Self-Sufficiency Projections for the Fundacion Salvadorena Para el Desarrollo Economico y Social (FUSADES)

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PREFACE

This is the fourth study that has examined the issue of self-sufficiency for the Fundacion Salvadorena para el Desarrollo Economico y Social (FUSADES) during the past year. The purposes of the present study effort are to:

- Determine, under various scenarios, the outlook for self-sufficiency of each unit of FUSADES and of FUSADES as a whole when A.I.D. resources are no longer available; and

- Define and quantify resource gaps that may impair FUSADES' ability to carry out the critical elements of its mandate.

The study is not intended to be a management or program evaluation, as these were addressed in a recent study. Instead, it examines actual and projected income and expenditures, based on current plans, to estimate potential resource gaps in the future. To the extent that plans can (and will) be modified over time, the analysis will require updating.

Field research was carried out between May 4 and May 20, 1989, by a two-person team from Development Alternative, Inc. (DAI), consisting of John H. Magill and Eric G. Nelson. The team reviewed project documentation, financial records and approved budgets, and interviewed USAID/El Salvador and FUSADES staff. Preliminary results were discussed with both USAID/El Salvador and FUSADES staff prior to the team's departure from El Salvador. Final report preparation incorporated comments and suggestions from both institutions.

The team wishes to express its appreciation to the staffs of USAID/El Salvador and FUSADES for the support provided during the course of the study. The conclusions and recommendations presented in the report, however, are those of the authors, and do not necessarily represent the opinions or views of DAI, FUSADES or USAID/El Salvador.

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EXECUTIVE SUMMARY

CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

FUSADES is an unusual organization in that it combines functions that would normally be found in a variety of local institutions. It serves as a counterpart agency (due to the inability of various government ministries to perform such tasks), as an independent non-profit foundation and as an implementor of AID projects.

FUSADES has grown rapidly during the past few years and has become a respected and capable local organization. At present, FUSADES is able to cover only a very small portion of its expenses from self-generated income. While FUSADES is unlikely to become self-sufficient at current expenditure levels projected to 1995, it should be able to finance a significant percentage (50 to 75 percent) of its minimum "survival" budget or "core" costs on its interest and other income.

Most USAID/El Salvador support to FUSADES does not stimulate income-producing activities in FUSADES. USAID/El Salvador's grants have funded short-term projects, providing the funds to carry them out, but without establishing on-going income generation activities in most of the programs. Only funds provided for credit lines are designed to produce a stream of revenue for the organization.

Regardless of the scenario modelled for the projections, FUSADES' projected income falls short of projected costs. If the shortfall were to be funded by interest income on a loan portfolio, an additional portfolio of approximately $15.0 million would be required to sustain "core" operations (minimal survival budget), and approximately $40.0 million to sustain the total projected program budget. If FUSADES demonstrates an ability to generate and manage a loan portfolio, and if USAID/El Salvador continues to have a rather large program, it is likely that future projects will generate the required portfolio.

Concerning the individual departments:

- Three departments -- Administration, DEES and FORTAS -- do not have the capability of generating significant levels of income.

- Three other departments -- DIVAGRO, PRIDEX and FIDEX -- have the potential of generating a large, stable flow of income through both fees and interest charges on the loan portfolio.

- PROPEMI has reasonable prospects of covering its costs from self-generated income.

B. Recommendations

FUSADES

FUSADES should modernize its accounting system to provide cost-center accounting within the departments. Such a system should clearly distinguish between "core" costs, "overhead" costs and projects or programs. The assumption is that "core" and "overhead" costs must eventually be covered by self-generated income, while projects and programs may be funded by external donors or private contracts.

At a minimum, accounting practices should be established that embrace the concept of FUSADES as a self-sufficient organization. Self-sufficiency is less likely under a financial system designed primarily for the requirements of USAID's accounting/disbursement needs. For example:

- Departments should be treated as cost and revenue centers. The practice of assigning all income to the central fund of FUSADES instead of first to the operating costs of the department is contrary to the concept of operational self-sufficiency. Activities by one department on behalf of another should be assigned a value and remunerated.

- Counterpart donations by clients should be treated as revenue, as they were before September 1988. The change implemented at that time eliminated the expenses and revenues related to the technical assistance corresponding to such donations from FUSADES accounting reports. The lost revenue was replaced by USAID commitments to fund FUSADES building. This practice is contrary to engendering self-sufficiency within FUSADES.

- Costs directly related to specific programs should be differentiated from the continuing core costs of each department.

- FIDEX should deduct a management fee from its portfolio's income, which will encourage efficiency in FIDEX operations. The portfolio income should be attributed to those programs that generate the loan activity (DIVAGRO, PRIDEX).

FUSADES should focus increased attention on cost recovery and income generation. To date, FUSADES has been reluctant to price services at a level that would cover costs, and has not explored methods of increasing income that are standard in banking and service organizations -- particularly fees, commissions and closing costs. In the long run FUSADES' services should be required to meet basic market tests: if they are truly valuable and needed, it should be possible to cover the costs of offering the services.

FUSADES needs to develop a long-term strategic plan that clearly defines an optimal size and level of financial viability, and that establishes concrete objectives.

USAID/El Salvador

USAID/El Salvador should support FUSADES' efforts to modernize its accounting system.

USAID/El Salvador should have FUSADES prepare annual plans in colones only, to minimize any tendency to increase salaries and expenses in the wake of a devaluation.

Achieving self-sufficiency in FUSADES may require changes in the practices and expectations prevailing within both USAID and FUSADES. For example, if FUSADES were considered as a contractor, supervising USAID projects for a management fee proportional to the value of the project, rationalization of operating and overhead costs would become imperative. Furthermore, the "fee" would not be an operating support item, as it is currently envisaged, but self-generated income.

AID/Washington

AID/Washington should reconsider its determination on FUSADES' policy of collecting a "donation" or "fee" for its technical assistance activities and preparation of feasibility study preparation. FUSADES' ability to earn income is dependent on reversing this determination.

**SELF-SUFFICIENCY PROJECTIONS FOR THE
FUNDACION SALVADORENA PARA EL DESARROLLO ECONOMICO Y SOCIAL
(FUSADES)**

PART ONE: INTRODUCTION

I. Background

The Fundacion Salvadorena para el Desarrollo Economico y Social (FUSADES) is a private, non-profit organization that was formed in 1984 to carry out research in economic policy, marketing and production, and to provide technical and financial assistance to private sector industry, commerce and agriculture. It is comprised of a central administration and six operating departments, as follows:

DIVAGRO	--	Diversificacion Agricola. Responsible for stimulating agricultural diversification, agroindustry and non-traditional exports.
PRIDEX	--	Programa de Promocion de Inversiones y Diversificacion de Exportaciones. Responsible for promoting industrial development.
FIDEX	--	Fondo de Inversion para la Exportacion. Financial department of FUSADES, responsible for managing the loan portfolios.
FORTAS	--	Fortalecimiento de Asociaciones. Provides assistance for improving the administration and capacity of private sector associations.
DEES	--	Departamento de Estudios Economicos y Sociales. Conducts policy research and analysis for FUSADES.
PROPEMI	--	Promocion de la Pequena y Microempresa. Provides technical and financial assistance to micro- and small-scale enterprises.

USAID/El Salvador has authorized $79.7 million in grant assistance to FUSADES through nine separate grant projects during the past five years. (See Table 1 below). Of the $79.7 million total that has been authorized, $44.9 million has been used for technical assistance[1], operating support and construction of the new FUSADES building; the remaining $34.8 million has been used to develop credit programs in FIDEX and PROPEMI.

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[1] "Technical assistance" has several meanings within the context of FUSADES' program. In some cases it refers to assistance received by FUSADES itself to improve its operations. In most cases -- especially projects involving PRIDEX and DIVAGRO -- it forms part of a service provided to clients: for example, the project hires technical assistance to develop a feasibility study or provide other assistance to the client. In either case, technical assistance is a highly variable cost that can be controlled or eliminated if fee income is not sufficient to sustain the level of assistance.

TABLE 1

APPROXIMATE DISTRIBUTION OF GRANT FUNDS
(in US dollars)

Grant Number and Name	Technical Assistance	Operating Support	Credit Funds	New Building	Totals
260 Policy Reform	-	348,000	-	-	348,000
265 Ag. Diversification	1,812,488	2,024,512	-	-	3,837,000
287 Industrial Stabilization	4,522,640	9,620,946	11,956,414	800,000	26,900,000
303 Water Management	1,110,000	1,605,000	10,735,000	-	13,450,000
304 Urban Small Business	81,214	1,294,838	2,123,948	-	3,500,000
316 Association Strengthening	1,665,000	280,000	-	-	1,945,000
323 Free Zone Development	3,254,000	1,046,000	-	700,000	5,000,000
327 Agribusiness Development	3,309,000	5,591,000	10,000,000	1,100,000	20,000,000
336 Private Sector Initiatives	980,000	3,720,000	-	-	4,700,000
Totals	16,734,342	25,530,296	34,815,362	2,600,000	79,680,000

Monitoring, evaluation and administration of the overall program is complicated by the complexity of financial and reporting relationships between USAID/El Salvador and FUSADES. As can be seen in Table 2, below, individual grants have been used to support several different departments, and individual departments have been supported by several different grants. In addition, each project has a different scheduled completion date.

TABLE 2

USAID/EL SALVADOR OPERATING AND PROGRAM GRANT SUPPORT TO FUSADES
(Dollars)

GRANT NUMBER AND NAME	FUSADES DEPARTMENTS								
	Admin.	PRIDEX	FORTAS	DEES	FIDEX	DIVAGRO	PROPEMI	BUILDING	TOTALS
260 Policy Reform	-	-	-	348,000	-	-	-	-	348,000
265 Ag. Diversification	-	-	-	-	-	3,837,000	-	-	3,837,000
287 Industrial Stabilization	3,392,800	9,096,986	653,000	433,000	567,800	-	-	800,000	14,943,586
303 Water Management	-	-	-	-	-	2,715,000	-	-	2,715,000
304 Urban Small Business	-	-	-	-	-	-	1,400,000	-	1,400,000
316 Association Strengthening	-	-	1,586,827	358,173	-	-	-	-	1,945,000
323 Free Zone Development	-	4,300,000	-	-	-	-	-	700,000	5,000,000
327 Agribusiness Development	-	-	-	-	858,000	8,042,000	-	1,100,000	10,000,000
336 Private Sector Initiatives	-	-	1,700,000	3,000,000	-	-	-	-	4,700,000
Totals	3,392,800	13,396,986	3,939,827	4,139,173	1,425,800	14,594,000	1,400,000	2,600,000	44,888,586

II. OBJECTIVES AND METHODOLOGY

The present study is the fourth of a series of independent assessments of financial self-sufficiency prospects for FUSADES that have been conducted during the past year. A team from Development Associates (DA) considered the question as part of an overall evaluation of the institution in May 1988. A team from Development Alternatives, Inc. (DAI) studied the income-generating capacity of one FUSADES department (DIVAGRO) in July 1989. A follow-up team from Development Associates conducted additional analysis for the original evaluation in November 1988.

The purposes of the present study effort, funded through indefinite quantity contract PDC-1096-I-13-8043-00 are to:

- Determine, under various scenarios, the outlook for self-sufficiency of each unit of FUSADES and of FUSADES as a whole when A.I.D. resources are no longer available; and

- Define and quantify resource gaps which may impair FUSADES' ability to carry out the critical elements of its mandate.

After reviewing financial data and projections with both FUSADES and USAID/El Salvador staff, the study team developed a series of projections for each of the FUSADES departments[2]. These models varied assumptions about the rate of growth of expenses, level and scheduling of a possible devaluation, rate of growth in non-portfolio income, and interest rates on the loan portfolio. Preliminary results from these models were discussed with USAID/El Salvador and FUSADES staff.

Because of the large number of variables, a complete presentation of the possible scenarios would require a minimum of some 150 alternative scenarios. In most cases, the differences between scenarios are subtle questions of degree. As a result, to facilitate presentation and understanding, only the models that were judged to be most realistic and relevant are presented in this report. The alternatives are described in a narrative form to highlight policy and program implications.

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[2] Where recent project planning activities had developed concrete budget plans for the planning period, these were used in lieu of other projection techniques.

III. BASIC ASSUMPTIONS

A. "Self-Sufficiency," an Operational Definition

To analyze "self-sufficiency" it is necessary to first have a clear definition of what that means. A private business entity is defined as self-sufficient if it covers all of its operating and other expenses from earned income and, in addition, earns sufficient income to pay taxes, fund reserves and pay dividends. A consulting firm may be defined as being self-sufficient if its history of being able to win new contracts indicates that its future revenues, even though unsecured by contracts, appear likely to occur. A non-profit foundation may be defined as self-sufficient if it is capable of mobilizing sufficient donations to sustain its operations, even if it does not "earn" that income in the regular sense of the word. A governmental agency can be described as self-sufficient if it receives sufficient budget resources from general tax revenues to cover its operating costs.

FUSADES occupies a unique niche in its relationships to A.I.D., the Government of El Salvador (GOES) and its constituents. It acts as both counterpart agency to USAID's projects and as USAID's contractor for implementing those projects. As a contractor, FUSADES should expect to be paid for the direct (and indirect) costs of its services; thus, such income is not a subsidy, but an indication of its ability to generate revenues. As a counterpart agency its other overhead costs would normally be covered from general tax revenues; lacking that source of funding it must, in the long run, develop alternative sources of revenues or scale back operations.

It would be a mistake to analyze self-sufficiency in terms of FUSADES' current (or planned short-term) level of activities. FUSADES' current size and level of operations are the result of the availability of A.I.D. funding. But, although it has a large staff and budget at this time, it would not necessarily have to sustain the current levels in the absence of outside funding. Most of these costs are program-related -- if funding were to disappear or be scaled back the costs themselves would be cut. The amount of income required to be self-sustaining is, in fact, much lower than a simple projection of current expenses would indicate.

On the other hand, the ability to sustain even a minimal institution depends on its ability to provide services. An institution that performs no services is unlikely to earn sufficient income to survive. Analyzing self-sufficiency is like trying to measure a moving target.

In this analysis we have defined a minimal level of self-sufficiency as the level of income required to sustain the institution and its critical functions after the termination of direct grant support. In practical terms this means that projected income would have to be sufficient to cover current, non-program operations. This would imply that the basic organization would be able to continue pursuing its essential activities, and would be able to program activities should funding become available. It is not inconsistent to view programs as something that are carried out with external funds.

B. "Program" versus "Operating" Costs [3]

To distinguish between "operating" and "program" costs for the purposes of this analysis, several definitions were required. Expenses for technical assistance, client travel, seminars and courses, publications, variety trials, demonstration plots, field agents and assistance to empresas/asociaciones are "program costs". These can be viewed as variable costs, dependent on the availability of funding, that can be cut back or terminated at relatively short notice.

The remaining expenses, such as salaries, rent and services, represent a "core" budget which would allow the institution to survive at a minimal level and continue to provide a limited range of functions. These operating expenses can be considered fixed or semi-fixed, and can be expected to rise with the rate of inflation.

Projections of self-sufficiency first compare income with the level of operating expenses to generate an index of "minimum self-sufficiency." Projected income is also compared to project total expenses (program and operating) to determine the degree to which current activities could be sustained by the income.

C. Devaluation and Inflation

Any attempt to project FUSADES income and expenses must deal with the possibility of both a major devaluation and continued high rates of inflation.

1. Devaluation

Describing the impact of a devaluation depends on the perspective taken. From an internal perspective, local currency income and expenditures appear to remain unchanged, while foreign currency expenses and income on a dollar-denominated portfolio are increased. From an external perspective, local currency income and expenses decline, while dollar-related expenses income on a dollar-denominated portfolio remain constant.

There is a strong possibility that the El Salvadorean colon will be devalued in the relatively near future. The newly-elected government has initiated discussions on a future devaluation. Parallel (black-market) rates are currently between 5.85 and 6.10 to 1, suggesting an overhand of approximately 20 percent. USAID/El Salvador estimates of the potential magnitude of the devaluation range from 20 to 40 percent, which could occur through either a change in the official exchange rates or a floating of the colon. In this study we hypothesized a 40 percent devaluation over a two-year period, from 5.0 to 6.0 in 1990, and from 6.0 to 7.0 in 1991.

[3] This section is adapted from the earlier DAI study of DIVAGRO.

2. Inflation

Inflation tends to increase expenses for an institution, as salaries and other local expenses tend to rise at (or even above) the rate of inflation.

Annual inflation rates have been high during the past few years, exacerbated by the on-going military conflict and continued high levels of foreign assistance. While projections of inflation rates vary, USAID/El Salvador estimates that inflation will be between 18 and 20 percent during 1989, and will average 15 percent during the following five years. That estimate appears low, especially in the context of a probable devaluation, as devaluations tend to stimulate an increase in local inflationary pressures. Nevertheless, the models used this estimate as a basis for varying estimates of the growth rate for expenses and income.

3. Rate of Growth in Expenses

Although several of the models utilized in preliminary data analysis varied assumptions about the rate of growth in expenses, the final model used throughout the report assumed that the normal tendency would be for local expenses to increase at a rate of 15 percent a year. This implies that some control is exercised over cost increases, as the tendency would be for local expenses to parallel the rate of inflation, and to increase more rapidly following a devaluation.

D. Planned Additional USAID/El Salvador Support to FUSADES

At the present time USAID/El Salvador plans to authorize an additional $37.5 million in grant assistance to FUSADES, as follows:

0287 -- An additional $22.0 million, divided between $12 million in operating support and $10 million for credit.

0327 -- An additional $13.0 million, to fund a $5.5 million project for quality control and $7.5 million in on-going operating support to fund DIVAGRO through 1995.

0304 -- An additional $2.5 million to be used as part of PROPEMI's credit portfolio.

These planned program expansions are included in the financial projections. No additional grant support is currently planned for FIDEX, DEES, FORTAS or the department of Administration.

PART TWO: FINANCIAL SELF-SUFFICIENCY PROJECTIONS FOR FUSADES

I. FUSADES 1988 EXPENDITURES AND 1989 BUDGET[1]

FUSADES had expenditures of $6.8 million in 1988. Of the total, $2.9 million (43.4 percent) can be classified as "program" expenses, and $3.8 million (56.6 percent) as operating costs. Salaries and benefits accounted for 52 percent of operating costs.

Self-generated income during 1988 was $786,200, derived primarily from fees for services and interest on loans and deposits. This was sufficient to cover 20.5 percent of FUSADES' operating expenses and 11.6 percent of total expenses.

The 1989 budget of $11.8 million represents a 73 percent increase over 1988 expenditures levels. More than 50 percent of the total increase in projected expenses is due to a 200 percent increase in the budget of one department-- PRIDEX -- which is projected to grow from $1.3 to $4.0 million. Projected "program" expenses have increased significantly (again due primarily to projected increases in the PRIDEX budget), to a total of $6.7 million in 1989, which is 57 percent of the total budget. Salaries and benefits would constitute 55.9 percent of the operating budget.

Self-generated income is expected to increase substantially, from $786,200 to $1,892,900, due to interest income earned on the industrial and agricultural portfolios. Modest increases in sales of materials and seminar income also contribute to the increase in self-generated income. Although fee income contributed $304,300 to FUSADES in 1988, no fee income is projected for 1989, due to an interpretation by AID/W that has eliminated this source of income.

Earned income would be sufficient to cover 37.7 percent of FUSADES' operating costs, and 16.1 percent of the total expenditure budget.

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[1] This analysis is based on 1988 actual expenditures and budgets drawn from the 1989 Annual Plan of each department.

TABLE 3

FUSADES
ACTUAL AND PROJECTED INCOME AND EXPENSES, 1988 AND 1989
(in US $000)

	Actual 1988			Budgeted 1989		
	AID	FUSADES	TOTAL	AID	FUSADES	TOTAL
INCOME						
USAID Grants	6,704.9	-	6,704.9	11,664.8	-	11,664.8
Fees	-	304.3	304.3	-	-	-
Interest on Deposits	-	70.9	70.9	-	160.0	160.0
Interest on Loans	-	289.1	289.1	-	1,558.4	1,558.4
Sales	-	15.6	15.6	-	141.0	141.0
Seminars & Courses	-	53.2	53.2	-	90.0	90.0
Other	-	53.1	53.1	-	3.5	3.5
Total Income	6,704.9	786.2	7,491.1	11,664.8	1,952.9	13,617.7
EXPENSES						
Program Costs						
Tech. Assistance	1,539.1	-	1,539.1	4,629.1	-	4,629.1
Client Travel	299.9	1.3	301.3	517.6	-	517.6
Assist. to Assoc.	502.8	-	502.8	772.2	-	772.2
Seminars & Courses	80.1	26.6	106.7	307.0	-	307.0
Variety Tests	82.7	-	82.7	-	-	-
Demo. Plots	400.9	-	400.9	415.0	-	415.0
Field Agents	15.1	-	15.1	57.7	-	57.7
Operating Costs						
Salaries & Benefits	1,991.7	10.3	2,002.0	2,794.4	9.7	2,804.1
Rents and Services	565.9	30.4	596.3	756.4	48.3	804.7
Furnishings	817.0	1.5	818.6	392.6	0.5	393.1
Employee Travel	236.0	9.7	245.6	344.8	18.9	363.7
Publicity/Promotion	162.8	6.6	169.5	614.0	13.3	627.3
Interest	-	0.2	0.2	24.0	-	24.0
Other	-	-	-	40.0	-	40.0
Trust Fees	10.8	-	10.8	-	-	-
Total Expenses	6,704.9	86.7	6,791.6	11,664.8	90.7	11,755.5
GROSS MARGIN	-	699.5	699.5	-	531.8	1,862.2

The projected budgets for 1989 may, however, overstate FUSADES' level of expenditures. Historically, actual expenditures have been lower than budget projections. Table 4, below, compares FUSADES budget projections for 1988 to the actual expenditures. On average, the budgets over-estimated actual expenditures by 23 percent. In 1988, only FORTAS' budget underestimated the actual expenditures, while the PRIDEX budget exceeded the actual result by 82 percent. One might therefore expect the projections of future budgets to err on the side of over-estimation.

