporting A.I.D. Unit:
Mission or AID/W Office USAID/El Salvador
(ES# ______ ______)

B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan?
Yes [ ] Slipped [ ] Ad Hoc [X]
Evaluation Plan Submission Date: FY ____ Q ____

C. Evaluation Timing
Interim [X] Final [ ]
Ex Post [ ] Other [ ]

D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
519-0307	Agrarian Reform Financing	7/31/86	7/31/91	50,000	40,264

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
ACTIONS	OFFICE	DATE
1. Issue a PIL to authorize the use of interest earnings to cover project administrative costs including credit agents assigned to banks.	RDO/PRJ	12/88
2. Increase the responsibilities and authority of the BCR Coordinating Unit for day-to-day management of the project.	RDO/BCR	01/89
3. Delegate authority to intermediate banks to approve investment loans up to ₡1,000,000.	RDO/BCR	01/89
4. Present findings of credit delivery study in a one day seminar.	ASU/BCR	12/88
5. Investigate the feasibility of using project resources to establish a trust fund to finance high risk, non-traditional projects.	RDO/ASU	06/89
6. Prepare training plan for 1989 placing emphasis in training activities related to the delivery of credit.	BCR/ASU	12/88
7. Establish a policy studies committee to plan, coordinate and implement the policy studies and seminars component and develop an annual work plan for 1989.	BCR/ASU	01/89
8. Eliminate the savings mobilization component.	RDO/BCR	03/89

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) (Day) (Year)

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	JITorrico, RD DEHarrington, RD		HDMedina, DPP TMcKee, DPP	WKaschak, AMDP
Signature	CJWeber, A/RDO			
Date			6/2/89	6/21/89

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The project aims to increase reform sector families' incomes by increasing production and productivity. The project, which is being implemented by the Central Reserve Bank of El Salvador (BCR), has four components:

a) A $ 60 million rediscount line of credit to be used by the commercial banking system.
b) A training program for credit agents and bank officers.
c) A policy studies and seminar program to explore issues relevant to financial markets.
d) A pilot savings mobilization program to assist the Agricultural Development Bank (BFA) in its program of capturing deposits.

This mid-term evaluation was carried out by a contracted team of four persons. The team completed in depth interviews with BCR senior officials and visited with appropiate officials of commercial banks and the BFA. Field trips were made to 14 Phase I cooperatives and to 1 group of 207 decree beneficiaries. Officials from USAID, Arizona State University (ASU) and Salvadoran Bankers Association (ABANSA) were interviewed with respect to their roles in the project. The evaluation was carried out to:

a) Assess effectiveness of the project in channeling credit resources;
b) Assess effectiveness of the technical assistance and training to BCR and bank officials;
c) Examine the performance of BCR's coordinating unit and credit agents;
d) Assess the potential of capturing deposits in BFA; and
e) Assess adequacy of the project design, choice of technical instruments and the controls.

The major findings and conclusions are:

a) The volume and type of loans approved to date are satisfactory; however, there exists a bureaucratic and bothersome credit delivery system for investment loans in BCR;
b) Lack of authority of coordinating unit to make opportune decisions;
c) Unclear definition of training objectives;
d) Lack of agreement between BFA and USAID on how to implement this project component; and
e) Banks' reluctance to finance products with which the beneficiaries are not familiar.

Major recommendations are:

a) Delegation of authority for the approval of some investment loans to banks.
b) Provide specific project-related training to credit agents.
c) Prepare a plan for the development of studies, research and seminars.
d) Restructure technical assistance as required to support resolutions reached between USAID and BFA.

COSTS

I. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Robert E. Laport	Development Associates	84 person/days	$59,000	519-0307 Agrarian Reform Financing
Manuel R. Salsa	Development Associates			
Donald Swanson	Development Associates			
Percy Avram	Development Associates			

2. Mission/Office Professional Staff Person-Days (Estimate) 4

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 15

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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report:
USAID/El Salvador	June 8, 1989	Agrarian Reform Financing Project A.I.D. 519-0307 Mid-Term Evaluation

Project Goal and Purpose

The Project was specifically designed to promote investment credit. It was assumed that investment credit would permit increased diversification of agricultural production. New opportunities are expected to arise from the greater availability of investment credit.

The goal of the project is to increase the economic well being of farm families in the reform sector by increasing production and productivity. The purpose is to increase the availability and productive use of credit in the reform sector. The project consists of four components:

1) A $ 60 million rediscount line of credit through the banking system.
2) A training program for credit agents and bank officials.
3) A policy studies and seminars program to explore issues relevant to financial markets.
4) A savings mobilization program to assist BFA in expanding its program for capturing deposits.

Purpose of the Evaluation and Methology Used

This mid-term evaluation was carried out to appraise progress made in implementing the Project, identify elements constraining its successful execution and, based upon the constraint analysis, to recommend alternative procedures and policies to achieve project goals. Specifically, this evaluation is concerned with:

1) Assessment of the effectiveness of the project in channeling credit to target clientele;
2) The effectiveness of technical assistance and training;
3) The organization and/or performance of the BCR coordinating unit, and credit agents assigned to the banks;
4) Assessment of the potential of capturing deposits in the BFA; and
5) Assessment of the adequacy of project design, choice of technical instruments, and of the administrative controls.

A four person team devoted 84 person-days assessing progress within each of the four project components. The team completed in depth interviews with the BCR senior officials, conducted studies of the agricultural departments of the ten commercial banks and visited with appropiate officials of BFA. Field visits were made to 14 Phase I cooperatives and to one group of 207 beneficiaries. The team also interviewed officials from USAID, ASU and ABANSA. The evaluation was reviewed in draft by USAID prior to departure of the team from El Salvador. The final version of the evaluation includes comments and observations from the review meeting.

Findings and Conclusions

The findings and conclusions are listed by project elements:

1) Rediscount Line

   a) The assumption that there is a lack of access to long-term credit, and a lack of managerial ability, and marketing abilities in the reform sector is still valid.
   b) The economic impact on the better managed cooperatives has been substantial.
   c) The loan approval process is satisfactory with respect to seasonal crop loans; however, there exists a time consuming duplication of effort in the analysis and approval of investment loans.
   d) The rediscount line as presently designed is adequate to meet the needs of the agrarian reform for traditional crop lending; however, the banks are extremely reluctant to finance products with which beneficiaries are not familiar.
   e) Monitoring and control aspects are sound and project follow-up is performed on a regularly scheduled basis.
   f) Credit agents have been an important factor in the movement of credit and the abrupt withdrawal of funding for this component threatens to disrupt the project.
   g) The banks' success in serving the Phase III borrowers has not been satisfactory.
   h) The group lending applied to reach Phase III borrowers has been marginally successful.

2. Training

   a) Twelve (27% of LOP target) short-term in-country training courses in credit, project analysis and loan monitoring have been completed.
   b) Thirteen (37% of LOP target) persons have attended four short-term out-of-country training courses.
   c) Six of the thirteen short-term out-of-country courses were not directly related to the project.
   d) Fifteen master level participants have been selected.
   e) The provision of training equipment has been completed as planned.

3. Policy Studies and Seminars

   a) An estimated five months of 45 scheduled months of technical assistance have been completed.
   b) This component lacks an overall plan.
   c) The credit delivery study has been discussed internally but has not been disseminated as planned.

4. Savings Mobilization

   a) The technical assistance to the BFA has been limited to a diagnostic study of BFA's savings mobilization system.

5. Other Findings

   a) The project design does not provide for training or technical assistance to credit users.

b) The three parties involved with the administration of Project 0307, USAID/El Salvador, the BCR, and ASU have at times not been in complete agreement.

c) Funding levels for the various components are adequate.

Principal Recommendations

The principal recommendations are listed by project elements:

1) Rediscount Line

a) BCR should delegate loan approval authority to some or all banks.
b) Make provisions for the continued payment of credit agents from project funds.
c) Continue close monitoring of loan disbursements for crop or project development, and loan collection activities.
d) De-emphasize the role of the mixed banks in servicing the Decree 207 borrowers, and strengthen the BFA to play a role in providing credit to this clientele.
e) Establish a trust fund with the banks to finance non-traditional activities.

2) Training

a) The in-country training plan should include a much more detailed statement of training objectives, goals, and out-comes expected.
b) A reorganization is warranted to turn the short-term overseas training component around to a pro-active mode based on overall project planning.
c) BCR/ASU should establish a system for monitoring master's degree students during the long-term training to assure research is related to project activities.

3) Policy Studies and Seminars

a) The BCR and ASU jointly should design a research, policy study, and policy seminar plan during November-December, 1988 for action year 1989.
b) This practical plan should support any project re-organization initiatives.

4) Saving Mobilization

a) The project should continue to provide technical assistance and training to the BFA.
b) The BFA should continue to be invited to attend BCR sponsored training.

5) Other Recommendations

a) A shift from the more academic studies and assessments to more pratical technical assistance with the BCR, mixed banks, cooperatives and the BFA.
b) Prior to the beginning of 1989 the Mission, ASU, and BCR should meet to review their roles and responsibilities with respect to the project.
c) BCR should delegate authority to the chief of the coordinating unit regarding project administrative matters.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc. from "on-going" evaluation, if relevant to the evaluation report.)

Agrarian Reform Financing Project, A.I.D. 519-0307, Mid-Term Evaluation

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

Following are Mission comments on major issues of the evaluation report.

The evaluation complies with the scope of work. The report contains a solid analysis, and points out achievements and weaknesses of the project providing workable recommendations to achieve the purpose and goal of the Project. The following major issues were identified and discussed within the Mission.

1. Lack of success of the project in reaching Decree 207 beneficiaries.* The evaluation team feels and Mission agrees that BFA's access to the re-discount line will increase participation of this type of clientele in the project.
2. Unclear definition of training objectives. The training in the original design was broadly defined to strengthen the capability of PFI's.** The general concensus was that this should continue to be the general focus. However, future training plans will follow the evaluation recommendations for more project related training.
3. Cumbersome and bureaucratic credit delivery system for investment loans in BCR. In discussion with the BCR executive personnel, it was agreed that BCR will delegate loan approval authority to commercial banks, for loans up ₡ 1,000,000 beginning January, 1989.
4. Bank's reluctance to finance products with which the beneficiaries are not familiar. Further discussions with the BCR will be followed by a policy study to elaborate the design of a recommended trust fund.
5. Changing of source of funding to pay credit agents assigned to banks. The concensus was to accept the recommendation from the evaluation to continue to support expenses of credit agents with project funds.
6. Lack of authority of Coordinating Unit to make decisions on project related administrative matters. The BCR has accepted the recommendation and will delegate the authority to the Chief of the Coordination Unit beginning in January, 1989.
7. Lack of agreement between BFA and USAID on how to implement the rural savings mobilization component. Because an agreement satisfactory to A.I.D. could be reached, the component will be dropped from the project.

* 207 Beneficiaries. Decree 207 is the implementing legislation for that portion of the agrarian reform which provided land to those who were actually working the land.

** Participating Financial Institutions.

XI-ABZ-291-A

AGRARIAN REFORM FINANCING PROJECT

AID 519 - 0307

MID - TERM EVALUATION

OCT/NOV. 1988

DEVELOPMENT ASSOCIATES
2924 Columbia Pike
Arlington, Va. 22204

Performed by:

Robert E. Laport
Manuel R. Salsa
Dr. Donald Swanson
Percy Avram

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DUE TO ITS LENGTH, THE ANNEX IS CONTAINED IN A SEPARATE BOOKLET.

ACRONYMS

ABANSA	Association of Salvadorean Bankers
A.I.D.	Agency for International Development
ASU	Arizona State University
BCR	Central Reserve Bank
ARC	Agrarian Reform Cooperatives
BFA	Banco de Fomento Agropecuario
COOP	Cooperatives
CDU	Coordination Unit
FEDECREDITO	Credit Union Federation
FEDECACES	Savings and Loans Cooperative Associations Federation of El Salvador
FINATA	National Finance Office for Phase III Agrarian Reform Lands
GOES	Government of El Salvador
IDB	Inter-American Development Bank
INCAFE	National Coffee Institute
ISTA	Salvadorean Institute for Agrarian Transformation
LOP	Life of Project
MAG	Ministry of Agriculture and Livestock
Mz	Manzanas
OPI	Irrevocable Payment Order
PFI(Mixed Banks)*	Participating Financial Institutions *Includes Banco Hipotecario which is a private bank.
USAID	Agency for International Development of the United States

LICOA	Law of Credit Institutions and Auxiliary Organizations
IFAIN	Latin American Institute of Agro-Industrial Promoting
ALIDE	Latin American Association of Development Financial Institutions
CCA	Contracting Corporation of America

EXECUTIVE SUMMARY

PROJECT	:	Agrarian Reform Financing Project No. AID 519-0307
PROJECT DATES:		July 31, 1986 through July 30, 1991
FUNDING	:	$50 million grant:$17 million GOES counterpart
EVALUATION	:	Mid-Term, October/November 1988
CONTRACTOR	:	Development Associates

PROJECT GOAL : To improve the economic well being of agrarian reform sector farm families. This goal, as measured by increases in net family income, will be achieved through increased productivity of land and labor.

PURPOSE : To increase the availability and productive use of credit in the agricultural reform sector.

The Agrarian Reform Financing Project No. AID-519-0307 is a five year project implemented by the Banco Central de Reservas de El Salvador (BCR) to increase the availability and productivity of credit in the reform sector. The project consists of four components:

1. A $60 million rediscount line of credit for use by the 10 mixed banks (PFI's), and the Banco de Fomento Agropecuario (BFA) when eligible, for funding loans to Phase I cooperatives and decree 207 farmers (finateros).

2. A training program for credit agents and bank officers and employees to improve the agricultural credit delivery system.

3. A program to develop policy studies and seminars to explore issues relevant to the goal and purpose of the project.

4. A Savings Mobilization Program to assist BFA in pursuing its program to mobilize rural savings.

Arizona State University has been selected to provide technical assistance to the BCR.

EVALUATION METHODOLOGY

A four person team devoted 84 man-days assessing progress within each of the four components to date. Special emphasis was given to the credit delivery system, the amount, type, and purpose of loans approved through 9/30/88, and perceived constraints to the efficient delivery of credit. Recommendations for improving the system are offered. The training effort and the policy studies area which directly support the credit delivery system have been thoroughly reviewed, as has the Savings Mobilization Program. The evaluation team was also asked to review organization, administration, and funding, and to study the adequacy of the original project design in light of experience thus far; team comments and recommendations were requested regarding changes in emphasis which have since taken place that are not contemplated within the original framework of the project.

The team has completed in depth interviews with the BCR senior officials in all departments involved with the project, conducted studies of the Agricultural Lending Departments of the 10 mixed banks* where loan documentation was reviewed, and visited with appropriate officials of BFA. Field visits were made to 14 Phase I cooperatives and to 1 group of 207 borrowers so that the team could develop an informed opinion of credit user capabilities and constraints. Officials from USAID, ASU and ABANSA were extensively interviewed with respect to their roles in the project. In all, the team conducted over 80 interviews and performed a significant sample of loan and other documentation. Lastly, the team read numerous reports and other background material relating to the agrarian reform in general, and projects 0263 and 0307 in particular.

FINDINGS AND RECOMMENDATIONS BY COMPONENT

1. Use of the Rediscount Line of Credit

Given the development and use of a new system employing credit agents inexperienced in lending money, and the very late entry of the Technical Advisor into the project, the evaluation team believes that credit line usage to date can be considered satisfactory.

Of 135 Phase I cooperatives assigned to the 10 mixed banks, 88 (or 65%) had received loans since the inception of the project. The banks and BCR had approved 81 seasonal crop loans (₵ 67.9MM) and 111 medium term investment loans (₵ 38,3MM) for a total of 192 loans for ₵106.2MM ($21.3MM).

Funds available for the rediscount fund, obligated as of 9/30/88 from the AID grant, were $36.5 MM. Utilization is 58% againts this amount. Since $6.2MM of crop loans have been repaid and the fund replenished by that amount, the utilization rate of all funds available was 50% as of 9/30/88.

*NOTE: Although Banco Hipotecario is a private bank, the nine mixed bank and Banco Hipotecario are referred to as "mixed banks" throughout this report.

As requested by BCR early in the program, seasonal crop loans are 95% employed to finance the coffee crop. Medium term investment loans have been used for replacement of coffee trees (16 for ¢ 4.4MM); planting new coffee acreage (13 for ¢ 3.3MM); equipment (29 for ¢12.3MM); livestock and poultry (23 for ¢ 8.1MM); other crops (24 for ¢4.1MM); and infrastructure (6 for ¢6.3MM).

The evaluation team was unable to determine the degree to which the loan spread provides the incentive for active participation in the project by the mixed bank. Those that are active believe that they are making money, and their profitable cooperative customers are often substantial depositors. The less active banks do not believe that this is profitable business, but also have other reasons for their inactivity including fear of eventual loss due to mismanagement by the cooperative. Also, competition from other less expensive (to the borrower) BCR rediscount lines will be used first, thereby reducing and delaying the usage of 0307 funds.

The team's evaluation has established that the repayment experience of the banks thus far has been good in connection with 0307 loans. Only cooperatives deemed creditworthy are receiving loans. Furthermore, only crop loans have matured and been repaid as most investment loans are still within their grace periods for repayment of principal. Payment experience is yet to be determined with respect to these loans.

Forty-seven (35%) of the cooperatives assigned to the mixed banks have not received credit under 0307. The two reasons commonly given are a record of default or insolvency, or location in a conflict zone.

The position of credit agent is utilized to facilitate this project. These are agronomists, originally 20 but now 15, who were chosen to receive credit and project development training. They are the primary contact between the mixed bank and the cooperative or 207 farmer group. The credit agents still lack many project development and analytical skills, however they have generally done an excellent job for the project and for the banks to whom they are assigned. From inception until year end 1988, the credit agents are compensated through BCR counterpart funds. Beginning next year, they are to be paid by the bank to which they are assigned if considered sufficiently productive. The team is concerned that several of the banks who are only slightly active in lending 307 funds will use this change as an excuse to drop out of the program, and that even the active banks will divert the attention of the credit agents retained to purposes other than the furtherance of 0307.

The Coordinating Unit within BCR was established specifically to support the credit agent effort. They assist when necessary, and have been active in promoting farm management and crop improvement activities, along with the credit agent, at the cooperatives. This Unit must review and give its "visto bueno" to all investment loan applications submitted by credit agents before being presented to the mixed bank for approval.

/ W

BCR has delegated loan approval authority for project 0307 seasonal crop loans to the mixed bank. As a result, crop loans are generally processed and approved within two weeks to one month of the receipt of the application from the cooperative. An investment loan application, which has been prepared by the credit agent, contains a detailed feasibility study which must be checked and signed off by the BCR Coordinating Unit. Since, after approval by the mixed bank Board of Directors, it must be reviewed by the Financial Analysis Department of BCR, approved by the BCR Credit Committee and the Board, approvals take from three to six months. Since inception, if BCR had delegated investment loan approval authority to the PFI's as follows, the chart shows the number of loans which would have been approved without BCR intervention:

up to ₵ 250 M	67 loans	60% of loans
up to ₵ 500 M	95 loans	86% of loans
up to ₵ 750 M	101 loans	91% of loans
up to ₵ 1 MM	104 loans	94% of loans

Loan monitoring and control is well established, and in the opinion of the team, tightly constructed. Control over the disbursement of loan funds is managed directly by the bank so that funds are spent for the purposes intended. These controls are costly by normal standards, but worthwhile. The credit agents frequently visit their cooperative borrowers for a variety of purposes; these visits provide the opportunity to view crop and project development, and to verify production near and during harvest. This close attention reduces, if not totally eliminates, the risk of loss through diversion or theft of a portion of the crop. The GOES procedures involving the marketing entities handling the major crops, coffee, cotton, and sugar cane, provides a market at assured prices and a mechanism for securing payment for crops delivered to the bank. Although there are often delays in receiving funds, the bank will eventually receive payment. The eventual prompt payment of principal of the investment loan portfolio will be dependent upon continued close contact between the credit agent and the cooperative borrower.

Recommendations:

a. Test loan volume sensitivity by increasing the spread to the mixed banks on investment loans approved. Reduce the spread applied to the BCR reserve fund accordingly.

b. Retain the compensation mechanism presently in operation with respect to the credit agents. As the project is gathering momentum and the initial learning phase is only just over, it is not an appropriate time to make a major change in the basic credit delivery system.

c. Remove the requirement that all investment loan applications be reviewed and approved by the BCR, and delegate authority for the approval of some or all investment loan applications to some or all of the mixed banks.

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2. Training

The development of training plans and the fulfillment of training objectives is the responsibility of ASU under their contract. Training has four sub-components; (1) short term in-country training; (2) short term out-of-country training; (3) masters-level training; and (4) providing a computerized training facility at the Salvadorian Bankers Association (ABANSA).

Twelve of 45 short term in-country courses have been completed. They have been provided almost exclusively for mixed bank credit agents in credit and project analysis and in loan monitoring. A one day seminar was recently provided for cooperative management. Training provided is adequate at the basic level, so emphasis can now be upgraded to provide the credit agent with project planning skills which can be passed on to the cooperative.

Thirteen of 35 persons have attended four short term out-of-country training programs. There have been scheduled seminars in Santo Domingo, Lima, Brasilia, and San Jose. Seven of the 13 participants were related directly to the project; two international seminars were not related to the project, and two only margainly related to project impact. This sub-component needs to be more project specific. Specially designed out-of-country training is warranted.

Fifteen of masters-level participants have been selected. Ten are slated for study at the Monterrey Technological Institute in Mexico; one is at INCAE in Costa Rica; and four are scheduled for ASU after a six months English language program. One participant is directly related to the project; eight others are within the BCR; and six are officials of mixed banks but are not themselves employed in project related activities. The selection of masters candidates involved a broad interpretation of the project design, ie., that strengthening the financial system human resources will indirectly benefit the project, as did the approval of their courses of study, as 50% are outside the scope of the project paper. Five candidates will be attending a 10 months banking course.

ASU has provided computer equipment to the ABANSA training facility and has ordered all remaining training equipment. This sub-component has been completed as planned.

Recommendations:

a. Provide specific project-related training to credit agents in planning, project identification, and marketing the project to cooperative management.

b. Provide specially designed out-of-country training to satisfy identified project training needs.

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c. Develop and implement a formal course for cooperative management in strategic planning for an enterprise, and for the development of project objectives to accomplish the strategic plan.

d. Establish a continuing (LOP) program for providing on-site technical assistance to cooperative management in developing a strategic plan and interim action plans for their own cooperative.

3. Policy Studies and Seminars

The policy studies component is the responsibility of ASU under their contract. One excellent policy study on the credit delivery system, and an inadequate draft study on the impact of credit inputs have been accomplished; the LOP target for this component is the production of twenty policy papers and/or seminars. An estimated five months of 45 scheduled months of technical assistance have been completed. This component has been incoherent, and with no overall plan. The credit delivery study has been read internally, but has not been disseminated nor used in policy dialogue as planned.

Substantial planning for the implementation of this component in a productive manner is immediately required.

Recommendations:

a. Construct a plan for the development of studies, research, and seminars which will have a direct and positive impact on the project.

b. Redesign this component in accordance with project revisions so that this component directly supports the project, i.e., it could be used to fund industry wide feasibility studies for non-traditional products. This potential requirement is not provided for elsewhere in the project.

4. Savings Mobilization

This component is the direct responsibility of ASU under their contract. Their nine months technical assistance to the BFA has been limited to a diagnostic study of BFA's savings mobilization system, and technical assistance in installing a computer system provided under a previous AID project (519-0263). Technical assistance has been temporarily suspended pending BFA compliance with AID requirements.

It should be mentioned that the BFA has had success with their own program of savings mobilization involving both a campaign to increase savings deposits at their San Salvador branches, and the upgrading and transformation of six rural locations to deposit taking as well as lending operations. A further six are programmed during the LOP.

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Recommendation:

a. Restructure technical assistance as required to support resolutions reached between USAID/El Salvador and BFA.

OTHER FINDINGS AND RECOMMENDATIONS

1. Beneficiaries

The project paper does not provide for any significant training or technical assistance to Phase I cooperatives or Decree 207 farmers in its design. At the time, training and technical assistance was being provided by third parties under other projects. The evaluation team visited a range of cooperatives (14), including those which were quite profitable and well managed to some which were very margainal, unprofitable, and poorly run. One important management requirement which was almost universally lacking is strategic planning for the enterprise, with the underlying systematic action, or project planning, which is then implemented to progress toward achievement of strategic goals. With a farming operation, this process will encompass longer range crop planning, plant and equipment requirements and how they are to be paid for, and basic infrastructural requirements. Housing, schools, health, and other social necessities form a part of the strategic plan.

Recommendations:

a. Provide for strategic and action, or project planning training and technical assistance to the cooperatives as recommended in the Training section.

2. Project Administration

The three parties involved with the administration of project 0307, USAID/El Salvador, the BCR, and ASU, have at times not been in complete agreement and have presented the other parties with different and conflicting points of view.

Recommendations:

a. Prior to the beginning of 1989, the Mission, ASU, and BCR should meet to review their roles and responsibilities with respect to the project.

b. BCR must either delegate authority to the Chief of the Coordinating Unit regarding administrative matters, or place the ASU Permanent Advisor in direct daily contact with its designated Project Director, the Vice President for Operations.

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c. ASU should strengthen its resident staff by adding a full time expert to manage the training, policy and seminar, and savings mobilization components of its contract. This would free the current Resident Advisor to concentrate on the accomplishment of overall project goals,and especially on the utilization of the rediscount facility. Redeployment of effort from Arizona to El Salvador will require that the ASU contract be discussed. This is recommended in the body of the evaluation.

3. Funding

Funding levels for the various components of the project are adequate. Some minor adjustments between components might be required in the future as needs arise, however, overall amounts are sufficient to accomplish the functions set forth within the scope of the project.

Amounts budgeted to accommodate the rediscount facility are ample at present levels of activity. However, a continued upswing in the activity of the mixed banks, the entrance of BFA into the project 0307 picture, and the initiation of a successful effort in identifying, structuring, and implementing major non-traditional product projects could result in the full utilization of grant funds ahead of schedule.

4. Adequacy of Project Design

The major change to the design of the project which USAID/El Salvador has requested be thoroughly studied by the evaluation team involves the development of capability within the 307 project to accommodate the study, evaluation, financing, implementation, and monitoring of projects to produce non-traditional products for export, or in substitution of imports. Our team findings, obtained during visits with the 10 mixed banks, indicate a deep reluctance on the part of the banks to make loans on transactions which are beyond the competence of their cooperative customers, both in technology and management terms, and which may also be beyond the competence of the bank to manage and control.

As a consequence, a specialized credit delivery system must be designed which will obviate the need for the mixed banks to assume credit responsibility for these projects, and other agreements reached, if the fund is to be utilized for these purposes. The new system, if desired, must have a built in capability to manage development lending to large, possibly highly technical projects, which will, by definition, be largely uncapitalized. AID and BCR must agree that the fund could suffer loss, if this activity is to be pursued. At present, BCR is obligated by covenant to maintain the integrity of the fund.

Recommendations:

a. Expand and strengthen the BCR Coordinating Unit to provide the capabilities required to undertake this activity.

b. Establish a delivery system which will incorporate a lender to replace the mixed bank. This might be a trust, or fideicomiso, for the administration of funds by a mixed bank.

c. Modify the grant agreement to provide for BCR down-stream grants in addition to rediscounts, and absolve BCR from risk in connection with these transactions.

The Evaluation Team very much hopes that this evaluation will prove to be a positive factor in the further successful implementation of this most important project.

A. CREDIT LINE

Objectives

USAID and BCR will constitute a $60 MM fund for use in the form of a rediscount facility by the mixed banks to fund short term seasonal crops loans and medium and long-term investment loans to the Phase I agrarian reform cooperatives and Phase III decree 207 beneficiaries. The fund will be protected by the BCR by ensuring that credit risk is taken by the participating mixed bank, and a default by a PFI will be covered by the BCR itself. The fund will increase over time through the capitalization of a portion of BCR's spread to the fund, and though the reuse of funds which have been repaid by borrowers.

The full utilization of the $31 MM portion of the rediscount fund available to the project as of end FY-88 as per table on pp.11.

Completion of Objectives

BCR was able to meet conditions precedent under the 519-0307 Grant Agreement by year end 1986, and loans began to be made by the mixed banks against the constituted Rediscount Facility in early 1987.

Pursuant to the schedule contained in the Project Paper, funds available to the Project as of end FY-88 cumulatively totalled $31 MM. The 10 mixed banks had committed 192 loans to 88 cooperatives and decree 207 beneficiary group totalling $21.3 MM, a utilization rate of 68.7%. Adjusting for $6.2 MM in crop loans which have been repaid, the utilization of the fund plus amounts repaid is 57% as of end FY-88. A breakdown of investment and crop loans is shown below:

a. 111 investment loans totalling ₡38.3MM have been approved by BCR for 69 cooperatives. All 10 mixed banks have participated to some degree. (Mixed bank have drawn down against the rediscont line in the amount of ₡ 29.9 mm as of 9/30/88.

Loans are for:

-new coffee acreage:	13 coops-13 loans	₡ 3.3MM
-replace coffee trees:	14 coops-16 loans	₡ 4.4MM
-machinery & equipment:	28 coops-29 loans	₡12.3MM
-livestock, poultry, etc:	20 coops-23 loans	₡ 8.1MM
-platano, citrus, other:	21 coops-24 loans	₡ 4.1MM
-plant/infrastructure:	5 coops- 6 loans	₡ 6.3MM

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b. 45 Cooperatives have received 81 seasonal crop production loans (avíos) totalling ₡ 67.9MM since inception. The majority of loans are for coffee which turn over once per year; small amounts for corn and beans turn over twice or more times per year. Although all mixed banks have participated, Cuscatlán, Hipotecario, and Salvadoreño loans are 61% of amounts approved:

- ₡ 67.9MM approved
- ₡ 49.1MM rediscounted
- ₡ 30.5MM repaid by borrowers since inception
- ₡ 18.5MM outstanding as of 9/30/88

47 Cooperatives, or 35% of those assigned to the mixed banks, have not received credit under 307. According to mixed banks' officials, the two primary reasons for their exclusion from the program thus far are:

-the coops are in default to the bank on loans covered by other programs, or,

-the coops are located in severe conflict zones, particularly in the Eastern part of the country.

Findings

1. Credit Line Usage

The availablility of funds as set forth within the Project Paper and usage as of 9/30/88 is shown below:

Source	FY86	FY87	FY88	FY89	FY90	FY91	Total
AID Gnt	$6mm	$9mm	$9mm	$9mm	$9mm	$4mm	$46.0mm
GOES Cpf	$2mm	$2.5mm	$ 2.5mm	$ 2.5mm	$ 2.5mm	$2mm	$14.0mm
Total FA	$8mm	$11.5mm	$11.5mm	$11.5mm	$11.5mm	$6mm	$60.0mm
Cum.Total	$8mm	$19.5mm	$31.0mm	$42.5mm	$54.0mm	$60mm	
USAGE (9/30/88)			($21.3mm)				

The cumulative amount of funds approved and committed under the 307 facility was ₡106.7MM, or US$21.3MM. It should be noted that ₡31MM in FY87 and 88 crop loans have been recovered and are available for relending. This represents an approval rate of 68.71% of the funds available under the Project as programmed, from inception through the end of fiscal year 1988. Adding repayments ($6.2MM) to funds available, the utilization rate drops to 57% at FY 88 year end. Of the $60 MM total project funds, only 36% have been utilized to date.

Of total utilization, ₡67.9MM, or 64% of the total were in seasonal crop loans. Investment loans were ₡38.8MM, or 36%. Both the Mission and BCR are desirous of seeing a significant move toward greater utilization of project funds in the improvement of the coop machinery and equipment base, in the maintenance and improvement of existing agricultural assets, and in the design and implementation of new agricultural projects, particularly in the non-traditional export, or import substitution sectors.

2. Credit Experience of PFI's

A review of the credit experience of the 10 participating banks with loans made under 307 thus far is excellent. It should be emphasized, however, that most of the 111 loans that have been approved for investment purposes are still within grace periods for the repayment of principal, so the banks have thus far only collected interest when due.

Bank loan records show that 95% of the short term crop loans are for coffee; the payment mechanism which involves INCAFE is important to understand. INCAFE is the sole purchaser of coffee; when coffee is harvested, it is delivered to a beneficador for processing. The grower takes his receipt from the beneficador to INCAFE and receives an OPI(orden de pago irrevocable) which is assigned to his bank. When the processed coffee is delivered to INCAFE, payment of the OPI will be made by INCAFE directly to the bank who reduce the coop's loan accordingly. Delays in receiving payment still occur, however, INCAFE has vastly improved its performance over that of a few years ago when extensive delays were the norm, according to our informants.

The remaining 5% of the crop loans for corn, beans, coconuts, mangos, henequén, citrus, and kenaf. Bank officials state that these require close monitoring as the marketing of the crops are uncontrolled. The credit agent must be aware of the harvest, and insure that the proceeds of the sale, when such takes place, are repaid to the bank. Although a crop mortgage is taken by the bank, close vigilance by the credit agent is necessary.

3. Loan Approval Process

a. Selection of Credit Agents

The Credit Agent is the primary contact between the bank and the borrower and plays a key role in credit delivery and monitoring.

During the design process of 307, it was determined that the shift of effort from Banco de Fomento Agricola to the mixed banks would require the services of personnel with a different background from those presently employed within the Agriculture Departments of the mixed banks. Officers would be needed who could serve the decapitalized reform sector; agronomists could be taught crop lending, project identification, and the preparation of acceptable feasibility studies to support requests for investment loans.

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BCR requested three candidates from each of the 10 mixed banks for each position to be filled, from which one would be selected. A group of twenty was eventally selected. The carrying costs of the credit agents would be covered by BCR from counterpart funds through year end 1988, and the training necessary to effect the change from farmer to banker was provided within the 307 project. The credit agent would be assigned to the bank who would direct his activities, and have the right to terminate his employment if deemed unsatisfactory. Assistance in marketing investment projects and in the preparation of feasibility studies is provided by the BCR Coordinating Unit to the credit agent.

There are still fifteen agents covered by the project working in nine of the banks, four of whom are in Banco Hipotecario. Banco Salvadoreño has released its two credit agents and has not replaced them pending a possible change in BCR's decision to discontinue funding at the end of the year.

b. Crop Loans

The basis for the crop loan is the Crop Production Plan which is prepared by the cooperative. This is a series of charts (one for each crop) which is prepared annually by the Production Committee of the coop and approved by its Board. The credit agent from its bank, and often, a member of the BCR Coordinating Unit will assist in their preparation, offering ideas and sometime projects for investment which will increase or diversify production. The data entered in the production plan is based on historical experience and last years plan, adjusted for changes which might have occured.

A chart is prepared for each crop produced which include the area to be cultivated (which may include a number of different parcels), supply requirements such as seed, fertilizer, insecticides, equipment utilization requirements (tractor- days for various purposes), and estimated man-days required to produce the crop, from planting to harvest. The inputs are costed out and compared to the estimated volume and value of the crop based upon historical yields and projected prices (INCAFE sets an internal price for coffee a year in advance ie., the price they will pay to the growers).

The coop will apply to its bank, with the assistance of the credit agent, for a loan to cover its costs as determined, crop by crop as necessary. The bi-weekly wages paid to coop members are included in these loans which permit its members to subsist from harvest to harvest, depending upon the crop cycle.

According to credit agents, they must determine that the costs projected are sufficient to produce the crop as planned, that the yields projected are reasonable, and that the prices estimated are both reasonable and will result in the coop receiving amounts sufficient to meet payments of both principal and interest on the loan and some profit margain.

According to Central Bank Officials, they have delegated approval of seasonal crop loans to Phase I cooperatives to the participating mixed bank. Therefore, when satisified, the credit agent begins obtaining the necessary approvals within his bank beginning with the Ag Credit Officer or Manager ofthe Ag Lending Department. The chain of approval usually extends through the Credit Committee, Senior Management, and the Board of Directors. Past payment experience on the part of the coop and the present level of credit borrowed from the bank are important elements which are considered in reaching a credit decision.

The mixed bank predicates its approval upon receipt of a crop mortgage and a guarantee from ISTA (Instituto Salvadoreno de Transforacion Agraria) for 50% of the amount to be loaned. The degree of support offered by the crop mortgage varies, as even coffee has been sold in contraband, but it gives the bank additional legal recourse if necessary. The partial ISTA guarantee provides some small additional support.

Mixed banks report that crop loans are approved by the banks within about two weeks of receipt of the completed application. Space on the agenda of credit committees and Board meetings is often a delaying factor.

c. Investment Loans

Pursuant to BCR requirements, the basis for approval of a medium term investment loan of any type, whether related to the purchase of equipment or the improvement or diversification of crops, is the feasibility study. This document is prepared by the credit agent in conjunction with the management of the cooperative.

The feasibility study describes the project and its purpose, details inputs which will be required and their costs, a work plan for the accomplishment of the project, the time and the amount of labor involved, and the projected output of the project which must be calculated as additional income, over time, through the sale of new or additional crops, or as a savings through increased efficiency as might be enjoyed if cost saving equipment were purchased. The overall cash flow of the cooperative and the incremental cash flow to be produced by the implementation of the project must be combined to determine a debt service ratio.

The basic format of the feasibility study is dictated by the BCR. Although there is some leeway in its preparation depending upon the size and purpose of the loan, the process takes two months. Therefore, an informal pre-approval (or rejection) procedure is in common usage within the mixed banks. The credit agent will prepare rough numbers for discussion of the transaction with the credit officers of his bank and will abort the project if he doesn't receive encouragement to proceed. As a result, the number of formal turn-downs reflects only a small percentage of number of investment loan projects which have been proposed by either the cooperative borrower or the assigned credit agent.

The credit agent also prepares the loan application which, along with the feasibility study, is submitted to the BCR Coordinating unit for review. If help is needed, this is furnished by the Unit. If in proper form and satisfactory in content to the Unit, they stamp their "visto bueno" on the application, and the credit agent then presents it to his mixed bank for formal approval.

The investment loan application will run essentially the same course through the mixed bank approval system as the application for seasonal credit. However, given the more lengthly and complicated presentation, more time is needed to complete its journey.

All investment loan applications, after approval by the PFI, must be reviewed by the BCR Credit Analysis Department which is staffed by about twenty analysts. The application is logged in and assigned to one of these analysts. There is no prioritizing of work, so the application goes on the bottom of that analyst's stack of work. Each transaction is reviewed against BCR norms; if information is missing, it is requested of the mixed bank, and the credit agent is dispatched to obtain the information. BCR requests are sometimes relevent to the proposed project's ability to repay, but, mixed bank officials report more often than not, the BCR request for information is purely bureaucratic and the request is simply to satisfy a stated norm, but one with little or no impact on the quality of the transaction at hand.

The BCR analyst is required to write a review of every transaction; a simple "approved" of a small and uncomplicated loan application is not sufficient. When the analyst's review is complete, it is read and signed off by the Chief of the Analysis Department. It then goes before the Credit Manager of BCR for approval. Subsequently, both the Credit Committee and the Board of Directors of the BCR must approve the transaction.

A clean transaction, an application which requires no requests for information on the part of BCR, might receive BCR approval in 60 days if processed at a time when workloand is low, out of season. Three to four months is more likely if the application is received at a time when BCR is receiving numerous applications under its many lines of credit for the banks. The Coordinating Unit and the banks have documented many cases where approvals have taken six to eight months when requests for additional information have been involved.

According to members of the BCR Coordinating Unit, not withstanding all of the above, the BCR has never turned down an application for an investment loan which has been previously approved by the Board of Directors of a mixed bank. All investment loan transactions applying for Project 307 rediscount funds must be approved by the bank Boards prior to submission to the BCR.

Since inception, if BCR had delegated investment loan approval authority to the PFI's as follows, the chart shows the number of loans which would have been approved without BCR intervention:

up to ¢ 250 M	67 loans	60% of loans
up to ¢ 500 M	95 loans	86% of loans
up to ¢ 750 M	101 loans	91% of loans
up to ¢ 1 MM	104 loans	94% of loans

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d. Loan Approval Experience

Given, as described above, the "informal" rejection process, the data on the number of applications submitted versus the number approved and the number rejected is incomplete. Four of the ten PFI's have submitted data covering 24 investment projects which have been turned down. Recurring reasons are 1) the coop has ceased making payments on previous loans, 2) an insolvent situation exists, 3)dissension on coop board leading to a lack of credibility, and 4) lack of experience with the product involved.

Although there is considerable disparity of activity between each of these four banks, they have collectively approved 47 investment loans; therefore, the turndown rate could be said to be 34%. Only one of these banks had turned down more investment loan applications than it has approved.

4. Monitoring and Control

a. Disbursement Procedures

Under the norms of the BCR, disbursements under approved 307 loans are effected according to precise requirements. Funds are not simply credited to a cooperative's current account upon request. If, for instance, funds under an approved loan are requested for the purchase of fertilizer, the bank is required to cut a check in favor of the supplier; the check may be sent directly to the supplier, or given to the coop management for delivery to the supplier. The bank must first have an invoice to show that the fertilizer has been delivered, or at least ordered. The same applies to the purchase of equipment or other supplies.

Labor costs (payroll) are paid every 15 days. The coop manager or members of the Board bring a "planilla", a list of all those entitled to be paid and the amount, to the bank. The bank writes a check which is then cashed, and the cash is given to the coop representatives who distribute money to the workers against receipt (their signature or mark). If the coop has funds, the check is drawn against their current account. If loan funds are involved, the portion pertaining to a particular crop or investment loan is debited to that loan. From time to time, especially during planting or harvest, the credit agent will verify the manpower involved in the preparation of a particular crop against the crop budget and the "planilla".

b. Portfolio Monitoring

The credit agent is responsible for verifying that crop budgets, against which loans have been made, are being followed. This is one of the principal responsibilities which the agent accomplishes during his periodic visits to the coop. He checks areas under cultivation, the proper application of fertilizer and insecticides, watering, weeding, and the many other chores necessary to realize a successful harvest. As an agronomist, this is his opportunity to discuss suggestions for improvements with the management of the coop, and to formulate plans for new projects jointly with management.

Investment loans are monitored in the same manner. The progress of new or replacement plantings are checked during each visit, as is work on the accomplishment of infrastructure or plant construction projects.

c. Collection

As has been mentioned, BCR will charge the reserve account of the PFI immediately following the maturity of any seasonal crop loan, or on the due date of interest or principal under an investment loan. Unless a PFI were to get into serious trouble, the BCR is without risk of loss in connection with rediscounts made utilizing 307 grant funds. GOES is assured, therefore, that the 307 fund will remain intact for perpetual use, and will grow by virtue of the portion of the interest earned that BCR will credit to the 307 rediscount fund, at least in local currency terms.

The PFI is at risk of losing its capital if its lending to the cooperative sector under 307, or other funding sources, including the use of its depositors funds, is not prudently carried out and carefully controlled.

The source of repayment, and the object of the collection process, is to insure that crops or products are sold, and that cash or accounts receivable generated from the sale find their way into the lending bank to repay the loan. Crop assignments are standard mechanisms which assign proceeds of sale to the lender, and close monitoring of borrowers during harvest seasons is necessary to insure that buyers are required to pay for their purchases directly to the bank. It is also important that, at this stage, the credit agent and coop management do their utmost to insure that products ready for market are not stolen, or otherwise diverted.

Mechanisms for liquidating sales of some of the major cash crops, coffee, sugar cane, and cotton are in place and have been described. The repayment circle, as far as the lending bank is concerned, is closed, and therefore secure. The banks major problem is one of timing, in that the receipt of cash proceeds may not coincide with the loan maturity, so it will be debited by BCR before the funds are received. The collection proceeds of major sales to local or international buyers can be similarly secured since the prospective buyer can be ordered to pay directly to the bank under the terms of the crop assignment. Small cash sales are the major problem; the agent must rely on the honesty of the coop management and his vigilance of the situation to insure that these funds reach the bank in a timely fashion.

Resolving problems of a more serious nature is also part of the collection process; a seasonal crop loan may be lost through crop failure, or a project financed under a 307 investment loan might remain incomplete when loan funds are fully utilized (a cost over-run). As established, the lending bank is left to deal with these problems and work out its solutions with the coop borrower. BCR will charge the bank's reserve account at maturity without regard to the PFI's difficulties. Thus far, no banks have suffered major loss on 307 transactions, according to our information. However, principal payments of investment loans have not yet begun to mature, and no major non-traditional product or plant loans have as yet been entered into. Crop failure and losses due to guerrilla activities have been experienced by the banks under different projects, and have had their impact on the willingness of the banks to undertake this type of business.

5. The Participating Financial Institution (PFI)

a. Function under 307

The PFI is the keystone of the credit delivery system as designed. The introduction of the credit agent concept was intended to bring new expertise to the PFI which, given its background in secured lending, was necessary in dealing with the decapitalized reform cooperatives. However, the decision on whether to approve or disapprove a loan application rests with the officers and directors of the bank. As designed, the PFI's must agree to do business with the reform sector cooperatives or Project 307 will not work.

b. Incentives.

The project provides that interest rates will be at market and will not be less than those established by the Junta Monetaria Nacional. The BCR charges the banks 11% on funds borrowed under the rediscount line. The PFI may add a spread of 4% on seasonal crop loans and 6% on medium or long term investment loans to Phase I cooperatives. Crop loans to Phase III "finateros" earn a 7% spread.

All 10 mixed banks visited have stated that they would be more disposed to enter into investment loans with cooperatives if the spread were greater. They claim the expenses in time expended to prepare the required studies and the long period between expenditure (preparation period) and the realization of earnings (the spread earned after a reasonable amount of the funds have been disbursed) is a losing, or at best, a break even proposition for the first several years of the average sized loan. The extended duration of the approval process, on a time value of money basis, is a major factor.

Similarly, all 10 banks are concerned about the quality of the management of the reform cooperatives. While some coops are better managed than others, and in fact good clients of their bank, there is fear on the part of the bank that the management or board of the coop will change, and that their economic situation will deteriorate. Pursuant to our discussions, the banks, without exception, were extremely cautious in approving 307 investment loans, and in some cases, adamantly against making such loans.

Given the above, the team was unable to categorically state that an increase in the spread allowed the banks on investment loans would result in an immediate improvement in the number and amount of investment loans approved. However we will address the matter in our recommendations.

c. Absorption Capacity of the PFI's

Annex F-1 of the Project Paper contains the consolidated balance sheet of the 10 mixed banks as of 12/31/85 and a ratio analysis. These indicate that the system was, at the time, already over-leveraged vis a vis the level permitted in the banking law (LICOA) which calls for an 8% capital requirement (capital and reserves must be 8% of loan portfolio.) That is to say that loans to net worth were 15 times, as compared to the 12 permitted by LICOA. The 90% loan to deposit ratio is also high, especially when taking into account the inadequacy of loan loss reserves and the disruption among borrowers caused by the ongoing civil strife which could have an even greater impact on bank loan portfolio quality than is reflected.

The size of Project 307 does not appear to be, at ¢300MM, so large as to cause significant further distortion to the consolidated balance sheet of the banks. The entire 307 represented 1.12 times the 12/31/85 capital and reserves of the banks, and a potential 7.6% increase of the loan portfolio. However, the banker must also deal with imposed limits on medium term loans (Art.64 LICOA) and on loans to agriculture (30% of portfolio- Junta Monetaria). The condition of a bank and the composition of a bank's portfolio, within the context of the current environment, gives the banker a ready excuse to view investment loan applications presented under 307 with the greatest reluctance.

d. The Evaluation Team has visited each of the 10 PFI's in the program. The reports of these visits are contained in Annex 1.

6. <u>New Elements</u>

In March 1988, the possibility of shifting emphasis of credit line usage from traditional crop and investment loans to project loans for non-traditional export and/or import substitution products began to be explored by AID. Investment loans have been made for minor products such as henequén and kenaf production. What AID envisions, however, are possible major project loans for shrimp farming, the planting and processing of cashew nuts and by-products, and other major undertakings which remain to be identified. Similarly, an analysis of the approximately $100 MM in annual agricultural imports from Guatemala will indicate import substitution projects which might be considered. This thrust would satisfy the additionality requirements of the project de facto, and generate additional benefits to GOES on the foreign exchange side, according to the proponents of the plan.

Findings produced by the evaluation team in interviews with members of the Mission, the BCR, the mixed banks, and beneficiaries indicate both enthusiasm and concern regarding this possibility. The mixed banks are leery of loans for the production of products with which their client cooperatives have little or no experience; they are also concerned by the amounts which, for instance, a shrimp farm project would require. Similarly, the beneficiary is aware of its lack of technical skills and project management expertise in areas in which it is not familiar. The BCR is aware that the present delivery system does not lend itself to this type of project and is studying a redesign of the organization and functioning of the Coordinating Unit to better accomodate itself to the design and implementation of this type of project.