TABLE 4

COMPARISON OF 1988 BUDGETS TO ACTUAL EXPENDITURES
(Amounts in US $000)

Department	1988 Budget	1988 Actual	Percentage Actual/Budget
ADMINISTRATION	926.7	858.4	92.6
DEES	1,020.2	886.4	86.9
DIVAGRO	2,789.3	2,465.4	88.4
FIDEX	266.1	176.2	66.3
FORTAS	541.3	735.2	135.8
PRIDEX	2,396.8	1,317.3	55.0
PROPEMI	334.5	266.3	79.0
Total	8,275.1	6,705.0	81.0

II. PROJECTED PORTFOLIO INCOME

FUSADES acts as an intermediate credit institution for four USAID/El Salvador programs -- Industrial Stabilization (287), Water Management (303), Agribusiness Development (327), and Urban Small Business (304), as follows:

287 Industrial Stabilization[2]	$11,956,414
303 Water Management	10,735,000
304 Urban Small Business	2,123,948
327 Agribusiness Development	10,000,000

	$34,815,362

In addition, USAID/El Salvador is planning an amendment to the Industrial Stabilization project that will provide an additional $10.0 million for credit activities.

Three of these credit lines (Industrial Stabilization, Water Management and Agribusiness Development) are managed by FIDEX, FUSADES' intermediate credit management department.[3] Interest income from this portfolio is not earmarked for specific departments, but is available to support the general costs of FUSADES and all of its departments.

The Urban Small Business portfolio is managed as a separate program by PROPEMI. Income from this credit program remains with PROPEMI, and is not shared among the other departments of FUSADES. As a result, the Urban Small Business portfolio is analyzed in the section on PROPEMI.

A. Sources of Funds

Grant funds from three projects (303, water management; 287, industrial stabilization; and 327, agribusiness development) comprise the credit portfolio managed by FIDEX (see Table 5, below). USAID/El Salvador plans to amend the Industrial Stabilization project to add $10.0 million in credit funds during the first quarter of FY1990. Approximately $3.5 million had already been disbursed from the Water Management project during 1988, with the result that $7.2 million remains to be disbursed.

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[2] Originally, $15.0 million was planned for credit operations under 287, but this was reduced to $11,956,414 in subsequent project amendments.

[3] Project management and control responsibilities for the programs are complicated by complex and ill-defined management responsibilities. Although the credit lines are ostensibly to support the programs of DIVAGRO and PRIDEX, these two departments have little control over the actual funds, and no control over the interest income derived from the portfolio.

Interest rates are unstable at the present time. FUSADES and USAID/El Salvador have concluded that market rate interest on dollar loans is not feasible within the political and economic context of the country. As a result, AID/W has recently approved a reduction in the interest rate on up to $4.6 million in the Industrial Stabilization portfolio, with the remaining funds to be loaned at a minimum of LIBOR plus 1 percent (approximately 13 percent at the present time). Local currency funds are currently being loaned at 15 percent, but these are expected to rise to approximately 17 percent within the next two years. Projections of interest income take these variations into account.

TABLE 5

BASIC DATA ON PLANNED FUSADES LOAN PORTFOLIO

Source* of Funds	Amount Remaining	Currency	Trust Manager	Interest Rate	Disbursement Period	
					First	Last
303	$7,210,257	Colones	B.Hip.	15.0	1/89	12/89
287(10%)	4,600,000	Dollars	City	10.0	6/89	8/89
287	7,356,414	Dollars	City	13.0	1/90	6/90
327(lc)	7,000,000	Colones	City	15.0	6/89	6/90
327	3,000,000	Dollars	City	13.0	11/89	12/91
287(new)	10,000,000	Dollars	City	13.0	12/90	12/92

* Note that 327 loans can either be in local currency or U.S. dollars, while 287 funds have a portion that can be loaned at 10 percent. According to FUSADES records, $3,524,743 of 303 had been authorized and disbursed in 1988.

The estimated disbursement schedule for the balance of funds in the various credit lines that is listed in the last two columns of Table 5, above, is based on conversations with USAID/El Salvador and FUSADES personnel. In general, local currency funds are expected to move faster than dollar-denominated loan funds. Lower-cost dollar-denominated loan funds are expected to move faster than higher-cost funds. -- for example, FIDEX has commitments for almost all of the funds available at the 10 percent interest rate, but virtually no demand for the higher rate funds at this time. Because of the widespread expectation of a devaluation, local borrowers are reluctant to incur dollar-denominated debt until the value of the currency is adjusted.

Under these assumptions, funds would actually be disbursed through FIDEX as follows:

TABLE 6

SCHEDULED DISBURSEMENTS OF CREDIT FUNDS
(in US $000)

Source*	1989	1990	1991	1992
303	7,210.3	-	-	-
287(10%)	4,600.0	-	-	-
287	-	7,356.4	-	-
327(lc)	4,200.0	2,800.0	-	-
327($)	333.3	1,333.3	1,333.3	-
287(new)	-	1,111.1	4,444.4	4,444.4
Totals	16,343.6	12,600.8	5,777.7	4,444.4

The local currency component of the portfolio would be highly sensitive to any devaluation, as there are no maintenance of value provisions in the subloans. Estimates of the likelihood and magnitude of a devaluation vary considerably. There is a general feeling that a devaluation is imminent, even though the government has limited its commitment to such a course of action. A small black market in foreign currency suggests that the colon may be over valued by as much as 30 to 35 percent. USAID/El Salvador economists generally believe that a devaluation of as much as 40 percent -- either in stages or as a free-floating currency -- is likely during the next two years. In these projections we have assumed an exchange rate of 5 colones to the dollar in 1989 (the current exchange rate), 6 colones to the dollar beginning in 1990 (a 20 percent devaluation), and 7 colones to the dollar (resulting in a total devaluation of 40 percent) in 1991.

Based on these assumptions, the outstanding portfolio managed by FIDEX can be seen in Table 7, below. The effects of the anticipated devaluations are seen in the Water Management (303) and local currency components of the Agribusiness Development (327-lc) balances. Assuming that bad debts are expensed (that is, deducted from income rather than reducing the value of the portfolio), and that no further devaluations occur, the $38.0 million portfolio would remain stable into the future.

TABLE 7

PROJECTED PORTFOLIO BALANCES
(in US $000)

Source	1989	1990	1991	1992	1993
303	10,735.0	8,945.8	7,667.9	7,667.9	7,667.9
287(10%)	4,600.0	4,600.0	4,600.0	4,600.0	4,600.0
287	-	7,356.4	7,356.4	7,356.4	7,356.4
327(lc)	4,200.0	6,300.0	5,400.0	5,400.0	5,400.0
327($)	333.3	1,666.7	3,000.0	3,000.0	3,000.0
287(new)	-	1,111.1	5,555.6	10,000.0	10,000.0
Totals	19,868.3	29,980.0	33,578.9	38,024.3	38,024.3

B. Projected Income Flows

Based on the assumptions described above, the credit portfolio managed by FIDEX would be capable of generating gross interest income of approximately $5.3 million by 1995. Deducting bank fees, bad debt reserve contributions and projected bad debt expenses, the portfolio would generate net interest income of $4.4 million per year. These projections can be seen in Table 8 on the following page.

USAID/El Salvador tends to view the portfolios as "belonging" to the technical divisions that carry out the technical support of the projects -- PRIDEX in the case of Industrial Stabilization (287), and DIVAGRO in the case of Water Management and Agribusiness Development. Even though FUSADES does not view the funds in this manner, it is useful to distinguish between the "agricultural" and "industrial" portfolios managed by FIDEX. The gross interest income earned by each separate credit line can be seen in Table 8; adjusting these gross income amounts for a pro rata share of fees and bad debt reserves yields the following net interest income for the two portfolios:

Year	Agricultural Portfolio (DIVAGRO)	Industrial Portfolio (PRIDEX)
1989	$1,120.0	$ 210.4
1990	2,173.6	1,214.2
1991	2,424.5	1,829.9
1992	2,095.9	2,006.2
1993	2,160.5	2,247.1
1994	2,160.5	2,247.1
1995	2,160.5	2,247.1

TABLE 8

PROJECTED PORTFOLIO INCOME ($000)

	1989	1990	1991	1992	1993	1994	1995
Agricultural Portfolio							
303	1,204.7	1,341.9	1,303.5	1,303.5	1,303.5	1,303.5	1,303.5
327	315.0	892.5	918.0	918.0	918.0	918.0	918.0
327	10.8	151.7	325.0	390.0	390.0	390.0	390.0
Subtotal	1,530.5	2,386.0	2,546.5	2,611.5	2,611.5	2,611.5	2,611.5
Industrial Portfolio							
287	287.5	460.0	460.0	460.0	460.0	460.0	460.0
287	-	836.8	956.3	956.3	956.3	956.3	956.3
287	-	36.1	505.6	1,083.3	1,300.0	1,300.0	1,300.0
Subtotal	287.5	1,332.9	1,921.9	2,499.7	2,716.3	2,716.3	2,716.3
Gross Interest Income	1,818.0	3,718.9	4,468.4	5,111.2	5,327.9	5,327.9	5,327.9
Less Fees and Bad Debt Reserves							
Banco Hipotecario	53.7	44.7	38.3	38.3	38.3	38.3	38.3
City Trust	36.5	84.1	103.6	121.4	121.4	121.4	121.4
Bad Debt Reserves	397.4	202.2	72.0	88.9	-	-	-
Bad Debt Expense	-	-	-	760.5	760.5	760.5	760.5
Subtotal	487.6	331.1	214.0	1,009.1	920.3	920.3	920.3
Net Interest Income	1,330.4	3,387.8	4,254.4	4,102.1	4,407.6	4,407.6	4,407.6

III. PROJECTED EXPENDITURES AND MARGINS

Of the more than thirty separate scenarios that were modeled, four are presented in this section. These were selected because they represent a spectrum of alternatives (to illustrate extremes) and a most likely scenario based on the projections of the individual departments. The scenarios are:

- A high expense rate scenario which projects that costs will rise at a rate approximately equal to the projected rate of inflation;
- A cost-control scenario, which assumes that both "program" and "operating" costs will be held constant after 1991 (which results in a *de facto* reduction in the FUSADES program);
- A high income scenario, which projects a high income growth rate coupled with a moderate growth rate for expenditures; and
- A most likely scenario based on the individual projects of each department, which are detailed and explained in Part Three of this report.

Some departments prepared preliminary budgets for 1990 and years following which were incorporated into the analysis. Where such projections were unavailable, the financial projections used the 1989 data as a base for extrapolation. The selection of a base year is critical to the financial projections.[4] 1988 actual results might be more accurate, but do not reflect changes in activity levels. For those departments expecting significant changes in activities, 1990 budgets were used for the projections.

Client donations for technical assistance are not included in the financial projections since the income and equivalent expenses are not recorded in the departmental budget since September 1988. Although expenditures for rent/maintenance can be expected to decline in 1991 (when FUSADES occupies its own building), such savings were generally not included in the financial projections. It can be assumed that any savings in rent will be offset by increased maintenance and depreciation.

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[4] Timing differences related to the disbursement of AID funds give rise to some anomalies in the budgets; for example, the 1989 budgets include amounts for some 1988 expenditures which are to be reimbursed by AID in 1989.

A. High Expense Growth Scenario

In this model, all costs ("program" and "operating") were assumed to increase at the estimated rate of inflation over the next seven years. This assumed rate of inflation is based on estimates from the USAID/El Salvador economics office, as follows:

Year	Rate
1989	19%
1990	18
1991	17
1992	16
1993	15
1994	14

Such a model assumes that no new programs will be initiated or that, if they are, the costs of the new initiatives will be covered by new outside funding.

As can be seen in Figure 1 and Table 9, under such an assumption total expenses for the FUSADES grow to nearly $30.0 million per year by 1995, with program expenses reaching $17.1 million and operating costs reaching $12.2 million. Self-generated income, composed primarily of interest income on the current planned loan portfolio, is only $5.8 million in 1995 -- 47.1 percent of operating costs and 19.6 percent of the total projected expense level.

At an average interest rate of 13 percent, an additional loan portfolio of $49.8 million would be required to cover the projected revenue shortfall of $6.5 million for operating expenses. An additional portfolio of $181.6 million would be required to cover the projected $23.6 million revenue shortfall for the overall program.

Such a scenario is unrealistic, primarily because the growth in program costs is limited by the availability of funding. Only a conscious decision to expand the program would result in this growth pattern. On the other hand, operating expenses <u>will</u> have a tendency to grow at the projected rates, unless otherwise controlled. This model represents no additional programs or activities -- only a projection of expenses that are already in place. In real terms, this model is a no-growth model, for increases in expenses are offset by inflation.

Figure 1
High Expense Growth Scenario
(in U.S. $ million)

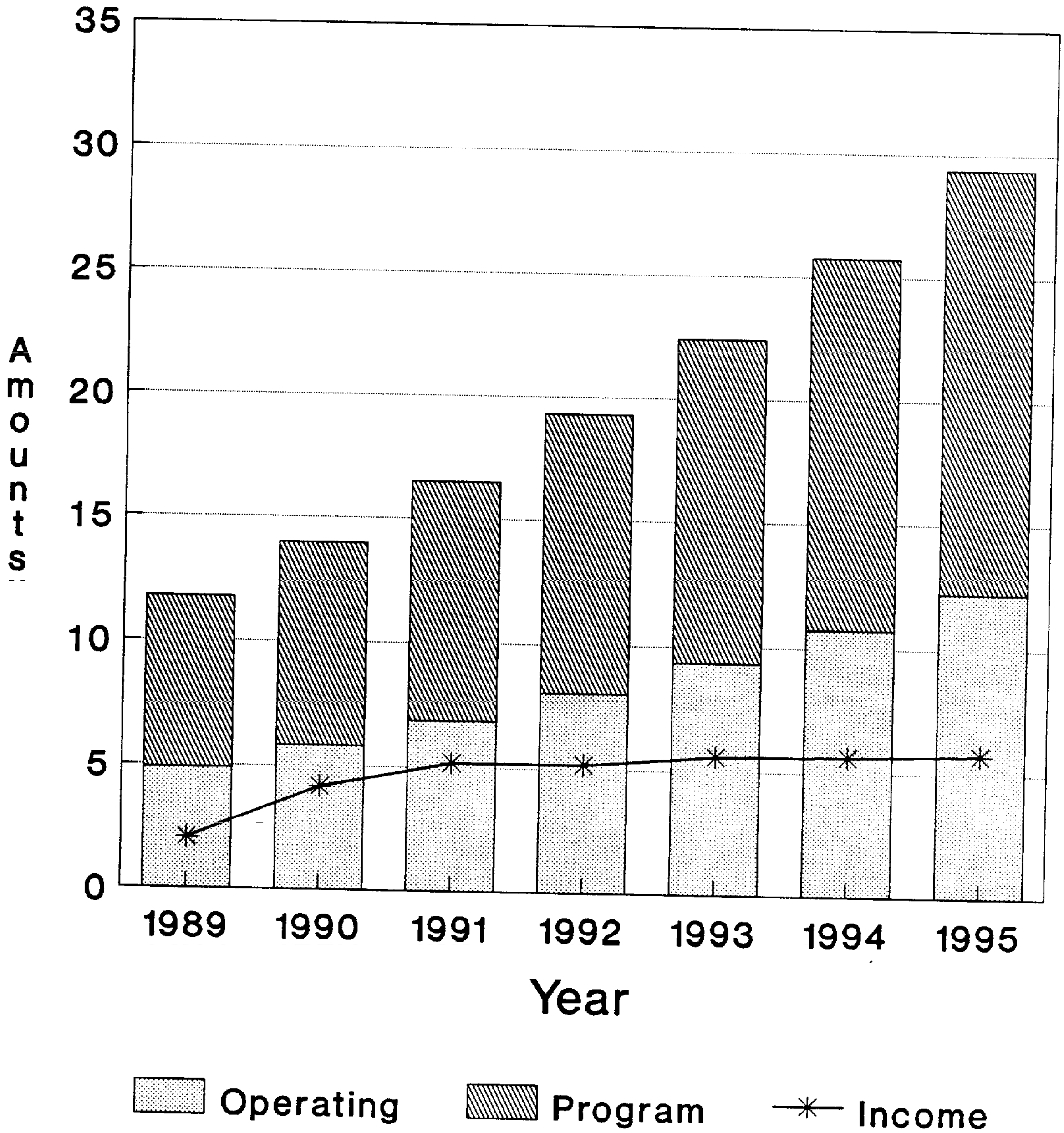


TABLE 9

HIGH EXPENSE GROWTH SCENARIO
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
Fees	-	40.0	70.0	100.0	130.0	160.0	190.0
Interest on Deposits	130.0	119.2	112.4	123.5	135.9	149.5	164.5
Interest on Loans	1,700.9	3,786.3	4,741.7	4,656.8	4,975.5	4,981.4	5,038.8
Sales	141.0	152.2	168.4	197.0	230.8	237.0	243.9
Seminars & Courses	90.3	87.0	86.6	97.5	108.7	116.6	125.3
Other	3.4	3.1	3.0	3.3	3.5	4.0	4.4
Subtotal	2,065.6	4,187.8	5,182.1	5,178.1	5,584.4	5,648.5	5,766.8
EXPENSES							
Program Expenses							
Administration	258.6	307.7	363.1	424.9	492.8	566.8	646.1
DEES	452.8	538.8	635.8	743.9	862.9	992.4	1,131.3
DIVAGRO	2,262.9	2,692.9	3,177.6	3,717.8	4,312.6	4,959.5	5,653.8
FIDEX	28.4	33.8	39.9	46.7	54.1	62.2	71.0
FORTAS	950.4	1,131.0	1,334.6	1,561.4	1,811.3	2,082.9	2,374.6
PRIDEX	2,754.6	3,278.0	3,868.0	4,525.6	5,249.7	6,037.1	6,882.3
PROPEMI	148.7	177.0	208.8	244.3	283.4	325.9	371.5
Subtotal	6,856.4	8,159.1	9,627.8	11,264.5	13,066.8	15,026.8	17,130.6
Operating Expenses							
Administration	1,159.4	1,379.7	1,628.0	1,904.8	2,209.6	2,541.0	2,896.7
DEES	561.1	667.7	787.9	921.8	1,069.3	1,229.7	1,401.9
DIVAGRO	967.4	1,151.2	1,358.4	1,589.4	1,843.7	2,120.2	2,417.0
FIDEX	310.0	368.9	435.3	509.3	590.8	679.4	774.5
FORTAS	209.2	248.9	293.8	343.7	398.7	458.5	522.7
PRIDEX	1,257.5	1,496.4	1,765.8	2,066.0	2,396.5	2,756.0	3,141.8
PROPEMI	433.8	516.2	609.1	712.7	826.7	950.7	1,083.8
Subtotal	4,898.4	5,829.1	6,878.3	8,047.6	9,335.3	10,735.6	12,238.5
Total Expenses	11,754.8	13,988.2	16,506.1	19,312.1	22,402.1	25,762.4	29,369.1
GROSS MARGIN	-9,689.2	-9,800.4	-11,324.0	-14,134.0	-16,817.7	-20,113.9	-23,602.3
RATIOS (percents)							
Income/Op. Expenses	42.2	71.8	75.3	64.3	59.8	52.6	47.1
Income/Tot. Expenses	17.6	29.9	31.4	26.8	24.9	21.9	19.6

B. Controlled Expense Scenario

In this model, expenses are expected to grow at a rate of 12 percent during the first three years of the projections, but remain frozen in subsequent years. With inflation rates of 14 to 17 percent per year, this model assumes an effective annual reduction of 14 to 17 percent in FUSADES' programs in the final years of the projections.

As can be seen in Figure 2 and Table 10, under this assumption total expenses peak at $16.5 in 1992, and remain constant thereafter. With projected self-generated income of $5.8 million, FUSADES would be capable of covering 83.8 percent of its operating expenses and 34.9 percent of total program costs by 1995.

To fully operating costs from self-generated income, FUSADES would need to generate an additional $1.1 million in revenues. With an average interest rate of 13 percent, this would require an additional loan portfolio of $8.6 million. An additional portfolio of $82.7 would be required to fully cover the projected annual revenue shortfall of $10.7 million for the total program.

While the projections appear reasonable for program expenses, holding operating expenses constant beyond 1992 would require a major reduction in either the overall FUSADES program or the elimination of specific programs.

Figure 2
Controlled Expense Scenario
(in U.S. $ million)

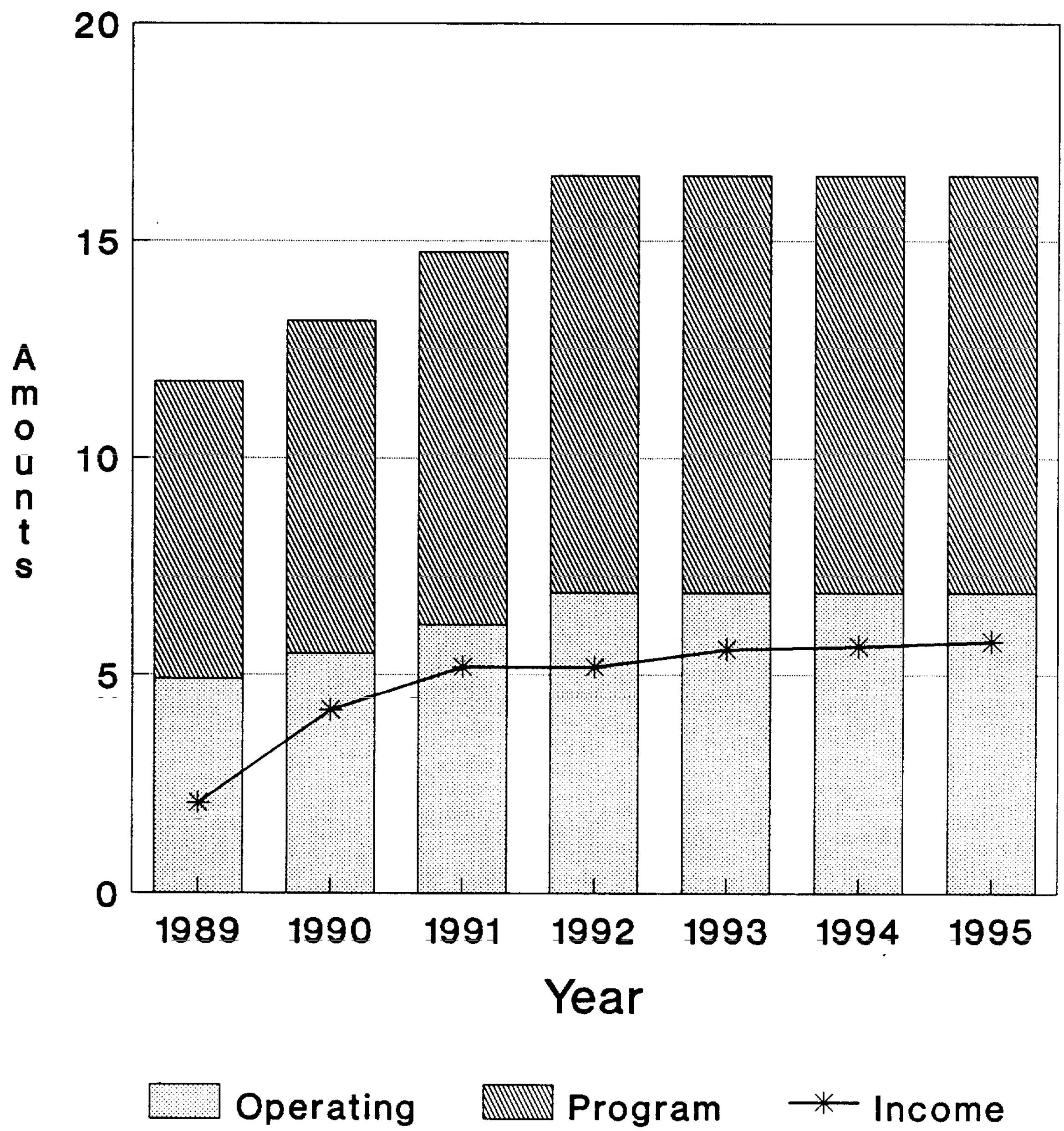


TABLE 10

CONTROLLED EXPENSE MODEL
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
Fees	-	40.0	70.0	100.0	130.0	160.0	190.0
Interest on Deposits	130.0	119.2	112.4	123.5	135.9	149.5	164.5
Interest on Loans	1,700.9	3,786.3	4,741.7	4,656.8	4,975.5	4,981.4	5,038.8
Sales	141.0	152.2	168.4	197.0	230.8	237.0	243.9
Seminars & Courses	90.3	87.0	86.6	97.5	108.7	116.6	125.3
Other	3.4	3.1	3.0	3.3	3.5	4.0	4.4
Subtotal	2,065.6	4,187.8	5,182.1	5,178.1	5,584.4	5,648.5	5,766.8
EXPENSES							
Program Expenses							
Administration	258.6	289.6	324.4	363.3	363.3	363.3	363.3
DEES	452.8	507.1	568.0	636.2	636.2	636.2	636.2
DIVAGRO	2,262.9	2,534.4	2,838.6	3,179.2	3,179.2	3,179.2	3,179.2
FIDEX	28.4	31.8	35.6	39.9	39.9	39.9	39.9
FORTAS	950.4	1,064.4	1,192.2	1,335.2	1,335.2	1,335.2	1,335.2
PRIDEX	2,754.6	3,085.2	3,455.4	3,870.0	3,870.0	3,870.0	3,870.0
PROPEMI	148.7	166.5	186.5	208.9	208.9	208.9	208.9
Subtotal	6,856.4	7,679.2	8,600.7	9,632.7	9,632.7	9,632.7	9,632.7
Operating Expenses							
Administration	1,159.4	1,298.5	1,454.4	1,628.9	1,628.9	1,628.9	1,628.9
DEES	561.1	628.4	703.8	788.3	788.3	788.3	788.3
DIVAGRO	967.4	1,083.5	1,213.5	1,359.1	1,359.1	1,359.1	1,359.1
FIDEX	310.0	347.2	388.9	435.5	435.5	435.5	435.5
FORTAS	209.2	234.3	262.4	293.9	293.9	293.9	293.9
PRIDEX	1,257.5	1,408.4	1,577.4	1,766.7	1,766.7	1,766.7	1,766.7
PROPEMI	433.8	485.9	544.2	609.5	609.5	609.5	609.5
Subtotal	4,898.4	5,486.2	6,144.6	6,881.9	6,881.9	6,881.9	6,881.9
Total Expenses	11,754.8	13,165.4	14,745.2	16,514.6	16,514.6	16,514.6	16,514.6
GROSS MARGIN	-9,689.2	-8,977.6	-9,563.1	-11,336.5	-10,930.2	-10,866.1	-10,747.8
RATIOS (percents)							
Income/Op. Expenses	42.2	76.3	84.3	75.2	81.1	82.1	83.8
Income/Tot. Expenses	17.6	31.8	35.1	31.4	33.8	34.2	34.9

C. High Income Growth Scenario

This model assumes that non-portfolio income will increase at the rate of 30 percent per year (compared to the 10 percent growth rate assumed for the other models). In addition, program expenses are projected to remain constant after the third year. Operating expenses, on the other hand, are expected to increase at 15 percent per year.

As can be seen in Figure 3 and Table 11, projected income under these assumptions reaches $7.0 million by 1995, more than $1.2 million higher than the other scenarios. Portfolio income remains at the same projected levels, as this would be fixed by the level of the portfolio and prevailing interest rates.

Program expenses level off after 1991, at a level of $9.1 million per year. Operating expenses, on the other hand, continue to rise through the end of the period, reaching $11.3 million by 1995.

As a result, projected income would cover 60 percent of operating expenses and 33.3 percent of total expenses by 1995. Even with the assumption of a high rate of growth in non-portfolio income, this is insufficient to keep pace with the growth of operating expenses. Self-sufficiency ratios improve between 1989 and 1991, due to the expansion of the loan portfolio, but deteriorate with no new credit funds.

Figure 3
High Income Growth Scenario
(in US $ million)

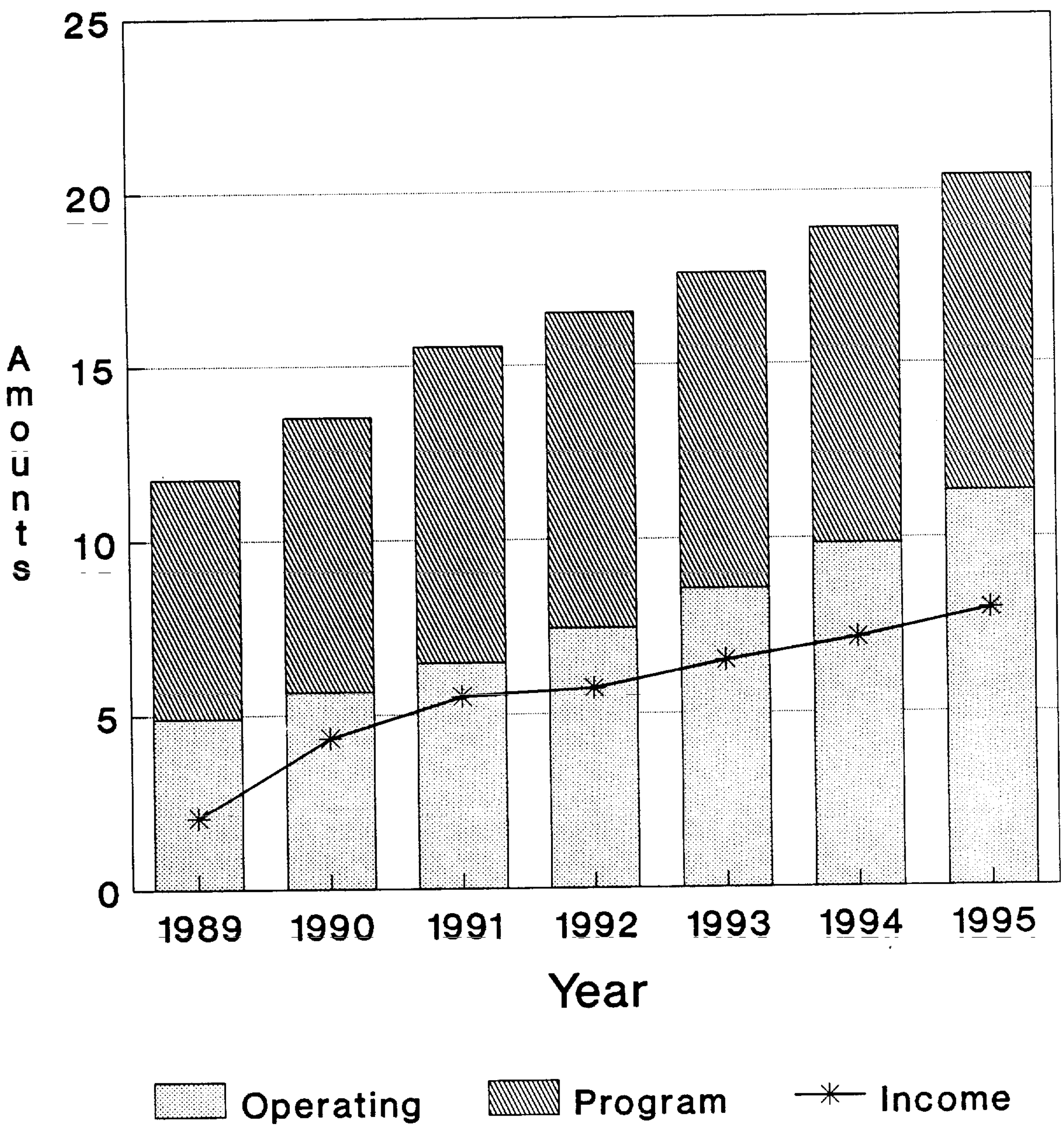


TABLE 11

HIGH INCOME GROWTH MODEL
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
Fees	-	40.0	70.0	100.0	130.0	160.0	190.0
Interest on Deposits	130.0	169.0	219.7	285.6	371.3	482.7	627.5
Interest on Loans	1,700.9	3,786.3	4,741.7	4,656.8	4,975.5	4,981.4	5,038.8
Sales	141.0	183.3	238.3	309.8	402.7	523.5	680.6
Seminars & Courses	90.3	117.4	152.6	198.4	257.9	335.3	435.9
Other	3.4	4.4	5.7	7.5	9.7	12.6	16.4
Subtotal	2,065.6	4,300.4	5,428.0	5,558.0	6,147.1	6,495.5	6,989.1
EXPENSES							
Program Expenses							
Administration	258.6	297.4	342.0	342.0	342.0	342.0	342.0
DEES	452.8	520.7	598.8	598.8	598.8	598.8	598.8
DIVAGRO	2,262.9	2,602.3	2,992.7	2,992.7	2,992.7	2,992.7	2,992.7
FIDEX	28.4	32.7	37.6	37.6	37.6	37.6	37.6
FORTAS	950.4	1,093.0	1,256.9	1,256.9	1,256.9	1,256.9	1,256.9
PRIDEX	2,754.6	3,167.8	3,643.0	3,643.0	3,643.0	3,643.0	3,643.0
PROPEMI	148.7	171.0	196.7	196.7	196.7	196.7	196.7
Subtotal	6,856.4	7,884.9	9,067.6	9,067.6	9,067.6	9,067.6	9,067.6
Operating Expenses							
Administration	1,159.4	1,333.3	1,533.3	1,763.3	2,027.8	2,332.0	2,681.8
DEES	561.1	645.3	742.1	853.4	981.4	1,128.6	1,297.9
DIVAGRO	967.4	1,112.5	1,279.4	1,471.3	1,692.0	1,945.8	2,237.7
FIDEX	310.0	356.5	410.0	471.5	542.2	623.5	717.0
FORTAS	209.2	240.6	276.7	318.2	365.9	420.8	483.9
PRIDEX	1,257.5	1,446.1	1,663.0	1,912.5	2,199.4	2,529.3	2,908.7
PROPEMI	433.8	498.9	573.7	659.8	758.7	872.5	1,003.4
Subtotal	4,898.4	5,633.2	6,478.1	7,449.9	8,567.3	9,852.4	11,330.3
Total Expenses	11,754.8	13,518.0	15,545.7	16,517.4	17,634.9	18,920.0	20,397.9
GROSS MARGIN	-9,689.2	-9,217.6	-10,117.7	-10,959.4	-11,487.8	-12,424.5	-13,408.8
RATIOS (percents)							
Income/Op. Expenses	42.2	76.3	83.8	74.6	71.8	65.9	61.7
Income/Tot. Expenses	17.6	31.8	34.9	33.6	34.9	34.3	34.3

D. Most-Likely-Case Scenario

Unlike the previous models, which are based on mathematical projections, this model aggregates the individual projections of the separate departments to produce a composite projection for FUSADES as an institution. Detailed descriptions of each individual department's projections appear in Part Three of this report.

In this projection costs are strictly controlled, with most of the departments (especially DIVAGRO and PRIDEX) projecting sharp declines in program expenses (see Figure 4 and Table 12). Such a projection assumes that the rapid build-up in the FUSADES program is temporary -- that a number of the activities that are currently being funded will be completed during the next few years. Any increases in programs to compensate for these reductions would be covered by additional funding.

Operating costs are generally assumed to increase at a rate of 15 percent per year, with some reductions resulting from discontinued programs or activities. Again, these reductions are primarily noticed in DIVAGRO and PRIDEX.

Controlling costs results in a total budget of only $10.5 million in 1995, of which 77 percent represents operating costs. Self-generated income would cover 71.6 percent of projected operating costs, and 54.9 percent of the total program.

If the revenue shortfall were to be covered by portfolio income, the credit portfolio would have to be increased $17.6 million to cover operating costs and $36.5 million to cover total program costs.

Figure 4
Most Likely Case Scenario
(in US $ million)

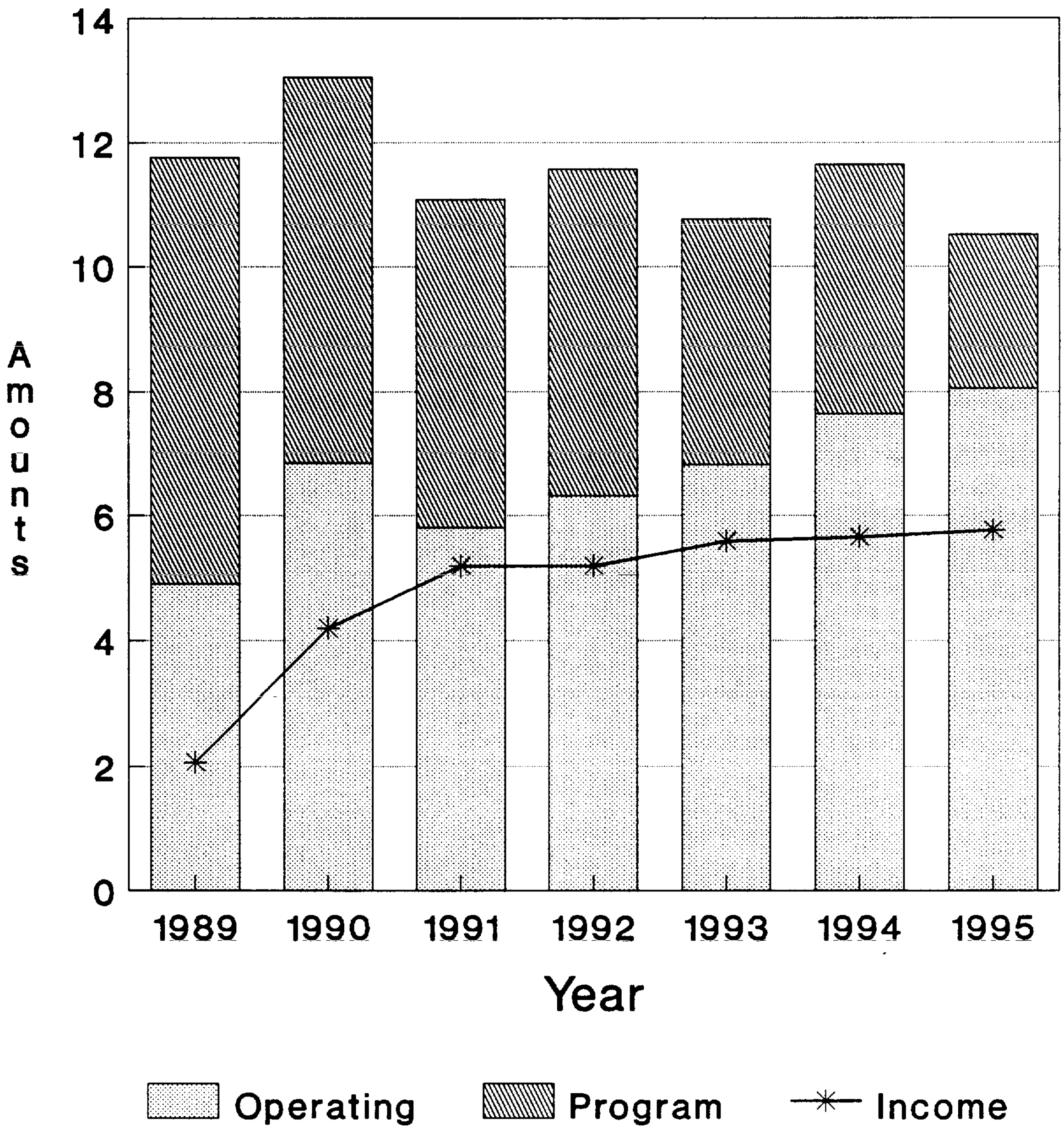


TABLE 12

MOST LIKELY CASE SCENARIO
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
Fees	-	40.0	70.0	100.0	130.0	160.0	190.0
Interest on Deposits	130.0	119.2	112.4	123.5	135.9	149.5	164.5
Interest on Loans	1,700.9	3,786.3	4,741.7	4,656.8	4,975.5	4,981.4	5,038.8
Sales	141.0	152.2	168.4	197.0	230.8	237.0	243.9
Seminars & Courses	90.3	87.0	86.6	97.5	108.7	116.6	125.3
Other	3.4	3.1	3.0	3.3	3.5	4.0	4.4
Total Income	2,065.6	4,187.8	5,182.1	5,178.1	5,584.4	5,648.5	5,766.8
EXPENSES							
Program Expenses							
Administration	258.6	247.8	212.4	212.4	212.4	212.4	212.4
DEES	452.8	510.3	251.5	279.2	332.6	382.6	439.9
DIVAGRO	2,262.9	2,440.4	2,439.2	2,372.3	976.9	976.9	976.9
FIDEX	28.4	27.2	23.3	23.3	23.3	23.3	23.3
FORTAS	950.4	273.9	26.4	30.3	34.9	40.1	46.1
PRIDEX	2,754.6	2,639.8	2,262.7	2,262.7	2,262.7	2,262.7	643.7
PROPEMI	148.7	65.8	64.9	74.6	85.8	98.7	113.5
Subtotal	6,856.4	6,205.2	5,280.4	5,254.8	3,928.6	3,996.7	2,455.8
Operating Expenses							
Administration	1,159.4	1,111.1	1,095.2	1,216.5	1,398.2	1,607.1	1,847.3
DEES	561.1	651.4	485.2	557.9	641.6	737.9	848.6
DIVAGRO	967.4	3,036.2	2,252.0	2,392.7	2,317.1	2,463.6	2,666.9
FIDEX	310.0	297.1	292.9	299.0	343.0	393.9	452.3
FORTAS	209.2	176.8	120.0	138.1	158.8	182.6	210.0
PRIDEX	1,257.5	1,205.2	1,187.9	1,285.5	1,476.8	1,696.8	1,387.2
PROPEMI	433.8	374.2	368.8	424.1	487.8	560.9	645.0
Subtotal	4,898.4	6,852.0	5,802.0	6,313.8	6,823.3	7,642.8	8,057.3
Total Expenses	11,754.8	13,057.2	11,082.4	11,568.6	10,751.9	11,639.5	10,513.1
GROSS MARGIN	-9,689.2	-8,869.4	-5,900.3	-6,390.5	-5,167.5	-5,991.0	-4,746.3
RATIOS (percents)							
Income/Op. Expenses	42.2	61.1	89.3	82.0	81.8	73.9	71.6
Income/Tot. Expenses	17.6	32.1	46.8	44.8	51.9	48.5	54.9

IV. SELF-SUFFICIENCY ISSUES

Primarily because of the relatively large loan portfolio and its potential for generating a stable flow of income, by 1995 FUSADES could reasonably be expected to cover between 50 and 84 percent of its projected operating costs, and between 19 and 55 percent of its total program costs, from self-generated income. As can be seen in Figure 5, below, applying all income sequentially to the departments, income under the most-likely-case scenario would be sufficient to cover operating expenses for DIVAGRO, PRIDEX, FIDEX and a substantial portion of Administration. Total income would also be sufficient to cover the total projected expenses (program and operating) of DIVAGRO and PRIDEX.

The key to self-sufficiency, however, lies in controlling the growth of expenditures.

A. Absence of a Strategic Plan

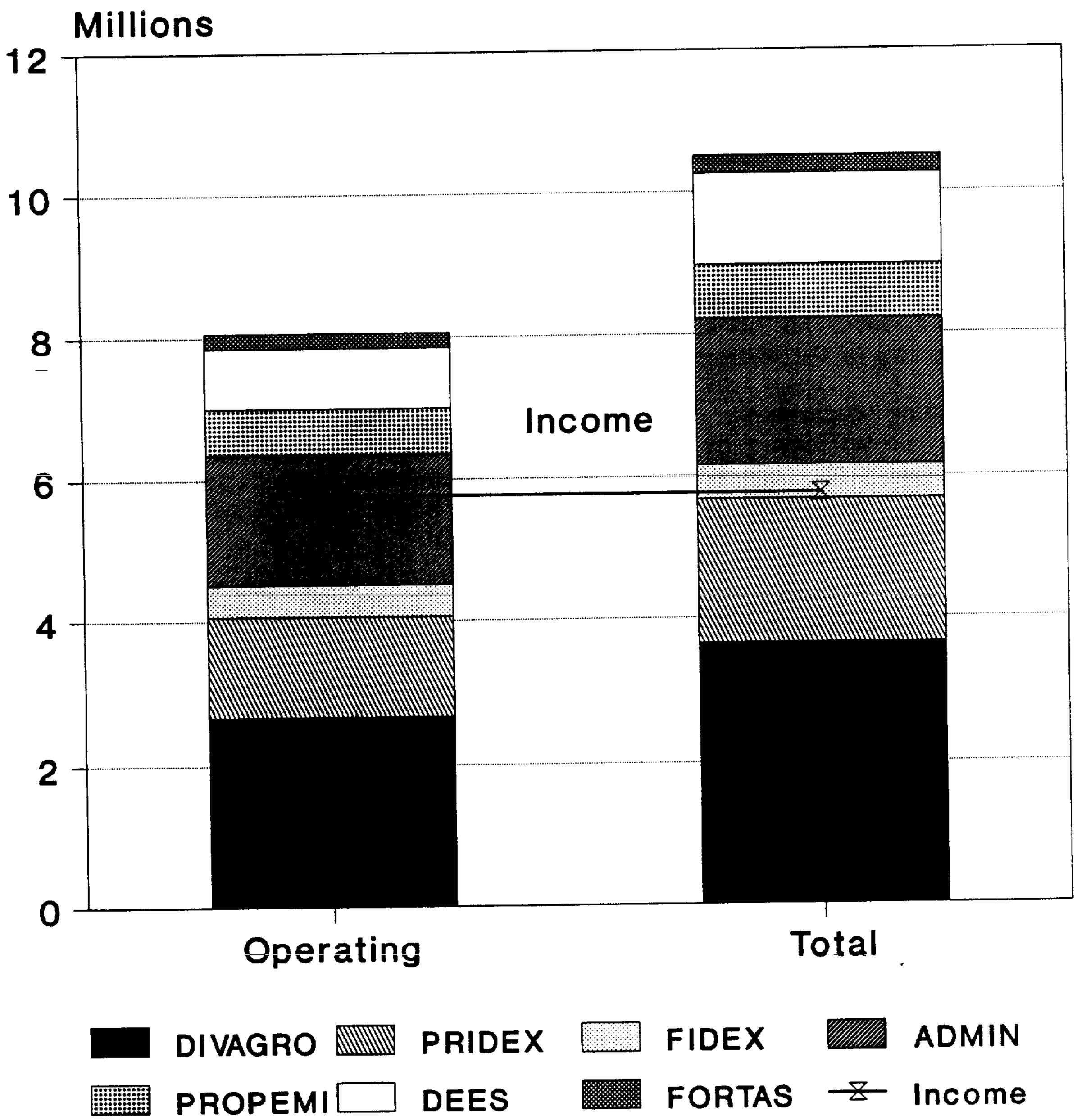
One of the problems of analyzing self-sufficiency in FUSADES is that there is no consensus on the long-term configuration that is to be supported. The organization has grown rapidly during the past few years as a result of AID financing, but there is no strategic plan that lays out the planned growth pattern and desired status when the institution reaches maturity. Planning exercises have focused on relatively short-term objectives and action plans, but have not dealt with the essential issues of optimal (or sustainable) size and financial viability. Until this is done, projections illustrate what might be, but fail to test the feasibility of achieving particular objectives.