The team has been asked to give careful thought to the delivery of Project 307 funds for non-traditional product projects, and suggest alternative mechanisms for the consideration by AID, BCR and other project participants.

Conclusions

1. The volume and type of loans approved to date are satisfactory given that lending has only been actively ongoing for the past year, especially on the investment loan side. The disparity of activity between banks is disturbing to the team; four of the banks have made 59% of the number of loans approved and 72% of the dollar volume. This indicates an unwillingness on the part of the remaining mixed banks to participate actively in the program.

The team is unable to make a concrete determination as to the acceptability of the currently applied six point spread on investment loans, or whether a wider spread would result in a proportionately greater number of approvals of investment loans. As a result of our interviews with officials of mixed banks, we suspect that greater loan activity would be realized from the active banks, but that an increase in the spread would have little effect on the inactive banks due to their apparent concerns in dealing with the reform sector.

2. The credit experience of the PFI's has been satisfactory to date, keeping in mind that principal installments on most investment loans have not yet begun to mature.

3. The loan approval process is satifactory with respect to seasonal crop loans the approval of which has been delegated to the mixed banks by the BCR.

There is a constrictive time consuming duplication of effort in the analysis and approval of investment loans. The analysis and review by the Financial Analysis Department of BCR, on top of the "visto bueno" by the BCR Coordinating Unit and Board of Directors approval by the mixed bank which bears the credit risk, is a major obstacle to active participation in the project by a mixed bank.

4. The monitoring and control aspects of credit line usage are tight with respect to controlling the use of loan proceeds through the disbursement process, and satisfactory with respect to vigilence exercised to assure the production of a crop, or the completion of a project, to repay the loan. Procedures are sound, and project follow-up is performed on a regularly scheduled basis. Reports are furnished for the loan files as required by sound banking practice.

5. Funding of the credit agents, from counterpart funds is to be discontinued at year end. The project paper calls for continuance of the credit agent program through the life of the project, but calls for a shift of payment by the banks. The evaluation team feels that a change in the support mechanism could be disruptive at a time when the program

is operating with a fair degree of momentum; project lending activity is less than two years old, and the learning process for both credit agents and their customers is still occurring.

6. The PFI's have done a satisfactory, but not entirely successful job, in servicing the reform sector cooperatives under the program. Their responsibility to serve the Phase III decree 207 borrowers has not been at all satisfactory. In our opinion, no reasonable spread will compensate for the costs involved in making and monitoring a 207 loan, about the same involved in making a loan to a cooperative, because of their very small size. A 7 point spread on a $1,000 loan is $70. Loan application preparation, and travel time and cost, will absorb this spread before the loans is booked. The grouping of 207 borrowers and the consolidation of their needs into one loan has been marginally successful, and is the only method used by the few mixed banks who are participating in the 207 portion of the program. The logical entity to service the 207 borrowers is the BFA through its extensive branch network.

The eventual qualification of BFA to participate in the 307 project will have an immediate impact on the volume of loan transactions, as one half of the Phase I cooperatives are assigned to BFA. In addition, BFA is the predominant factor in lending to the decree 207 borrowers with over 20,000 borrowers in this category. The team is not, however, in a position to predict the number nor the amount of 307 loans which BFA will generate during its first year of eligibility.

The effect of a possible adjustment in the spread earned by a PFI as an incentive to increase 307 loan activity has been discussed. The team is unable to conclude with certainty that such an action will overcome a PFI's concern over a cooperative's shakey payment history, or a perception of inadequate coop management.

Capital adequacy and other BCR requirements with respect to term loan vs. deposit ratios do not appear to be a constraint to the full utilization of Project 307 funds.

7. The new element, the introduction of the desirability of financing major projects for he production of non-traditional export products, such as shrimp, or import substitution products such as fruits or vegetables not grown in quantity in El Salvador, will require a redesign of the credit delivery system for this purpose. The mixed banks will not lend readily to projects with which the coop borrower does not have experience. A PFI may also be unable to handle the amount necessary to finance some of these projects due to the size of the project and the bank's legal lending limit. While bank sindication of large loans is a possibility, it may be preferable to develop a mechanism which would permit preparing the project feasibility study, approving the loan, and booking the loan, without intervention and without responsibility on the part of the mixed banks. The bank can still be brought into the transaction on a fee for service basis to handle loan disbursement, monitoring, and collection on behalf of the lending entity.

The locus of activity with respect to the preparation of feasibility studies (or the coordination of studies prepared by others), the obtaining of loan approval and the monitoring of project management, should be an expanded BCR Coordinating Unit. Project financial analysis would be performed by the Financial Analysis Department of BCR. Loan approval would be a function of the Credit Committee and Board of the BCR.
The lending entity could be a trust, or "fideicomiso" established for specific project purposes under the administration of a mixed bank, as provided by LICOA. The trust would be the lender to the project; as the trust would be funded directly by BCR instead of through the rediscount mechanism, Project 307 documentation between USAID and BCR would have to be amended accordingly.

A number of the projects being considered at this time require technology, and a level of management expertise, well beyond the competence of the Phase I cooperatives. To succeed, these projects will require the inclusion of qualified management or joint venture partners on a continuing basis. Legal mechanisms to protect the project from unwanted interference from the host cooperative will have to be designed. By the same token, the coop's bank would probably like to insure that its regular loans to the coop are protected and isolated from the liabilities incurred by the project. This would also facilitate a continuing flow of credit to finance the coop's traditional activities.

This objective can be accomplished through the creation of a separate legal entity for the purpose of implementing the non-traditional product project.

Project lending requires heavy legal input, especially since projects will be uncapitalized, for the most part. The sole protection to the lender will be the strength and enforceability of all contractual relationships from the construction and purchase of equipment for the project, to its operation, and to the sale of its output. Rewards for technical assistance providers can be substantial, as on incentive, but proper performance should be bonded or otherwise guaranteed so that the lender has assurance that the provider will have a double incentive to insure project success.

Finally, the expanded BCR Coordinating Unit might consider projects for cooperatives in light manufacturing involving products outside the agro, or agro-industrial field. These should be labor intensive projects accompanied by a know-how partner, and an off-take arrangement to market the output at fair prices.

<u>Recommendations</u>

1. Increase the interest rate spread payable to the mixed banks on investment loans by reducing the spread earned by BCR for the reserve fund accordingly. Test the sensitivity by measuring the volume of transactions handled subsequently.

2. Continue close monitoring of borrowers.

3. a. BCR should delegate the approval of investment loans to the mixed banks on transactions up to ₡750,000.

b. Alternatively, BCR should select several of the mixed banks, and delegate approval for all investment loan transactions originating with those banks.

c. A third alterantive; BCR should delegate investment loan approval authority to all mixed banks for transactions up to ₡ 500,000, and approval authority to certain selected mixed banks on all investment loan transactions.

4. Continue close monitoring of loan disbursements for crop or project-development, and loan collection activities.

5. Make provisions for the continued payment of credit agents from counterpart funds for the duration of Project 307.

6. a. De-emphasize the role of the mixed banks in servicing the decree 207 borrower, and strengthen the BFA to take over the principal role in this effort.

b. Provide additional loan spread as recommended in (1) above to test the degree to which earnings are an incentive as originally assumed in the Project Paper.

c. Delegate investment loan approval authority to the PFI's as recommended in (3) above to facilitate the investment loan process.

7. a. BCR should contract a study to expand and strenthen the coordinating unit. It should be reorganized to provide (1) a continuation of the services it presently provides to the credit agents and coops; (2) a new capability to include the preparation of non-traditional projects, the preparation and negotiation of contracts, and development and post-development monitoring of these projects needs to be established.

b. BCR should determine any legal constraints and than so that a Fund under Administration Trust can be established with the mixed bank which will be involved with servicing the loan on a fee for service basis, or some other vehicle.

c. AID should determine how to modify the Grant Agreement to provide for BCR funding of a Trust (or other vehicle) on other then a rediscount basis, ie., a downstream grant; the covenant that BCR will cover the loss to the Credit Fund would have to be waived in the case of non-traditional projects funded through the trusts if such losses exceed funds available in the BCR reserve fund.

B. PROJECT RELATED TRAINING

The Project-Related Training Component of the Agrarian Reform Financing Project, No. 519-0307, consists of four sub-components: 1) Short term in-country training; 2) Short term out-of-country training; 3) Masters level training; and 4) training facility improvement to AEANSA. The overall training objective is to strengthen the capability of all participating institutions to deliver agricultural credit and to appraise projects, as well as to formulate policies regarding financial intermediation and the performance of financial markets. Training programs are to be opened to employees and managers from participating institutions and professionals from the BCR's various departments, cooperative managers and administrative personnel.

This assessment provides a description of objectives, completion of objectives, findings, conclusions, and recommendations for each of the four components.

Short Term In-Country Training

Objective. The Project Paper states that in-country training is to consist of short courses in credit and bank administration, formulation and appraisal of projects, loan analysis, small farmer credit, and monetary and interest rate policies. Courses in credit preparation and supervision, banking procedures and accounting, and management of agricultural credit programs are also mentioned. It also states that there are to be 15 in-country short term courses per year, a total of 75 courses, over the five year project. The Project Agreement states the same training objectives but also adds that training is geared to credit agents, loan supervisors, loan analysts, and management level personnel. The ASU contract states the same training objectives and requires 15 in-country courses per year for four years, a total of 60 courses.

The Life of Project(LOP) objectives set by USAID/El Salvador are 45 short term courses.

Completion of Objectives. Two pre-project training activities took place during the period before the Project Agreement was signed; two other training activities took place after the Project Agreement was signed but before conditions precedent were met. Twelve project-related training activities have taken place since November,1987, representing 27 % of total project completion to date. The project has completed 45 % project completion as of October 30,1988.

Findings. The twelve short term training courses provided to date are listed below. Four training programs have been provided by an out-of-country contractor, six by Salvadorian contractors,and two in-house project advisors and USAID/El Salvador staff.

In-country training takes place at the ABANSA training facility as envisioned in the project paper and project agreement. In a few cases, seminars were held at local hotels, a resort beach hotel, or at the Ministry of Labor retreat at Lake Coatepeque. The ABANSA training facility receives low evaluations by participants (30-40% acceptance) because it is considered inadequate, noisy, and generally not a good training facility.

Training contractors have provided in most cases adequate training materials for their courses. About 90% of the materials are reproductions of articles, case studies, book chapter reproductions, translated articles, and borrowed training materials. Very few training materials have been prepared specifically for the Agrarian Reform Financing Project.

Contractor training implementation gets good marks by the participants. Overall ratings are from 70-91% acceptance. This varies from training program to training program. The highest approval ratings are for the IFAIN and ALIDE courses.

Training evaluations occur at the end of training. The BCR records are incomplete as there are evaluations for only four of the 12 courses. Evaluation sheets deal with facilities, implementation, and training satisfaction. There is no evaluation of information received, attitude change, and expected use of training in practice. The exception is the reported tests given by ALIDE of its participants.

In interviews with credit agents, we found that most appreciated the training programs and thought they were well-run. Despite the exhaustive training in 1988, they stress their inexperience at being credit agents. While training has strengthened some of their skills, they note their lack of experience in dealing with cooperatives and Decree 207 beneficiaries. They have recommended more skill training in bank marketing and clientele development mentality.

Conclusions

Short term in country training is functioning above average at this mid-term evaluation. A well-designed, planned, implemented, and evaluated training program would have much more detail and variety than encountered here. It is a reasonable and careful training program. There have been no blow-outs nor major problems. Training evaluations attest to an adequate job performed.

Recommended Actions

Recommended actions are of a corrective nature and contain both immediate actions and recommended alternative possibilities. No re-design actions are contemplated.

Corrective Actions

a. Training plan should include a much more detailed statement of training objectives, goals, outcomes expected, strategy, and impact evaluation. ASU should provide this assistance to the BCR.
It should also be realistic for 1989 and contain the numbers and kinds of courses that can be realistically programmed.

b. BCR should provide follow-up to participants to determine impact. There is a need to get information on new knowledge, attitudes, and practice changes.

c. There should be behavioral objectives for each course. There is a need for tighter control on content, skills desired, and outcomes expected.

d. BCR should to maintain accurate files on courses. Systematic review of training programs is required. Reports from instructors that include their assessment of course is required alongside the participant evaluations. Evaluations should be made not only on performance during training, but on information received and expected practices in the future.

e. BCR needs to make intensive review November-December, 1988 to set-up a systematic training program. About 50% of the detail for a well-organized training program is in place. They should put the other 50% in place now. The areas of concern are 1) needs assessment for 1989 and 1990; 2) selection criteria for training activities; 3) course content; 4) monitoring; 5) evaluation; and 6) reporting.

f. The 1989 Training Plan should reflect this thorough review. The training Plan must be carried out in coordination with the BCR Coordination Unit to support the new directions offered in 1989 in the re-direction of this project.

g. Credit agents could benefit from skills training in bank marketing and clientele development to better assist cooperative members and Decree 207 beneficiaries.

Alternative Possibilities

a. The project is not using the full capability of ABANSA and should maintain a closer relationship with ABANSA to utilize their training capability.

b. The BCR could explore setting up a self-supporting training program offered to commercial banks. This would include having banks pay for partial tuition and be partially subsidized by project funds, or even require full tuition by training participants.

c. The BCR could become much more involved in training by developing its own didactic materials, case studies, training manuals, AV training aides, and importantly having its own regular trainers to provide training programs.

2. Short Term Out of Country Training

Objectives. Training outside El Salvador is to provide a variety of training activities not found in the country and to take advantage of seminars, workshops, and observation tours that will assist the project. The Project Paper stated that the project would provide 150 person months of training in the United States or other Latin American training institutions. The Project Agreement states 150 person months for the same activities while the ASU contract states 30 overseas short courses and 90 person months for periods of five weeks, ie., apparently a disagreement between the project and ASU contract.

The USAID/El Salvador has LOP targets of 35 persons for out-of-country training.

Completion of Objectives. Three participants attended an agricultural financing workshop in Washington DC in September,1987. This is not part of the BCR nor ASU records. Thirteen other participants attended four different seminars. A total of 16 participants of 35 targeted is 46% of target. This is about even with 45% of project completed.

Findings. The five out-of-country seminars are listed below. This shows that the 16 participants have attended a total of 35 participant weeks training, or roughly 9 participant months training.

Eight of the 13 participants examined are project-related. The others are technicians and managers from the BCR.We do not have data on the three other participants attending the first workshop.

The emphasis has been on inserting participants into regularly scheduled international seminars or workshops with short duration. Four of the five workshops lasted one week. The exception is the 11 week seminar at IFAIN in Costa Rica.

Out-of-country training follows the Training Plan/1988. In all cases, except one, the seminars were part of the training plan. The exception is the seminar held in Brasilia. Participants were not sent to two overseas training programs planned at COFIDE in Peru for June, 1988 nor the seminar scheduled by ALIDE in Peru for August, 1988.

There are no records at BCR concerned with training objectives, expected outcomes, evaluation, or follow-up. Financial arrangements and payments are made from the ASU contract.

Conclusions. Based on the LOP provided by USAID/El Salvador, this project component is on schedule as planned. In relation to the PP, Project Agreement, and ASU contract, only 9 months of participant training have been provided.

The implementation program is reactive rather than proactive. It is simply easier to insert participants into regularly scheduled programs.

Recommended Actions

Corrective Actions

a. The three project parties (USAID,BCR, ASU) should agree on the output desired for this training component. This should be based on a review of overall project expectations and the value desired from this training component.

b. A reorganization is warranted to turn this component around to a proactive mode in which international training supports the project, directly based on overall project planning.

c. A concerted effort is required to set-up planning, implementation, and evaluation mechanisms.

B. Alternative Possibilities

a. The project can provide a variety of different approaches to out-of-country training that are not now being made. The proposed observation trip to Panama to observe shrimp production is one alternative. It has been demonstrated in training impact research that direct participation in participant observation has good impact. On-the-job training with credit banks, reform-sector cooperatives, and other similar programs in other countries has good training results.

b. The project could explore specially designed project-related training activities outside the country. These activities would combine seminar/workshop activities as well as participant observation. They would take advantage of projects, programs, resources, that do not exist in El Salvador.

3. Masters Degree Program

Objective. The Project Paper states that six long term scholarships were to be provided in the areas of credit and financial analysis. The Project Agreement states that six longterm scholarships were to be provided for personnel of participating banks, with preference for the most active banks. The ASU contract states that 20 participants were to be trained in long term training.

USAID/El Salvador LOP targets are 20 long term scholarships.

Completion of Objectives. Thirteen masters level participants have been approved and will be going to three different training sites by January,1989. Two additional candidates have been proposed by the BCR, and, if approved, would also begin training by January, 1989. The total of 15 participants represents 75% of target.

Findings. The BCR sent a circular to the participating banks requesting nominations for masters-level candidates. It also set up a training selection committee to assess and approve all candidates. It received 35 nominations from the mixed banks and the BCR itself. ASU played a major role in reviewing all nominations for qualifications and assessing the candidates potential for graduate level study.

The results of recruitment and assessment were that ten candidates were deemed qualified by ASU for masters-level training. Another 15 candidates were assessed to be weak and unacceptable; ten others were rejected outright as unqualified.

Language capability was an issue in selection. None of the 35 candidates had sufficient English to study in the United States. It became obvious to project staff that intensive English training would be required.

One candidate of the 15 selected is directly involved in implementing the project. He is a credit agent working for Banco Cuscatlan. All 15 candidates work for Salvadorian banks; 9 from the BCR itself; two from Banco Capitilazador; and one each from BFA, Banco Credito Popular, Banco Comercio, and Banco Cusatlan.

The original project design was for training in credit and finance. However, the 15 participants will receive masters level training in a variety of subject areas including business administration, agricultural economics, agribusiness, as well as finance. The rationale explained is that the project is intended to train personnel for the entire banking system of El Salvador rather than only for project implementation.

Ten masters candidates are to be trained at the Monterrey Technological Institute; four at ASU; and one at INCAE. The four candidates at ASU will receive English training January-June, 1989 and would most likely start courses in July or September, 1989. The Monterrey candidates are slated to begin training in January, 1989. The INCAE participant is already enrolled at INCAE starting in September, 1988.

BCR intends to support the masters participants with financial assistance for research on masters theses during their return to El Salvador for summer vacation. The theses research are to be related to project activities.

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BCR intends that the masters-level sub-component will conclude with these 15 participants because 1) the pool of qualified candidates has been used, and 2) the time element of getting participants finished with long term training before the PACD.

Conclusions. BCR and ASU have performed well in recruiting and selecting candidates. They had to make swift selection in order to get this sub-component off the ground.
The number of qualified candidates available in the mixed banks and the BCR leads one to question the project design and the inclusion of this sub-component in the project.

Recommended Actions

Corrective Actions

a. BCR/ASU should establish a system for monitoring masters students during the long term training to assure compliance.

b. Guidelines should be established for the master theses program so that participants know the kinds and degree of research acceptable under the project. BCR is to assure that research is related to agrarian reform issues.

4. ABANSA Training Facility

Objective. Provide the ABANSA with $120,000 of training facility equipment and supplies so that it can house the project-related training in country.

Completion of Objective. Computer equipment is being installed in October, 1938 and other training equipment has been ordered. Roughly 70-80% of obligations have been fulfilled.

Findings. ASU has the contract responsibility of providing the equipment and computers for the ABANSA training facility. They have gotten agreement from ABANSA, USAID/El Salvador, and BCR concerning the types and levels of equipment appropriate for the project. A general agreement has been signed among the parties for the levels and use of the training equipment.

The principal issue among parties is the use of equipment after project completion. ASU retains responsibility for the equipment during the project period. The general agreement states that the parties will agree who gets the equipment at project completion. Both BCR and ABANSA would like to receive the equipment.

The Project Paper, Project Agreement, and the ASU contract all provide limited obligations and responsibilities of ABANSA involvement in the project. The limitation is to provide the training locale for in-country training.

Conclusion. ASU has done a good job in getting parties to agree on equipment lists and to have a general agreement signed among project parties. They have done a credible job of obtaining clearances, purchasing equipment, and getting it installed.

Recommended Actions

Corrective Actions

None

Alternative Possibilities

None

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C. RESEARCH, POLICY STUDIES AND SEMINARS

The Research, Policy Studies and Seminars project component is assessed as an integral element given the coordinated and interlocking nature of the different project activities.

1. Objective. Policy studies were to be made and to be followed up with special seminars for policy level managers on issues related to program implementation and policy development. Study topics are to include factors which can influence the productive use of credit in the agricultural sector, agricultural credit policies and problems, credit administration, financial viability of the cooperatives, pricing policies, transaction costs, bank management, and savings mobilization. Seminars are to include annual reviews of the impact of economic and agricultural policies on the effective use of credit, of the relative performance of participating banks in utilizing the credit line and special briefings after every policy study.

The Project Agreement states that a monitor system is to be established to track the flow of credit through the system, end use, and efficiency of the credit administration procedures. There is to be an evaluation of the relative effectiveness and efficiency of different loan procedures, productive use of funds management, management practices, credit agent programs, loan criteria, and lending practices.

The Project Paper and Project Agreement state that fifteen seminars are to be held over LOP including an annual review of impact of economic and agricultural policies on the use and effectiveness of agricultural credit; special seminars for mid-managers of agricultural programs on special topics of management and administration of agricultural credit; a review of performance of participating banks in utilizing credit line; and briefing seminars after each policy study.

LOP from USAID/EL Salvador states 20 activities without specification. The ASU contract states 45 work-months technical assistance at $575,380. The Project Agreement specifies 15 seminars but no specification for numbers of studies.

2. Completion of Objectives. USAID/El Salvador credits that eight project activities have occurred since project inception through March 31,1988. This includes four courses that have been included in the training component assessment and three planning meetings held among participating agencies.

Both BCR and ASU affirm that one credit delivery system study has been completed and another credit production study has been completed in draft. These two institutions take no completion credit of further project activities in this component.

According to USAID/El Salvador, by September 30,1988, $500,581 had been obligated, $12,920 disbursed, $15,000 accurals, and $472,661 in the pipeline.

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3. Findings.

A. Background. The seven meetings and project planning activities ascribed by USAID/El Salvador took place at project inception and before or shortly after the signing of the project Agreement between USAID/EL Salvador and the BCR. They represented an effort by USAID/El Salvador to begin project implementation soon after project approval.

ASU provided a comprehensive research, policy study, and seminar program in its proposal to USAID/El Salvador. If followed, it would have provided a basic plan for this component. In discussions with USAID/El Salvador and BCR at project inception, it was agreed that the proposal plan not be followed but rather that ASU was to provide research, policy studies, and seminars in line with project advancement.

B. Project Findings. There is minimal common agreement between ASU and BCR on activities to be accomplished in the component. According to the BCR, ASU has taken the lead in proposing studies and not always in coordination with the BCR. The Project Agreement states that the BCR is to coordinate this component and to assign topics for review and arrange seminars. All studies and seminars are to be coordinated with the economic research branch of the BCR.

ASU is responsible for carrying out the studies and has 45 work-months of short term technical assistance for this purpose. To date, it has conducted two studies.

The first study was conducted by Carlos Cuevas on the credit delivery system used by the mixed banks with the reformed cooperatives. It was completed in August, 1988. It is considered a credible document that pinpoints specific delivery costs by both the mixed banks and the BCR. It recommends several places for intervention to make the credit delivery system more efficient. The study has not been translated into Spanish, has not been disseminated, and no policy seminars have been planned to present the findings to the banking community.

A second study was conducted by Arnoldo Camacho on credit impact and use for production. It was to be a comprehensive study of the entire credit system with particular emphasis on credit to specific commodities. Most reviews are fairly negative on this study stating that it is too comprehensive, too general, ill-focused, and not of much practical use. The draft report has been circulated for review. The Camacho report is being received by ASU for submission to AID.

A third study proposal on cost transactions has been made by ASU. No approval has been made by USAID/El Salvador nor the BCR andthe proposal is waiting approval.

No policy seminars have been planned nor executed thus far in fulfillment of project objectives.

4. Conclusions. This project component has gotten off to a poor start. There is no apparent plan. Yet, this project component, along with the training activities, is supposed to support the credit line program. It is clearly failing to do so at this point. With the exception of the fine Cueva credit delivery study there is little to show in this project component.

5. Recommended Actions

A. Corrective Actions

1. The BCR and ASU jointly should design a research, policy study, and policy seminar plan during November-December, 1988 for action year 1989. This practical plan should support any project re-organization initiatives and should be geared strictly to supporting project objectives.

2. The Cueva study should be translated into Spanish by ASU and provided to the BCR. A joint BCR/ASU plan should be made for publication and dissemination of the study. Mr. Cueva should lead a policy dialogue concerning the study findings and its implications for project implementation.