B. Nature of AID Support

Apart from contributions to developing a credit portfolio, AID's support of FUSADES has been focused on achieving specific short-run objectives (project implementation) rather than on developing a sustainable institution. This focus has encouraged rapid growth without a corresponding focus on income generation and sustainability.

AID support has been essential to developing a capacity to perform within the institution, but AID's interest in FUSADES is inherently short-term. Few of the grants have been designed to stimulate internal income generation; they purchase a service or support operating costs rather than stimulate self-sufficiency. If AID is seriously concerned with increasing FUSADES' level of self-sufficiency, it needs to structure its grants in such a way as to encourage local income generation.

Figure 5
Most Likely Case Scenario
Ability to Cover Expenses



At the same time, AID tends to confuse the role of FUSADES as a beneficiary (target) of AID support and as a contractor performing services for AID. Much of the work performed by FUSADES would otherwise be contracted to private consulting firms. In this context, monies provided to cover overhead (administration) are not subsidies to a beneficiary, but indirect costs associated with providing a service. It is incorrect to view these as a budget subsidy, just as overhead and profit built into contracts are not subsidies to a private consulting firm.

C. Department Issues

As will be seen in Part Three of this report, the 7 departments of FUSADES can be divided into three groups for the purpose of discussing "self-sufficiency." One group includes DEES, FORTAS, and Administration, which generate minimal amounts of income. Due to the nature of their activities, potential sources of income (grants and donations) cannot be expected to cover operating costs.

A second group (DIVAGRO, FIDEX, and PRIDEX) generate significant amounts of interest income from the FIDEX loan portfolio. All of this income is presently attributed to FIDEX and absorbed by FUSADES as general income. These departments could cover all or most of their projected operating and program costs if an equitable sharing of the interest income from the loan portfolio were devised.

The remaining department, PROPEMI, is the only department that has been structured with self-sufficiency in mind. PROPEMI alone retains, and plows back, the income from its loan portfolio, and thus can potentially fund its own operations. In fact, PROPEMI has already prepared a plan for achieving self-sufficiency within the next five years.

D. Cross-Subsidization

Cross subsidization only becomes an issue for FUSADES in fully costing services and programs, and in allocating revenues according to the sources that generate them. Three major forms of cross-subsidization exist within the organization -- the generalized administrative costs that are currently covered by USAID grants through project 287, the technical and financial support costs associated with the loan portfolio, and shared services.

1. Allocation of Administrative Support Costs

At the present time all administrative costs are covered by grants to the Administrative Department through the Industrial Stabilization project (287). These funds will be depleted by the end of the current calendar year. As no future grants are planned to support the administrative function, it will become increasingly necessary to allocate the costs of running the department across the program-oriented departments.

FUSADES' administration employs 44 people distributed among 5 departments:

- The office of the Executive Director;
- The Legislative Commission, which studies and proposes to the government changes in legislation which would support the development objectives of FUSADES;
- The Department of Planning and Development;
- The Department of Marketing; and
- The Department of Administration, the largest department with 25 employees.

These operations are financed primarily by AID grants; interest income from the FUSADES endowment fund (which is projected to be $60,000 in 1989) and "subsidies" from FUSADES' operating departments provide relatively little income. USAID grant support of the Administration is due to end in October 1989.

If FUSADES Administration were treated as a cost center (since it has minimal revenue sources of its own) these overhead expenses would be allocated to FUSADES' operating departments. This could be done on the basis of total expenditures, divided either among all departments, or only among those departments with significant revenue generation capability.

Table 13, below, illustrates the implications of each alternative for allocating administrative overhead, based on projected averages for 1988 through 1990.

TABLE 13

POSSIBLE ALLOCATION OF ADMINISTRATIVE OVERHEAD

	Departmental Share of Overhead	
Department	All Departments	Revenue Departments
DEES	11%	-
DIVAGRO	39%	49%
FIDEX	3%	4%
FORTAS	9%	-
PRIDEX	33%	41%
PROPEMI	5%	6%

One of the problems with allocating administrative overhead costs is the discrepancy between the costs themselves and the perceived value of the services.

Under the allocation based on expenses, for example, DIVAGRO would be assessed $553,000 as its portion of administrative overhead for 1989, yet interviews with DIVAGRO management indicated that performing these services directly would cost it about $160,000 per year.

2. Interrelated Services

Cross-subsidization is a major issue in the relationships between three departments in FUSADES -- FIDEX, PRIDEX and DIVAGRO -- with FIDEX servicing a loan portfolio that is generated and supported by the other two. The relationship is an awkward one for USAID/El Salvador: it is primarily interested in assuring the on-going sustainability of the DIVAGRO and PRIDEX programs, yet these programs do not have control over interest income generated by the agricultural and industrial portfolios. As can be seen in the individual department analyses, the interest income is essential for sustaining these operations.

DIVAGRO estimates that all of the work of its "Projects" office is directly related to generating and servicing the loan portfolio. This amounts to approximately $800,000 per year.

PRIDEX was unable to estimate the value of the services it provides to developing and sustaining the industrial stabilization portfolio. This is in part due to the fact that (a) PRIDEX's activities have (to date) been of a more general nature, not linked to specific loan activities, (b) PRIDEX is engaged in a series of broad sector studies that do not have a direct impact on the loan portfolio, and (3) as of the date of the study no loans had been made for industrial development.

At the present time there is no mechanisms for job-cost accounting or reimbursement of expenses across the departments, or for passing these costs on to the client. Both PRIDEX and DIVAGRO should expect to receive a fee for their services, which should be built into the price structure of the loan portfolio-- either as fees or "points," or amortized into the loan itself.

3. Other Relationships

FIDEX, PRIDEX and DIVAGRO staff regularly attend seminars and courses sponsored by DEES. DIVAGRO estimated the annual value of theses courses to be around $20,000; the other two departments were unable to estimate a value.

FORTAS does provide some support to DEES and PROPEMI, providing funds to associations to permit them to participate in DEES-sponsored seminars and to the Chamber of Commerce to support participation in PROPEMI training programs. These are rather small amounts, and will end when outside funding ends. FORTAS also promotes DEES' curriculum for free-market economics in the universities.

V. ALTERNATIVES FOR IMPROVING SELF-SUFFICIENCY RATIOS

A. Increasing Self-Generated Income

FUSADES' ability to achieve self-sufficiency depends greatly on its ability to generate income. While the loan portfolio will be the principal source of income for the organization, projections indicated that interest earned on the planned portfolio will not be sufficient to cover the entire costs of the institution. To achieve complete financial self-sufficiency, other sources of income must be developed.

To date, only a small portion of FUSADES' operating expenses are covered by self-generated income. Total earned income (including interest on loans and deposits) covered 11.6 percent of FUSADES' expenditures in 1988; non-interest income covered only 6.3 percent of the total FUSADES budget. As can be seen in Table 14, below, self-generated income is expected to increase in 1989, in both absolute and relative terms. Total projected income will cover 16.6 percent of projected expenditures. Non-interest income, on the other hand, is expected to decline.

TABLE 14

SELF-GENERATED INCOME, 1988 AND 1989
(in US $000)

	1988	1989
Expenditures	6,791.6	11,755.5
Total Self-Generated Income	786.2	1,952.9
Non-Portfolio Income	426.2	394.5
Total Income as a Percentage of Expenditures	11.6	16.6
Non-Portfolio Income as a Percentage of Expenditures	6.3	3.4

One of the models tested -- the High Income Growth Scenario -- indicated that, at annual increase of 30 percent, non-portfolio income could reach as high as $2.0 million by 1995. At this level, non-portfolio income would cover 19 percent, and total income between 60 and 70 percent, of total projected costs for FUSADES.

FUSADES' ability to generate income is hampered by a number of factors, including:

- AID/W prohibition on charging a fee for a service supported by AID funds;
- The relative newness of the program, with the result that FUSADES has not yet created a marketable product;
- Conditions in the local economy that make it difficult to fully recover the value of services provided; and
- The ambiguity within FUSADES between its role as a "non-profit" organization and the need to generate income.

The main reason for the drop in non-portfolio income between 1988 and 1989 is the disallowance by AID/W in September 1988 of client payments to FUSADES for technical assistance received. Clients previously paid 25 to 35 percent of the cost of technical assistance services, which FUSADES applied to a fund earmarked for the construction of a new building. AID, which had been paying 100 percent of the cost of the technical assistance, ruled that client payments would have to offset the cost of the services rather than generating surplus income for FUSADES. As a result, FUSADES no longer accounts for client payments as income.

The other three factors are related to local market conditions and FUSADES' pricing strategies. To date, FUSADES has not had to adopt cost-covering pricing strategies. It has been reluctant to price services at a level that would cover costs, and has not explored methods of increasing income that are standard in banking and service organizations -- particularly fees and closing costs. While it may be true that FUSADES has not yet developed a sufficient reputation, or sufficiently demonstrated the practical benefits of its services, to permit it to charge for the full costs of services, there should be mechanisms to encourage eventual full-cost recovery of basic services.

In the long run, FUSADES' services must be subjected to practical market tests. In the long run, clients will pay for services that are, in fact, needed and valuable. An inability to price services at their cost indicates that the services are not as valuable as the designers believed, and is a strong argument for discontinuing a program.

B. Control of Expenses

Controlling the rate of growth in expenditures is essential to the long term financial viability of FUSADES. All of the models tested were sensitive to the rate of growth in expenses.

In one sense, growth in expenses is easily controlled. Program costs, in particular, consume the funds that are available. If funding is not available, expenses do not grow. Any "no-growth" model is, in essence, assuming that increases in programs will result from increases in external funding, either through new or expanded projects.

More troubling in the models tested is the tendency of operating costs to grow at a level consistent with the rate of inflation. Projections of operating expenses represent expenses that are already in place and committed; there were no projected increases in operating expenses due to expanded programs or new activities. Operating expenses are local costs, and these tend to be sensitive to the rate of inflation. Since most are directly related to personnel levels, it is difficult to control operating expenses without implying staff reductions.

C. Development of a New Relationship with AID

USAID/El Salvador's support has permitted FUSADES to grow, within a very short period of time, into a recognized and respected institution.

1. Shift from Beneficiary to Contractor Role

As mentioned earlier, AID has an ambiguous relationship with FUSADES in that the latter is both a beneficiary of AID support and an implementer of AID projects. In the role of beneficiary, all grant support for program and operations is viewed as a subsidy, to be replaced at some point in the future with "self-generated" income. In the role of implementer, these same grants become "contracts," and the overhead and profit associated with them are normal components of self-generated income.

USAID/El Salvador and FUSADES would both benefit from a redefinition of the relationship from one of patron-beneficiary to one of development agency-implementer.

2. New Projects

Unless there is a major change in U.S.-El Salvador relationships, USAID/El Salvador will continue to be faced with a need to develop and implement projects in rural and private sector development. As FUSADES is still one of the few institutions that is capable of providing counterpart and project implementation services, USAID/El Salvador is likely to find it both convenient and practical to channel additional projects through FUSADES. Properly designed, funding for such projects would cover both the direct and indirect costs, and would contribute to FUSADES' level of self-sufficiency.

3. Increased Loan Portfolio

As mentioned earlier, FUSADES' would require an additional loan portfolio of between $15 million to cover basic operating expenses and $40 million to cover total program costs, if projected revenue shortfalls were to be covered through portfolio income. If FIDEX proves adept at placing and managing a credit portfolio, the addition of one new loan program every three years would result in a portfolio that could generate sufficient revenues to sustain at least the "core" operating costs of the institution without external subsidies.

PART THREE: ANALYSES AND PROJECTIONS FOR INDIVIDUAL DEPARTMENTS

I. ADMINISTRATION

A. Background

The Administrative department encompasses the functions of executive director, planning, marketing, legislation, finance and administration. It has 44 employees, and an annual budget of $1.4 million.

B. Current and Projected Income and Expense Levels

Although the Administrative department is not an income generating department, as custodian of FUSADES' patrimony, the Administrative department records a modest amount of income in the form of interest earned on donated funds. That amounted to $30,000 in 1988, and is projected at $60,000 in 1989. Other income for the department totalled less than $200 in 1988, and are unlikely to increase significantly in 1989.

Expenses increased 60 percent between 1988 and 1989, from $889,500 to $1,418,000. Most of the increase was due to increases in salaries and benefits, technical assistance (associated with planning its new building), rents and services, and promotion. With the exception of the technical assistance, these are expenses that are highly sensitive to inflation pressures.

Operating costs for the administrative department represented 21.3 percent of all operating costs in 1988, and are projected to be 23.1 percent of total operating costs in 1989. While the increase is not large, the ratio of administrative costs to total operating costs should be monitored in the future.

Because most of the administrative department's costs are for operating expenses, they will tend to rise with inflation. Using even conservative projection assumptions (an average rate of growth in expenses of 15 percent per year, with no additional increases in staff), operating expenses can be expected to increase 59 percent by 1995, from $1.16 million in 1989 to $1.85 million in 1995.

C. Planned Future USAID/El Salvador Support

USAID/El Salvador is providing budget support to cover expenses of the Administrative section through one grant (0287, Industrial Stabilization). At present expenditure rates, these grants will cover operating costs through October 1989. Because no further direct USAID grant support is planned for Administration, it appears that some mechanism will have to be found to fund the major operations of this department.

TABLE 15

ADMINISTRATION

ACTUAL AND PROJECTED INCOME AND EXPENSES, 1988 AND 1989
(in US $000)

	Actual 1988			Budgeted 1989		
	AID	FUSADES	TOTAL	AID	FUSADES	TOTAL
INCOME						
USAID Grants	858.4	-	858.4	1,391.0	-	1,391.0
Fees	-	-	-	-	-	-
Interest on Deposits	-	30.4	30.4	-	60	-
Sales	-	-0.1	-0.1	-	-	-
Seminars & Courses	-	-	-	-	-	-
Other	-	0.2	0.2	-	-	-
Total Income	858.4	30.4	888.8	1,391.0	-	1,391.0
EXPENSES						
Program Expenses						
Tech. Assistance	56.0	-	56.0	229.3	-	229.3
Client Travel	-	0.5	0.5	-	-	-
Seminars & Courses	3.5	12.1	15.6	29.3	-	29.3
Operating Expenses						
Salaries & Benefits	504.5	3.2	507.7	689.3	7.3	696.6
Rents and Services	120.2	10.1	130.2	195.3	12.8	208.0
Furnishings	74.7	-	74.7	44.2	0.5	44.7
Employee Travel	37.2	1.8	39.0	59.4	3.5	62.9
Publicity/Promotion	62.3	3.3	65.7	104.3	3.0	107.2
Interest	-	0.2	0.2	-	-	-
Other	-	-	-	40.0	-	40.0
Total Expenses	858.4	31.2	889.5	1,391.0	27.0	1,418.0
GROSS MARGIN	-	-0.7	-0.7	-	33.0	-27.0

TABLE 16

ADMINISTRATION
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
Interest on Deposits	60.0	55.0	51.9	57.0	62.7	69.0	75.9
Total Income	60.0	55.0	51.9	57.0	62.7	69.0	75.9
EXPENSES							
Program Expenses							
Tech. Assistance	229.3	219.7	188.4	188.4	188.4	188.4	188.4
Seminars & Courses	29.3	28.1	24.1	24.1	24.1	24.1	24.1
Subtotal	258.6	247.8	212.4	212.4	212.4	212.4	212.4
Operating Expenses							
Salaries & Benefits	696.6	667.6	658.1	756.8	870.3	1,000.8	1,151.0
Furnishings	44.7	42.8	42.2	5.5	5.5	5.5	5.5
Employee Travel	62.9	60.3	59.4	68.3	78.6	90.3	103.9
Publicity/Promotion	107.2	102.8	101.3	116.5	134.0	154.1	177.2
Rents and Services	208.0	199.4	196.5	226.0	259.9	298.9	343.7
Other	40.0	38.3	37.8	43.5	50.0	57.5	66.1
Subtotal	1,159.4	1,111.1	1,095.2	1,216.5	1,398.2	1,607.1	1,847.3
Total Expenses	1,418.0	1,358.9	1,307.6	1,428.9	1,610.6	1,819.5	2,059.7
GROSS MARGIN	-1,358.0	-1,303.9	-1,255.8	-1,371.9	-1,547.8	-1,750.5	-1,983.8
RATIOS (percents)							
Income/Op. Expenses	5.2	4.9	4.7	4.7	4.5	4.3	4.1
Income/Tot. Expenses	4.2	4.0	4.0	4.0	3.9	3.8	3.7

D. Options to Improve Operating Margins

The Administrative Department is not an income generating department and should not be expected to become one. As a result, its expenses must be covered by overhead or operating margins on other departments and programs.

As mentioned before, the assumptions for projecting expenses were rather conservative, as all costs (including salary increases) were assumed to rise at a rate lower than the expected rate of inflation. No major increases in either functions or personnel were included in the projections. Limiting expenses in this way is difficult to sustain over the long run, as holding salary increases below the rate of inflation implies real declines in wages.

The projections may have overestimated increases in rents and services, as moving from rented quarters to FUSADES' new building can be expected to result in reductions in rent payments. There will, however, continue to be implied rents, even if these are not formally accounted for.

II. DEPARTAMENTO DE ESTUDIOS ECONOMICOS Y SOCIALES (DEES)

A. Background

DEES was created in 1983 as the policy research and analysis department of FUSADES. DEES undertakes studies for FUSADES which develop the conceptual and analytical bases for proposing policy and action recommendations to the Government of El Salvador in support of economic reactivation, trade, investment and export development. DEES studies are disseminated to the business community, government institutions, educational institutions and other influential groups in the country through the publication of studies, seminars and conferences, and press articles.

DEES' major current activity is the preparation of a Social and Economic Program, with the assistance of external consultants, to be presented to the government assuming power in June of 1989. The proposed 1989 and 1990 DEES budgets reflect increased expenses associated with the formulation and dissemination of specific political strategies and recommended areas of action which will implement the Program.

DEES is funded by two different AID grants, 316 (Association Strengthening) and 336 (Private Sector Initiatives), both of which also fund FORTAS. Grant 316 ends in 1989 and grant 336 will expire in 1990. Although no additional grant support is currently obligated, individuals in USAID/El Salvador express the opinion that DEES' mandate merits continuing support. In addition, FUSADES appears to place a high priority on the continued operation of DEES, citing DEES activities and objectives as being central to the overall institution. The financial projections presented below for the department reflect a scaling back of activities after 1990, when the Economic and Social Program will have been completed.

B. Current and Projected Income and Expenses

During 1988, DEES generated $16,900 in income, principally from the sale of publications and fees for seminars. This covered only 3.4 percent of core operating costs and 1.9 percent of total costs. The baseline scenario projects that self-generated income will cover 6 percent of core operating costs and 4 percent of total costs through 1994. Under the baseline scenario, program costs represent 44 percent of total costs in 1988, 1989 and 1990, decreasing to 34 percent from 1991 through 1994.

In 1989, DEES has projected a 138 percent increase in income from the sale of publications and information. This includes income from the sale of DEES publications as well as the planned sale of publications of World Bank and other international organizations. The sale of economic information to the academic, business and government sectors is expected to earn $20,000 in 1989. It should be noted that DEES' 1988 income only reached 43 percent of that year's projections.

C. The DEES Model

The DEES financial projections include 1988 actual results, 1989 annual plan projections, and a preliminary budget for 1990, the last year of currently scheduled AID support. To project the expected decline in activity after 1990, the technical assistance, publications, and seminars budgets are reduced by 50 percent over their 1990 levels, while salaries and travel are reduced 25 percent. These figures are also adjusted for annual inflation. These reductions are associated primarily with the completion of the Economic and Social Program. These are estimates derived from discussions with USAID and FUSADES personnel, intended not to proscribe a certain level of activity, but rather to indicate the approximate costs of a smaller department continuing to perform DEES' principle functions.

The model calculates the resource gaps under various scenarios after AID funding has ended. It also calculates the amount of portfolio capital, earning 15 percent interest, which would support such an operating deficit, in the event that DEES operations would be funded by income from a loan portfolio managed by FUSADES. Complete results for each scenario are presented in the tables at the end of this section.

D. Prospects for Self-Sufficiency

DEES is involved in two principal activities: research and information services. Organizations engaged primarily in research characteristically are able to operate only with the support of external funding. To the extent that DEES operates as a "think-tank" research organization, it would not be reasonable to expect it to be self-sufficient. Research is not produced for a customer or a market, but rather it is contracted by a client or sponsored by a benefactor. The department's current sources of income: the sale of information services and publications, and fees for courses and seminars, cannot support DEES' think-tank activities. Only to the extent that DEES could successfully locate individuals, business organizations, donor institutions, or government agencies to sponsor its research activities, could those activities be self-sufficient.

On the other hand, DEES' economic information services are pursued in expectation of being able to sell them to users, even though prices for these fully-funded services have been nominal rather than cost-based. The extent of demand for such services in El Salvador has not been well-tested and its determination is beyond the immediate scope of this study. In addition, the availability of donor support would be difficult to project. Nevertheless, both are critical to sustaining DEES' ability to operate in the future.

For the purposes of this analysis, projections of resource gaps for DEES are made given estimates of future revenues from current sources of income. It is assumed that the level of activity and expenses will decrease significantly after 1990. Under any reasonable scenario, DEES will not be able to cover even its core operating costs given its current sources of income. The graphs below summarize the financial projections for DEES under two scenarios for growth in income and two scenarios for growth in expenses. As a baseline, expenses are projected to grow at the rate of inflation (15%), and income to grow at 10 percent per year. Under this scenario, self-generated income would continue to cover only 6 percent of core costs or 4 percent of total costs. DEES would face a resource shortfall growing from $700,000 in 1991 to $1.1 million in 1994. If those shortfalls were to be subsidized by income from some loan portfolio, $7.2 million in capital earning 15 percent interest would be required by 1994 (see Figure 6 and Table 17).

Under a <u>cost control scenario</u>, where expenses are limited to 10 percent annual growth, the resource shortfall increases to only $900,000 by 1994 as self-generated income remains minimal (see Figure 7 and Table 18).

Because DEES self-generated income is minimal relative to its operating and program costs, a large resource gap exists under any scenario which does not project heroic increases in revenue. Under a <u>high-income scenario</u>, where income doubles every year, self-generated income would eventually be sufficient to cover core operating costs only in 1994, assuming 15 percent growth in expenses. Even if costs were limited to 10 percent annual growth, core costs still exceed self-generated income through 1993, and income fails to cover total costs throughout (see Figure 8 and Table 19).

Further cutbacks in operations (a <u>high cutback scenario</u>) could be made to reduce the resource gap, although it becomes debatable what minimum level of operations should be maintained. For example, if project costs dropped even further after 1990 (technical assistance down 75 percent; publications, seminars and travel down 60 percent; and salaries, rent and services down 30 percent) and were permitted to grow at a rate of only 10 percent per year, there would still be a resource gap of $550,000 in 1990, which increases to $730,000 in 1994 (see Table 20).

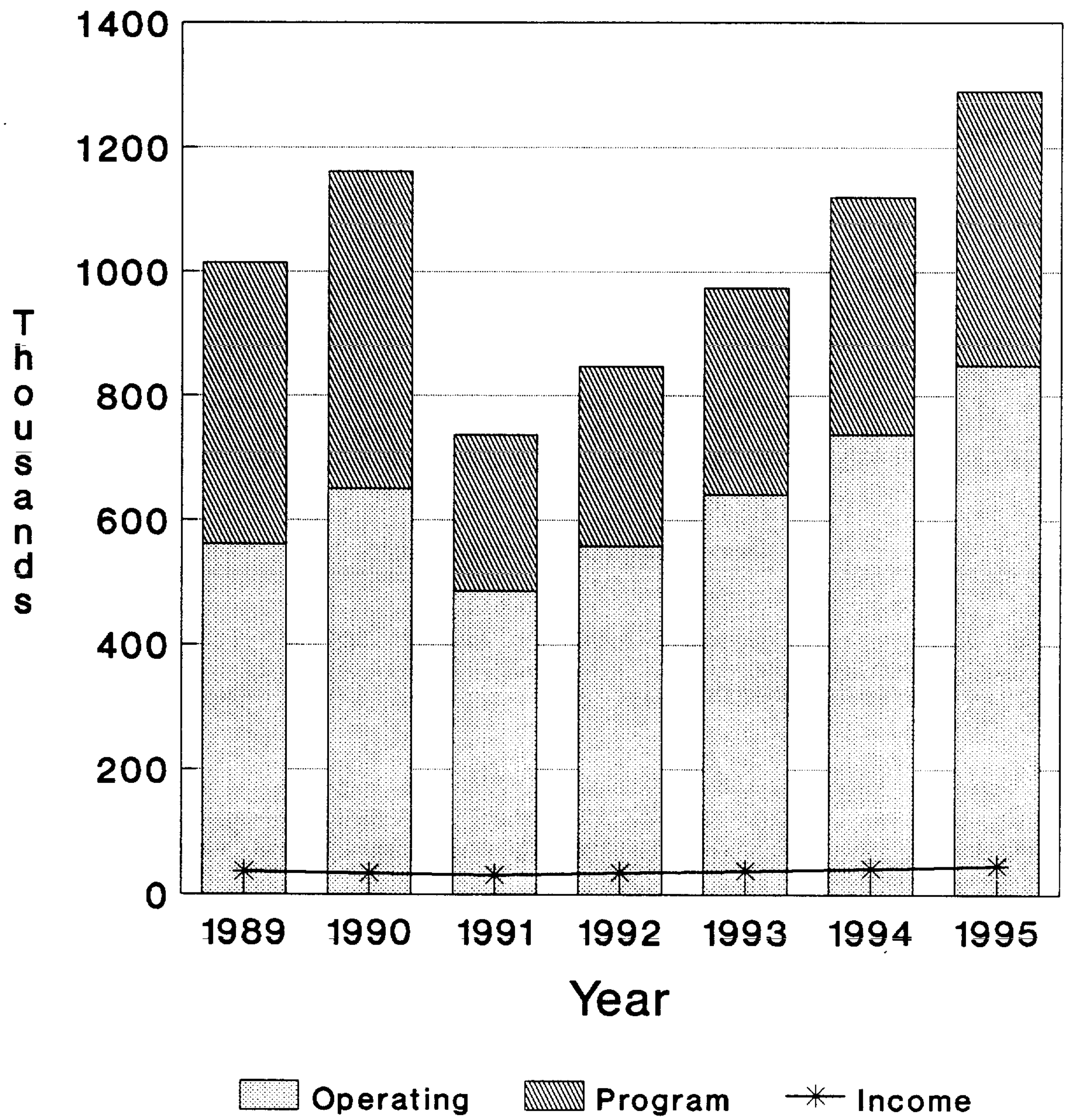
E. Conclusions and Recommendation

DEES' anticipated self-generated income is minimal and will fall far short of projected core operating costs. As a result, DEES' operating costs will have to be subsidized by income generated from other activities if the department is to continue to function.

To begin to approach self-sufficiency, DEES will need to develop additional sources of funding through active solicitation of donations or grants from individuals, government and donor agencies, or other organizations which would be willing to sponsor research.

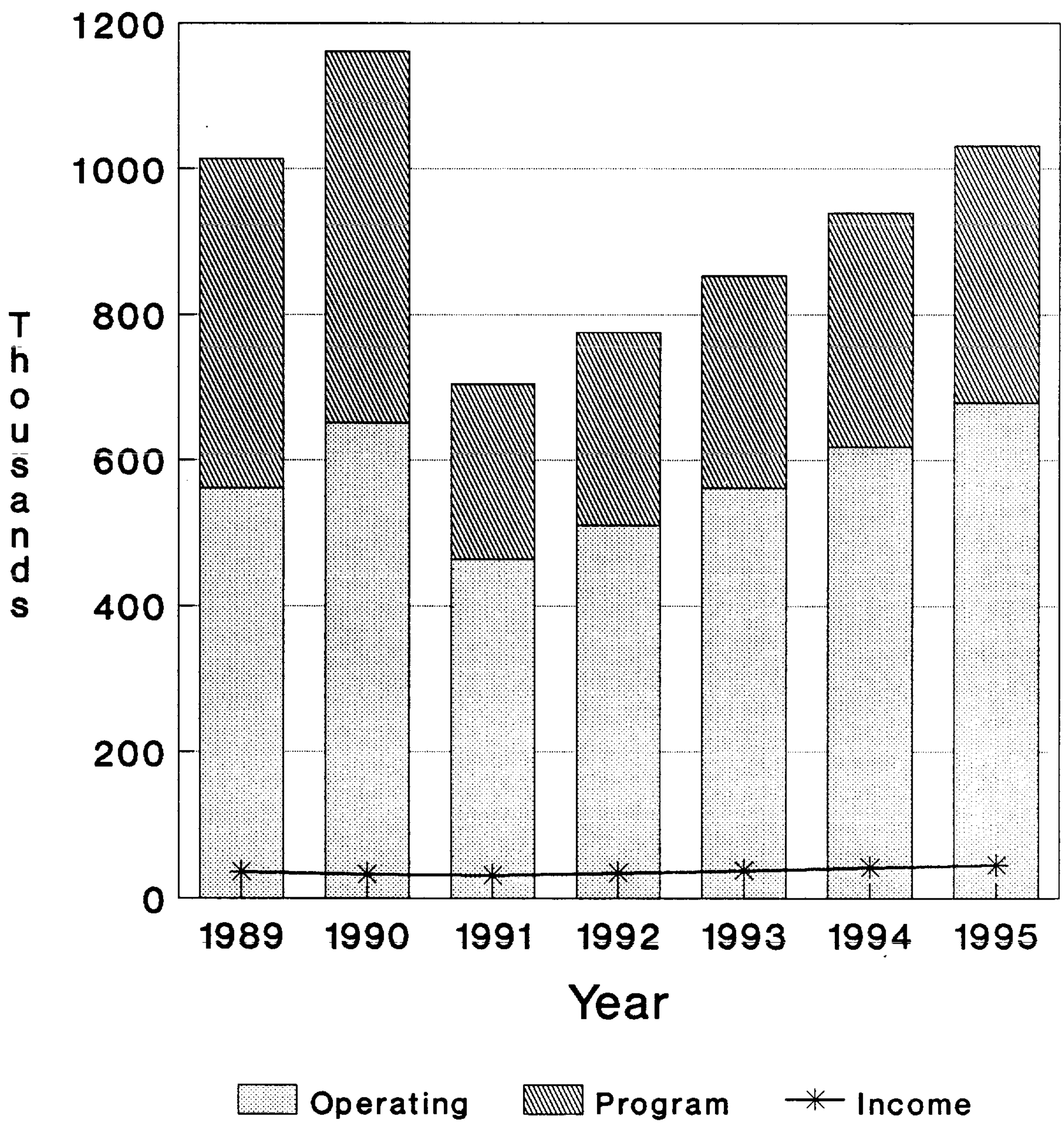
DEES should determine the cost basis of its information services and set some reasonable target price for those services.

Figure 6
DEES
Baseline Scenario



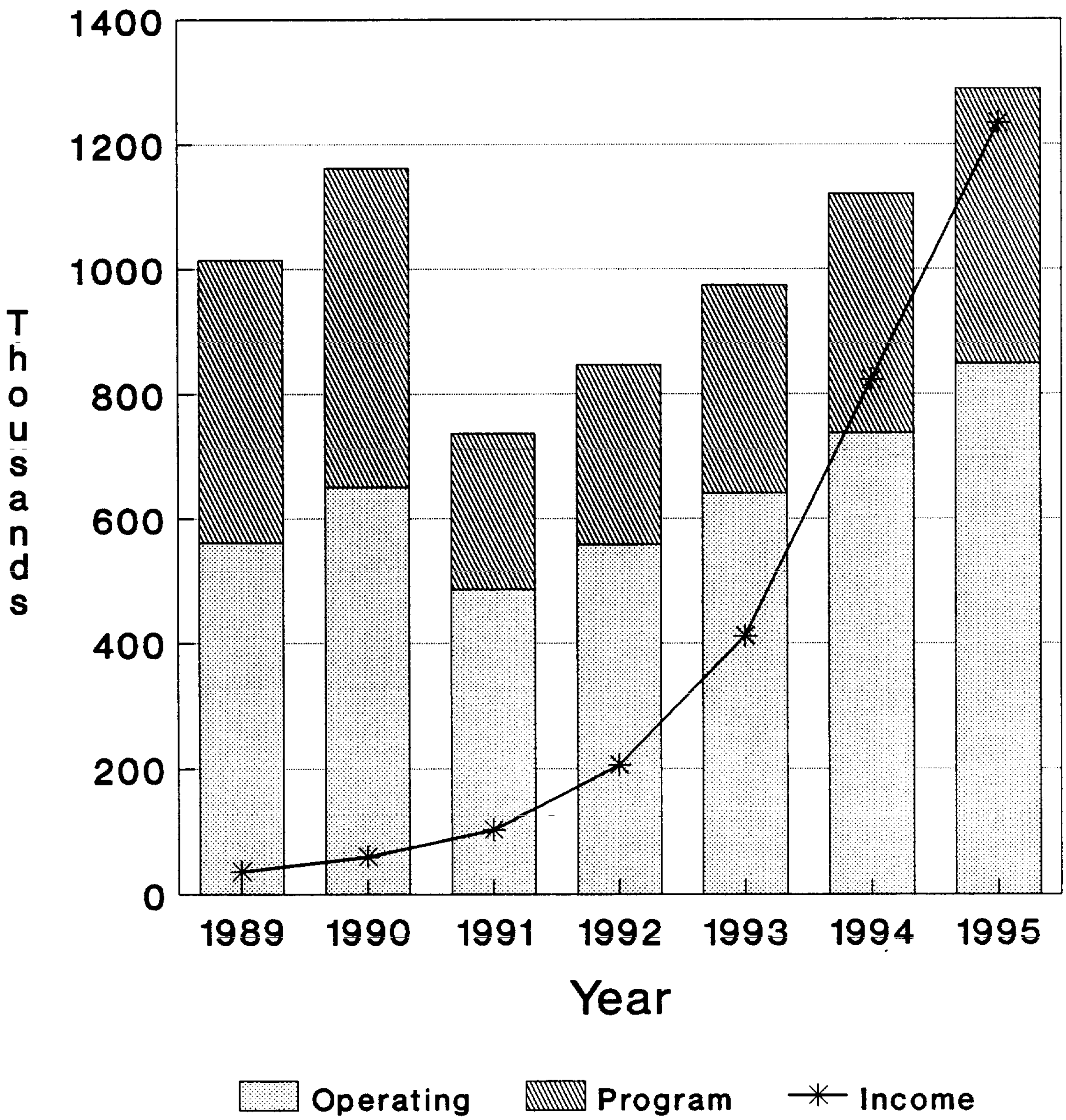
(in US $ 000)

Figure 7
DEES
Cost Control Scenario



(in US $ 000)

Figure 8
DEES
High Income Scenario



(in US $ 000)

TABLE 17

DEES
"Baseline" Scenario

ASSUMPTIONS:

* Expenses decline in 1991 to reflect scaled back program, then rise at given annual growth rate.
  T.A., Publications, Seminars: -50%; Salaries, Travel:-25%

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate 1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:			10%	10%	10%	10%	10%
* Growth Rate of Expenses:			15%	15%	15%	15%	15%

Figures in US Dollars (000s)	actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	772.7	1,002.0	1,212.9	0.0	0.0	0.0	0.0
AID 316 Expense Support	113.6	1.2	0.0	0.0	0.0	0.0	0.0
Donations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Course/Seminar Fees	4.3	5.0	4.6	4.3	4.8	5.2	5.8
Library Fees	0.1	1.0	0.9	0.9	1.0	1.0	1.2
Sales of Publications	12.6	30.0	27.5	25.9	28.5	31.4	34.5
Total Income	903.2	1,039.2	1,245.9	31.1	34.2	37.6	41.4
EXPENSES							
Program Costs							
Technical Assistance	361.5	400.0	339.1	167.1	192.2	221.0	254.2
Publicity & Publications	20.9	30.8	116.3	57.3	65.9	75.8	87.2
Seminars & Conferences	13.8	22.0	54.9	27.1	31.1	35.8	41.2
Core Operating Costs							
Salaries	325.0	400.5	501.6	370.8	426.4	490.4	563.9
Rent and Services	96.0	105.0	94.7	93.4	107.4	123.5	142.0
Travel	20.0	21.6	28.4	21.0	24.1	27.7	31.9
Furniture and Equipment	60.1	34.0	26.7	0.0	0.0	0.0	0.0
Total Expenses	897.3	1,013.9	1,161.7	736.7	847.2	974.3	1,120.4
Surplus (Deficit)	5.9	25.3	84.1	(705.6)	(813.0)	(936.6)	(1,079.0)
Cumulative	5.9	31.3	115.4	(590.2)	(1,403.2)	(2,339.8)	(3,418.9)
Portfolio Support Required (15%)	0.0	0.0	0.0	4,703.9	5,419.9	6,244.3	7,193.5

TABLE 17 -- Continued

DEES
"Baseline" Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	16.9	36.0	33.0	31.1	34.2	37.6	41.4
less Core Operating Costs	501.1	561.1	651.4	485.2	557.9	641.6	737.9
Surplus (Deficit) on Core Ops.	(484.2)	(525.1)	(618.4)	(454.1)	(523.7)	(604.0)	(696.5)
less Program Costs	396.2	452.8	510.4	251.5	289.3	332.7	382.6
Margin	(880.3)	(977.9)	(1,128.7)	(705.6)	(813.0)	(936.6)	(1,079.0)
plus AID Grants	886.3	1,003.2	1,212.9	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	5.9	25.3	84.1	(705.6)	(813.0)	(936.6)	(1,079.0)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	3.4%	6.4%	5.1%	6.4%	6.1%	5.9%	5.6%
Percent of Total (Program + Core) Costs Covered	1.9%	3.6%	2.8%	4.2%	4.0%	3.9%	3.7%

TABLE 18

DEES
Cost Control Scenario

ASSUMPTIONS:

* Expenses decline in 1991 to reflect scaled back program, then rise at given annual growth rate.
  T.A., Publications, Seminars: -50%; Salaries, Travel:-25%

		1988	1989	1990	1991	1992	1993	1994
* Exchange Rate	1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:				10%	10%	10%	10%	10%
* Growth Rate of Expenses:				10%	10%	10%	10%	10%

Figures in US Dollars (000s)	actual	projected					
	1988	1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	772.7	1,002.0	1,212.9	0.0	0.0	0.0	0.0
AID 316 Expense Support	113.6	1.2	0.0	0.0	0.0	0.0	0.0
Donations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Course/Seminar Fees	4.3	5.0	4.6	4.3	4.8	5.2	5.8
Library Fees	0.1	1.0	0.9	0.9	1.0	1.0	1.2
Sales of Publications	12.6	30.0	27.5	25.9	28.5	31.4	34.5
Total Income	903.2	1,039.2	1,245.9	31.1	34.2	37.6	41.4
EXPENSES							
Program Costs							
Technical Assistance	361.5	400.0	339.1	159.9	175.9	193.5	212.8
Publicity & Publications	20.9	30.8	116.3	54.8	60.3	66.3	73.0
Seminars & Conferences	13.8	22.0	54.9	25.9	28.5	31.3	34.5
Core Operating Costs							
Salaries	325.0	400.5	501.6	354.7	390.1	429.2	472.1
Rent and Services	96.0	105.0	94.7	89.3	98.3	108.1	118.9
Travel	20.0	21.6	28.4	20.1	22.1	24.3	26.7
Furniture and Equipment	60.1	34.0	26.7	0.0	0.0	0.0	0.0
Total Expenses	897.3	1,013.9	1,161.7	704.7	775.1	852.7	937.9
Surplus (Deficit)	5.9	25.3	84.1	(673.6)	(740.9)	(815.0)	(896.5)
Cumulative	5.9	31.3	115.4	(558.2)	(1,299.1)	(2,114.1)	(3,010.6)
Portfolio Support Required (15%)	0.0	0.0	0.0	4,490.4	4,939.4	5,433.4	5,976.7

TABLE 18 -- Continued

DEES
Cost Control Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	16.9	36.0	33.0	31.1	34.2	37.6	41.4
less Core Operating Costs	501.1	561.1	651.4	464.1	510.5	561.5	617.7
Surplus (Deficit) on Core Ops.	(484.2)	(525.1)	(618.4)	(433.0)	(476.3)	(523.9)	(576.3)
less Program Costs	396.2	452.8	510.4	240.6	264.7	291.1	320.2
Margin	(880.3)	(977.9)	(1,128.7)	(673.6)	(740.9)	(815.0)	(896.5)
plus AID Grants	886.3	1,003.2	1,212.9	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	5.9	25.3	84.1	(673.6)	(740.9)	(815.0)	(896.5)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	3.4%	6.4%	5.1%	6.7%	6.7%	6.7%	6.7%
Percent of Total (Program + Core) Costs Covered	1.9%	3.6%	2.8%	4.4%	4.4%	4.4%	4.4%

TABLE 19

DEES

High Income Scenario

ASSUMPTIONS:

* Expenses decline in 1991 to reflect scaled back program, then rise at given annual growth rate.
  T.A., Publications, Seminars: -50%; Salaries, Travel:-25%

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate 1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:			100%	100%	100%	100%	100%
* Growth Rate of Expenses:			15%	15%	15%	15%	15%

Figures in US Dollars (000s)	actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	772.7	1,002.0	1,212.9	0.0	0.0	0.0	0.0
AID 316 Expense Support	113.6	1.2	0.0	0.0	0.0	0.0	0.0
Donations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Course/Seminar Fees	4.3	5.0	8.3	14.3	28.6	57.1	114.3
Library Fees	0.1	1.0	1.7	2.9	5.7	11.4	22.9
Sales of Publications	12.6	30.0	50.0	85.7	171.4	342.9	685.7
Total Income	903.2	1,039.2	1,272.9	102.9	205.7	411.4	822.9
EXPENSES							
Program Costs							
Technical Assistance	361.5	400.0	339.1	167.1	192.2	221.0	254.2
Publicity & Publications	20.9	30.8	116.3	57.3	65.9	75.8	87.2
Seminars & Conferences	13.8	22.0	54.9	27.1	31.1	35.8	41.2
Core Operating Costs							
Salaries	325.0	400.5	501.6	370.8	426.4	490.4	563.9
Rent and Services	96.0	105.0	94.7	93.4	107.4	123.5	142.0
Travel	20.0	21.6	28.4	21.0	24.1	27.7	31.9
Furniture and Equipment	60.1	34.0	26.7	0.0	0.0	0.0	0.0
Total Expenses	897.3	1,013.9	1,161.7	736.7	847.2	974.3	1,120.4
Surplus (Deficit)	5.9	25.3	111.1	(633.8)	(641.5)	(562.9)	(297.6)
Cumulative	5.9	31.3	142.4	(491.5)	(1,133.0)	(1,695.8)	(1,993.4)
Portfolio Support Required (15%)	0.0	0.0	0.0	4,225.6	4,276.6	3,752.4	1,983.9