3. The cost transaction study proposal should be reviewed soon by USAID/EL Salvador and a final decision made to conduct or not that study.

B. Alternative Possibilities

1. Research, policy studies, and policy seminars can have important positive impact on project implementation. A good example is the credible comparable project component in the ROCAP-funded INCAE implemented non-traditional export promotion project in Costa Rica. That project component through June, 1988 consists of over 50 articles and studies completed, three journals published, and 28 policy dialogue seminars conducted with decision-makers in the Central American region.

2. A positive project component could include:

a. Directed think pieces for policy reform, strategies, and means to alleviate project bottlenecks;
b. A newsletter for project participants with project ideas, marketing strategies, product information, credit line information, administrative procedures, and project news;
c. Policy dialogue seminars among project participants around a specific theme and supported by an analytical think piece.

D. SAVINGS MOBILIZATION

The Pilot Savings Mobilization component is assessed in accordance with the project criteria and design.

1. Objective. The objective of the savings mobilization component is to provide technical assistance and training to an already existing program that is geared to upgrading and increasing savings mobilization in the BFA. This is to be done through training BFA employees at the branch and central office level in administration of savings programs, accounting requirements, and other general banking practices to improve skill levels. The Project Paper stated that the project would assist in establishing branch savings mobilization in the Ilobasco, San Juan Opico, Sonsonante, and San Miguel. Special extensive reviews are to be made of operations, portfolios, liquidity reserves and accounting practices to assess their operation.

ASU is to provide expertise in financial administrative management. Training is to take place in specific skills in deposits and liquidity management, branch management, portfolio composition, loan selection criteria, financial policies, borrowing and lending costs, and delinquency control and collection. Technical assistance is to be provided for nine work months three or four times during LOP. This technical assistance covers both technical assistance and training. Objective is to promote change of the BFA from a development subsidiary oriented institution to more of a full banking operation.

Total ASU contract cost is $127,146. USAID/El Salvador records show that as of September 30,1988 $110,693 funds were obligated, $18,872 disbursed, and $91,821 in the pipeline.

USAID/El Salvador LOP target is 12 BFA branches functioning with savings mobilization functions.

This project component is a bilateral technical assistance effort by ASU with the BFA and does not involve the BCR.

2. Completion of Objectives. According to USAID/El Salvador project review October 31,1987-March 31,1988, six new BFA branches are functioning with savings mobilization. Savings deposits were at $ 18.9 million as of March 31, 1988 with 21,1107 accounts. The BFA reports at the end of September 30, 1988, 23,389 accounts with ¢ 18.5. They also register 540 fixed deposit accounts with ¢ 29.6 million deposited.

ASU has provided a diagnostic study that assesses the operations and management of the BFA in savings mobilization. Technical assistance has been provided in setting up a computerized banking system.

3. Findings

Background

BFA is authorized to mobilize demand and savings deposits. During the period 1980-1986, three branches had savings mobilization windows. These three Central, San Salvador branch, and La Libertad were capturing primarily urban savings deposits.

In 1986, USAID/El Salvador contracted with Contracting Corporation of America to provide a feasibility study for the Agrarian Reform Financing Project. The study, entitled "Rural Savings Mobilization/Agricultural Credit Project", was conducted under the BFA 0263 project funds, and included a major review of savings mobilization. According to the Contracting Corporation of America(CCA) feasibility study for the Project Paper, "the BFA interest rate structure has discouraged mobilization of deposits because with concessionary loan rates the bank cannot maintain an adequate interest rate spread and at the same time offer competitive deposit rates."

The rationale for savings mobilization is presented in the same CCA study as follows:

In 1986, the BFA had savings mobilization windows in the Central Office, San Salvador branch, and La Libertad. These three agencies collected savings deposits from almost exclusively urban customers and also several government organizations such as the retired persons associations. Only a few middle and large scale agricultural farmers living in urban sectors deposited savings in the BFA. There were almost no small farmer savings deposits in the BFA.

" The lack of good financial intermediation services in rural areas has deprived many rural citizens, particularly the small farmers, accessible opportunities for holding financial savings, and earning on these savings, while maintaining liquidity. These farmers are thus disposed to look to other forms of savings--such as holding cash, crop inventories, or purchasing livestock-- as alternatives, with the result that the financial systems' ability to serve in its intermediary role is greatly reduced."(P. 207)

In 1984-85 savings rates were 7.0 to 7.5%; time deposits rates 9.5% and 13.0% depending on term of deposit. In 1986 time deposits increased to 10.5% and 15.5%.

During the period 1980-84, real value sum of deposits in all Salvadorian banks increased 7% annually. Mixed banks accounted for 79% of total savings deposited in 1984. The Mortgage Bank had 21% of savings during the same period. FEDACAES and the BFA together had less than one percent of savings during that period.

It seemed logical that the BFA could implement savings mobilization because it had 26 branches through the country and it is the principal agricultural bank. The CCA study concluded that the likely agencies were Ilobasco, San Juan Opio, Sonsonante, and San Miguel because BFA was the only bank with an office in these towns.

The BFA had been involved in savings mobilization with urban clients in the three branches. It was reluctant to get involved in rural savings mobilization because 1) it is not cost conscious because it is a government-run agricultural bank; 2) easy access to inexpensive credit sources from AID and IDB to finance its rural loan portfolio substitute for deposits as a source of funds; 3) the cost involved in investing in infrastructure to set-up additional savings mobilization windows; 4) the difficulty of savings mobilization with small scale farmers; and 5) the BFA felt it would most likely lose money on savings accounts because of high administrative costs.

The PID and PP provide a clear statement that the project is to assist the BFA to increase its effort in savings mobilization through training, technical assistance, as a pilot project. Emphasis is placed on 1) assisting the BFA to expand to four other branches; 2) assistance in setting proper administrative procedures; and 3) training of BFA staff. The ASU contract is responsible for providing assistance in these three areas.

There is some discussion concerning the rationale for this project component in the Agrarian Reform Finance Project. Its inclusion in the project emanates from analysis in the CCA feasibility study, inclusion in the PID, and elaboration in the Project Paper of the need for savings mobilization by Salvadorian banks. Secondly, it is a holdover activity of the No.519-0263 Agrarian Reform Credit Line Project.

On its own and apart from project input, the BFA has opened up six savings mobilization windows in Sonsonate, San Miguel, Quezaltepeque, Cojutepeque, Nueva Concepcion, and Ahuachapan. This is in addition to the three already functioning at project inception in Central Office(Kury), San Salvador (central branch), and La Libertad.

According to USAID/El Salvador figures in quarterly reports, savings mobilization has increased as follows:

Date	Accounts	Colones
January 31,1987	7,239	6,500,000
September 30,1987	16,804	15,100,000
December 31,1987	18,913	12,300,000
March 31,1988	21,107	18,900,000

This background is provided to differentiate BFA accomplishments irrespective of project input. It serves to a degree as a control to measure project impact.

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Project Findings

ASU project involvement since September, 1988 has been in two areas: 1) a study of the BFA; and 2) installation of computer facilities.

A. Diagnostic Study

ASU commissioned a study in El Salvador submitted January 25, 1988 entitled "Informe de Diagnostico de la Actividad de Captacion de Depositos del Banco Fomento Agropecuario", of the present procedures and practices of the BFA in savings mobilization and recommendations to maximize the savings function. The study found that the BFA had been successful in mobilizing deposits. They detected three principal needs:

- Establishment of adequate infrastructure and procedures to provide competitive banking services;
- Establishment of savings management procedures;
- Establishment of savings windows in the entire branch network.

ASU made specific recommendations on organization, training, manuals, and procedures.

The study was provided to the BFA for review. The BFA was to review the document and discuss with USAID/El Salvador means for further collaboration by ASU with the BFA in savings mobilization. The BFA has not taken action on the report recommendations.

According to ASU quarterly reports, the BFA has not responded in implementing the reforms recommended in the report. ASU reports that the BFA has stated their interest in receiving technical assistance in public campaigns to mobilize savings. USAID/El Salvador requires that the BFA take corrective actions recommended in the report as a before ASU can proceed with further project activities.

B. Computer Installation

ASU has provided technical assistance to complete a computerized management information system in BFA that will be used to provide records on the management of savings deposits. A computer technician was contracted by ASU to finish installing this computer equipment. This is is a carry-over activity from the 0263 project.

C. Other Activities

ASU has not fulfilled any project activities in training. Its technical assistance has been limited to the diagnostic studies and computer installation.

4. Conclusions

The BFA has made significant progress on its own in expanding the number of branch offices, numbers of new savings mobilization accounts, and quantity of new funds. Outside reviews may demonstrate that this is not economical but nevertheless the BFA appears to be adamant in proceeding with its savings mobilization program. The BFA seems equally adamant in not wanting outside technical assistance for its internal administrative operation. Rather, it has a clear concept of expanding its banking market concepts and wants technical assistance and training to fulfill this objective.

ASU has only been able to have limited involvement with the BFA. The evidence of performance is limited to one diagnostic study and computer installation technical assistance. There has not been an exerted effort to look for positive solutions.

5. Recommended Actions

A. Corrective Actions

1. ASU should continue to maintain project dialogue in a more concerted effort to provide technical assistance and training to the BFA. It should support on-going positive actions being taken by the BFA. A joint action plan with the BFA should be established.

2. Local short-term assistance should be contracted to provide on-the-job training in areas designed with the BFA. This could include assistance in public campaigns, management consulting at several branches, and other activities.

3. The BFA should continue invited to attend BCR-sponsored short term in-country training.

4. Specially designed in-country training for BFA should be made. This should be done by ASU since the BCR is not involved in this project component.

B. Alternative Possibilities

1. The alternative possibility of suspending or cancelling this project component is not being recommended. The evaluation team assesses that not sufficient effort has not been made by ASU to warrant this action. Rather, the alternative possibility is to make the corrective actions stated above that would include a concerted effort to provide viable technical assistance.

E. BENEFICIARIES

1. Objective.

The project paper states that the Agrarian Reform Program was structured to be implemented in three distinct phases. Phase I - Provide credit and technical assistance to the 317 cooperatives formed from the expropriated and voluntary sales of 469 properties. Phase II has not been implemented. Phase III provided tenant farmers and sharecroppers the right to purchase up to seven hectares. Under the program, credit and technical assistance was to be provided to the beneficiaries at a low cost.

Originally, an A.I.D. Agrarian Reform Credit Project (519-0263) was authorized to provide $80 million through the BFA to provide access to credit by the Agrarian Reform beneficiaries. Technical assistance was provided to BFA to improve its management capabilities.

In 1985, the credit agent program was begun and financed with PL480 funds in local currency.

In July 15, 1986, the USAID Project Development Committee recommended a $50 million Development Assistance Grant for the Agrarian Reform Sector Financing Project (519-0307), which was approved. The project contains: A rediscount line of credit for production and investment loans; a training program for agricultural loan officers of the BCR and the PFIs; a series of policy studies and seminars; and a pilot rural savings mobilization program. This project is intended to respond to the immediate needs for additional credit to the reformed sector while working to expand the role of the commercial banking system in lending to the reformed sector.

The expected final outcome of this program of support is the existence of a strong reform sector composed of financially viable agricultural entities capable of competing without special assistance.

2. Completion of Objectives: The Phase I land tenure acquisition has been completed, but titling of the land is still pending. The restructuring of the land tenure for Phase III beneficiaries has been completed and land title is held in fee by the 207 beneficiaries. Phase I beneficiaries are receiving more credit from the mixed banks both for crop and investment needs. These banks have increased their loan portfolios to the Agrarian Reform Sector borrowers as they become more credit worthy.

The Phase III beneficiaries are not receiving the credit needed because the banks have had poor experience with this sector and this government objective is not being completed. Technical assistance and training are being offered as originally planned.

3. FINDINGS.

Methodology: Visits were made to the mixed banks and the agrarian reform cooperatives to interview the corporate officers. From the Ag. Credit Officials of the banks, a determination would be made to learn whether the cooperatives assigned to the banks were credit worthy and receiving the needed credit.

From the interviews with the management of the cooperatives, and line managers, determine the capacity of management skills, record keeping, planning and the extent to which the financing bank is meeting their credit needs. Field visits were made to inspect and visually determine the results of land and crop management. New and existing housing were visited to determine the social progress the cooperative management has made in improving the well being of its members. This will support comments regarding the incremental improvement noted in their living standards.

The accounting records of the cooperatives were inspected to obtain a "cooperative profile" to determine the quality of the general background data of the ARCs, crops produced, marketing, organizational ability and the effectiveness of their record keeping. The financial records would provide the quantitative norms for an evaluation of the staff productivity and efficiency.

Project Findings.

The credit absorption capabilities of the ARCs visited are limited to several identifiable factors.

a) The ARCs visited did not have clearly established written objectives.
b) No business strategy was evident to determine: Effects of crop substitution methods for land improvements and the strategy to obtain credit for expansion/improvement of present facilities.
c) The lack of adequate financial capacity, infrastructure, and management talent were noted to be a serious problem in the marginal operations. The ARCs showing good performance lack management talent to be more effective in their development.
d) All of the ARCs visited did not have or show evidence of having sufficient resources to undertake large projects successfully at this present time.
e) The better managed ARCs have the greatest long-term potential for improving and creating jobs for its members. These ARCs are maturing cooperatives that will be better credit risks in the next few years.
f) Coffee cooperatives seen to be in better economic shape than those which depend primarily on other crops.
g) Coop Members have no ownership equity in their coops; over the long run this situation is a negative incentive personally, and in terms of the overall productivity of the entity.

4. Conclusions.

The field visits to the Agrarian Reform Cooperatives provided ample proof that there is an enormous need for investment credit. The cooperatives need substantial financial support for both short and long term credit, technical assistance, and management training and motivation to improve their efficiency and effectiveness as a whole. The banks and the government must continue to provide these services to the cooperatives on a continuing basis well into the future.

The investment credit needs of the cooperatives are not being met by the mixed banks as confirmed by the officers of all the cooperatives visited. These cooperative officers have many projects planned but, in too many case, no formal plan has been written and thoroughly analyzed for purpose and adequacy.

The management skills level of the managing officers of the cooperative are in most cases very weak. The accounting records, in most cases, are very simply maintained and are considered to be insufficient, to adequately record the operating transactions of the cooperative. Some of the cooperatives do not have a general manager to supervise day-to-day operations. This task is done in community with the several officers, chaired by the president of the cooperative. This is not the most efficient way to manage a large enterprise. Day-to-day activities are better delegated to one person and allow senior management to do planning and other more productive activities.

The cooperative structure should be re-designed to provide an actual ownership interest by a member in the cooperative. This ownership interest should be in such form that equity is built-up over time and is eventually transferable through sale or inheretance.

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F. PROGRAM COMPONENTS

Objectives: to assess the appropriateness of each of the four components of the 307 Project toward achieving project goals and purpose, and to assess the appropriateness of the level of resources available to each component under the project.

1. Rediscount Credit Line

a. The credit line is the heart of Project 307, and two of the remaining three components, Training and Policy Studies, were designed into the Project to provide direct support to the realization of the sound and full usage of the Rediscount Credit Line.

b. The team's findings concerning usage of the rediscount line discussed in Section A shows that approved transactions under the line were 57% of the amount available as of end FY88 after $6.2MM representing seasonal crop loans repaid were added back into the amount available.

c. The above would indicate that the amount of funds are more than adequate in terms of current usage. It does, however, raise the question of the appropriateness of the rediscount vehicle for the achievement of objectives, since the degree to which the rediscount line is utilized is entirely dependent upon the degree of willingness of the mixed banks to increase lending to reform sector especially in the medium term investment loan category.

Possible alternatives for the redesign of the Rediscount Credit Line component of the project are discussed elsewhere in this evaluation.

2. Training

a. The training component was handled in its three parts by the evaluation team's training specialist; those are in country training, short-term out-of-country training, and long-term out-of-country training.

b. Those of the team who visited cooperatives found a general lack of long range planning; beyond the crop production plan and plans for individual projects, there is little or no effort being made to visualize what the productive assets of the cooperative might be five years or ten years from now.

c. The Project Paper casts the training emphasis entirely on the delivery system side. This is logical in light of the situation at the time that the project was designed. We believe that additional training for bankers and credit agents is both necessary and desirable; however we see a need for strategic planning and for project planning and implementation for the management and boards of the cooperatives. Further training in farm management would, both in classroom form and, more importantly, in the form of extended visits with farm managers and coop board members on site would be most valuable.

d. Financial resources dedicated to training appear to be more than adequate to permit a continuance of training on the credit delivery side, and to begin a new program with heavy emphasis on raising the qualifications of the beneficiary side of the equation.

3. Policy Studies and Seminars.

a. Our findings with respect to this component show a divergence in the work performed thus far with the broad specifications as set forth in the planning paper. Although excellent, the Cuevas paper on the credit delivery system, the only work accepted by ASU for finalization to date, addresses itself to only one aspect of the project plan. No work on the broader issues, agricultural credit policies, the economic and financial viability of the cooperatives, or government pricing and foreign exchange policies are presently contemplated. The next study under consideration by ASU is a transaction cost study analysis.

b. The desired re-direction of the project into the non-traditional product area has created a need for technical and feasibility studies, both general and specific, ie., industry and individual project studies within that industry, which are costly to produce and often require outside consultants. The need for such studies was not contemplated within the project paper, nor was funding provided. Although outside the policy area, it might be appropriate to amend the criteria for this component to provide for the production of the industry wide technical, feasibility, and marketing studies for non-traditional export products such as those which are being prepared under the FUSADES program. The cost for individual project studies is probably not appropriate to this component and should be handled in a different manner.

c. The evaluation team understands that funding for the Studies component has been increased from \$300M to \$525M.

If AID and BCR were to approve this change in direction, there is a probability that funding would have to be increased by a re-allocation of funds from within the project.

4. Savings Mobilization Program.

a. The evaluation team is of a mixed view as to the appropriateness of this component within the context of the 307 Project.
b. The project design stated valid reasons for its inclusion, and at present, this project is the only ongoing point of contact with BFA.

c. Present problems should be worked out, and the execution of the component should proceed within the budget as planned in that the effort will support the substantial progress which BFA has made under its own initiative.

G. PROJECT ADMINISTRATION

The Agrarian Reform Financing Project No. 519-0307 is implemented by the Salvadoran Reserve Bank (BCR) and specifically through a special Coordinating Unit. Arizona State University (ASU) provides technical assistance to the BCR for the rediscount line of credit, training, and policy studies, as well as technical assistance to the Agriculture Development Bank (BFA) for the savings mobilization component. Ten intermediate or mixed banks receive rediscount lines of credit and in turn provide credit to reform sector cooperatives. Reformed sector cooperatives and Decree 207 beneficiaries are recipients of the lines of credit. The BFA conducts its own savings mobilization program. USAID/El Salvador provides project monitoring functions.

Project Administrators

a. Central Reserve Bank (BCR)

The BCR has set-up a special coordinating unit for project implementation. It is under the supervision of the BCR Vice-President for Operations. The BCR Coordinating Unit has limited direct authority for making either policy or administrative decisions. Rather, the BCR Vice-President for Operations, who signed the Project Agreement with USAID/El Salvador, plays the active role in top-level decision-making, along with the Acting President of BCR and the Board.

For rediscount lines of credit, the Financial Analysis Department makes complete reviews of all investment loan applications passed on to the BCR.

There are reportedly considerable dysfunctional administrative relationships between the Coordinating Unit and each of the two operation and financial departments. Coordinating Unit staff reported considerable frustration with time lags for decision-making on loans, money disbursements, and administrative questions.

b. PFI's (mixed banks)

The mixed banks have established agricultural lending departments within their banks. Credit agents have been assigned to these departments and contracted to work directly with the reformed sector cooperatives. There appears to be good working relationships between the mixed banks and the BCR Coordinating Unit.

c. Agricultural Development Bank (BFA)

The BFA had set-up a savings mobilization window in nine of its 26 branches. It does not yet qualify to utilize Project 307 loan funds.

Comments

One major project issue has been definition and implementation of roles and functions among the BCR, BFA, ASU, and USAID/El Salvador. The USAID/El Salvador project monitoring role has been described by other project parties as strongly activist and at times inconsistent and contradictory.

The Mission has also provided mixed signals to the BCR concerning the validity of working with the reform sector cooperatives because they are collective cooperatives which goes against policy guidance from AID/Washington. In addition the Mission has initiated revisions in project direction without appropriate discussion and without formal letters of understanding. The example cited by the BCR and ASU is a shift to working with cooperatives to promote non-traditional exports.

The BCR complied with conditions precedent about six months after signing the Project Agreement. The training plan conditions precedent was completed somewhat later and although tardy did not create negative impact on the project.

2. Adequacy of Project Convenants

The four covenants concerning additionality, prior disbursement of 0263 funds by the BFA to become eligible for 0307 funds, AID's ability to brief and debrief participants and rediscount line integrity by BCR are being adhered to, and the parties are in compliance. The ineligibility of BFA to date negatively impacts ASU's ability to perform its saving mobilization task.

3. Adequacy of ASU Contract Under Present Conditions

ASU has performed adequately in the rediscount line of credit and training components and inadequately in policy studies and savings mobilization components. Its inadequate performance in policy studies has had no excessive external impediments and requires considerable work in the next few months to get this project component functioning properly. The savings mobilization component has had some external impediments, discussed above.

4. Impact of ASU Technical Assistance on Project Status

ASU has performed less than one year on this contract. It was impeded from beginning technical assistance initially because of political turmoil in El Salvador. Once started, it has performed adequately and in some cases speedily. Its impact cannot be measured adequately in this short nine month implementation period.5.

H. FUNDING

1. Outputs vs. Expenditures

a. Line of Credit: Of $36,501M obligated to fund the rediscount facility as of 9/30/88, loans tataling $21,300M have been approved, or 58% of the total funds obligated.

The credit line has been allocated $632M for technical assistance; the total of this amount is obligated. The salary, supporting personnel costs and other expenses of the ASU Resident Advisor are costed against this amount. Estimated expenditures to date are $123.9M. A total of $508M remain available.

b. Training: A total of $1,789M has been obligated to meet the training requirements of the project. Within this amount, $491M are obligated to cover management and administrative expenses of Drs. Ladman and Metcalf and supporting staff in Tempe, Arizona. Estimated expenses to date under this sub-component are $139M. $352M remain to be spent.

The training effort, per se, has $1,298M in funds obligated. Of this, $42M has been booked, and $15M have been accrued. $1,240M remain to be spent. However, as this figure contains a 31% overhead factor and the estimated bill for the long term masters and banking students is $720M, only an estimated $ 135M is available for further un-programmed training.

c. Policy Studies: The project has obligated $501M for this component. To date, approximat ly $28M has been expended. There remain $473M to be spent.

One satisfactory policy paper has been produce. We are told that the report on the financial sector may indicate which further studies are needed.

d. Savings Mobilization: Obligated funds total $110M of which an estimated $56M have been spent. Funds have been used for technical assistance in systems design for BFA's savings mobilization program. Work is presently on hold. When reactivated, BFA will request assistance in promotion of a savings program; $55M remain to cover this and the system design project.

GA'

2. Compare estimated expenditues as of 9/30/83 to obligated and budgeted amounts.

	Total Est. Expendit.	Amount Obligated	% Used	Project Budget	% Used	
Credit Line	$ 21.3MM	$ 36.5	58%	$ 46.0MM	46%	
TA Expenses	124M	$ 632M	20%	$ 750M	17%	
Training	$ 57M	$1,293M	4.4%	$1,340M	4%	
TA Expenses	$139M	$ 491M	28%	$ 300M	46%	(1)
Policy Studies	$ 28M	$ 501M	6%	$ 300M	9%	(2)
Savings Mobil.	$ 56M	$ 110M	51%	$ 225M	25%	(3)
ASJ Contract	$404M	$3,032M	13%	$3,486M	12%	

Notes: 1. Per contract amendment, $149 M and $42 M have been added to TA training.

2. Per contract amendment, policy studies has been increased by $201 M.

3. Per contract amendment, savings mobilization has been reduced by $115 M.

4. The contingency account has been reduced by $201 M.

3. Total New Investment Generated through Credit Line

The seasonal crop loans do not produce new investment, so they are disregarded for purposes of this section.

From inception to 9/30/88, the PFI's have approved 111 investment loans to 69 cooperatives for a total of ¢33,3MM, or $7.66MM. These were utilized for a variety of productive purposes; purchase of equipment is the largest catagory, followed by livestock development, refurbished or increased coffee acreage, and infracture development. Details are contained elsewhere in the report.