TABLE 19 -- Continued

DEES
High Income Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	16.9	36.0	60.0	102.9	205.7	411.4	822.9
less Core Operating Costs	501.1	561.1	651.4	485.2	557.9	641.6	737.9
Surplus (Deficit) on Core Ops.	(484.2)	(525.1)	(591.4)	(382.3)	(352.2)	(230.2)	85.0
less Program Costs	396.2	452.8	510.4	251.5	289.3	332.7	382.6
Margin	(880.3)	(977.9)	(1,101.7)	(633.8)	(641.5)	(562.9)	(297.6)
plus AID Grants	886.3	1,003.2	1,212.9	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	5.9	25.3	111.1	(633.8)	(641.5)	(562.9)	(297.6)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	3.4%	6.4%	9.2%	21.2%	36.9%	64.1%	111.5%
Percent of Total (Program + Core) Costs Covered	1.9%	3.6%	5.2%	14.0%	24.3%	42.2%	73.4%

TABLE 20

DEES

High Cutback Scenario

ASSUMPTIONS:

* Expenses decline in 1991 to reflect scaled back program, then rise at given annual growth rate.
T.A.: -75%; Publications, Seminars, Travel: -60%; Salaries, Rent & Services:-30%

		1988	1989	1990	1991	1992	1993	1994
* Exchange Rate	1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:				10%	10%	10%	10%	10%
* Growth Rate of Expenses:				10%	10%	10%	10%	10%

Figures in US Dollars (000s)	actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	772.7	1,002.0	1,212.9	0.0	0.0	0.0	0.0
AID 316 Expense Support	113.6	1.2	0.0	0.0	0.0	0.0	0.0
Donations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Course/Seminar Fees	4.3	5.0	4.6	4.3	4.8	5.2	5.8
Library Fees	0.1	1.0	0.9	0.9	1.0	1.0	1.2
Sales of Publications	12.6	30.0	27.5	25.9	28.5	31.4	34.5
Total Income	903.2	1,039.2	1,245.9	31.1	34.2	37.6	41.4
EXPENSES							
Program Costs							
Technical Assistance	361.5	400.0	339.1	79.9	87.9	96.7	106.4
Publicity & Publications	20.9	30.8	116.3	43.9	48.3	53.1	58.4
Seminars & Conferences	13.8	22.0	54.9	20.7	22.8	25.1	27.6
Core Operating Costs							
Salaries	325.0	400.5	501.6	331.0	364.1	400.6	440.6
Rent and Services	96.0	105.0	94.7	62.5	68.8	75.7	83.2
Travel	20.0	21.6	28.4	10.7	11.8	12.9	14.2
Furniture and Equipment	60.1	34.0	26.7	0.0	0.0	0.0	0.0
Total Expenses	897.3	1,013.9	1,161.7	548.8	603.7	664.0	730.4
Surplus (Deficit)	5.9	25.3	84.1	(517.7)	(569.4)	(626.4)	(689.0)
Cumulative	5.9	31.3	115.4	(402.3)	(971.7)	(1,598.1)	(2,287.1)
Portfolio Support Required (15%)	0.0	0.0	0.0	3,451.1	3,796.2	4,175.9	4,593.5

TABLE 20 -- Continued

DEES
High Cutback Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	16.9	36.0	33.0	31.1	34.2	37.6	41.4
less Core Operating Costs	501.1	561.1	651.4	404.3	444.7	489.2	538.1
Surplus (Deficit) on Core Ops.	(484.2)	(525.1)	(618.4)	(373.2)	(410.5)	(451.5)	(496.7)
less Program Costs	396.2	452.8	510.4	144.5	159.0	174.9	192.4
Margin	(880.3)	(977.9)	(1,128.7)	(517.7)	(569.4)	(626.4)	(689.0)
plus AID Grants	886.3	1,003.2	1,212.9	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	5.9	25.3	84.1	(517.7)	(569.4)	(626.4)	(689.0)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	3.4%	6.4%	5.1%	7.7%	7.7%	7.7%	7.7%
Percent of Total (Program + Core) Costs Covered	1.9%	3.6%	2.8%	5.7%	5.7%	5.7%	5.7%

III. DIVERSIFICACION AGRICOLA (DIVAGRO)

A. Background

Diversificacion Agricola (DIVAGRO) was established in 1984 to promote investment in non-traditional[1], export-oriented agricultural activities. Its activities cover many areas -- notably identification of market potential, varietal research, demonstration plots, and field demonstrations -- that would normally be carried out by a Ministry of Agriculture. In addition, it actively promotes investments in new products, helps investors prepare business plans and assists in the development of credit applications for financing by FIDEX.

USAID/El Salvador has provided operating grant support to DIVAGRO through three separate grant programs:

0265 Agricultural Diversification	3,837,000
0303 Water Management[2]	2,715,000
0327 Agribusiness Development	11,042,000

	17,594,000

These grants covered the costs of technical assistance, programs of assistance to potential investors and the on-going costs of DIVAGRO itself.

The Water Management and Agribusiness Development projects also provided a total of $20.7 million to fund an on-going credit portfolio, which is administered (along with credit funds for Industrial Development) by FIDEX, another FUSADES department.

Although not formally approved, USAID/El Salvador intends to provide an additional $13.0 million in funding to DIVAGRO to extend the Agribusines Development Project through 1995, fund a quality control program, and establish an aquaculture research station. These funds are incorporated into the projections presented in this chapter.

B. Current Income and Expense Levels

As can be seen in Table 21, DIVAGRO's budget for 1989 calls for expenditures of $3.2 million, an average rate of expenditure of $269,000 per month. This represents a 31 percent increase over 1988 expenditure levels, with most of the

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[1] "Non-traditional" is defined to mean any crop other than coffee, sugar cane, cotton and shrimp caught in the sea.

[2] Water Management was originally a separate USAID/El Salvador program, but was merged with DIVAGRO in 1988.

TABLE 21

DIVAGRO

ACTUAL AND BUDGETED INCOME AND EXPENSES FOR 1988 AND 1989
(in US$ 000)

	Actual 1988			Budgeted 1989		
	AID	FUSADES	TOTAL	AID	FUSADES	TOTAL
INCOME						
USAID Grants	2,465.4	-	2,465.4	3,213.7	-	3,213.7
Fees	-	82.3	82.3	-	-	-
Interest	-	7.7	7.7	-	-	-
Sales	-	0.3	0.3	-	81.0	81.0
Seminars & Courses	-	11.9	11.9	-	15.0	15.0
Other	-	26.6	26.6	-	-	-
Total Income	2,465.4	128.8	2,594.2	3,213.7	96.0	3,309.7
EXPENSES						
Program Expenses						
Tech. Assistance	692.6	-	692.6	1,468.3	-	1,468.3
Client Travel	65.9	0.1	65.9	147.2	-	147.2
Assist. to Assoc.	2.1	-	2.1	-	-	-
Seminars & Courses	35.7	3.0	38.7	174.7	-	174.7
Variety Tests	82.7	-	82.7	-	-	-
Demo. Plots	400.9	-	400.9	415.0	-	415.0
Field Agents	15.1	-	15.1	57.7	-	57.7
Operating Expenses						
Salaries & Benefits	358.3	0.1	358.5	536.5	0.4	536.9
Rents and Services	125.3	4.4	129.7	175.7	9.0	184.8
Furnishings	606.3	-	606.3	109.4	-	109.4
Employee Travel	61.0	3.2	64.2	91.2	1.8	93.0
Publicity/Promotion	19.4	0.5	19.9	37.9	5.5	43.4
Interest	-	-	-	-	-	-
Total	2,465.4	11.4	2,476.8	3,213.7	16.7	3,230.4
GROSS MARGIN	-	117.4	117.4	-	79.3	79.3

increase due to increased program costs (particularly technical assistance) and salary increases. Expenditures on furnishings are projected to be much lower in 1989. USAID/El Salvador grants constitute 97.1 percent of DIVAGRO's projected income for 1989, and cover 99.5 percent of its projected expenses.

At current planned expenditure rates, USAID funds available under grants 0303 and 0327 would cover the costs of DIVAGRO's operations (both program and operating costs) through December 1991.

C. Planned Future USAID/El Salvador Support

USAID/El Salvador is planning to increase grant funding to DIVAGRO by $13.0 million. This would cover operating costs for current programs through part of 1993, and fund additional activities in quality control, aquaculture research, seed testing and U.S. investor promotion. With this increase, disbursements to cover DIVAGRO program and operating expenses would be approximately as follows:

TABLE 22

PLANNED DISBURSEMENTS
(in US $000)

Year	Current Operations	Quality Control	Aquaculture Station	Other[3]	Total
1989	3,213.7	-	-	-	3,213.7
1990	3,323.8	1,559.5	593.3	250.0	2,726.6
1991	3,244.4	850.4	376.6	240.0	4,711.4
1992	3,384.9	837.5	376.6	240.0	4,839.0
1993	1,767.2	846.1	376.6	40.0	3,029.9
1994	-	854.3	376.7	30.0	1,261.0

D. Projected Non-Portfolio Income and Expenses

Budget exercises associated with preparing the new $13.0 million grant proposal have developed a precise projection of DIVAGRO's income and expenses through 1994.

These projections include a substantial reduction in program-related expenses during the period, from a high of $2.4 million in 1991 to a constant $977,000 after 1993. Client travel subsidies are phased out in 1990; field agents are eliminated in 1992; costs for operating the demonstration plots are not allowed to rise after 1989;

[3] "Other" includes the U.S. investor and seed testing programs.

and both technical assistance and seminars are significantly reduced beginning in 1993. The long-term budget, therefore, represents a minimal program level that DIVAGRO needs to be able to sustain beyond the end of USAID funding.

On-going budgets for the quality control program and aquaculture research station are incorporated into DIVAGRO's operating expense budget because these are activities that are expected to continue after USAID funding terminates.

As can be seen in Table 23 on the following page, under these projections self-earned income[4] will cover 14.5 percent of DIVAGRO's operating expenses, and 10.6 percent of total expenses (program and operating) by 1995. In these projections, fee income is earned from the quality control program and sales income is generated by the sale of agricultural produce from DIVAGRO's demonstration plots. Seminars and courses sponsored by DIVAGRO are expected to earn only limited income.

While program costs can be controlled, most of DIVAGRO's operating expenses are highly sensitive to rates of inflation, and can be expected to increase during the period.

E. Impact of Portfolio Income

The preceding section dealt only with DIVAGRO's direct income. USAID/El Salvador has granted FUSADES $20.7 million to establish an on-going line of credit for agricultural lending. While current arrangements do not earmark interest income from this portfolio to support DIVAGRO[5], USAID/El Salvador tends to view this fund as "belonging" to DIVAGRO.

As projected in Table 8, annual interest income from a mature portfolio on agriculture-related loans should be approximately $2.6 million by 1995. Deducting a proportional share of fees and bad debt losses[6], net interest income on this portfolio would be approximately $2.2 million. Applying all of this income to DIVAGRO, self-generated income would cover 95.6 percent of operating expenses and 69.9 of total expense in 1995.

Not all of the available interest income can be applied to cover DIVAGRO expenses, however. Both FIDEX and the Administration sections of FUSADES also depend directly on this income, and, to a great extent, these costs are covered first by any earned income. Based on the current portfolio, the agricultural portfolio would have to cover 49 percent of FIDEX's projected costs and at least 34.5 percent

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[4] This does not include potential income from interest earnings of FIDEX's agricultural loan portfolio. That income is considered later.

[5] FUSADES uses the interest income to support general expenses of the organization, not just those of DIVAGRO.

[6] The agricultural portfolio is projected to earn 49 percent of the interest income earned by the present portfolio.

TABLE 23

DIVAGRO
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
Fees	-	40.0	70.0	100.0	130.0	160.0	190.0
Sales	81.0	97.2	116.6	140.0	168.0	168.0	168.0
Seminars & Courses	15.0	18.0	21.6	25.9	30.0	30.0	30.0
Total Income	96.0	155.2	208.2	265.9	328.0	358.0	388.0
EXPENSES							
Program Expenses							
Tech. Assistance	1,468.3	1,709.0	1,676.6	1,655.8	455.8	455.8	455.8
Client Travel	147.2	-	-	-	-	-	-
Seminars & Courses	174.7	266.8	290.2	316.5	121.1	121.1	121.1
Demo. Plots	415.0	400.0	400.0	400.0	400.0	400.0	400.0
Field Agents	57.7	64.6	72.4	-	-	-	-
Subtotal	2,262.9	2,440.4	2,439.2	2,372.3	976.9	976.9	976.9
Operating Expenses							
Salaries & Benefits	536.9	833.0	906.5	1,054.3	1,145.0	1,338.4	1,470.5
Furnishings	109.4	90.0	102.9	31.6	114.0	31.6	38.9
Employee Travel	93.0	297.8	324.2	353.3	83.6	83.6	83.6
Publicity/Promotion	43.4	48.6	54.4	60.9	50.0	50.0	50.0
Rents and Services	184.8	861.8	727.7	756.2	788.1	823.6	887.5
Other	-	905.0	136.4	136.4	136.4	136.4	136.4
Subtotal	967.4	3,036.2	2,252.0	2,392.7	2,317.1	2,463.6	2,666.9
Total Expenses	3,230.4	5,476.6	4,691.3	4,765.0	3,294.0	3,440.5	3,643.8
GROSS MARGIN	-3,134.4	-5,321.4	-4,483.1	-4,499.1	-2,966.0	-3,082.5	-3,255.8
RATIOS (percents)							
Income/Op. Expenses	9.9	5.1	9.2	11.1	14.2	14.5	14.5
Income/Tot. Expenses	3.0	2.8	4.4	5.6	10.0	10.4	10.6

of the Administration budget in 1995. In 1995, these shares are projected to be $233,000 for FIDEX and $710,000 for administration. Subtracting these from net interest income on the agricultural portfolio leaves $1.2 million to fund DIVAGRO, which, along with other earned income, would cover 60 percent of DIVAGRO's operating expenses and 44 percent of its total (program and operating) expenses (see Figure 9).

In 1995, therefore, the resource shortfall for DIVAGRO would be approximately $1.1 million to cover operating costs and $2.0 million to cover total costs. At an average interest rate of 13.0 percent, an additional credit portfolio of $8.2 million would be required to fully fund operating costs, and $15.7 million to fully fund DIVAGRO's on-going program.

F. Income Enhancing Options to Improve Gross Margins

Quality Control Program Fees

Income projections for the quality control program appear to be very conservative, if the following conditions are met by the program:

- There is a strong interest in exporting agricultural products to the United States, or other country that has strict pesticide and quality controls, so that there is a sufficient volume of produce for certification;
- Quality certification is essential to exporting (that is, if produce would face a high risk of being rejected with no certification);
- The program is capable of guaranteeing market access through certification;
- Certification can be carried out in a timely and effective manner; and
- The cost of certification is reasonable compared to the risk of not receiving certification.

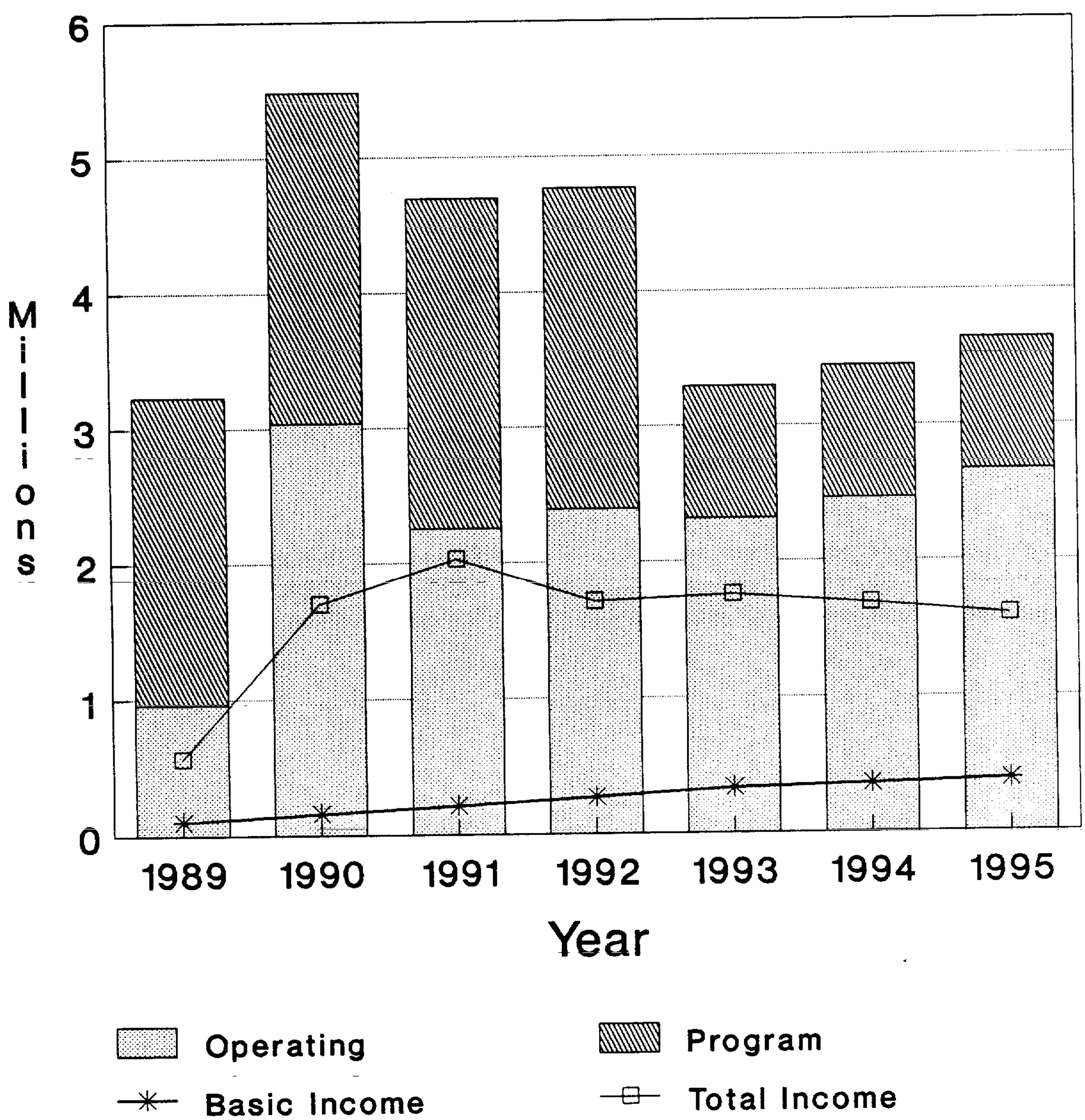
A program that fulfills these requirements should require no subsidy at all, and should be able to charge the full cost of its services. The only situations that would require subsidization of the program would be if the service were not really needed or if its value did not exceed the cost of the service.

USAID/El Salvador and DIVAGRO need to reexamine pricing policies and projections for this program; if it cannot generate sufficient revenues to cover costs the rationale for undertaking the program should be questioned.

Other Increased Fee Income

DIVAGRO performs a number of services -- especially feasibility studies, loan application preparation, and on-site technical assistance -- that should be administered on a cost-recovery basis.

Figure 9
DIVAGRO
(in US $ million)



A recent determination by AID/W has effectively prohibited FUSADES from charging for those services. As a result, instead of accounting for modest fees charged to clients as an income item, these are handled as pass-through arrangements. This is unfortunate, for it reinforces FUSADES' tendency to subsidize or underprice services.

DIVAGRO should initiate direct charges for such services -- entering the income in the accounting system as self-generated fee income, and charging the costs as expenditures. Over time the fees collected should approach the full cost of the services provided, or the services should be phased out.

Future USAID/El Salvador Programs

Barring significant changes in the orientation and administration of the Government of El Salvador's Ministry of Agriculture, USAID/El Salvador is likely to find DIVAGRO a preferred vehicle for implementing future projects in the agricultural sector. Such projects can be expected to provide funding that covers both direct and indirect costs. One major new program, with a credit component in the range of $10.0 to $15.0 million, would generate sufficient income to sustain the operations of the department, if interest income from the credit portfolio were allocated to DIVAGRO.

G. Cost Reduction Options to Improve Gross Margins

DIVAGRO's projected budget contains a significant reduction in program costs, and relatively low increases in operating costs. It is doubtful that significant further cuts could be made without jeopardizing the performance of the department.

IV. FONDO DE INVERSION PARA LA EXPORTACION (FIDEX)

A. Background

FIDEX was established in 1988 to manage credit programs -- specifically the water management, agribusiness development and industrial stabilization funds provided by USAID/El Salvador -- for FUSADES. Its role is not to generate an independent loan portfolio, but to service loan proposals generated by PRIDEX and DIVAGRO. As of the date of this study, only local currency loans financed by the Water Management project had been disbursed to borrowers. Several additional loans (totalling $4.6 million had been approved by the FUSADES Board, and were awaiting USAID approval for disbursement.

B. Current Income and Expense Levels

FIDEX is a small department, with only 6 full-time staff members. Projected expenses for 1989 are $338,400, of which 49.3 percent is for salaries and benefits. "Program" costs are small (8.4 percent of total expenses), and unlikely to increase in either nominal or real terms in the near future.

Between 1988 and 1989 FIDEX's operating budget increased 89.6 percent, from $178,500 to $338,400. Most of the increase was due to increases in salaries and benefits, rents and services, furnishings and interest payments.

USAID/El Salvador grants are projected to cover 98.7 percent of FIDEX's total expenses in 1989. FIDEX's major source of self-generated income is interest earned on loans to agribusinesses and local industries. These revenues, however, do not accrue solely to FIDEX, but to FUSADES, and are discussed in the section on portfolio income. Other income is limited to interest on deposits, although this, too, is considered to be general income for FUSADES rather than specific income for FIDEX.

A comparison of FIDEX's actual and projected income and expenses for 1988 and 1989 can be seen in Table 24, on the following page.

C. Planned Future USAID/El Salvador Support

USAID/El Salvador is providing budget support for FIDEX's operating and program costs under two separate grants (0287, Industrial Stabilization; and 0327, Agribusiness Development). At present expenditure rates, these grants will cover operating costs through June 1990. No further direct USAID grant support is planned for FIDEX, on the assumption that self-generated income from the loan portfolio will be adequate to support the department.

TABLE 24

FIDEX

ACTUAL AND PROJECTED INCOME AND EXPENSES, 1988 AND 1989
(in US $000)

	Actual 1988			Budgeted 1989		
	AID	FUSADES	TOTAL	AID	FUSADES	TOTAL
INCOME						
USAID Grants	176.2	-	176.2	334.2	-	334.2
Fees	-	1.6	1.6	-	-	-
Interest on Deposits	-	-	-	-	70.0	70.0
Interest on Loans*	-	155.8	155.8	-	-	-
Other	-	26.1	26.1	-	-	-
Total Income	176.2	183.5	359.7	334.2	70.0	404.2
EXPENSES						
Program Expenses						
Tech. Assistance	17.4	-	17.4	8.4	-	8.4
Client Travel	0.3	-	0.3	-	-	-
Assist. to Assoc.	-	-	-	-	-	-
Seminars & Courses	1.0	0.7	1.7	20.0	-	20.0
Operating Expenses						
Salaries & Benefits	103.6	-	103.6	166.5	0.2	166.8
Rents and Services	23.8	1.2	25.0	45.2	2.2	47.5
Furnishings	14.4	-	14.4	39.2	-	39.2
Employee Travel	2.8	-	2.8	12.8	1.0	13.8
Publicity/Promotion	2.1	0.4	2.5	18.0	0.8	18.8
Interest	-	-	-	24.0	-	24.0
Trust Fees	10.8	-	10.8	-	-	-
Total Expenses	176.2	2.3	178.5	334.2	4.2	338.4
GROSS MARGIN	-	181.2	181.2	-	65.8	65.8

*Portfolio income is discussed separately for 1989.

D. Projected Non-Portfolio Income and Expenses

FIDEX's primary source of income is interest earned on the credit portfolio. In addition, uninvested funds are deposited in banks, earning modest amounts of income. This is estimated to total $70,000 in 1989, and should not rise significantly above that level in the future.

Operating expenses, which constitute 91.6 percent of total expenses, are highly sensitive to inflation rate pressures. In particular, salaries and benefits, which comprise 54 percent of operating costs, can be expected to rise at a rate approximately equal to the rate of inflation during the next few years.

On the basis of these assumptions, FIDEX expenses would rise to $475,600 per year by 1995, while non-interest income would be approximately $88,600, leaving an operating deficit of $387,000 per year (see Table 25 on the following page). Non-portfolio income would cover 19.6 percent of FIDEX's operating costs, and 18.6 percent of its total budget.

E. Impact of Portfolio Income

Assuming that interest earned by the loan portfolio is used first to cover FIDEX costs, earned income will be sufficient to fully fund FIDEX operations. By 1995, for example, net interest income is estimated at $4.4 million, or 11.4 times FIDEX's estimated budget deficit.

FIDEX's costs are high relative to the size of the portfolio it manages. As projected to 1995, it must charge 125 basis points to cover costs, as contrasted with the 40 to 50 basis points charged by the Banco Hipotecario and Citybank Trust. This is because it is restricted to administering a relatively small portfolio, and not because the size of the department is inflated. If the portfolio were to grow substantially, either through additions to credit lines or through a process of internal capitalization, this ratio could be lowered.

F. Income Enhancing Options to Improve Margins

Two principal options for increasing income need to be explored. First, a critical study needs to be made of FUSADES' interest rate policies. While this study team has not examined this question in detail, the fact that local banks are paying 15 percent on local currency time deposits suggests that interest rates on local currency loans should be substantially higher than the 15 percent currently charged by FIDEX, if only to reflect the higher risk and servicing costs of the loans.

TABLE 25

FIDEX
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
Interest on Deposits	70.0	64.2	60.5	66.5	73.2	80.5	88.6
Total Income	70.0	64.2	60.5	66.5	73.2	80.5	88.6
EXPENSES							
Program Expenses							
Tech. Assistance	8.4	8.0	6.9	6.9	6.9	6.9	6.9
Seminars & Courses	20.0	19.2	16.4	16.4	16.4	16.4	16.4
Subtotal	28.4	27.2	23.3	23.3	23.3	23.3	23.3
Operating Expenses							
Salaries & Benefits	166.8	159.8	157.5	181.2	208.3	239.6	275.5
Furnishings	39.2	37.6	37.0	4.8	4.8	4.8	4.8
Employee Travel	13.8	13.2	13.0	14.9	17.2	19.8	22.7
Publicity/Promotion	18.8	18.0	17.8	20.4	23.5	27.0	31.1
Rents and Services	47.5	45.5	44.9	51.6	59.3	68.2	78.4
Interest	24.0	23.0	22.7	26.1	30.0	34.5	39.7
Subtotal	310.0	297.1	292.9	299.0	343.2	393.9	452.3
Total Expenses	338.4	324.3	316.2	322.4	366.5	417.2	475.6
GROSS MARGIN	-268.4	-260.1	-255.7	-255.8	-293.3	-336.7	-387.0
RATIOS (percents)							
Income/Op. Expenses	22.6	21.6	20.7	22.3	21.3	20.4	19.6
Income/Tot. Expenses	20.7	19.8	19.1	20.6	20.0	19.3	18.6

Second, most financial institutions impose a fee structure in addition to interest charges on loans. Loan origination fees, closing fees, and loan insurance fees are common charges in financial institutions, yet FUSADES imposes no such charges on its clients.

G. Cost Reduction Options

FIDEX's projections represent a relatively lean budget, with little room for reducing costs. Rents and services might be overestimated beyond 1991, as FUSADES will be occupying its own office building with no rent payments. From an accounting standpoint, however, rent should be imputed to cover depreciation on the building. It might be possible for FIDEX to restrict the growth of salaries and benefits to levels below the 15 percent projected, but reductions in real wages will eventually lead to staff turnover and other problems. In summary, there do not appear to be many alternatives for reducing expenses in the projected FIDEX budgets.

V. FORTALECIMIENTO DE ASOCIACIONES (FORTAS)

A. Background

FORTAS was organized in 1984 to improve the administration and organizing capacity of private sector associations. FORTAS' original mandate was to promote the free enterprise system and non-traditional exports by offering technical and financial assistance to its member associations.

FORTAS, like DEES, is funded by AID grants 316 (Association Strengthening) and 336 (Private Sector Initiatives). The 316 grant ends in 1989 while the 336 grant will end in 1990. With the exhaustion of the grants available for association-strengthening, FORTAS will likely be terminating its central activity. A new program, approved for 1989 and 1990 under the existing grants, will facilitate the coordination of tourism associations and the national institute of tourism in developing a strategy for eventually reviving the tourist sector. Another recent activity is the program of assistance to "marginal communities". An architect and civil engineer assess the needs of poor urban neighborhoods, then design and supervise small-scale projects to be executed by the beneficiary community with resources provided by associations affiliated with FORTAS. FORTAS' objective is to encourage and facilitate the social development activities of private associations as it helps an impoverished segment of the population. Such activities are consistent with the view held by FORTAS and some USAID personnel of an emerging role for FORTAS as the social development arm of FUSADES.

FORTAS is also active in implementing curricula for free-market economics courses at local universities, in cooperation with DEES, and continues to offer technical assistance and training to associations and business persons. The latter generated donations from the beneficiary organizations equivalent to 25 to 75 percent of the cost of the assistance in 1988. To the extent that demand continues to exist among organizations which would be sufficient to fully fund the costs of such activities, there is the possibility that those activities could continue without grant support.

For 1989, FORTAS projects a 300 percent increase in course fee income, and 1000 percent increases in income from sales of publications and revenues for data entry services. If these goals are met, self-generated income would cover 26 percent of core operating costs and 5 percent of total costs under the baseline scenario. When technical assistance donations were allowed in 1988, FORTAS' self-generated income was covering more than half of the core costs but only 11 percent of the total costs.

Self-generated revenues are projected to cover approximately one-third of core costs assuming they grow at 10 percent per year. Program costs represent 81 percent of the 1988 and 1989 budgets, decreasing to 61 percent in 1990 and 18 percent through 1994. The large increase in technical assistance in 1989 is due largely to the tourism promotion program.

B. The FORTAS Model

The financial projections for FORTAS incorporate 1988 actual results, the 1989 annual plan budget, and a proposed 1990 budget for the final year of the AID grants. To project an organization that would support the continued functioning of the marginal communities program as well as some of the training and education activities, the following changes are imposed on the model beginning in 1991: technical assistance and other funds supporting associations cease; furniture and equipment acquisition ends; salaries, rent and services decline 25 percent; publications decline 50 percent; and employee travel drops 80 percent. These projections are derived from discussions with USAID and FORTAS personnel and are not intended to proscribe the activities of the organization, but rather to be indicative of the resource needs of a scaled-back program.

Projections are made for years 1991 to 1994 under four scenarios:

- A baseline scenario, which projects expenses to increase 15 percent per year and self-generated income to increase 10 percent per year (see Table 26 and Figure 10);

- A "cost-control" scenario, which limits growth in expenses to 10 percent per year (see Table 27 and Figure 11);

- A "high-income" scenario, which projects that income will increase 25 percent per year (see Table 28);

- A "high-cutback" scenario, which combines 25 percent annual growth in income, 15 percent annual growth in expenses, and deeper cuts in program expenses in 1991: 40 percent decrease in rent and salaries; 75 percent decrease in publicity and publications; and 90 percent decrease in employee travel (see Table 29).

The model calculates the resource gaps under various scenarios after AID funding has ended. It also calculates the amount of portfolio capital, earning 15 percent interest, which would support such an operating deficit, in the event that FORTAS operations would be funded by income from a loan portfolio managed by FUSADES.

C. Prospects for Self-Sufficiency

Under most reasonable scenarios, FORTAS self-generated income will be insufficient to cover core operating costs through 1994. Even though FORTAS' principal role as a provider of externally funded technical assistance is not Table 26

TABLE 26

FORTAS
"Baseline" Scenario

ASSUMPTIONS:

* Expenses decline in 1991 to reflect scaled-back program, then rise at given annual growth rate.
('91 Salaries, Rent & Services drop 25%; Publications/Publicity drops 50%; Employee Travel drops 80%).

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate $1 =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:			10%	10%	10%	10%	10%
* Growth Rate of Expenses:			15%	15%	15%	15%	15%

Figures in US Dollars ($000s)	actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	322.1	890.8	489.3	0.0	0.0	0.0	0.0
AID 316 Expense Support	413.1	262.2	0.0	0.0	0.0	0.0	0.0
Client Donations	72.8	0.0	0.0	0.0	0.0	0.0	0.0
Course Fees	6.7	21.8	20.0	18.8	20.7	22.8	25.1
Computer Services	0.2	2.4	2.2	2.1	2.3	2.5	2.8
Sales of Publications	2.7	30.0	27.5	25.9	28.5	31.4	34.5
Total Income	817.5	1,207.2	538.9	46.8	51.5	56.7	62.3
EXPENSES							
Program Costs							
Technical Assistance	11.0	103.9	33.3	0.0	0.0	0.0	0.0
Publicity & Publications	9.1	50.3	53.5	26.4	30.3	34.9	40.1
Seminars & Conferences	22.5	4.0	10.6	0.0	0.0	0.0	0.0
Assistance to Associations	500.7	772.2	159.8	0.0	0.0	0.0	0.0
Client Travel	55.5	20.0	16.7	0.0	0.0	0.0	0.0
Core Operating Costs							
Salaries	103.5	137.0	125.0	92.4	106.3	122.2	140.5
Rent and Services	19.8	42.6	33.3	24.6	28.3	32.6	37.5
Employee Travel	7.4	18.2	15.2	3.0	3.4	4.0	4.5
Furniture and Equipment	10.9	11.4	3.3	0.0	0.0	0.0	0.0
Total Expenses	740.4	1,159.5	450.8	146.4	168.4	193.6	222.7
Surplus (Deficit)	77.1	47.6	88.2	(99.6)	(116.8)	(136.9)	(160.3)
Cumulative Surplus	77.1	124.8	213.0	113.4	(3.4)	(140.4)	(300.7)
Portfolio Support Required (15%)	0.0	0.0	0.0	663.8	779.0	913.0	1,068.8

TABLE 26 -- Continued

FORTAS
"Baseline" Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	82.4	54.2	49.7	46.8	51.5	56.7	62.3
less Core Operating Costs	141.5	209.2	176.8	120.0	138.1	158.8	182.6
Surplus (Deficit) on Core Ops	(59.2)	(155.0)	(127.2)	(73.2)	(86.5)	(102.1)	(120.2)
less Program Costs	598.8	950.4	273.9	26.4	30.3	34.9	40.1
Margin	(658.0)	(1,105.3)	(401.1)	(99.6)	(116.8)	(136.9)	(160.3)
plus AID Grants	735.2	1,153.0	489.3	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	77.1	47.6	88.2	(99.6)	(116.8)	(136.9)	(160.3)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	58.2%	25.9%	28.1%	39.0%	37.3%	35.7%	34.2%
Percent of Total (Program + Core) Costs Covered	11.1%	4.7%	11.0%	32.0%	30.6%	29.3%	28.0%

TABLE 27

FORTAS

Cost Control Scenario

ASSUMPTIONS:

* Expenses decline in 1991 to reflect scaled-back program, then rise at given annual growth rate.
  ('91 Salaries, Rent & Services drop 25%; Publications/Publicity drops 50%; Employee Travel drops 80%).

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate $1 =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:			10%	10%	10%	10%	10%
* Growth Rate of Expenses:			10%	10%	10%	10%	10%

Figures in US Dollars ($000s)	actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	322.1	890.8	489.3	0.0	0.0	0.0	0.0
AID 316 Expense Support	413.1	262.2	0.0	0.0	0.0	0.0	0.0
Client Donations	72.8	0.0	0.0	0.0	0.0	0.0	0.0
Course Fees	6.7	21.8	20.0	18.8	20.7	22.8	25.1
Computer Services	0.2	2.4	2.2	2.1	2.3	2.5	2.8
Sales of Publications	2.7	30.0	27.5	25.9	28.5	31.4	34.5
Total Income	817.5	1,207.2	538.9	46.8	51.5	56.7	62.3
EXPENSES							
Program Costs							
Technical Assistance	11.0	103.9	33.3	0.0	0.0	0.0	0.0
Publicity & Publications	9.1	50.3	53.5	25.2	27.7	30.5	33.6
Seminars & Conferences	22.5	4.0	10.6	0.0	0.0	0.0	0.0
Assistance to Associations	500.7	772.2	159.8	0.0	0.0	0.0	0.0
Client Travel	55.5	20.0	16.7	0.0	0.0	0.0	0.0
Core Operating Costs							
Salaries	103.5	137.0	125.0	88.4	97.2	107.0	117.7
Rent and Services	19.8	42.6	33.3	23.6	25.9	28.5	31.4
Employee Travel	7.4	18.2	15.2	2.9	3.1	3.5	3.8
Furniture and Equipment	10.9	11.4	3.3	0.0	0.0	0.0	0.0
Total Expenses	740.4	1,159.5	450.8	140.0	154.1	169.5	186.4
Surplus (Deficit)	77.1	47.6	88.2	(93.2)	(102.5)	(112.8)	(124.1)
Cumulative Surplus	77.1	124.8	213.0	119.8	17.2	(95.5)	(219.6)
Portfolio Support Required (15%)	0.0	0.0	0.0	621.3	683.5	751.8	827.0

TABLE 27 -- Continued

FORTAS
Cost Control Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	82.4	54.2	49.7	46.8	51.5	56.7	62.3
less Core Operating Costs	141.5	209.2	176.8	114.8	126.3	138.9	152.8
Surplus (Deficit) on Core Ops	(59.2)	(155.0)	(127.2)	(68.0)	(74.8)	(82.3)	(90.5)
less Program Costs	598.8	950.4	273.9	25.2	27.7	30.5	33.6
Margin	(658.0)	(1,105.3)	(401.1)	(93.2)	(102.5)	(112.8)	(124.1)
plus AID Grants	735.2	1,153.0	489.3	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	77.1	47.6	88.2	(93.2)	(102.5)	(112.8)	(124.1)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	58.2%	25.9%	28.1%	40.8%	40.8%	40.8%	40.8%
Percent of Total (Program + Core) Costs Covered	11.1%	4.7%	11.0%	33.4%	33.4%	33.4%	33.4%

TABLE 28

FORTAS
High Income Scenario

ASSUMPTIONS:

* Expenses decline in 1991 to reflect scaled-back program, then rise at given annual growth rate. ('91 Salaries, Rent & Services drop 25%; Publications/Publicity drops 50%; Employee Travel drops 80%).

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate $1 =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:			25%	25%	25%	25%	25%
* Growth Rate of Expenses:			15%	15%	15%	15%	15%

Figures in US Dollars ($000s)	actual	projected					
	1988	1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	322.1	890.8	489.3	0.0	0.0	0.0	0.0
AID 316 Expense Support	413.1	262.2	0.0	0.0	0.0	0.0	0.0
Client Donations	72.8	0.0	0.0	0.0	0.0	0.0	0.0
Course Fees	6.7	21.8	22.7	24.3	30.4	38.0	47.5
Computer Services	0.2	2.4	2.5	2.7	3.3	4.2	5.2
Sales of Publications	2.7	30.0	31.3	33.5	41.9	52.3	65.4
Total Income	817.5	1,207.2	545.7	60.5	75.6	94.5	118.1
EXPENSES							
Program Costs							
Technical Assistance	11.0	103.9	33.3	0.0	0.0	0.0	0.0
Publicity & Publications	9.1	50.3	53.5	26.4	30.3	34.9	40.1
Seminars & Conferences	22.5	4.0	10.6	0.0	0.0	0.0	0.0
Assistance to Associations	500.7	772.2	159.8	0.0	0.0	0.0	0.0
Client Travel	55.5	20.0	16.7	0.0	0.0	0.0	0.0
Core Operating Costs							
Salaries	103.5	137.0	125.0	92.4	106.3	122.2	140.5
Rent and Services	19.8	42.6	33.3	24.6	28.3	32.6	37.5
Employee Travel	7.4	18.2	15.2	3.0	3.4	4.0	4.5
Furniture and Equipment	10.9	11.4	3.3	0.0	0.0	0.0	0.0
Total Expenses	740.4	1,159.5	450.8	146.4	168.4	193.6	222.7
Surplus (Deficit)	77.1	47.6	95.0	(85.9)	(92.8)	(99.1)	(104.5)
Cumulative Surplus	77.1	124.8	219.7	133.8	41.1	(58.0)	(162.6)
Portfolio Support Required (15%)	0.0	0.0	0.0	572.8	618.4	660.7	696.8

TABLE 28 -- Continued

FORTAS
High Income Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	82.4	54.2	56.5	60.5	75.6	94.5	118.1
less Core Operating Costs	141.5	209.2	176.8	120.0	138.1	158.8	182.6
Surplus (Deficit) on Core Ops	(59.2)	(155.0)	(120.4)	(59.6)	(62.4)	(64.2)	(64.4)
less Program Costs	598.8	950.4	273.9	26.4	30.3	34.9	40.1
Margin	(658.0)	(1,105.3)	(394.3)	(85.9)	(92.8)	(99.1)	(104.5)
plus AID Grants	735.2	1,153.0	489.3	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	77.1	47.6	95.0	(85.9)	(92.8)	(99.1)	(104.5)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	58.2%	25.9%	31.9%	50.4%	54.8%	59.5%	64.7%
Percent of Total (Program + Core) Costs Covered	11.1%	4.7%	12.5%	41.3%	44.9%	48.8%	53.1%

TABLE 29

FORTAS
High Cutback Scenario

ASSUMPTIONS:
* Expenses decline in 1991 to reflect scaled-back program, then rise at given annual growth rate. ('91 Salaries, Rent & Services -40%; Publications/Publicity -75%; Employee Travel drops -90%).

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate $1 =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income:			25%	25%	25%	25%	25%
* Growth Rate of Expenses:			15%	15%	15%	15%	15%

Figures in US Dollars ($000s)	actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME							
AID 336 Expense Support	322.1	890.8	489.3	0.0	0.0	0.0	0.0
AID 316 Expense Support	413.1	262.2	0.0	0.0	0.0	0.0	0.0
Client Donations	72.8	0.0	0.0	0.0	0.0	0.0	0.0
Course Fees	6.7	21.8	22.7	24.3	30.4	38.0	47.5
Computer Services	0.2	2.4	2.5	2.7	3.3	4.2	5.2
Sales of Publications	2.7	30.0	31.3	33.5	41.9	52.3	65.4
Total Income	817.5	1,207.2	545.7	60.5	75.6	94.5	118.1
EXPENSES							
Program Costs							
Technical Assistance	11.0	103.9	33.3	0.0	0.0	0.0	0.0
Publicity & Publications	9.1	50.3	53.5	13.2	15.2	17.4	20.1
Seminars & Conferences	22.5	4.0	10.6	0.0	0.0	0.0	0.0
Assistance to Associations	500.7	772.2	159.8	0.0	0.0	0.0	0.0
Client Travel	55.5	20.0	16.7	0.0	0.0	0.0	0.0
Core Operating Costs							
Salaries	103.5	137.0	125.0	73.9	85.0	97.8	112.4
Rent and Services	19.8	42.6	33.3	19.7	22.7	26.1	30.0
Employee Travel	7.4	18.2	15.2	1.5	1.7	2.0	2.3
Furniture and Equipment	10.9	11.4	3.3	0.0	0.0	0.0	0.0
Total Expenses	740.4	1,159.5	450.8	108.3	124.6	143.3	164.7
Surplus (Deficit)	77.1	47.6	95.0	(47.8)	(49.0)	(48.7)	(46.6)
Cumulative Surplus	77.1	124.8	219.7	171.9	123.0	74.2	27.6
Portfolio Support Required (15%)	0.0	0.0	0.0	318.9	326.4	324.9	310.6

TABLE 29 -- Continued

FORTAS

High Cutback Scenario

SUFFICIENCY OF SELF-GENERATED INCOME

($000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	82.4	54.2	56.5	60.5	75.6	94.5	118.1
less Core Operating Costs	141.5	209.2	176.8	95.1	109.4	125.8	144.7
Surplus (Deficit) on Core Ops	(59.2)	(155.0)	(120.4)	(34.6)	(33.8)	(31.3)	(26.5)
less Program Costs	598.8	950.4	273.9	13.2	15.2	17.4	20.1
Margin	(658.0)	(1,105.3)	(394.3)	(47.8)	(49.0)	(48.7)	(46.6)
plus AID Grants	735.2	1,153.0	489.3	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	77.1	47.6	95.0	(47.8)	(49.0)	(48.7)	(46.6)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	58.2%	25.9%	31.9%	63.6%	69.1%	75.1%	81.7%
Percent of Total (Program + Core) Costs Covered	11.1%	4.7%	12.5%	55.8%	60.7%	66.0%	71.7%

expected to continue after current AID grants expire, the remaining sources of revenue will be insufficient to cover the much smaller costs of continuing programs. FORTAS would have to increase self-generated income 42 percent per annum beginning in 1990 to achieve self-sufficiency by 1994 (assuming expenses grow 15 percent per year due to inflation). To cover only core operating costs in that fifth year, income would have to increase 36 percent per annum beginning in 1990.