Administrative and technical assistance expendatures and accruals to date related to the credit line are $348M (the sum of C.L. Admin; Training, and Studies.). This represents an expense ratio of $1.00 for every $22.01 of investment loans which have been approved to date. It is a reflection on the expenses of the start up phase of the project which has only just ended, and on the learning curve. This ratio should improve.

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4. Recommendations on Budgetary Adjustments

a. Unless subsequent events would indicate otherwise, the present level of obligated funds of $3,033M may be sufficient to carry the project to completion. This would leave $453M available for reprogramming.

b. Shifting of obligated resources between components might be required if recommendations contained in this evaluation are adopted.

ADEQUACY OF PROJECT DESIGN.

1. Economic, financial, institutional and political assumptions.

ECONOMIC:

a. The assumption that there is a lack of access to long term credit, the lack of managerial ability, and marketing abilities by the agrarian reform cooperatives is still a valid concern. These deficiencies are being addressed through Project 0307. The consultant team confirmed, through field visits, that the economic impact on the better managed cooperatives has been substantial. However, there are many cooperatives that have been unable to assimilate all the help available under Project 307.

FINANCIAL:

b. The project paper assumes the BCR management capabilities are adequate to ensure the proper utilization of project funds. No difficulty was foreseen as long as the PFIs furnish all information on rediscounted credits. At the beginning of the program, the BCR was reluctant to accept and administer the new program proposed to meet the credit needs of the Agrarian Reform Sector.

An agreement was finally signed with the Ministry of Agriculture and the Ministry of Planning to get the program started. BCR has now taken the administration of project 0307 and is providing the rediscount line of credit to the mixed banks (PFIs). Policy and procedures manuals have been written to assist standardizing the utilization of the line of credit. BCR has made a credible effort to establish itself as the manager of this project.

The adequacy of the present spread structure to act as an incentive to the PFIs to do more business must be studied further. The consultant team has been unable to determine whether the spread is the key incentive to doing more business. Some banks are doing more business than other banks, therefore, other factors may be involved.

INSTITUTIONAL:

c. Although the farms are essentially the same since reform, their management is still very deficient. The management is done by committees with advice from hired managers or ISTA representatives. In some of the cooperatives visited by the consultants, the managers had been fired for cause and the committee members stated that due to this bad experience, no new manager would be hired. There are no clear social constraints to using credit provided under this project. The members of the cooperatives visited all expressed their need to use more project funds.

The capacity and interest of mixed banks to work with Decree No. 207 beneficiaries have also been overestimated. This is due partly to inexperienced credit agents working with independent small-scale farmers, unwillingness of mixed banks to collaborate with less than credit worthy customers, and the perceived high cost of credit delivery to these groups. However, the Banco Mercantil is having fair experience with supplying their credit needs and collecting the loans extended.

POLITICAL ASSUMPTIONS:

d. An improvement in cooperative member, and Decree 207 farmers' well-being will contribute to stabilizaing the El Salvadorian democracy. This assumption is correct, and some progress toward realizing the project goal is apparent.

2. Appropriateness of Project Strategy.

a. The beneficiary capabilities are limited by lack of management capacity, heavy debt, and a lack of proper long term planning. The Project 307 would provide the financial assistance to the beneficiary to make them more economically viable. This has not happened to the extent desired because of the lack of technical assistance, and other factors. It was assumed that technical assistance to the beneficiary was adequately provided by other projects, but a lot more is needed. The credit agent working with the beneficiary to identify and prepare new projects and loan proposals works to some extent.

It is necessary to continue and increase credit to the reform agrarian cooperatives to maintain and increase their productivity. It is too early to measure the impact, but some coop members have informed the team that living standards have improved. The marginal cooperatives would probably be worse off.

STRATEGY OPTIONS:

b. The credit delivery system should be studied to improve the approval procedures in effect. Consideration should be given to the following:
- Eliminate the necessity of the duplication of analysis by BCR.
- Consider a spread adjustment to the mixed banks.
- Consider another option for granting project loans to 207 borrowers.
- The BFA should be considered as the main source of credit when eligible.
- The division between production and investment loans is satisfactory.
- Consider competition between market rates and concessionary rates.

c. The team has a divided opinion with regards to the adequacy of out-of-country training, (in country training has been successful and directly related to the project.) Half of the short term out-of-country participants have been related to the project, and only one of the masters candidates is related to the project. A broad interpretation of this component would accept these findings as satisfactory, as the trainees will strengthen the overall financial system upon their return. One, taking a narrow interpretation would criticize the program because of the number of recipients and their course selection which are not project related.

ANNEX A AND B

I. REPORTS ON FIELD TRIPS - SUMMARY AND CONCLUSION

II. ANNEX A - REPORTS ON BANK VISITS

B - REPORTS OF COOPERATIVE VISITS AND TO 207 BORROWERS

BY DEVELOPMENT ASSOCIATES PERSONNEL

ROBERT E. LAPORT
MANUEL R. SALSA
PERCY AVRAM

ANNEX A AND B

REPORTS OF VISITS TO BANKS AND COOPERATIVES

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REPORTS ON FIELD TRIPS TO AGRARIAN REFORM COOPERATIVES AND BANK VISITS.

SUMMARY AND CONCLUSIONS

AGRARIAN REFORM COOPERATIVES

The Fourteen Agrarian Reform Cooperatives (ARC's) visited have been in operation since 1980, and are PHASE I recipients of credit under the USAID 519-0307 contract with the GOES.

As a result of the visits, interviews and analysis of financial data, five ARC's which were coffee or substantially coffee producing ones, were making profits. Out of the remaining nine, only three reported profitable operations, while the remaining six ARC's are in poor financial condition, are extremely risky enterprises for credit extension and are faced with a serious array of problems. These problems are applicable to all of the ARC's visited in varying intensity or degree.

Under the normal lending policies of the commercial banks, about 80 % of the ARC's visited would not qualify for loans. Their present management practices, place themselves in a position of possible credit ineligibility within a very short period of time, even under the more favorable terms offered to them by the commercial banks at this time.

All of the ARC's reported increased benefits from the use of the credit extended to them, by way of increased output in either crop or livestock production, and by entering into the production of non-traditional export crops such as melons, cashews, peanuts, ajonjoli and others. Investment loans enabled ARC's to plant added land area or renewal of trees on the coffee plantations, to purchase farm equipment, and to upgrade or install needed infrastructure. Cash crop (Avio) loans which are short term and seasonal in nature, provide the ARC's with the funding required to purchase the inputs and pay for the labor costs related to the specific crop production.

In some of the coops visited, the ARC is viewed as being made up of two entities, namely the GOES which owns the land, and the Cooperative which is viewed as an association organized to benefit the members from their use of the land. Therefore, the intention of the members is to take out as much as possible from the land (government) and to put into it as little as possible. The directors or management of the ARC is comparable in their minds to the farmer owner, and the director's actions are neither better or worse than the previous owner. Over a period of 8 years, these ARC's made no payments on interest or principal for their land, therefore the concept of ownership or self interest is not prevalent.

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The principal deficiency pin-pointed in the majority of the ARC's was the administrative component. There is ample evidence that many ARCs are poorly managed. A number of them had short term plans with a corresponding budget to work from. However, the plans and the budgets for expenditures (labor costs) are not adhered to, inspite of the fact that non-adherence meant an operating loss. Three of the ARCs visited had medium term plans drafted.

In many cases, the administration of the ARC is very highly centralized, indicative of the fact that although crop budgets with specific goals and targets for each unit of production exist, implementation powers are not delegated and accountability of performance in relation to forecasts is not followed Administrative costs run as high as 35 % of the total operating costs in some ARC's, and an examination of other costs could probably reveal similar mismanagement.

Some ARC's need to survey and restructure their production base. This calls for the drafting of an integrated long term plan, and it is doubtful if the Credit Agents from the Commercial Banks or the BCR/CDU are equipped with the skills to carry out this function.

PHASE III BORROWERS

The 0307 line of credit also calls for the Commercial Banks to lend to small farmers who were made eligible owners of land parcels under Decree 207 of the Agrarian Reform Law. They have not been receiving much attention, due to a high rate of loan delinquency. A visit to a small group of such farmers served by the Banco Mercantil indicated that they do enjoy certain benefits from the credit obtained, and are current in the payment of their loans. However, the bank's credit agent must supervise this portfolio more intensively, provide a portion of the loan funds in kind, offer technical counselling, and develop a healthy rapport with the farm families. Mercantil will continue to lend 0307 funds to 207 borrowers, but is the only bank to do so.

Conclusions

1. The administrative and management skills in the ARC's should be sharpened and upgraded in order to ensure the wisest and most profitable use of the resources at their command.

2. Assist the ARC's to analyze their production base, and to develop long range integrated development plans.

3. Upgrade the technical know-how and administrative capabilities of the Credit Agents to enable them to counsel the ARC's more effectively.

4. Develop a Bank Marketing and Clientele Development Program tailored to meet the needs of th Commercial Banks and their clients, both ARC's and Decree 0207 Beneficiaries.

5. There is a need to review and analyze the by-laws and statutes of the ARC's and to make amendments or adjustments if required. There is a high degree of ignorance amongst the asociados with regards to their duties and responsibilities, ownership of their homes, transfer or sale of their equity to their children or to others, and other benefits that may be rightfully theirs are not understood.

MIXED BANKS

The ten banks (PFIs which we included Banco Hipotecario) as the eligible recipients of the Project 0307 funds, were all visited. The BFA which is not an eligible recipient was not visited.

The banks were nationalized under Nationalization Decree 158 on March 7, 1980. The government has control over these banks which are required to direct funds to the Agrarian Reform Sector. The banks have four sources of funds to finance credit operations: own resources, foreign loans, Economic Development Fund and the BCR rediscount lines.

The consultants' reviews were concerned with the proficiency of the mixed banks to deliver and monitor the loans extended to the Agrarian Reform Sector under the 0307 line.

The consultants learned from interviews with the banks' line officials that they had mixed feelings concerning their involvement, in lending to the Agrarian Reform Sector. These mixed feelings derive from the good or bad experience, they have had in collecting the loans extended under past programs. One of the present concerns are the loans extended under Decree 207. Some mixed banks have a delinquency ratio of more than 50 percent in this category. The expense of making and collecting these loans is extremely costly. Most banks felt that granting loans to Decree 207 beneficiaries is a loss.

The general findings, developed from the bank visits by the consultants, were all similar in that all the banks were reluctant to participate to the fullest extent available to them in Project 0307. Some bank officers stated that the loans required intensive supervision, and the loans represented a high loss risk because the beneficiaries lacked the management skills and resources to utilize the loans efficiently.

Most of the mixed banks were using the assigned credit agents to supervise the reform area loans to better assure their collection. However, this program will end in December 1988. After the program ends some of the banks stated, that they would not contract these agents because of cost, or would employ less of the credit agents now available.

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All of the banks visited did not show the consultants any long term development plans for their loan portfolio under the 0307 Line of Credit. This is an indication of their reluctance to fully support the governments program to make sufficient credit available to the Reform Sector, and to successfully development the Agrarian Reform Cooperatives.

It was learned that some banks utilize own funds to source loans to the cooperatives and only avail themselves of the 307 rediscount facility when liquidity problems arise. This practice, without knowledge of how widespread, tends to indicate that a bank will put to use it's own funds in cases where the interest spread can be increased, even for a limited period of time, and where the loan repayment is practically assured (example: Coffee).

Some of the bank officials interviewed did not feel that a further expansion of the loan portfolio would take place in either crop or investment loans. The factors most often cited were: 1)poor experience with the beneficiary to -date, 2)weak loan guarantees and in some cases unenforceable, 3)narrow interest rate spread, and 4)lack of management skills and sufficient resources, leaves little incentive for the mixed banks to promote loans to the Reform Agrarian Sector.

In all the interviews with bank officials, no example of cost-accounting was being employed by the bank, since answers to questions asked to determine the bank's transaction costs were vague. In most cases an assumption was given that all the loans were unprofitable to the bank.

All bank officials complained that the processing time for 307 investment loans was inordinately long. This, they stated, was due to having the BCR analyze and approve the investment loans, which would take up to 3 months for processing. This is done after the mixed banks analyze and approve the transaction. The CDU unit also reviews and initials the loan before it goes to the BCR for processing. This duplication of functions unreasonably delays approval and causes the increase of costs. The costs increase to the beneficiary because, in the real world, inflation continues to affect the costs of any project, and the bank is affected by the loss of income.

The most mentioned problem was the lack of management skills of the beneficiaries of Project 307 loans. They stated that there is a need for training at all levels of management. Some of the bank credit officers interviewed felt that the credit agents required more training and knowledge on methods of lending to the farmers.

All of the banks visited showed evidence that their credit officers and credit agents were intensively following all the active loans. The control by the credit agent of the beneficiary use of bank credit is almost absolute. The agent controls all loan disbursements and only releases loan funds in strict accordance with the crop budget needs. The credit agent administers the beneficiary's commercial account, issues all checks and monitors all payments for compliance to the budget. This is done to assure that all loan funds are used correctly and all funds from the sales of commodities are applied to the loan.

The Banco Hipotecario has one of the largest loan operations in the Agrarian Reform Sector. They have 48 cooperatives assigned and actively operate with 24 cooperatives. They have 4 credit agents supporting this activity.

The controls applied to the recipient cooperatives of 307 credit is strict and well documented.

The credit agents are required to market new investment projects and prepare a feasibility study after senior bank officers agree the project is viable. An agent usually takes 2 to 3 months to prepare a study which is costly to the bank. Mr. Guerra Menjivar, Ag. Dept. Head stated, that some projects may take up to one year before disbursements of funds occurs. Another delaying factor in the Ag. Department is the availability of one employee to do all of the analysis of both the investment and crop loans generated by all of the credit agents. This becomes an almost impossible task and the loan applications simply pile up and may not be processed for months. This may be a method to delay extending credit to this sector because the Vice President in charge of the Agriculture department, considered the loan risk, in some cases, to be unacceptable.

Mr. Guerra stated that the credit agents attend too many seminars which takes them away from their assigned work tasks. He felt that the agents employed showed be fully trained in credit and not trained on the job.

Loan spreads were discussed with Mr. Guerra, who felt that they appear adequate. However, the bank does not have the bank transaction costs available, a situation that should be corrected.

The Banco Hipotecario is very bureaucreatic and thus the Agricultural Department, by all appearance, is inefficient.

Conclusions.

1. The credit agents should be retained by the banks to monitor the 0307 loans closely as required due to the present circumstances of the Agrarian Reform Beneficiaries.

2. Reduce the bureaucratic way that loan approvals are processed.

3. Consider increasing the spreads to the mixed banks to motivate them to increase their lending to this sector.

4. Continue the training programs for the credit officers.

BANK INTERVIEW

NAME OF BANK : BANCO HIPOTECARIO

DATE VISITED : October 19, 1988

INTERVIEWED BY : Manuel Salsa

INTERVIEWEES : Oscar Guerra Menjivar, Agriculture Department Head
Gabriel A. Leiva, Credit Agent

I. Loan Amount and Condition of Loans.

Total investment loans: 5 loans for ¢ 8,056,382.71
Total avio (crop loans): 20 loans for ¢ 16,394,307
Declined Investment loans: 2 loans for ¢ 2,100,041

II. Initiation of Project.

Banco Hipotecario was assigned 48 agrarian reform cooperatives under the Agrarian Reform and nationalization plan of GOES in 1981. The bank provides credit and technical counselling and monitors closely crop and investment loans extended to the cooperatives.

Currently this bank provides credit to 26 cooperatives for their short and long term credit needs from Project 519-0307.
Refer to Annex I.

These cooperatives were assigned to this bank on the basis of the past credit relationship it had with the original owners of the land.

III. Observations and Comments.

1. This bank has 4 credit agents providing for the credit needs of 24 cooperatives. Each credit agent maintains separate credit folders for his assigned cooperatives. Although the bank has been assigned 48 cooperatives by the BCR, only 24 are active and the other 24 cooperatives are located in the conflict zone of El Salvador. The credit agent maintains a ledger for each crop loan extended showing the loan amount and the disbursement schedule for loan funds. After each visit to the cooperative a memorandum is written of the field visit and his control ledger is updated. A production record of all crops is maintained, by the credit agent, to assist him to monitor crop sales and land usage.
2. The loan application has two pages which are very complete. A credit memorandum is prepared showing all the loan requirements for bank committee approval. Positive and negative factors are commented upon for a balanced presentation.

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3. The credit agent visits his assigned cooperatives every two weeks when bank transportation is available which is a serious problem at this bank. Memorandums are written to record the visit and report any developing problems in the credit. During his field visit the agent assists the field workers (teaches) to perform their work task better. The agent verifies that the payroll presented to the bank for payment is factual. He collaborates with the cooperative manager to do better crop management.
4. The loans to purchase cattle are monitored very closely by the credit agent. The agent supervises the purchase of the cattle (dairy cows) and issues a check to the seller.
5. The agent provides substantial technical assistance to his assigned cooperatives. Mr. Guerra stated that training is provided also by ISTA, but that they are not efficient/effective because they do not perform their duties adequately. The ISTA employees sent to the cooperatives to provide technical assistance are not capable of performing the tasks assigned. He stated that this is an area of critical need which is not presently being met.
6. The credit agents are responsible for the marketing of new projects and to prepare the feasibility studies after senior bank officers agree the projet is viable. The bank has a guideline manual (Guía para la formulación de projectos) to prepare a project presentation which is very complete. Although the studies I reviewed were complete, the time envolved to prepare this study of 2 to 3 months is costly and inefficient. An outside firm can prepare an adequate study in 2 to 3 weeks which would be more cost effective to the bank and release the credit agent to do better crop follow-up of their borrowers. After a feasibility study is prepared, the bank processing time may take several months because of the internal workload of the bank credit officers. The BCR takes another 2 to 3 months for review and approval. The processing time for some projects takes up to one year before disbursement of funds. There is only one credit analyst assigned to analyze all loans under project 0307. The efficiency of this department does not appear to be good.
7. Mr. Guerra stated that the credit agents attend too many seminars which takes them away from their loan follow-up duties. He felt that the credit agents should be trained persons and not be trained on the job. He stated that the credit agent should not be involved in a project study, but should be doing loan follow-up and giving technical assistance to the cooperative personnel. This would be a better utilization of the credit agent.
8. We discussed the loan spreads of both the crop and investment loans made by the bank. Although, Mr. Guerra did not have the bank transaction costs available, he felt that the spreads are acceptable since bank management does not expect the agricultural department to be a profit center.

9. Mr. Guerra stated that they do not provide more credit under the 0307 line because 50 percent of the assigned cooperatives are located in conflict zone. This limits the number of good projects available for financing. The other limiting factor is that the better managed cooperatives operate with their own funds and rarely solicit bank credit.
10. The bank sits on many loans before they are approved because the bank's agricultural department is very inefficient and bureaucratic.
11. The BCR coordinating unit reviews all projects, supervises the credit agents and does marketing of the Project 0307 line.

DATA ACQUIRED ON BANK INTERVIEWS

NAME OF BANK : Banco Capitalizador

DATE OF INTERVIEW : October 19, 1988

INTERVIEWED BY : Percy Avram

NAMES OF INTERVIEWEES: Ing. Luis A. Silva, Jefe Depto. Agropecuario
Ing. Largulo Castro Iglesias, Credit Agent
Cap. José Remberto González, Credit Agent

I. Initiation of the Project.

The Agro Credit Dept in this bank was organized in 1980. It began to make Agricultural loans with Banco de Fomento funds under the 0263 line of credit in July 1980.

This bank was assigned 11 Agrarian Reform Cooperatives (ARC's) by the Junta Monetaria to work with. Four of these cooperatives, described as "desintegradas" could not be serviced, because they were situated in a conflict zone.

Currently, the bank services 11 cooperatives, six of which are very active and are considered as good clients by the bank.

The bank estimates, that there are an average of 120 members per ARC, thus their services touches the lives of more than 700 persons. (An average of 6 persons per family).

II. Volume and Condition of Loans. (9/30/88)

	Amount Granted	Amount Outstanding	Past Due	Percentage
Crédito de Avío	¢ 11,356.190	6,558,145	—0—	—0—
Créditos de Inversión	9,127.055	5,923,895	31,684	.05
Estado de Refinanciamiento	441,754	390,216	105,075	26.96%

Source: Banco Capitalizador

The Banco Capitalizador has granted more than ¢ 20 million in loans of which slighthy more than 50% was outstanding as at 9/30/88. This bank finances a large percentage of the Crédito Avío with its own funds. The table below indicates a break down of the funding of its total loan portfolio.

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Source	Crédito de Avío Amount	% of total	Crédito de Inversión Amount	% of total	Crédito Refinanciado Amount	% of total
BANCAPI	5,486,791	48.1	542,632	5.9	109,400	12.6
FRA	3,062,000	27.1	2,957,336	32.4		
BCR	2,807,399	24.8	2,919,225	31.9	758,777	87.4
LECFSAR			2,328,202	25.5		
ISAR			379,660	4.3		
	11,356,190	100.0	9,127,055	100.0	868,177	100.0

Source: Banco Capitalizador

As reflected in the table 48.1% of the Crédito de Avío is financed by the bank's own funds. Most of this amount goes to Coffee loans, for which the 0307 line of credit is restricted. However, the fact that the bank opts to use it's own funds indicates the soundness of these loans. On the investment loans, the bank has utilized the BCR facility for 31.9% of its total portfolio, 5.9% of its own funds, and the balance from other sources.

III. Observations and Comments.

1. The Depto. Agropecuario in this bank appears to be well organized, and operated by qualified personnel. Ing. Silva, the chief of the Dept. indicated that they had not carried out an in-depth study of the potential loan volume that exists in the ARC's the bank serves, but they have recently concluded the identification of eight investment projects totalling ¢ 3.0 million, and additional potential exists.

2. This bank finds it's agricultural lending program to be effective, and plans to expan it's loan portfolio with lines of credit to its ARC's for both Crop and Investment loans using the bank's own funds particularly for the Crédito de Avío, when the 0307 funds are not accessible. It could, however increase its Crédito de Avío loans substantially if the coffee loans could be rediscounted in greater volume under 0307.

3. The bank has 2 Agricultural Credit Agents, which are at work in the field with the ARC's three days per week (Tue, Wed & Thurs.) They are in their office on Mondays and Fridays attending to correspondence, loan applications, loan portfolio review, meetings, and loan disbursements. The Credit Agents meet regularly with the ARC Manager, Board of Director and the members. They define objectives, and scope of work, make adjustments t the work program and discuss problems in general. There is a need for more training for Credit Agents, as well as for the ARC officials and members. Training should be on-the-job, supplemented by week-end seminars.

4. This bank also feels that a wider interest margin would be an incentive factor to scout for more projects, and would enable the bank to pay better salaries to its Credit Agents.

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5. Loan applications once formalized and supported by the required data for the crop loans are approved within the time frame of one week, while investment loans took longer but in no case more than a month. More time is being spent by the Credit Agents and the borrowers in preparation of the loan project's feasability prior to the preparation and submission of the loan application. This means beginning the loan process well in advance of the need for the funds. The bank will often advance its own funds for a project prior to receipt of BCR approval, in order to expedite its initiation.

BANK VISIT

NAME OF BANK	:	Banco de Desarrollo e Inversion
DATE VISITED	:	October 18, 1988
INTERVIEWED BY	:	Manuel Salsa
OFFICERS INTERVIEWED	:	Ing. Carlos Orellana-Credit Officer Ing. Ruben Echegoyen - Credit Agent.

I. Initiation of Project. Banco de Desarrollo e Inversion was assigned 4 Agrarian Reform Cooperatives under the Agrarian Reform and Nationalization Plan of GOES in 1981. The bank provides credit and technical counseliing and monitors closely crop and investment loans extended to the cooperatives.

II. Loan Amount and Condition of Loans.

Number Loans	Amount Granted	Amount Outstanding	Amount Past due	Percentaje
27	₡7,532,796	₡4,710,763	₡162,971	3.46
Decree 207	None			
Cdto.Avio	₡3,216,420	₡1,540,142		
Cdto.Inv.	₡2,051,700			

The bank is serving some of the credit needs of 4 cooperatives with lines of credit from Project 519-0307.

All of their ARC's credit needs, both short and long term, are not being met because of the high cost of serving these borrowers. Administration and lack of financial resources and land location make lending to the ARC's a risky proposition as stated by Carlos Orellana.

III. Observations and Comments

1. Two of the cooperatives are in areas that are inaccessible during the rainy season. Credit to the cooperatives San Isidro and San Alfonso is restricted because they cannot be monitored as required by the lending institution.

2. Crop assignments are taken when a crop is financed and all monies from crop sales are paid to the bank directly. This assures that the crop proceeds are used to retire the loan.

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3. The credit agent visits the cooperatives weekly during the crop season and bi-monthly when accessibility is difficult due to rains.

4. The feasibility studies for new projects are done by the credit agent, except when the project is complicated and outside of the expertise of credit agent. An outside firm is contracted and paid by the cooperative to do the study.

5. The loan approval procedure for this bank is very complicated, requiring 2 to 3 months to process. The procedure is: Credit Agent to Jefe Depto. de Crédito-Coordinating Unit in BCR-Bank Credit Committee-BCR Department of Analysis and Financing-return to bank for final disposition.

6. There is very little evidence of forward planning by this bank. However, the credit agent does prepare a study of possible new projects for the cooperatives he supervises, covering a period of six months which is presented to the coordinating unit and the bank. This is the only vehicle used to develop new business. The credit agent stated that most projects proposed to the bank are supportable and are approved.

7. The bank records are well organized and maintained. All loan documentation is reviewed and approved by the bank's legal department. The credit agent controls all loan disbursements and only releases funds in accordance with the crop budget needs. The Credit Agent administers a commercial account for the cooperative, to issue and control checks, for the payment of supplies and salaries. The cooperative must present to the bank the salary payroll for 2 weeks to be reviewed; a check is issued for the total salaries which is cashed and taken to the cooperative for payment to the individual workers. This very tight control of the disbursement of funds is done because the cooperatives have negative or zero net worth positions and lack management expertise.

8. The credit agent controls all aspects of the credit:
- All disbursement are done by the Credit Agent.
- All salary payments are authorized by the credit agent.
- All purchase of cattle or major equipment is approved and controlled by the credit agent.

This is done to assure that all loan funds are used correctly and all the funds from the sales of commodities are applied to the loan.

9. The memorandums of visits by the credit agent are well written and the revelation of any problems is acted upon immediately. If a problem is detected, loan funds not disbursed are held until the problem is resolved. This method of control can reduce the future possibility of a loan loss.

10. Most of the credit borrowers' needs are being met, as stated by the credit agent and the bank credit officer. No credits have been declined.

11. The credit agent is an agronomist and has learned credit on this present assignment. He attends to the credit needs of the 4 cooperatives exclusively. The workload capacity is reasonable, allowing him to give field crop technical assistances to the cooperatives.

12. He rates the cooperatives as follows:

- 2 cooperatives - marginal

- 1 cooperative - good

  1 cooperative - acceptable

Land usage in two cooperatives is being diversified, i.e.: rice, plátano, pasture and melons. The previous usage was sugar cane and cotton farming, whose prices have declined to the point of unprofitability. New cattle projects are being planned for herd improvement. Some of the lands are better suited for pasture, which meets the goal of better land usage.

13. The bank has been conservative in its lending to cooperatives because of the limited experience they have had with the assigned cooperatives. The credit officer stated that the coordinating unit should support training to the cooperative management personnel, to train them to improve land usage and to utilize human resources better. Both the credit agent and the credit officer felt that ASU is doing a good training job.

14. The bank has been receptive to this program, but will increase its lending to the cooperatives only as loans are repaid satisfactorily.

15. No new investment projects have been proposed.

BANK INTERVIEW

NAME OF BANK : Banco Financiero

DATE VISITED : October 18, 1988

INTERVIEWED BY : Manuel Salsa

OFFICERS INTERVIEWED : Orlando Rodríguez-Credit Officer
Juan Faustín Cardoza-Credit Agent

I. Initiation Of Project

Banco Financiero was assigned six agrarian reform cooperatives under the agrarian reform and nationalization plan of GOES in 1981. The bank provides credit and technical counselling and monitors closely crop and investment loans extended to the cooperatives.

These cooperatives were assigned to this bank on the basis of the past credit relationship it had with the original owners of the land.

Currently this bank provides credit to 4 cooperatives for short and long term credit needs from Project 519-0307.

II. Loan Amount and Condition of Loans.

Amount Granted	Amount Outstanding	Amount Past Due	Percentage
¢ 1.017,200	¢ 644.100	¢ 11,502	.01
PROJECT 0207			
¢83.493,44	¢62,493.44	¢ 11,502.44	.18

	Amount Granted	Amount Outstanding	Amount Past Due	Percentage
Decree 207	¢83,493.44	62,493.44	11,502.44	18%
Cdtos. de Avio	None			
Cdtos. de Invers.	¢ 394,100	373,100		

This bank does not appear to pursue.

III. Observations and Comments.

1. A review of all outstanding loans was made from duplicate and some original loan records maintained by the bank credit officer and the credit agent at their agricultural Department. The original loan documentation is maintained at the Bank's downtown Headquarters. From the review of these records, all loans are supported with adequate documentation, but the financial analysis is only marginally adequate. There was no evidence of thorough analysis by the bank credit officer. The lack or thoroughness of analysis on the major items to be considered in a credit decision were missing in every credit presentation. The following questions at each stage of the loan process were not fully considered:

A.- Product and market review.
- Production and supply review
- Management review
- Financial performance review
- Projection and forecast review

B.- Credit evaluation
- Determine credit constraints
- Borrowing cause and purpose review
- Repayment source review.
- Loan support review
- Relationships review
- Loan structuring

C.- Credit action
- Decline, approve and recommend
- Customers negotiation and review of alternatives
- Disbursement
- Documentation

D.- Loan management.
- Reporting and follow-up
- Problem loan management

Some of the foregoing questions were considered, but not to the extent necessary to do a thorough analysis of the project being considered. However, the condition of the loan portfolio was good for the loans granted under Project 519-0307 with no delinquency ratio. This situation is due to the grace period of loans, whose principal payment have not matured.

The loans granted by this bank have the guarantee of ISTA for 50 percent of the loan. ISTA only gives 100% guarantee when the credit risk is extremely high. When crop financing is extended, a chattel mortgage is taken in all cases.

The credit agent goes to the cooperative and together with an officer of the project, complete a crop budget for their credit needs. This budget is broken down by crop, if more than one crop is to be financed for the crop season. The bank uses this budget for the cash flow of the cooperative because of the unsophisticated way that the financial records of the cooperative are maintained.
2. Appraisals are made when real estate is involved.
3. The documentation for the loans extended were reviewed to determine adequacy of protection for the bank. An escritura pública is taken and not registered because the properties of the cooperative are not registered in the name of the cooperative. However, the bank officer stated that it has executive action; since it is a contract between two parties. The bank takes also an acceptance (letra de cambio) which is discounted. The acceptance is without protest and legal action can be taken immediately.

All credit disbursements are handled by the credit department at its main office and documentation maintained under custody. The credit agent, after receiving BCR approval, instructs the Banks Accounting Department to disburse funds in accordance with budget needs.
4. The approval process is complicated and inordinately long for the small loan amount of each loan processed. In most cases, regardless of loan size, the processing time of a loan is 2 1/2 to 3 months. The BCR analyzes and reviews all loans under Project 0307 and approves the loan purpose and completeness of analysis.
5. The Agricultural Department of this bank has two credit officers and a credit agent whose workloads appear reasonable.
6. The credit agent stated that very little progress has been made in training cooperative managers to be proficient in their job. He felt that management training programs are urgently needed and that past training courses given were not instructed by qualified teachers.
7. The credit agent visits the cooperative every 15 days to control crop production, salary payments and inventory purchases. The control is strict because of the lack of adequate management talent at the cooperatives. This inordinate control of a borrower increases loan costs to such an extent that the transaction is unprofitable to the bank. This was commented upon by the bank credit officer, although the bank does not do a cost analysis of a loan transaction.
8. The credit agent mentioned that new projects were being considered for crop substitution and land and herd improvement. The projects are:

-Shrimp farming - 1 hecture.
-Dairy cattle - purchase 20 head
-Irrigation project.

9. The reason for the low usage of the line 0307 is due to 2 cooperatives having delinquent loans, marginal land and extremely poor management. The bank has only 1 cooperative that is credit worthy, but some of its money needs are provided from current cash flow. The fourth cooperative may be returned to the original owners.
10. The loans extended under Project 0207, show a 55 percent delinquency by number and are costly to administer as stated by both the credit officer and the credit agent. The bank has stopped making loans under this project.
11. Another limiting factor restricting this bank's lending to cooperatives is their low capital base. Banks are authorized to lend 45% of their capital and reserves to one borrower. The bank has reached its lending limit to Cooperative San Francisco whose loans are now 47 percent of the bank's capital and reserves. Mr. Faustin Cardoza made this statement which does not appear reasonable. My experience, with banks in other countries, has shown that lending to one borrower 10% of the bank's capital and reserves would be more reasonable.

BANK INTERVIEW

NAME OF BANK : Banco Salvadoreño

DATED VISITED : Oct. 18, 1988

INTERVIEWED BY : Manuel Salsa

OFFICERS INTERVIEWED : Maria Cruz Vela-Credit Department Head

I. Loan Amount and Condition of Loans.

	Amount Granted	Amount Outstanding	Amount Past due	Percentage
Cdtos. Invers.	¢ 10,291,397	9,374,258,40	——0——	——0——
Cdtos. de Avio	¢ 11,641,446	2,495,689,17	——0——	——0——

II. Initiation of Project.

Banco Salvadoreño was assigned 18 Agrarian Reform Cooperatives under the Agrarian Reform and Nationalization Plan of GOES in 1981. The bank provides credit and technical counselling and monitors crop and investment loans extended to the cooperatives closely.

These were assigned to the bank on the basis of the past credit relationships it had with the original owners of the land.

Currently, the bank provides credit to 18 cooperatives for their short and long term needs.

III. Observations and Comments.

1. The two credit agents assigned to this bank resigned to pursue other employment. The bank has requested two new agents to replace the previous credit agents. However, the BCR officials have advised the bank that no new agents are to be contracted because the contract to supply these credit agents will terminate December 1988. If the contract is renewed, the bank will be able to submit a new request for the two agents. At the present, the bank has two of its agronomists doing the follow-up of the loans extended to the cooperatives. Visits to the cooperatives are made twice each week during the crop season to control loan disbursements and give technical assistance as required. This technical assistance consists of how to control pest, irrigation management, and assist/control purchases and marketing of commodities.

2. These bank officers prepare the loan application at the cooperatives premises after they have prepared a crop budget for the crop year needs. This application is presented to Mario Cruz Vela - Department Head for review and processing. This process, at the bank, takes 2 to 3 weeks which appears to be reasonable. New investment projects are identified by either the cooperative people or the bank credit officer. When a project is identified, the credit officer prepares a feasibility study, after consultations are held with the cooperative management and the bank and coordinating personnel to determine the viability of the project. If everyone agrees that it is a viable project the loan processing starts. The feasibility study is done by an outside consulting firm, a process which takes 2 to 3 weeks to complete depending on the complexity of the investment project. The bank review officer processes the loan application and submits it to the BCR for review and approval. At the BCR, the processing time is usually 2 to 3 months and Mr. Cruz felt that this delay is unreasonable. He felt that the borrowers needs could be better served. If the BCR approval should be eliminated because the loan risk is taken by the financing bank, he felt that the coordinating unit of the BCR should have the authority to review a project loan and approved it for compliance under the Project 0307 regulations.

3. This bank has a department of analysis, which Mr. Cruz felt is very capable and no further analysis of an investment project is needed by the BCR analysis department.

4. Loan guarantees are taken in accordance with local banking practices. They are: Crop and chattel mortgage, escrituras and acceptances as required.

5. The memorandums of visits to the cooperatives to supervise loan compliance is weak. The memorandum of a visit is short recording the visit and very little detail of how a crop is progressing.

6. If a problem is detected, the bank requests the CDU personnel to join them in seeking a solution to the problem.

7. Some cooperatives are not eligible for credit financing because of a heavy debt load, as well as delinquent loans with the banks, which were extended in the past.

Mr. Cruz stated that they have a program to assist their assigned cooperatives improve administration and farming practices, to the extent that they become credit worthy. Most of the cooperatives assigned to the bank do not have the management ability to supervise their present resources and the bank must do extensive follow-up of crop loans and investment projects to assure collection of the loans extended.

8.Mr. Cruz identified another management problem of the cooperatives. The by-laws of the cooperatives stipulate that the Board of Directors (Junta General) is elected for a term of two years. This creates a serious problem because it takes time to train people in administration to discharge their duties as board members.

The process interrupts the continuity of management creating a severe problem for the cooperatives because of the lack of management talent.

9. Pending Projects:
   - Land irrigation project (¢ 700,000).
   - Purchase of a sugar cane loader
   - Dig a water well (¢ 400,000).
   - New coffee planting - increase land usage
   - Shrimp farming (¢ 28,000,00) at Cara Sucia.)

In the case of the Cara Sucia shrimp project, the banks lending limit of ¢ 7.5 million is far exceeded and BCR approval must be obtained to exceed its lending limit.

10.Mr. Cruz stated that land usage, by the cooperatives being financed, has increased by 20 percent according to bank records. There has been crop substitution to better utilize available land and increase profits. Sugarcane and cotton were the two mentioned crops that are being replaced. Employment at the cooperatives has increased according to the payroll records reviewed and controlled by the bank.

The bank credit officer felt that the CDU personnel are doing an acceptable job.

12. The smaller credits are avoided because of the risk factor and the high cost of loan supervision.

13. Equipment and machinery financed is insured for full coverage, including terrorist distruction, both for stationary and operating vehicles.

14. A criticism was voiced of the credit agents that they are sales people, rather than a banker. In some cases projects have been proposed that have high credit risk because the borrower does not a good payment history. The credit agent continues to argue that the project is good and credit payment history should not be totally considered as a negative.

15. The credit officer recommended:
   - Eliminate BCR in the analysis process.
   - Hire outside consultants to do project studies.
   - Have a credit analyst from the BCR in the bank.

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DATA ACQUIRED ON BANK INTERVIEWS

NAME OF BANK : Banco de Comercio

DATE VISITED : October 18, 1938

INTERVIEWED BY : Percy Avram

NAME OF INTERVIEWEES : Ing. Moises Velásquez
Ing. Mario Guillén
Ing. Manuei E. Canizalez Helena

I. Initiation of the Project.
Under the Agrarian Reform and Bank Nationalization Plan of the GOES in 1981, this bank was assigned 17 Agrarian Reform Cooperatives (ARC) to provide them with financial/technical counselling and credit. During the course of time 4 cooperatives withdrew because they specialized in coffee production only and switched to INCAFE.

Currently this bank serves 13 ARC's with lines of Credit from 519-0307. It is estimated that 1,310 families are associated with these cooperatives or about 7,860 persons. (Average of 6 per family). High degree of illiteracy.

The cooperatives in the main are poorly administered, calling for intensive supervision, causing the bank to have high per unit loan costs and risks.

II. Amount and Conditions of Loans.

	Amount Granted	Amount Outstanding	Amount Past Due	Percentage
Decree 207	¢ 10,524.240	5,437,437	1,637,057	30.1%
Créditos de Avío	11,045,051	6,598,032	—0—	—00—
Créditos de Invers.	5,208,262	3,677,462	73,925	2.01%

III. Observations.

1. As at Sept. 30th., 1988 the loans under 0307 were in good condition, with no delinquency in the Crop (Avío) loans, and a 2.01% past due in the Investment loan portfolio.

The Decree 207 loans, however had a delinquency factor of 30.1%.

2. The staff of the Depto. Agrario did not seem to feel the existance of any acute problem, other than the collection of the loans granted under Decree 207. Reasons given for the non repayment and poor collection was:

a)Traditional form of small farm management.
b)Low commodity prices at or shortly after harvest.
c)Poor administration of the cooperatives.
d)Delay in release of crop payments by the marketing agencies, increases the interest cost of the loan to the farmers.
e)Indifference and unwillingness to repay loans, because such are considered to be grants from the GOES and AID.

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3. The bank does not have any long term loan-marketing plans. Loans are offered to the cooperatives, based on the feasibility of one or more individual projects. There is a lack of a long-term, integrated development plan for the bank and it's client cooperative, that would indicate production diversification, infrastructure development, income expansion, renewal and maintenance of the physical assets, aside from the need to plan for the payment of the land and eventual ownership.

4. All loan applications received by the Bank have been approved. This is because the loan transactions are discussed in an informal manner by the Credit Agent at both the Bank and the Borrower level. Therefor, when agreement is reached based on the informal procedure the loan is then formalized and submitted for official approval, through the established channels.

5. Casual reference was made to the BCR/CU and their role in the lending process was questioned, since there is an apparent duplicity of functions causing a delay in loan approvals.

6. Loan Guarantees offered by the borrowers to the bank are simbolics in nature. The guarantees consist mainly of:

a)Crop Lien Contracts
b)Assignment of Marketing contracts, and
c)Chattel liens on livestock.

The products, goods and chattels can be disposed of without the bank's knowledge or consent, there are no titles or deeds to land to be taken as loan collateral.

7. Some indifference was expressed with regard to expanding the loan portfolio with Rediscount Funds from 0307, due to:

a)Inability of the cooperatives to manage their resources wisely;
b)A need for intensive loan supervision.

8. There is a need for training at all levels of operation of this project. The Bank feels the Credit Agent (CA's) require further in-depth training in project planning at the Hacienda level. The CA's also require more training and knowledge on methods of lending profitably to small farmers. Some training is to be undertaken by Tecno-Serve Consultants but there was no indication of Course Content.

NUMERO DE SOCIOS DE LAS COOPERATIVAS
ASIGNADAS AL BANCO DE COMERCIO DE EL SALVADOR

NOMBRE DE LA COOPERATIVA	No. DE SOCIOS
1. Santa Cruz Tazulath	426
2. Santa Maria Coquiama	51
3. San José Miramar	98
4. Plan de Amayo	106
5. Finca El Potosí	39
6. Pasatiempo	175
7. Amatecampo	103
8. Cantón Vaquerano*	26
9. Las Glorias	33
10. El Congo	60
11. La Bagatela	43
12. Pueblo Viejo	50
13. Santa María No. 2	31
14. San Mauricio	69

*Cooperativa inactiva en proceso de integración.

DATA ACQUIRED ON BANK INTERVIEWS

NAME OF BANK : Banco Mercantil

DATE VISITED : October 18, 1988

INTERVIEWED BY : Percy Avram

NAMES OF INTERVIEWEES: Ing. Arnoldo Rivera, Jefe Depto. de Crédito Agropecuario
Ing. Ramón Menjivar Orellana, Credit Agent
Ing. Guillermo Enrique Belloso, Supervisor

I. Initiation of the Project.

Lending by this bank was undertaken when Commercial Banks were nationalized by the GOES and instructed to grant loans to the Agrarian Reform Beneficiaries which consisted primarily of Agrarian Reform Cooperatives (ARC's).

In 1980-81, the Junta Monetaria assigned 11 ARC's to this bank for financial counselling and lending of funds. Two of these cooperatives elected to withdraw, because they were exclusive producers of coffee, and were thus able to obtain loans and advances from ICAFE, under more favorable conditions, particularly from the standpoint of service.

Currently, this bank advises and provides financing to 7 ARC's, which have an estimated 600 plus asociados (members) with a total population being served of approximately 4000 people. About 50% of the members attend and participate in meetings when invited.

The bank did not have readily available data on the total number of manzanas operated by these several cooperatives. In other words, there was no global picture available in statistical terms.

Amount an Condition of Loans (as at 9/30/88).

	Amount Granted	Amount Outstanding	Amount Past Due	Percentage
Decree 207 (Avío)	₡ 136,900	₡ 136,900	—0—	
Decree 207 (Avío) Refinanced	25,631		20,680	80.1
Crédito de Avío	2,934,532	1,950,569	—0—	—0—
Crédito de Invers.	2,049,723	13,768	—0—	—0—

1. This bank has a poor experience with Decree 207 Avío loans granted in former years. Although its portfolio was limited, 80% of those loans were re-financed and are again in arrears.

2. The current loans amounting to ¢ 136,900 made to Decree 207 borrowers produced a more satisfying experience, and are being continued.
3. This bank has undertaken to finance with its own funds short term coffee production projects in the amount of ¢ 1,694,846 which falls due on 28/04/89. This is an indication that Commercial Banks are willing to risk their own funds, for a good interest spread on assured projects such as coffee.

4. The line of Credit 0307 portfolio pertaining to Investment Loans falls due in 1989 to 1994. Two loans which fell due in 1988 were repaid, while one loan was in default as at 9/30/88. Again, too early in operations to establish a repayment trend.

III. Observations and Comments.

1. This bank feels that the granting of loans to Decree 207 beneficiaries is a loss for the bank due to:
a) Poor farm management.
b) In some cases, the land alloted to the beneficiary is marginal.
c) ISTA is not equipped or is not interestd in providing the beneficiaries with technical counselling.
d) The intensive supervision required from the bank, on the one hand and on the other, there is a high risk and a narrow spread on the 0307 Rediscouted loans.

2. The experience in loans to the Cooperatives by this bank is somewhat better. The past due loans amount to 5% of the loan portfolio, and the Credit Agent believes most of these are collectable. Only 2 of the 7 ARC's are in default with loan payments.

3. This bank started off with 2 Credit Agents, but one opted to find other employment and was never replaced.

4. Both Credit Agents attended one training course which was considered very beneficial by them. More courses should be planned which incorporate planning and client development programs.

5. This bank has no long term development plans for its portfolio under the 519-0307 Line of Credit. It has no Client Development Programs for its Client Cooperatives or for its Decree 207 beneficiaries.

6. This bank, in it's Depto. Agropecuario is not completely sold on the methods and procedures outlined for the 0307 Rediscount lines. Without saying so, it became obvious, that some project loans were planned, prepared, and approved under the Rediscount procedures, however, the bank's own funds were used, and the Rediscounting feature is applied when the bank is faced with a liquidity crunch. This practice, without knowledge of how widespread, tends to indicate that a bank will put to use it's own funds in cases where the interest spread on its capital can be widened, even for a limited period of time, and where the loan repayment is practically assured (example: Coffee). In practice, this kind of activity indicates the need for a wider spread on the Rediscount Loans for the Commercial Banks.

8. The lack of planning and of determining the potential of this bank in the 7 active ARC's, which it can serve, has caused it to decide not to replace the Credit Agent. Obviously, this bank has not analyzed the loan potential in its assigned 7 ARC's, and the manpower required in terms of the number of Credit Agents required to reach that potential. Currently, this bank is in a "hoid" position, and should be encouraged to examine and expand its services to the ARC's.

DATA ACQUIRED ON BANK INTERVIEWS

NAME OF BANK: Banco de Credito Popular

INTERVIEWED BY: Percy Avram

NAMES OF INTERVIEWEES: Ing. Mario Adolfo Barahona
Jefe Depto. Agropecuario

I. INITIATION OF THE PROJECT

This bank, similar to all the other Commercial Banks, upon nationalization, was instructed to provide financial counselling and services to an assigned number of Agrarian Reform Cooperatives (ARC's).

Initially they were assigned 10 ARC's, subsequently 2 ARC's elected to retire and returned to the Banco de Fomento Agropecuario (BFA). Two new ARC's were then re-assigned and accepted thus bringing the total back to 10 ARC's.

The total number of members (asociados) in these 10 ARC's was estimated to be about 600. At an average of 6 persons per family, approximately 3,600 people are involved.

The bank has only one Credit Agent (CA) in employment. The second CA was dismissed from his duties, because the bank felt he was under-utilized.

This bank made a positive attempt to play a meaningful role in the granting of loans to the beneficiaries of Decree 207. Unfortunately this exercise, turned out to be a DISASTER.

II. CONDITION OF THE LOANS (9/30/88)

	Amount Granted	Amount O/S	Amount Past Due	Percentage
Decree 207 Avío	¢ 1,186,290	828,354	828,354	100%
Decree 207 Avío Refinanced	¢ 4,078,710	1.952,006	2,008,200	102,9%
Crédito de Avío	¢12,406,374	6,594,512	978,126	14,8%
Crédito de Invers.	¢ 2,669,232	1,496,803	67,939	4.5%
1)Crédito de Inversión Refinanced	¢ 3,634,044	3,634.044	—0—	—0—
2)Decree 207 Avío	¢ 1,235,890	855,684	855,684	100.0%

Source : Banco de Crédito Popular.

1)This loan was granted to a single cooperative for cotton production over a three year period. The loan has been refinanced to be paid on 10.9.93. The funds came from an external source.

2)These figures represent the totals and the condition of Decree 207 loans, granted by this bank using its own funds, prior to the 519-0307 funds.

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Over the years, this bank has granted ₡ 25,210,540 in loans, of which ₡ 15, 361, 403 remains as outstanding, and ₡ 4,738,303 (30.8%)in past due status.

The causes for the high rate of delinquency have been given as:
1. A prolonged drougth in the 1985/86 crop cycle set back many borrowers, thereby setting a need for refinancing.

2. A lack of responsibility on the part of many borrowers to pay their loans; because they used their crop proceeds to plant new crops or invested in other non-productive activities.

3. Low crop yields due to the agrological characteristics of the land.

4. The Crédito de Avío (0263) is being refinanced over a 20 year period at 6% interest.

5. Many borrowers were of the opinion that the credits extended were grant funds provided by AID and the GOES, which did not have to be repaid.

III. Observations and Comments.

1. This bank decided to dismiss one of its Credit Agents, because in their opinion he was being under-utilized. He has not been replaced. The fact, that the bank has a fairly large loan portfolio to administer would indicate that there is plenty of work for the Credit Agents to maintain personal contact with the borrowers, and to insist on loan collection, updating interest payments, and refinancing where necessary. The past due loans of 30.8% of the outstanding loans reflects a dire need for employing an adequate number of Credit Agents.

2. The person interviewed did not feel that a further expansion of the loan portfolio would take place, in either the Crop or investment loan fields. The poor experience to-date, coupled to the fact that the loan guarantees are weak or non-existant, the loan risks assumed by the bank are high, and the narrow interest rate spread, leaves little incentive to promote these kinds of loans.

3. The opinion was also advanced, that the 519-0307 financing for Agrarian Reform Beneficiaries, should have been made available directly to the Commercial Banks, rather than through the BCR as presently constituted.

4. The interviewee was not certain as to what cost-effective accounting was being employed by the bank. When queried about the cost to the bank per loan in the Depto. Agropecuario, the answer was vague. The bank did not have a 5 year or less Agricultural Credit Development plan to work with.

5. The bank has used its influence on two occassions in assisting to select managers in the Agricultural Reform Cooperatives (ARC's). By doing so, their operations are showing an improvement.

6. Loan applications once formalized are not turned down. When the bank utilizes its own funds, Crédito de Avío is generally approved within 7 days, and Crédito de Inversión in a period not exceeding 30 days. Loans re-discounted with the BCR take much longer, but no specific time frame was given.

7. Currently 6 loan applications amounting to ¢ 6.2 million for investment credit are being held up pending further studies of the projects, but also because the ARC's are delinquent on other lines of credit, and poor management in the ARC's.

8. There is a need for more training for the bank employees involved in this program. The interviewed felt that some of the training should be on-the-job, supplemented by week-end courses. In this manner, the bank is not robbed of its employees for periods of weeks at a time. Furthermore the need for training of the Loan Beneficiaries was also stressed. Decree 207 beneficiaries are not exposed to training of any kind, because materials for this purpose are not readily available.

**BANCO CUSCATLAN REL visit 10/18/88

INTERVIEWS:
Ing. Francisco Antonio Colocho, Jefe Depto.
Ing. Jorge Zelaya, Jefe Coop Group
Ing. Jose Roberto Sanchez, Agente de Credito
VISIT BY : R. E. Laport, Evaluation Team

ORGANIZATION:

Cuscatlan has a small but effective agricultural lending department under Colocho; a Coop Section with Zelaya and 2 credit agents (21 coops and C.31MM on books); a private sector group with 4 agro officers (100 accounts and C40MM on books); and a studies/control group staffed by 4.

0307 Activity: (booked as of 9/30/88):

Crop loans(avio) 12 ¢3.6MM 1 repaid

Investment loans 15 ¢6.8MM approved ¢5.5MM outstanding

13 Coops have received 307 Avio loans

12 Coops have recieved 307 Investment loans

COMMENTS:

Impressions of assigned personnel and the willingness of Cuscatlan to work with the Coop sector are generally favorable. All of the 21 assigned coops receive credit, although only 13 have received 307 credit. One that does not, Aguas Frias, uses bank funds because their annual requirements are above ¢5MM limit under 307. Bank is active user of other BCR rediscount facilities.

Credit experience is excellent with seasonal financing which, with exception of 1 small loan (citrus), is limited to coffee financing. Bank has done 23 transactions totalling ¢15.3MM without loss. 307 investment loans are still in grace periods, so as yet there is no experience in collecting principal. Interest payments are up to date, and the Bank insures that visits from credit agents are scheduled to coincide with maturities.

Investment loans are mostly in the ¢200M-¢500M range, primarily for replanting coffee, the growth of cattle herds, and for the purchase of equipment. The largest loan is to El Progreso who borrowed ¢4MM for equipment and working capital for its coffee processing operation (beneficadora).
This is a 3 year loan with three annual payments secured by "canos" issued by INCAFE for coffee processed. There are delays in collecting these canos, but loan is considered good even though it will be slow pay. Nevertheless, the borrower is closely monitored with visits every 15 days.

Feasibility studies are prepared by credit agents with internal support as needed. Three such studies were reviewed and quality was satisfactory given that none were complicated. Given credit agents schedule of 3 field days and two office days per week, it takes two to four weeks to complete draft of an investment loan proposal working on two to three simultaneously. Review of each study with BCR Co-ordinating Unit and the internal Bank approval takes two weeks to one month. Analysis and approval by BCR then takes two to three months, at times longer. Cuscatlan will often advance bank funds against a transaction internally approved but on which BCR approval is pending.

Cuscatlan is not doing any Phase III (decree 207) lending as these loans are too expensive to make and monitor.

BANCO AGRICOLA COMERCIAL REL 10/18/88

INTERVIEWS : Ing. Manuel Oliva, Jefe Reform Group
Ing. Juan Giron, Agente de Credito

ORGANIZATION: The Ag Credit Group under Ricardo Bennett consists of Special Programs (Coop lending and 207 lending) headed by Oliva with two credit agents and a 207 "supervisor", and a private sector group with a staff of eight temporarily headed by Oliva as well. Outstandings in Special Programs are ¢37MM to Coops of which ¢10MM in investment loans, and ¢1.1MM is out to 207 borrowers. ¢60MM is outstanding to private sector borrowers.

0307 Activity: (as of 9/30/88)
Crop loans (avio) 3 out ¢1.9MM 5 repaid.
Investment loans 9 appr. ¢2.3MM of which ¢1.7MM out

4 Coops have received crop loans totalling ¢6.1MM
7 Coops have received investment loans

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COMMENTS:

Bank has been assigned 14 coops; 10 of these have received credit under 307. The crop lending activity seems unusual in that of the four coops, one has received 60% of the total granted to date (El Refugio for coffee), and another 38% (El Platanar for henequen and kenaf). Monitoring the investment loans and working on the development of new projects was the reason given for maintaining the bi-weekly visit schedule of the credit agents.

The bank has a policy, which applies to both coop and private sector, against making cattle loans. This applies to both dairy and meat.

The bank, when asked, mentioned three primary constraints to increased activity, especially in the investment loan segment.

a. there are not sufficient lending opportunities within the traditional crop base.

b. the coops do not possess the technical know-how to implement projects involving new crops with a sufficient degree of safety to the bank.

c. the studies required and the red tape involved in gaining approval of investment loan proposals is excessive.

Agricola Comercial feels that the six point spread on investment loans is marginally adequate. They state that they would be more active with a larger spread.

The bank also mentioned that BCR has funds for rediscount from other sources at rates lower than those charged the borrower under 307. The Fondo de Desarrollo, we were told, permits funds to be made available for both crop and investment loans at 10%pa to the user, both private farmer and cooperative.

COOPERATIVE VISIT

NAME	: Cooperativa Los Lagartos
DATE VISITED	: October 20, 1988
INTERVIEWED BY	: Manuel Salsa
OFFICER INTERVIEWED	: José Antonio Panameño-Vice President
BANK RELATIONSHIP	: Banco Hipotecario

I. Brief Background Description.

Land area :	3.513.84 manzanas
Families :	670
Coop Members:	700
Family members:	6,000

1. The land is planted to 800 manzanas of sugar cane, 840 manzanas coffee, 800 cereal grains and the balance is unutilized.

There is a very old sugar mill on the premise which will be sold for scrap iron value.

2. They have a medical clinic which is staffed by two full time nurses and a doctor attends patients twice a week. The clinic is small but appears adequate to serve the medical needs of the cooperative families.

3. There is a school staffed by 9 teachers providing instruction (grades 1st. through 8th.) to all the children of the cooperative member families. Four teachers' salaries are paid by the government and 5 teachers paid by the cooperative. Night classes are offered to all adults and the teaching staff is all volunteers.

4. A nursery is maintained for the children of the coop members staffed by one attendant paid by the cooperative.

5. Recreational facilities are available and there is a plan to extend them when money is available.

II. Financial Condition.

Balance Sheet - March 31, 1988

Assets	: ¢ 29,477,538.52
Liabilities	: ¢ 26,058,746.82
Networth	: ¢ 3,418,791.70
Net profit	: ¢ 35,077.91

A quick review of the balance sheet reveals a very heavy long term debt that cannot be serviced out of current operating income. Their current ratio is negative in that current liabilities exceed current assets. This situation should be addressed by the ARC's management and action taken immediately. A financial statement was not made available .

III. Comments and Observations.

This cooperative does not have a General Manager because the last manager was discharged for cause. Mr. Panameño stated that they do not plan to hire a new manager to fill this post. The reasoning being that they can manage the cooperative better as presently structured.

The cooperative cannot avail itself of additional credit for investment projects because it has past due loans with the Banco Hipotecario. They had planned to replant the coffee growing land, provide electricity to the houses and prepare 200 manzanas for sugarcane planting. These investments are now on hold because no new investment credit is available to them due to the past due loans.

Since they acquired the Cooperative in 1981, some houses have been electrified and 35 new houses built.

The general impression of their farming practices and management planning is very poor.

FIELD REPORT

NAME OF ARC	:	Asociación Cooperativa Melara de R.L.
DATE OF VISIT	:	October 21, 1988 BY: Percy Avram
PURPOSE	:	This was an observational visit to evaluate the services performed by the Credit Agents and to gather a quick impression on the status and overall performance of the cooperative.
PERSONNEL INTERVIEWED	:	Ricardo Rivera C., Gerente Elmer Gallegos, Bookkeeper Benjamín Servelion, President Oscar Armando Melara, Secretary Santos Hernandez, Treasurer

I. Brief Background.

1. The ARC was organized in early 1980 under the provisions of the Agrarian Reform Law.

2. This enterprise has 161 persons (heads of families) as asociados. The interviewees estimated the family size on the average to consist of seven persons, thus bringing the total enterprise population to well over 1200 persons. In addition, to the legally recognized asociados, approximately 450 families consisting of immigrants or those displaced in the conflict zone have taken up residence in the enterprises' land.

3. The surface area of the enterprise consists of 1512 manzanas, broken down as follows:

Plátano	- 160 mzs.	Propiedad Asociada	400 mzs.
Arroz	- 80 mzs.	Pedrero	40 mzs.
Ajonjolí	- 120 mzs.	Infraestructura	60 mzs.
Sugar cane	- 164 mzs.	Unaccounted for	168 mzs.
Pasto	- 240 mzs.	Forest	80 mzs.
Total..			.1.512 mzs.

4. The enterprise has a herd of 450 head of livestock, both for beef and dairy. The financial operation of this department for the fiscal year ending March 31, 1988 showed an operating loss of ¢ 89,492.

5. The cooperative is capitalized on the basis of ¢ 4 for each male person, and ¢ 3 for each female person contributed bi-monthly. The accumulated capital contributions (equity purchase) to 3/31/88 amounts to ¢ 9,135. Ownership of the enterprise on the basis of purchase of capital stock is highly improbable.

6. Work is assigned to the asociados on a rotating basis. The wages paid amount to ¢ 13.16 per 8 hr. day for men, and ¢ 11.16 per day for women. Sexes are not given equal treatment for similar type of work. Both sexes, however can become members of the cooperative.

II. <u>Financial Condition and Obligations.</u> (3/31/88)

1. The net loss in the operations for the FY under review amounted to ¢ 1,548,216 bringing the accumulated losses for prior years to ¢ 4,379,192.

2. The short, medium and long term debt of this enterprise amounts to ¢ 9,223,227. The ratio of total debt to total assets is better than 2:1. The enterprise is in a state of bankruptcy. The short term debt amounts to 24.6% of the total, the medium term to 18.9%, and the long term debt is 56.5% of the total debt. The interest load carried by the enterprise is in the neighborhood of ¢ 950,000 annually. Even if the interest payment on long term liability is overlooked, the interest on short and medium term loans adds up to ¢ 640,000 annually. It is still too high an overhead item. It is not a viable enterprise.

3. The land and buildings (less depreciation) is valued at ¢ 3,008,516 which represents 62% of the value of the total assets. No payments have been made to ISTA on principal or interest for these assets since the inception of the cooperative.

III. <u>Observations and Comments.</u>

1. This enterprise needs to restructure its productive base, and an economic survey to this effect should be carried out to determine how to make the enterprise more productive and profitable.

2. An analysis should be made of the managerial and operational policies and procedures with a view to reducing the administrative costs which amount to about 35% of total operating costs.

3. The administration of this cooperative is highly centralized, indicative of the fact that budgets with specific goals and targets for each unit of production do not exist, implementation powers are not delegated, and accountability for the results are not called for.

4. Plans for reducing the debt load are required, and ways and means should be sought to improve the working capital of the enterprise to enable a reduction in interest costs.

5. This cooperative also faces serious problems of a social gender such as the theft of produce from the fields or warehouses. The migration of new and displaced families, alcoholism, promiscuity, broken homes, mothers with children from various fathers, a high degree of individualism, disrespect for the property of others and anonymous threats to officers of the cooperative. All of this calls for an intensive community development program.

FIELD REPORT

NAME OF ARC	:	Cooperativa Cara Sucia de R.L. Departamento de Ahuachapán
DATE OF VISIT	:	Oct. 20, 1988 By : Percy Avram
PURPOSE	:	To interview the Board of Directors and Manager; to make an on-site inspection of the ARC's activities, and to evaluate their performance and needs in relation to Agrarian Reform Credit line 519-0307.
OFFICERS INTERVIEWED:		José Octavio Hernández, President Joel Santamaría, Secretary Amilcar Roman, Treasurer The manager was absent.

I. Brief Background.

1. The ARC was organized in 1980 under the provisions of the Agrarian Reform Law.

2. The ARC now has 500 asociados (members) making the total population of this collective entity approximately 3000 people.

3. The ARC does its banking and lending business with the Banco Salvadoreño, and was granted loans amounting to ₡ 3,668,644 as at 9/30/88, for investment purposes-none of which were past due.

4. There are 2,800 manzanas operated by this ARC, of which 2,389 are cultivated. The land is used for the following production activities:

Livestock	- 58 animals	Asociados	- 500 mzs.
Caña	- 560 manzanas	Bosque salado	- 38 mzs.
Maíz & Melons	- 160 mzs.	Vivienda	- 70 mzs.
Sandia	- 50 mzs.	Infraestructura	- 100 mzs.
Pasto	- 525 mzs.	Cañon	- 139 mzs.
Plátano	- 200 mzs.	Forestal	- 47 mzs.
Total..			2.389 mzs.

It should be noted that the break-down of the manzanas showing the use of the land, does not tally with the total figures on the land operated. This is because no accurate land measurement has been made, and the break-down figures appear to be innacurate estimates.

5. The asociados (members) are given a one manzana parcel of land to plant crops (mostly corn, beans and some rice) for family consumption.

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6. When employed by the ARC on the collectively produced crops they are paid wages of ¢ 13.16 daily for 8 hours of work. This wage is in accordance with the wage and salary schedules approved by the Ministry of Economy. The daily rate calculation has built in the cost of a meal, and wages for a seven day week, although only 6 days are worked. Work is assigned on a 15 day work period, and when work is scarce, an asociado may only work a 15 day period per month, to allow another asociado to work the remaining 15 days in the month. They have been able to pay a year-end dividend to their asociados amounting to ¢150-200. All of this added benefits are paid even though the financial operations show a loss.

7. The Consejo de Administración and other Committee members are not remunerated for their services in their capacity as officers of the ARC. They do, however hold other paid functions within the ARC (for example, in this case the president is also the purchasing agent for which he is paid a salary).

8. The Consejo de Administración meets on a weekly basis, and the asociados attend a monthly meeting at which the montly operating statement and budget is discussed, as well as plans for the month(s) ahead. It is reported that between 350-400 members attend these monthly meetings.

9. The ARC as such provides it's own electrical energy from a Diesel powered generating plant. The asociados which live in the asentamientos (communities) receive their electrical energy from the National Electrical Institution. Chemically treated potable water is not available.

10.Currently, the ARC is involved in a Housing Project for its members. Plans call for the construction of some 400 houses. The labor for construction is provided by the asociados working in teams on a voluntary basis. Those working on construction are given food from the PL480 supply coming into the country. The ARC provides the materials for construction. Upon completion a house is valued about ¢6.000 and this amount is then repaid to the ARC over a period of 20 years (about ¢ 25-30 per month). There was uncertainty as to who would get title to the house when paid-the asociado or the cooperative.

11.The ARC proposes to launch a shrimp farm, and a feasibility survey has been undertaken by Multi-Systems Inc., of Houston. The Directors had no data to share on this study, but it was their understanding that the perspectives for this project are good, and one that would augment their present income. An investment of ¢ 225,000 had been made toward this project in their fiscal year 1987-88.

II.<u>Financial Condition and Obligations</u>.

The balance sheet of this ARC for the FY ending April 30th 1988 shows total assets valued at ¢ 12,127,126. The corresponding liabilities reflect a total indebtedness equivalent to its total asset value. There are no reseves, and member's paid-up and subscribed share capital is more than taken up, by operating losses of ¢ 279,612 incurred in the 87/88 operations, and the C 3,667,615 of accrued losses from prior years. Short term loans amount to ¢ 3.023,406, medium term loans to ¢ 4,245,679. And long term loans amount to ¢ 7.046,870. The total indebtedness carried by this enterprise amounts to more than ¢ 14.3 million, with the interest rate on 50% of this indebtedness for crop and investment loans running at an average of 16%, and 6% for the land indebtedness to ISTA, all of which incurs an annual interest debt load in excess of ¢ 1.5 million.

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According to the financial statement, depreciation charges of ¢ 103,407 were made for FY 87/88. The accumulated depreciation over the years including the FY reviewed amounts to ¢ 482,674 all of which has been used as operating capital. There are no Depreciation Reserves.

On the whole, this enterprise is bankrupt and commercially unacceptable as a borrowing client.

Over a period of time, and with very careful planning and good management, this enterprise can become solvent. Currently, it is sustained strictly by a a heavy in-put of credit, and with the accumulation of annual operating losses, a point of total credit unworthiness will be reached. This cooperative enterprise needs urgent attention from a managerial standpoint now.

III. Observations and Comments.

1. The crops inspected revealed a degree of neglect, except for sugar cane, which seem to have a normal stand. A 60 manzana field of melons and sandia appeared weedy. The melon crop will be ready for harvest about mid-November and on into December and January. The crop was targeted for the export market and should catch such markets when the prices for this commodity are at their best. The portion of the plantain crop inspected appeared normal.

2. Poor management and care of the buildings, equipment and facilities in general was noted. Some of the buildings are in a run-down condition and in a state of deterioration. One of the garages is housing a number of old abandoned tractors, while a new truck and a tractor were outside exposed to the elements.

3. The ARC's office, meeting room, and assembly hall had no charts, graphs or other informative data posted for information of the asociados. The directors present indicated that short range crop and labor distribution plans were utilized, but to their knowledge no medium term plan had been prepared.

4. This ARC, presently has a population of approximately 3000 people living from the crop and livestock, proceeds from 2,800 manzanas of land, 85% of which is in some form of crop production. The land distribution per capita is about 93.3% of a manzana per person. The question arises as to whether the enterprise can sustain this number of people and what study has, or should be taken to ascertain if this could be a problem in terms of the ARC's ability to repay it's crop and investment loans.

FIELD REPORT

NAME OF ARC : Cooperativa Taquillo de R.L.
La Libertad

DATE OF VISIT : October 21, 1988 BY: Percy Avram

PURPOSE : To evaluate the services performed by the Credit Agents to this ARC. To make a quick appraisal of the overall performance of this enterprise.

OFFICERS INTERVIEWED: Luis Alonso Mejía Hernández-President
Orlando Hernández - Secretary
Oscar Menjivar
Mario Cardoza - Agente de Crédito, Banco Financiero

I. Brief Background.

1. This Agrarian Reform Cooperative was organized on 5/3/80 under the provisions of the Agrarian Reform Law.

2. At the time of formation, only 15 of the laborers from this privately owned hacienda remained to form the nucleus of asociados that enabled the launching of the cooperative. Currently, the Cooperative has 176 asociados, 60 of which were former laborers of the hacienda and returned, while the remaining 116 came from the outside.

3. The officers interviewed stated the major problem they faced the aging of their asociados, and their inability to work as laborers. When queried about their average age, they said - "from 35 to 40 years of age ". This is certainly not a handicapped age for physical work, and other factors must contribute to this judgement which were not explored.

4. The enterprise consists of 1144 manzanas broken down as follows:

Cultivated	350 mzs.
Pasture	50 mzs.
Forest	200 mzs.
Marginal	544 mzs.

Most of the cultivated land has been parcelled out to the asociados for their own planting needs.

5. The pasture land is used for pasturing 74 head of livestock (criollo) and 17 cabellazos. They had only 40 head at the time that the Agrarian Reform Law was promulgated and intervention took place. Their plans now call for an increase in the number of livestock and for this purpose a loan for ¢ 100,000 from Bco. Financiero is pending, subject to final approval.

6. Plans also call for the planting of SISAL in the marginal lands. The typography of the land operated by this enterprise is very hilly rocky and of poor quality, therefore there are limitations to land that can be cultivated or turned to pasture. The marginal land appears to lend itself for goat ranching.

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7. The milk production is sold locally to the asociados and their families at about 20% below the open market price.

8. The asociados are paid ¢ 10.50 per jornada (8 hr, day), when employed to clean the pastures, repair fences and for milking. Employment however, is limited and not all asociados can be employed on the enterprise.

9. There are about 140 children ages 8-15 years. There is a make-shift school for those of kindergarden age, while the remainder go to public schools in the nearby villages of La Perla and El Palmar.

10. There is veterinary services nearby, however the directors stated they were quite familiar with and knew how to treat most animal diseases.

11. There are two rivers that cross their land and the directors were thinking of shrimp farming. Their plans are to purchase shrimp from a nearby laboratory and fatten them in specially constructed salt water pens.

12. The directors meet every Wednesday, however their meetings seem to stem around the discussion of every day problems. Meetings of the asociados outside of the annual meeting are seldom held.

13. The directors in this enterprise have not been exposed to any training.

II. Financial Data and Obligations.

1. No financial data was available. The person in charge of accounting comes from outside the enterprise, on a twice monthly basis and carries the records with him. A previous accountant followed the same practice, and at one point simply disappeared books and all.

ISTA has requested the new accountant to reconstruct the books as far back as possible- but it was felt that this could not be done accurately, and therefore it was more propitious to arrive at some prior year estimates and perhaps reconstruct for a prior one or two year period.

III. Observations and Comments.

1. This ARC is very poorly administered. The physical assets are in poor condition and no plans exist for their repair and maintenance.

2. All members of the Board of Directors were newly elected to the Board last June. They are younger men and judging from conversation appear to be ethical and well motivated. They lack know-how and expertise, and for this they require training, as well as technical, managerial and financial guidance.

3. It was apparent, that this ARC was not receiving assistance and guidance from the BCR/CDU, since no one from this unit had paid them a visit since June, and there were no concretely formulated plans to consider.

4. It is poor practice to allow the accounting records of the enterprise to be removed from the premises, and action should be taken to have this practice stopped.

5. There is a need for in-depth planning and programming in this enterprise. The Credit Agent from Bco. Financiero together with the Directors drafted a plan for increasing the livestock herd but an integrated study should be made to include the feasibility of establishing a SISAL plantation, as well as a goat herd and the shrimp fattening project.

FIELD REPORT

NAME OF ARC: Cooperativa Tonala de R.L.

DATE OF VISIT: Oct. 20, 1988 BY: Percy Avram

PURPOSE: To evaluate the activities, performance and needs in relation to the Agrarian Reform Funding Program No.519-0307.

OFFICERS INTERVIEWED: Roberto Enrique Orozco - Presidente
Pablo Castro - Tesorero
José Guillermo Carbalio - Gerente
Manuel Antonio Román - Tecno-Serve

I. Brief Background.

1. This Agrarian Reform Cooperative (ARC) was organized under the provisions of the Agrarian Reform Law in early 1980.
2. At that time, there were 176 asociados, this number reduced itself to 100, and gradually some of the asociados returned. Currently there are 139 asociados, 90% of which are married and 10% single adults. Women are not encourage to join as asociados, but may take over their husband's membership in case of his death. The matter of who, what and how the shares and equities of a deceased member are disposed of was not clear.

3. The ARC does banking with Bco. Salvadoreño and loans for investment purposes outstanding as at 9/30/88 amounted to ¢ 2,591,800.

4. The surface area of this cooperative enterprise consists of 800 manzanas, of which the cultivated area is broken down as follows:

142 mzs. of plátano
155 mzs. arroz
66 mzs. cf maíz
41 mzs. of caña

5. The ARC proposes to alter some of its crop land, and the following changes are planned:

	Actual Area	Proposed Area	Change
Ganadería	260.5 mzs.	150.0 mzs.	- 110.5 mzs.
Agricultura	404.0 mzs.	514.5 mzs.	+ 110.5 mzs.
Other areas	135.5 mzs.	135.5 mzs.	---0---
Total	800.0 mzs.	800.0 mzs.	---0---

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This ARC indicated that part of the increase in the cultivated acreage would be planted to sugar cane for two main reasons:
i) Sugar cane as a crop has stable prices and provides employment to more of the asociados, and
ii)it is a crop that does not lend itself to theft by the asociados and/or others.

6. This cooperative is engaged in the dairy industry and owns about 200 head of cattle. Two years ago the enterprise had to sell 118 head because the animals had tuberculosis. Currently, their milk production is 2,060 litres daily, down from 3,200 litres a year earlier.

7. The ARC receives technical and management counselling from Tecno-Serve Inc., and Manuel Antonio Roman representing Tecno-Serve was on hand for this interview.

8. A financial statement and Balance Sheet for FY 87/88 was provided and briefly discussed. The ARC did not have a medium range development plan in writing. Discussions have taken place with regard to such a plan, and some informal forecasting has been done. Other aspects of the fiscal operations were portrayed in graph form by Tecno-Serve, and were used to explain profits and losses at the annual meeting of the asociados.

II. Financial Condition and Obligations (As at 31/3/88).

1. The ARC had a net operating loss of ¢ 744,534 for the FY ending 3/31/88. When added to prior years the accumulated losses amount to ¢ 3,306,624. The ARC is bankrupt. Judging from its statement of operations, balance sheet, and on past earnings performance, it is utterly impossible for this ARC to meet its long term loan repayment obligations. Short and medium term obligations may be met from the sale of current crop and animal production, liquidation of other inventory and assets, depreciation write-offs, and the annual share capital contributions of the members, all of this on a "nip and tuck" basis under ideal conditions. One crop failure would spell disaster.

2. The balance sheet reflects assets valued at ¢ 6,385.620. On the liabilities side the debt load for short medium and long term loans amount to ¢ 9,692,243 which is 34% above the value of the total assets. The accumulated annual losses are financed from borrowed funds.

3. This ARC cannot be expected to carry the present debt burden, plus any additional loan funds under current operating and management conditions. It should take immediate action to:

i) Engage competent management.
ii) Make an intensive review of its operations, and fine tune the practices and procedures.
iii)Make an evaluation of the land use, crops produced, livestock numbers, etc.
iv) Study the enterprises' ability to sustain it's population, and determine what could be done to increase the income.
v) Based on an integrated feasability survey refinance the project under suitable terms.

III. Observations and Comments.

1. This ARC hired the services of Servo-Tec Inc., to provide technical, administrative and financial counselling to the management and Consejo de Administración. Improved accounting and performance measurement records were noted. There is room for further improvement in the drafting of medium range development and production plans, in better inventory control and management, and in cost accounting.

2. The manager and accountant attended a 3 week training course, and both felt the training was helful. Some suggestions were offered with reference to course content for future courses. These were not noted, however prior to the holding of future training courses, managers, accountants and other ARC personnel should be polled to determine priority training needs and course content.

3. The ARC requires close supervision from appropriate agencies such as BCR/CDU and the Bco. Salvadoreño. This is to ensure that plans drafted and enterprise performance measured by Tecno-Serve and the manager is in compliance with the highest business, social and ethical conduct. It was evident, that the directors are not capable of self-administration. There is a need to educate and communicate to the ARC officers, committee-men and members at large, the goals, targets and planned action of the enterprise.

4. This ARC suffers from the problem of theft by the asociados of commodities produced. The degree of theft is not quantified, and whether it is all physical theft of the produce or theft through short-changing on the sale of products and incorrect book-keeping entries is not determined.

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COOPERATIVE VISIT

NAME : Cooperativa Copapayo

DATE OF VISIT : October 20, 1988

INTERVIEWEED BY : Manuel Salsa

OFFICERS INTERVIEWEED: Jose Ismael Parada Galindo- President
Antonio Aguilar Guzman- Cogestor
Victor Manuel Martinez-Contador

BANK RELATIONSHIP : Banco Hipotecario

I. Background Information.

1.The cooperative was formed under the Agrarian Reform and Nationalization Plan of GOES in 1981. When the cooperative was formed in 1981, the land was being worked by 14 employees supporting 100 families. They have increased families to 150 and total family members to 900.

2.The land area of the cooperative is 800 manzanas of which, 582 manzanas are planted to the following crops:

Sugarcane	- 140 manzanas
Rice	- 116 manzanas
Corn	- 10 manzanas
Not cultivated	- 274 manzanas

To support this increased land usage, 50 more families have been incorporated into the cooperative. An additional 10 workers have been added to the work force to support this increased land usage.

3.The farm equipment appears sufficient to farm the present land under cultivation, and is maintained in good condition. They have the following equipment:
2 tractors with necessary implements, 1 Mercedes Benz truck 8 tons, 1 pick up and a grain dryer.

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4.During the last 8 years, 100 houses, at a cost of ₡ 8,000 each, have been built or improved. They used ₡ 569,687.72 from cooperative profits to obtain this remarkable improvement in housing accomodation. A medical clinic was built costing ₡ 104,000 and is staffed by a doctor, attending patients on Monday, Wednesday and Friday. A full time nurse is on duty six days of the week. The clinic personnel attend, on the average, 25 sick people daily.

5.In November 1983, electricity was introduced and a program of electrification was initiated to be completed in 5 years. The program has been completed and all houses have electricity.

6.Recreation facilities have been constructed to support social activities.
7.A water well has been dug and pumping equipment purchased to supply potable water to the community houses. This water project was done with their own funds.

8.A school was built at a cost of ₡ 5,000 to the cooperative and the balance of the costs were paid by the government. They have 9 teachers on the school staff. The salaries of six teachers are paid by the government and 3 teachers are paid by the cooperative. Night courses are offered for adults and are taught by volunteers who are cooperative members.

9.Sanitary facilities have been provided to 36 houses for a cost of ₡ 3,000 each. This is an ongoing program which will be completed in the future.

They have a program to vaccinate for polio all the children of the community. They well being of the family unit is considered of prime importance by the officers of the cooperative.

In the cooperative organization, a health and welfare officer is in charge of all health activities on a full time basis. The total cost for personnel working in the social welfare area is ₡ 4,600 monthly.

9.A nursery school for the working mothers is maintained and the nursery teacher is paid ₡ 400 monthly by the cooperative.

10.The cooperative officers have received training in law, planning, cattle improvement, and farming. These officers have been sent to ISTA, IICA, and CINCAP to receive this training.

11.The cooperative borrowered money to purchase dairy cows under the line of credit 0307 to supply milk to the families of the cooperative. The milk is sold at a small loss, but the officer interviewed felt that by adding a calf operation, they should be able to reach a break even point in the future.

II. Financial Condition.

There is an accountant employed on a full time basis. The records kept appear to be adequate to record the financial transactions of the cooperative. The cooperative accountant did not furnish a current financial statement, but stated that they were operating at a profit.

III. Observations and Comments.

This cooperative does not have a General Manager in charge of all cooperative operations. I questioned the reason for the absence of a general manager, which is a necessary element of proper management practices. Mr. Parada Galindo stated that the previous manager was fired because of selling off cooperative assets without the approval of the Board of Directors. He felt also that the salary paid to the manager was excessive. The manager duties are now being performed by the president together with other officers of the cooperative. He felt that the cooperative managed in this manner is less costly. This bad experience cannot be overlooked and they are not amenable to hiring a general manager.

Another problem cited, is the 200 manzanas that belong to the former owners and is being farmed by the cooperative. This land is located in the middle of the cooperative holdings and a project to purchase the land has been proposed. The owners want ₡ 4,000,000 for the land and payment must be made immediately in cash. The cooperative officers have discussed the purchase of the 200 manzanas with its financing bank, who has declined the investment financing. This should be a bankable transaction where a real state mortgage can be given by the bank and the loan can be paid in five years as stated by Mr. Parada Galindo.

The fixed assets of the cooperative appear to be undervalued, since present value is at the original acquisition appraisal of the assets. It is estimated that the cooperative land is worth ₡ 20,000 per manzana due to all the land and building improvements done since acquisition in 1981.

The general impression of this cooperative is fair because of their lack of management capability and technical expertise. To improve performance, they will need extensive training of management personnel to identify critical areas and do good future planning.

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COOPERATIVE VISIT

NAME : Cooperativa Ataisi de R.L.

DATE OF VISIT : October 20, 1988

INTERVIEWED BY : Manuel Salsa

OFFICER INTERVIEWED: José Humberto Pérez, Accountant

BANK RELATIONSHIP : Banco Hipotecario de El Salvador

I. Brief Background Description.

The cooperative was formed on March 6, 1980 under the Agrarian Reform Act. The cooperative has a land area of 5001 manzanas farmed as follows:

- Sugar cane 712 manzanas
- Coffee 2,441 manzanas
- Forest land 1848 manzanas

The forest trees are harvested and processed into lumber to be used to frame and build houses for the Cooperative members; there are 1500 families with 6000 members. The cooperative, when formed in 1980 had 622 houses which were marginally habitable. Today there are 900 houses and 235 are under construction which will be built with government funds. All the houses have electricity, but no running water. Much of the water supply is not potable, especially in the outlying areas of the cooperative. Some farm communities are located 20 kilometers from the main area where all the administration offices and social facilities are located. In these areas, the concern is the contaminated water which can lead to polio and other diseases.

They have built 6 schools with own and government funds. The school enrollment 1300 students increased from 400 students in 1980. The teaching staff consists of 16 teachers whose salaries are paid by the cooperative. Night school is offered to adults to improve their reading and writing skills.

A library was built in San Isidro which is centrally located to provide the needs to the greatest number of families.

A medical clinic was built and is staffed with a doctor, 2 nurses and 2 assistant nurses, all paid by the cooperative. There is a small hospital and pharmacy opened day and night to provide for the needs of the sick. Laboratory needs are provided in the town and are paid by the cooperative.

Recreation is provided to both children and adults and a soccer field has been built to support this activity. A basketball court is under construction and should be completed soon for use.

The program to electrify the cooperative houses was an ardurous task, which many outside people thought could not be accomplished. With AID funds, electricity was provided to 329 houses and the task has been completed.

The coffee lands are not being utilized to their fullest producing capacity. When the cooperative was formed, the coffee trees were not uniformally planted. The former owners had planted 900 to 1100 trees per manzana. They have a present coffee project to increase coffee tree planting to 2,000 trees per manzana. By 1996 coffee production will double under this project, if investment funds are available to complete the project. At present, the cooperative officers in charge of the project have not been able to meet planting projections because of the lack of financing.

They met the 1987 projections for planting and are now one year behind schedule. There present financial needs are ¢ 7 million and by 1997 their money needs will be ¢ 13 million, of which the bank has provided only ¢ 5 million for the current crop and investment year needs.

Mr. Humberto Pérez stated that their operating plan for 1987, 1988 and 1989 was made together with the firm "Desarrollo Empresarial al Servicio del Pueblo". This operating plan which we reviewed was very well prepared and showed that a professional planning firm was envolved. The plan stated the following:

Goals : Production
Marketing
Financing

Objectives : General
Specific

Organization: Investment
Depreciation

Results : Economic
Financial

A cash flow statement was prepared, but projected goals were not realized because of a drought and wind in 1987 which affected their coffee production. The lack of income severely affected their plans to plant more coffee trees. The bank declined a loan for the replanting project which further agravated the situation.

II. Financial Background.

Total Assets	:	₡ 68,548,313.14
Total liabilities	:	₡ 65,556,452.01
Net Worth	:	₡ 3,991,861.13
Net Profit current year	:	₡ 1,562,651.26

III. Observations and Comments.

1. Projects.
In these projections the purchase of 100 milk cows is planned in the near future. This will provide work for milkers and other workers associated with this project. The milk produced will be sold to families of the cooperative and commercialized if there is any excess production.

2. The coffee tree planting project will supply work for additional workers, when the cash flow and available credit permit this project to proceed.

3. The last project planned is the production of ornamental flowers for export to the U.S. market. They are at the initial stage of the project of doing the soil analysis and irrigation water availability. They plan to use 10 manzanas located in the forest area of the cooperative which is not utilized at present. The cost of the project will be ₡ 10,000,000 and will provide field work for 60 women. DIVAGRO is providing some of the technical assistance in production and marketing.

These projects are proceeding slower than expected because of the lack of available bank financing under the 0307 line of credit. Banco Hipotecario has restricted the credit line because of weather problems affecting the 1987 crop. This cooperative management has set specific objectives and methodologies and organized its staff to develop their crop production and social programs effectively.

The constraints facing the cooperative management is the availability of credit to finance all their projects. They will continue to require substantial financial support to realize their projected goals.

The management of Ataisi was contacted by Multisystems, a firm from Houston, Texas, to consider the construction of a coffee roasting plant for an investment of ₡ 25,000,000. This company offered to make the feasibility study for a cost of $ 120,000. The plant would provide work for 150 men and women and use all the coffee production of the cooperative. Mr. Humberto Pérez was not convinced that this is a viable project for them, since too many imputs were not tenable by Multisystems. He plans to investigate the financial condition of the firm and their performance with other projects before any type of commitment is made to Multisystems.

ANNEX B

October 20, 1988

COOPERATIVA LAS LAJAS

VISIT BY : RELaport, Evaluation Team
Rafael Henríquez, BCR Coordination Unit

VISITED WITH : Manager, Member of Board, Production Committee.

Las Lajas is a rich farm in the hills at the west end of the Zapotitán valley. At present they have 811 manzanas cultivated of which 682 are in coffee, 116 in corn and beans intercropped (90 farmed individually), and 13 in pineapple. There are 316 socios (families). They have a clinic, two schools, and are building improved housing for their members, 80 thus far. Dividends have been paid last two years.

Being predominently in coffee (14 Q/Mz. yield), Las Lajas financial situation is strong and operations profitable. Banco Salvadoreño gives the support because management is good and they have borrowed and repaid in a satisfactory manner. They were proud that they had purchased two electric plants, two trucks, a pick-up, and a tractor with bank credit which are all paid off.

They are requesting additional credit to sink another water well to supply cattle, their coffee beneficio, and a part of the community.

The 13 Mz. in pineapple is a successful experiment that yielded 7000 plants this year. R. Henríquez is trying to encourage them to consider expanding to 200 Mz. which might support a small canning operation, particularly if neighboring operations were to produce pineapple as well.

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October 20, 1988

COOPERATIVA EL TRANSITO

VISIT BY : RELaport, Evaluation Team
Rafael Henríquez, SCR Coordinating Unit

VISIT WITH : Manager, Accountant, Members of Board.

There are 441 manzanas under cultivation (289 in coffee, 50 in cane, 15 in corn and beans, 10 in citrus, and 77 in individual plots). In addition there are 53 manzanas in roads, buildings, and infrastructure which includes a large chicken laying operation. There are 43 Mz. of pastureland. The farm has 158 member families.

Banco Capitalizador supports their operation where they have six investment loans for various purposes including renovation of coffee plantation, the growth of the egg and chickens producing business, and for the purchase of cattle. Their primary new business idea is to install a small plant for the production of concentrated poultry feed. Otherwise, they are concentrating on increasing productivity of their existing crops.

Operations are profitable and both management and the board appear to be on top of things. El Tránsito is the most diversified coop visited to date. The management of the farms more complex than, say, at Las Lajas.

In terms of social infrastructure, they have a clinic and a school. They are making land available to new families elected to membership.

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October 21, 1988

COOPERATIVA SAN ANDRES

VISIT BY : RELaport, Evaluation Team
Rafael Henríquez, BCR Coordinating Unit

VISITED WITH: Manager, President and other Board Members.

This is the largest coop we visited with 3200 manzanas of land and 768 family members (almost 6000 people). Under cultivation they have 800 manzanas of cane (annual production 72,000 Mt), 150 Mz. of coffee, 32 Mz. tobbacco, and 25 Mz. of rice, corn, and beans. Operations have been profitable the last three years after a change in manager. Guillermo Martínez of the BCR unit is given credit for assisting in the turn around. A number of large tractors, two semi tractor/trailers, and other equipment has been purchased on credit and repaid. Banco Salvadoreño is their bank, but there are not credit agents on- board at this time.

The manager is also a member, so there is now a closeness and commonality of thought that did not exist during the 1980-83 period. They have a member of ideas to be explored which might lead to feasibility studies including the planting of cashew on mountain-side land, starting up an avocado operation on fallow land, initiating a pineapple crop, and building a cigarette factory. With respect to the latter, they have paid Multi-Systems of Spring, Texas U.S. $ 60,000, or one half of the contracted amount, to prepare a feasibility study for setting up the cigarette manufacturing plant; Multi-Systems undertakes to market the cigarettes in the far East.

San Andrés is well run, profitable, and is as close to an agricultural enterprise as we have seen to date.

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October 21, 1988

COOPERATIVA CHANMICO

VISITED BY : RELaport, Evaluation Team

VISITED WITH : Members of the Board.

Chanmico owns 1,769 manzanas and supports 864 member families. They have 500 Mz. in coffee, 616 Mz. in cane (producing 70,000 Mt), and 300 Mz. in corn and beans. They are planting and additional 214 Mz. in sugar cane, and are planning a small henequén and a citrus project. Earnings this year are expected to reach ¢ 2 MM.

The service which they receive from Banco Salvadoreño is said to be slow, and because Salvadoreño does not have credit agents at this time, the coop must contract out the preparation of project feasibility studies.

Rafael Henríquez believes that, although more profitable than San Andrés, Chanmico is not as well managed or agressively led. In comparision with San Andrés, Chanmico is entirely composed of high quality arable land.

October 21, 1988

COOPERATIVA PASATIEMPO

VISIT BY : RELaport, Evaluation Team
Rafael Henríquez, BCR Coordinating Unit

VISITED WITH: Accountant in absence of Manager, Directors

Pasatiempo owns 603 manzanas of land of which 514 Mz. are in coffee, 60 Mz. in pasture (222 head of milk cows), 5 Mz. in rice, and 5 Mz. in orrosco.

This is a beautiful piece of property, formerly owned by the local brewing family, so that the main house, grounds, and other buildings are beautiful and will kept. The coop supports 205 families.

During the first four years of reform, Pasatiempo lost money; when they turned profitable they were able to cover accumulated losses in one year (1984). The last four years they have earned about C 1 MM. per year.

Rafael Henríquez wanted to show me this coop as it is an example of good, but very short sighted management. They will not borrow investment loans to renew their coffee plantation nor improve their pastures. As a result yields are only moderate and will decline (14 Q/Mz. for coffee and 12 Liters/Day/Head of milk for the Brown Swiss dairy head). Improvement of the pasture and a plan to renew the plantation over a five year period would preserve the worth of this farm for many years to come. It sits on some of the finest land in the country.

FIELD TRIP REPORT

PURPOSE : To observe the farm operations and to interview Agrarian Reform Decree 207 beneficiaries with regards to credit requirements and services offered by the Credit Agents and the Commercial Bank.

VISITED BY : Percy Avram, AID/AD DATE: Oct. 26, 1988

FARMERS INTERVIEWED: 1. Esteban Rodríguez
2. Gertrudis de Jesús Rodríguez
3. Julia del Cármen Godinez

I. Background.

The farmers interviewed consisted of two males and one female. The two males were brothers and prior to the the parcelization of the land under Decree 207, were leasing their parcel of land from the owner of Hacienda Venecia. The female farmerette inherited the parcel of land she was farming from her father (now deceased). The documents making the inheritance official were not as yet, confirmed and approved by the Agrarian Reform Institute (ISTA).

The three interviewees had parcels of land alloted and sold to them of equal size (3.0 manzanas).

The value of the land at the time of parcelling in 1980 was ₡ 8,000 (₡ 2,667 per manzana). No payments had been made for the land against principal or interest by any of the beneficiaries.

The principal crops produced by all three were corn and beans with some sorghum. Fertilizer and herbicides were being utilized, and farming methods are traditional and rudimentary.

All three interviwees were clients of the Banco Mercantil, whose Credit Agent, accompanied this reporter on the trip..

II. Other Findings.

1. All three interviewees had large families consisting of (1) 8 children, (2) 6 children, (3) 7 children. No 2 and 3 had grown up children, and the older females had left home and gone to San Salvador and were working as domestic servants. The older males were employed on the farm. The younger children of school age were attending 1-2 days of classes per week. More frequent school attendance was not possible, becaose the classroom located about 1 km. distance from the area, was too small to accomodate all the children, therefore they were assigned attendance turns. None of the parents were literate.

2. Out of the three interviewees only No.1 was married, No.2 was single, and No.3 was separated from her spouse.

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3. The family diet consists mainly of corn cakes and boiled (mashed) beans, eggs, avocados, and fruits such as mangoes, guayaba, mandarinas, naranjitos, etc., when in season, Neither of the three families had a vegetable garden.

4. Each of the three interviewees owned a horse each. This animal is used to haul water during the dry season. During the rainy or wet season, water is available from nearly streams and from wells dug on the farm. There was no other livestock. Each of the farms had a few laying hens (10-15), the produce of which was for family consumption, a few turkeys (6-8) generally marketed prior to Christmas, and a hog raised for family consumption, but also for sale in case of an emergency.

5. The estimated production from their farms based on double and triple cropping is calculated to be as follows:

3 manzanas of Maíze	(120 qq á ₡ 40 per qq.)	₡ 4,800
2 manzanas beans	(12 qq á ₡ 200 per qq.)	₡ 2,400
1 manzana sorghum	(15 qq á ₡ 35 per qq.)	₡ 525
	estimated annual income	₡ 7,725

6. The loans advanced by the bank for production purposes amounts to about 40% of the estimated income. During the 1987 crops were affected by drought and their loans were refinanced. Although the bean crop has been somewhat damaged this crop season due to a heavy down-pour which washed away the plant blossoms, the corn and sorghum crops are normal, and the interviewees expected to repay their loans in full. The Credit Agent informed them he would be back in early November to make plans with them for the next crop season.

7. The interest rate paid by these farmers on their loans to the bank were 13%.

8. The younger males, do some work outside of the family farm at certain seasons of the year. Males over 20 years of age were married and had children of their own.

9. The housing is enormously sub-standard. Mud plaster applied to woven tree branches on both sides, with a sheet metal roof bevelled at an angle of 6-8 degrees, and no windows. Two small rooms, one being used for a kitchen. No electricity. Family members live under extremely crowded and unsanitary conditions.

Conclusion

These Agrarian Reform beneficiaries are better of economically as owners of their land parcels, as compared to their pre-reform status as renters, by the fact that they do not share a portion of their harvest with anyone.

This is marginal land with a hilly typography. The farm families employ traditional methods of cultivation and are passive in their outlook. They pay ₡ 100 annually to FINATA as a tax for their land parcel, and no payments were made on principal or interest for the land. They are subsistance farmers with limited prospects for adding to their incomes.

The road leading into this colony from the Sta. Ana/San Salvador highway is extremely rocky, bumpy and difficult for vehicles to manouver. The colony is isolated and freight costs are high.

There are limitations to what can be done to increase production and income on this size of a farm, in this particular region. A few more fruit trees could be planted on each parcel, especially near the house. Bee keeping and cottage industries could be introduced if the technology were available.

The bank credit at an annual interest rate of 13% made accessible to these farmers has been beneficial for two reasons:

i) It is offered at low cost, and
ii)A portion of it is offered in kind, therefore the use of the commercial in-puts has increased their production and income.

There is little if any room for improving the lot of these families in their present status. Better schools and an education for the children would prepare them to obtain off-the-farm employment, when the time comes to leave the farm. Family planning programs would be desirable.

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