Figure 10, below, summarizes the projected costs and income levels under the baseline scenario for 10 percent growth in income and 15 percent growth in expenses. FORTAS would face a resource shortfall growing from $100,000 in 1991 to $160,000 in 1994. If those shortfalls were to be subsidized by income from some loan portfolio, $1.07 million in capital earning 15 percent interest would be required by 1994. Self-generated income covers less than 39 percent of core costs and less than 32 percent of total costs. Under the high-income scenario, with income increasing 25 percent every year, self-generated income would cover 65 percent of core costs by 1994, or 53 percent of total costs. The resource gap would be reduced by 14 percent in 1991 to $86,000, and by 35 percent in 1994, to $105,000.

Figure 11 illustrates the projected resource gaps when costs are limited to 10 percent annual growth. If income increases only 10 percent per year, the resource shortfall increases to only $124,000 by 1994 as self-generated income covers 41 percent of core costs and 33 percent of total costs. If income rose 25 percent per year as costs were controlled, the resource gap would decrease from $80,000 in 1991 to $68,000 in 1994. Self-generated revenue would cover 77 percent of core costs and 63 percent of total costs by 1994.

Further cutbacks in operations could be made to reduce the resource gap, although it becomes debatable what minimum level of operations could be maintained. For example, we can project costs after 1990 to drop further, according to the "high-cutback" scenario described above. If income also grew at a 25 percent annual rate, this high-cutback scenario projects a resource gap of less than $48,000 from 1990 to 1994, which would require $325,000 in portfolio support. (See Table 29).

D. Conclusions & Recommendation

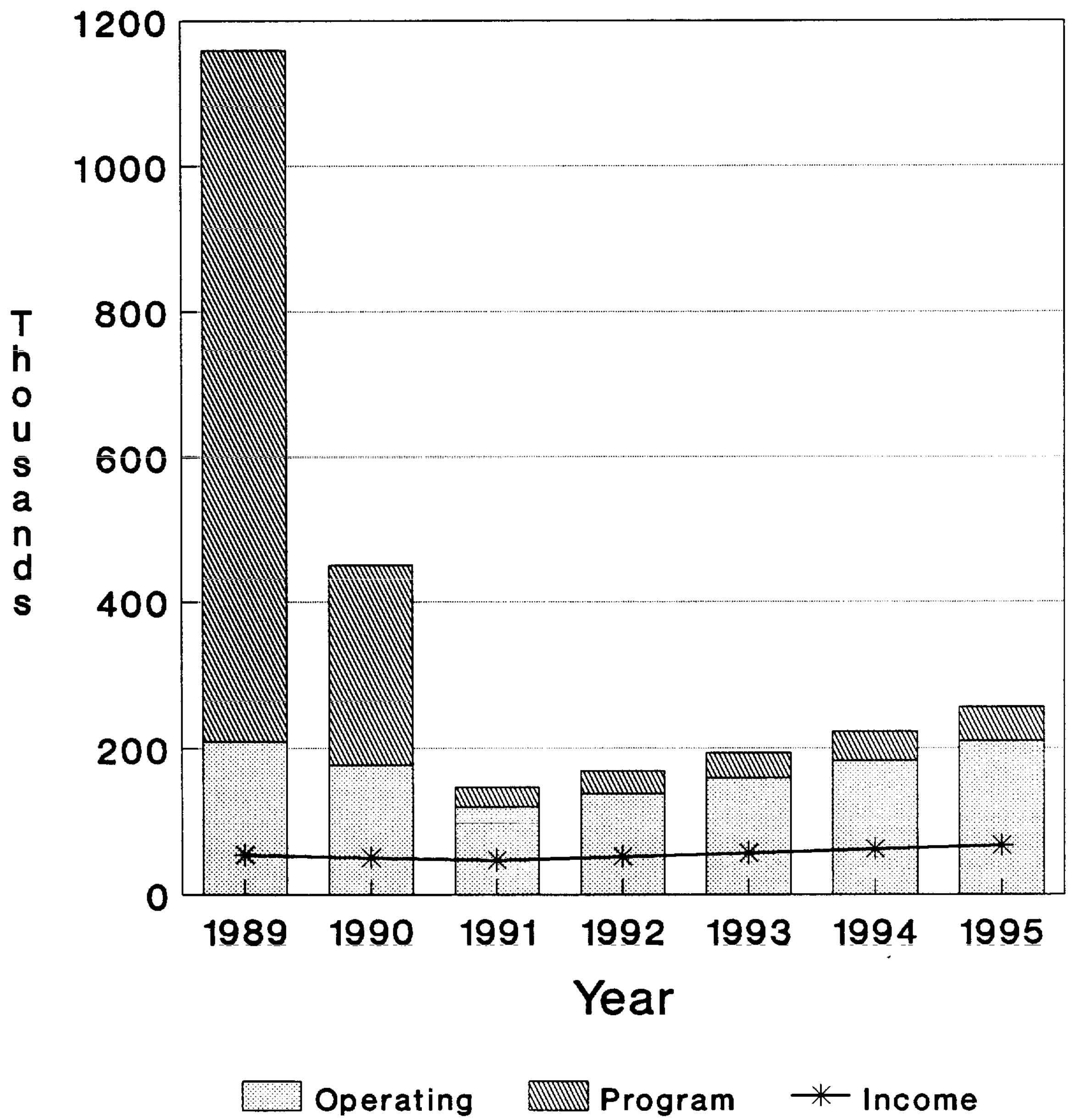
FORTAS' self-generated income is projected to be insufficient to support the scaled-back, social development-oriented program activities of the department. If income increased 42 percent per year, the department would finally achieve self-sufficiency by 1994.

A FORTAS program which would be focused on continuing current social development activities would require $100,000 to $160,000 of annual grant support from 1991 through 1994. If costs are controlled and revenues increased, this support could reasonably be reduced to $70,000 to $100,000 of annual grant support.

Limiting the growth of expenses will improve prospects for self-sufficiency, but because expenses far exceed revenues, substantial increases in revenue are also required.

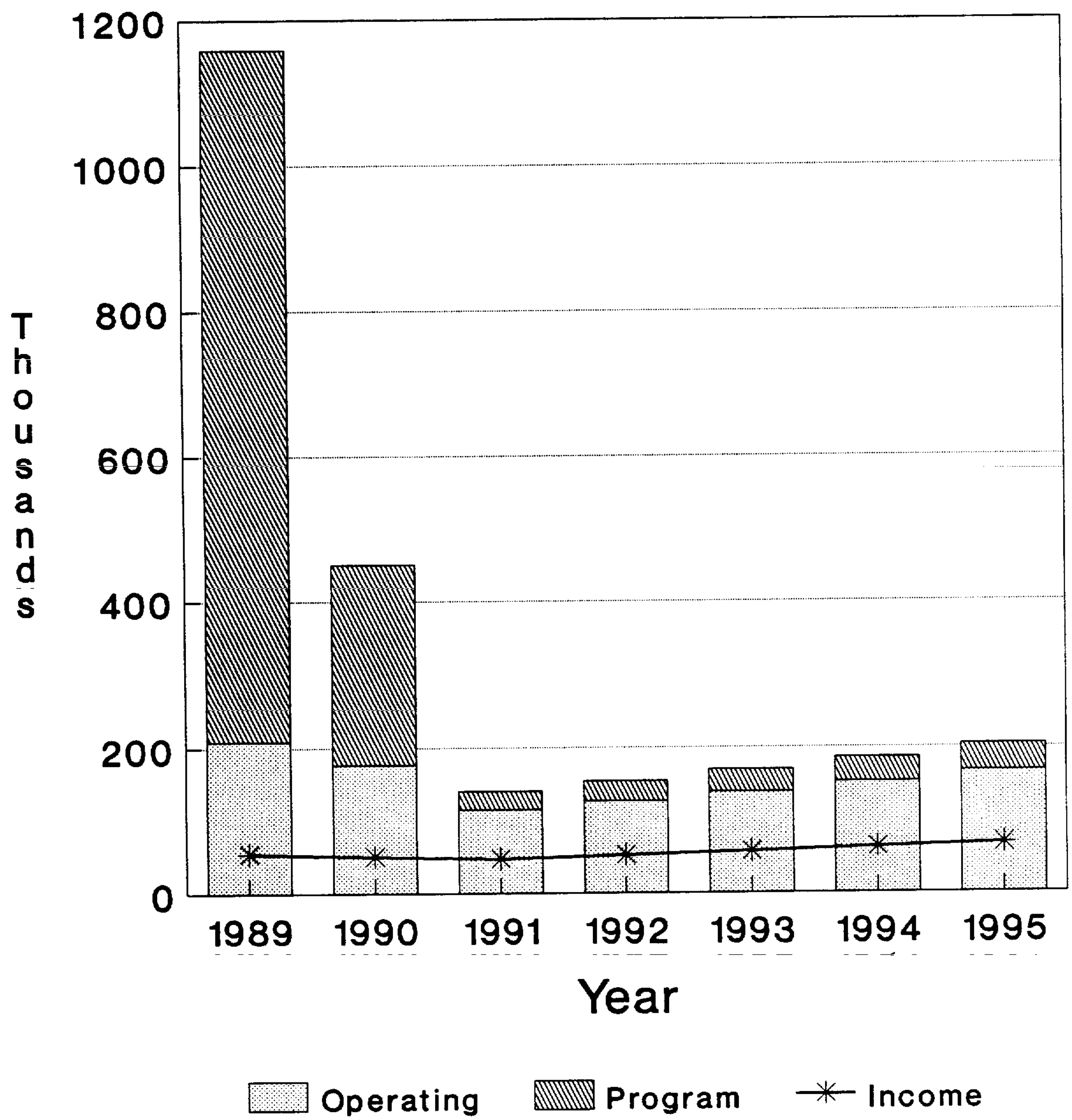
To begin to approach self-sufficiency, FORTAS should develop additional sources of funding through solicitation of donations or grants from government and donor agencies, and the restoration of the collection of donations for technical assistance from beneficiary organizations.

Figure 10
FORTAS
Baseline Scenario



(in US $ 000)

Figure 11
FORTAS
Cost Control Scenario



(in US $ 000)

VI. PROGRAMA DE PROMOCION DE INVERSIONES Y DIVERSIFICACION DE EXPORTACIONES (PRIDEX)

A. Background

The Programa de Promocion de Inversiones y Diversificacion de Exportaciones (PRIDEX) was established to promote investment in industries that have the potential to export manufactured products. Its activities include investment promotion, export promotion, infrastructure development (such as industrial parks), marketing and brokering, as well as technical assistance to individual enterprises in preparing business plans and credit applications for financing by FIDEX.

USAID/El Salvador has provided operating grant support to PRIDEX through two separate grant programs:

0287 Industrial Stabilization[7]	9,096,986
0323 Free Zone Development	4,300,000

	$13,396,986

These grants covered the costs of technical assistance, programs of assistance to potential investors and the on-going costs of PRIDEX itself.

The Industrial Stabilization project also provides a total of $12.0 million to fund a credit portfolio, which is administered (along with credit funds for Agricultural Development) by FIDEX, another FUSADES department.

Although not yet approved, USAID/El Salvador intends to provide an additional $22.0 million in funding to PRIDEX, beginning in early 1990. This new grant will provide approximately $10.0 million in additional credit funds, and $12.0 million to cover program and operational costs for the program between 1990 and 1994. The credit funds are incorporated into the projections on portfolio income; the additional operating and program grants are described later in this chapter.

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[7] This amount is approximate, because funds from this project are also used to support Administration, FIDEX and the new building.

B. Current Income and Expense Levels

As can be seen in Table 30, PRIDEX's budget for 1989 calls for expenditures of $4.0 million, an average rate of expenditure of $334,000 per month. This represents a 200 percent increase over 1988 expenditure levels.

Most of the increase is due to increased program costs which increased 373 percent between 1988 and the 1989 budget. The program budget for 1989 provides for a 495 percent increase in technical assistance costs, a 362 percent increase in seminar and course expenses, and a 100 percent increase in client travel costs.

Operating expenses, on the other hand, increased only 67.9 percent over the 1988 actual levels. Salaries and benefits, which comprise 46.5 percent of the operating expenses budget, increased by 42 percent. Only the budget for publicity and promotion, which might be considered a program expense, increased significantly (817 percent). It should be noted, however, that PRIDEX's expenditures fell considerably below budgeted levels in 1988[8], and might well be expected to do so in 1989.

PRIDEX is budgeting no self-generated income for 1989. Fees charged for client travel and other services provided $147,500 in revenue during 1988 (enough to cover 11.1 percent of PRIDEX's total costs, and 19.7 percent of its operating costs), but an A.I.D. determination that FUSADES could not charge these fees has removed this source of income.[9]

At current planned expenditure rates, USAID funds available under grants 0287 and 0323 would be sufficient to cover the costs of PRIDEX's operations (both program and operating costs) through October 1990.[10]

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[8] Of a total budget of $1,317,100, PRIDEX only expended $396,800, or 30 percent of its approved budget.

[9] Although the client still pays a proportionate amount of the service, it no longer enters FUSADES' books as an income item.

[10] Note, however, that funds available for the free zone project cannot be used to finance PRIDEX's other operations.

TABLE 30

PRIDEX

ACTUAL AND PROJECTED INCOME AND EXPENSES, 1988 AND 1989
(in US $000)

	Actual 1988			Budgeted 1989		
	AID	FUSADES	TOTAL	AID	FUSADES	TOTAL
INCOME						
USAID Grants	1,317.1	-	1,317.1	3,994.2	-	3,994.2
Fees	-	147.5	147.5	-	-	-
Total Income	1,317.1	147.5	1,464.6	3,994.2	-	3,994.2
EXPENSES						
Program Expenses						
Tech. Assistance	395.1	-	395.1	2,351.0	-	2,351.0
Client Travel	174.6	0.4	175.0	350.4	-	350.4
Assist. to Assoc.	-	-	-	-	-	-
Seminars & Courses	9.0	2.5	11.5	53.2	-	53.2
Operating Expenses						
Salaries & Benefits	408.7	0.4	409.2	584.8	0.4	585.1
Rents and Services	137.1	5.8	142.9	142.0	6.2	148.2
Furnishings	48.9	-	48.9	83.7	-	83.7
Employee Travel	107.3	4.2	111.5	130.2	10.2	140.4
Publicity/Promotion	36.4	0.3	36.7	298.9	1.2	300.1
Total Expenses	1,317.1	13.6	1,330.7	3,994.1	18.0	4,012.1
GROSS MARGIN	-	133.9	133.9	-	-18.0	-18.0

C. Planned Future USAID/El Salvador Support

USAID/El Salvador is planning to increase grant funding to PRIDEX by $22.0 million. This would cover operating costs for current programs through 1994, and provide an additional $10.0 million for credit operations. Disbursements under the new grant would depend on revised budget projections.[11]

D. Projected Expenses

Apart from the five-year plan, PRIDEX does not have budget projections for future years. For purposes of this study, three separate scenarios were modeled[12] to demonstrate the cost implications of the PRIDEX program:

Model 1 -- Continued Growth Model (CGM). Expenses for all items, including program costs, would continue to grow at an annual rate of 15 percent per year after 1989.

Model 2 -- Constant Program Model (CPM). Programs would be frozen at the 1990 level for the remaining years. Since these are projected in local costs, they would be affected by any devaluation.[13]

Model 3 -- Cost Reduction Model (CRM). In this scenario program costs are held constant after the second year. In the last year (when USAID grant support is scheduled to terminate) program costs are reduced significantly to reflect the reduced availability of resources. Also, salary and promotional costs are reduced, though other expenses continue to grow.

As can be seen in Figure 12, if all expenses were to continue to rise at a rate of 15 percent a year (Model 1), PRIDEX's annual budget would reach $6.5 million by 1995. Expenses decline in 1990 and 1991 because of the effects of the projected devaluation, but rise quickly in subsequent years.

---

[11] PRIDEX has developed a five-year plan with an average annual expenditure of $6.4 million. USAID/El Salvador has indicated that only a more modest budget would be supported in the future.

[12] Tables for the three projections appear at the end of this section.

[13] These models, as well as others throughout the report, assume a two-stage devaluation from 5.0 colones per dollar to 7.0 colones per dollar.

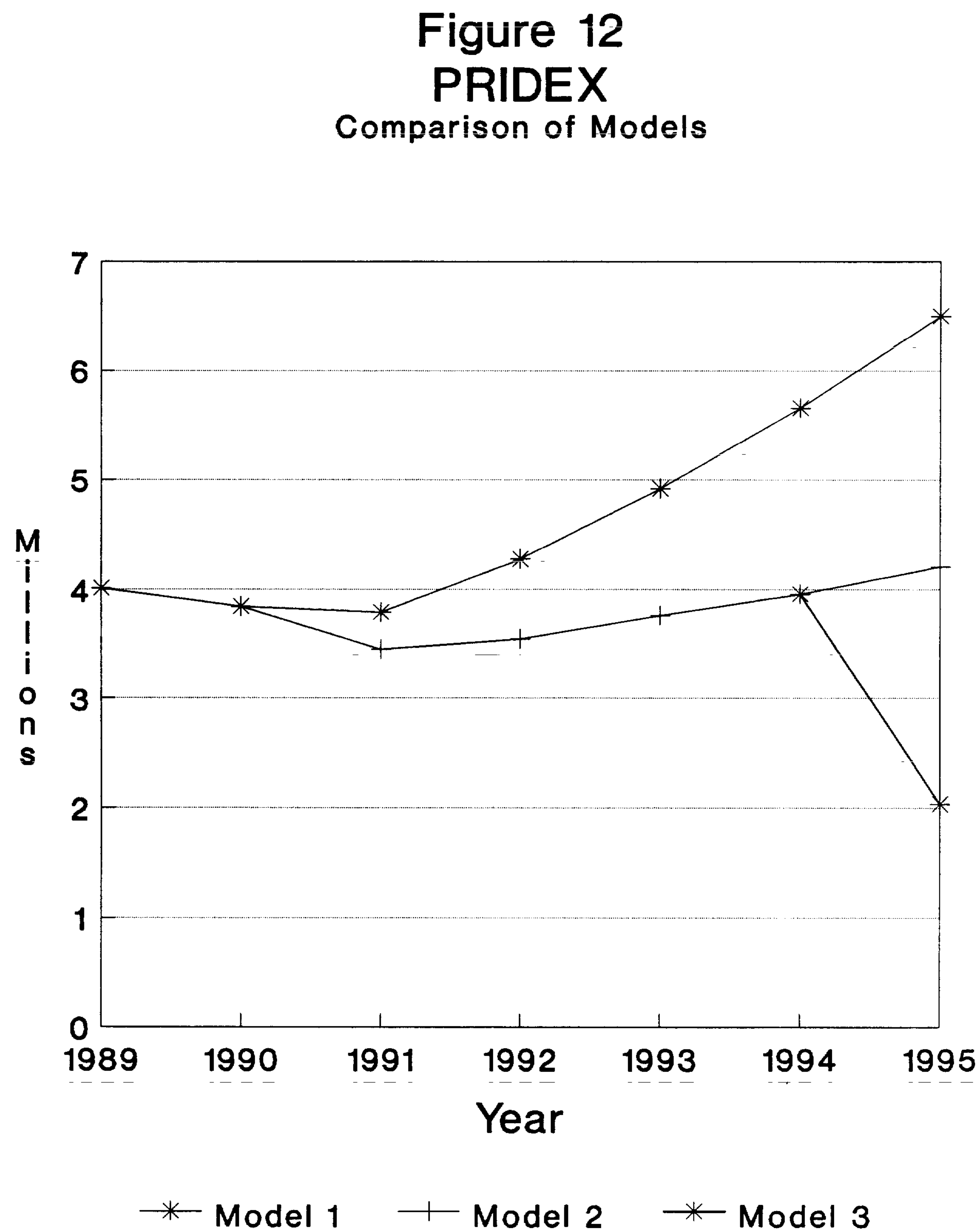
Figure 12
PRIDEX
Comparison of Models
Millions
7
6
5
4
3
2
1
0
1989
1990
1991
1992
1993
1994
1995
Year
Model 1
Model 2
Model 3

(in US $ 000)

Most of the increase, however, is due to program costs, which do not necessarily have to increase at the rate of inflation. In fact, program expenses tend to be limited by the availability of funds. If program costs were held at a constant level following 1990 (Model 2), the total annual budget would only be $4.2 million by 1995 -- an increase of only $200,000 per year over the 1989 budget level.

A more appropriate projection, however, appears to be Model 3. PRIDEX's short-term budget increase is designed to implement a number of specific initiatives (especially sector studies) that need not be duplicated or continued in succeeding years. Furthermore, it is likely that PRIDEX's role will change over time, from an active implementer of projects to more of a facilitator or broker. If this happens, the need to subsidize technical and other program assistance will decline, as would the direct staffing needs of the department. Under this scenario (which differs from Model 2 only in the final year of the projection), the total budget for 1995 would only be $2.0 million (see Figure 13).

E. Impact of Portfolio Income

PRIDEX is projecting no self-generated income in its future budgets. On the other hand, USAID/El Salvador has granted FUSADES $12.0 million to use as credit for industrial development projects generated by PRIDEX, and plans to increase those credit lines to about $22.0 million.

Annual interest income from a mature industrial-related loan portfolio should be approximately $2.7 million by 1995 (see Table 8, on page xxx). Deducting a proportional share of fees and bad debt losses[14], net interest income on this portfolio would be approximately $2.25 million. As in the case of the agriculture-related portfolio, both FIDEX and the Administration sections of FUSADES also depend directly on this income, and, to a great extent, these costs are covered first by any earned income. Based on the current portfolio, the industrial portfolio would have to cover 51 percent of FIDEX's projected costs and at least 36 percent of the Administration budget in 1995. In 1995, these shares are projected to be $241,500 for FIDEX and $741,000 for Administration.

Subtracting these from net interest income on the industrial portfolio leaves $1.26 million to fund PRIDEX, which, if applied to PRIDEX's budget, would cover 65 percent of PRIDEX's operating expenses under the scenarios for Models 1 and 2, and 91 percent of its operating expenses under the scenario for Model 3. Furthermore, while these funds would be sufficient to cover only 19.4 percent of PRIDEX's total budget (program and operating) under the continued growth model (Model 1), but 30 percent of the total (program and operating) expenses under the constant program model (Model 2) and as much as 62 percent of the total budget under the cost reduction scenario of Model 3 (see Figure 13 for the impact of PRIDEX's net share of portfolio income on its gross margins under Model 3).

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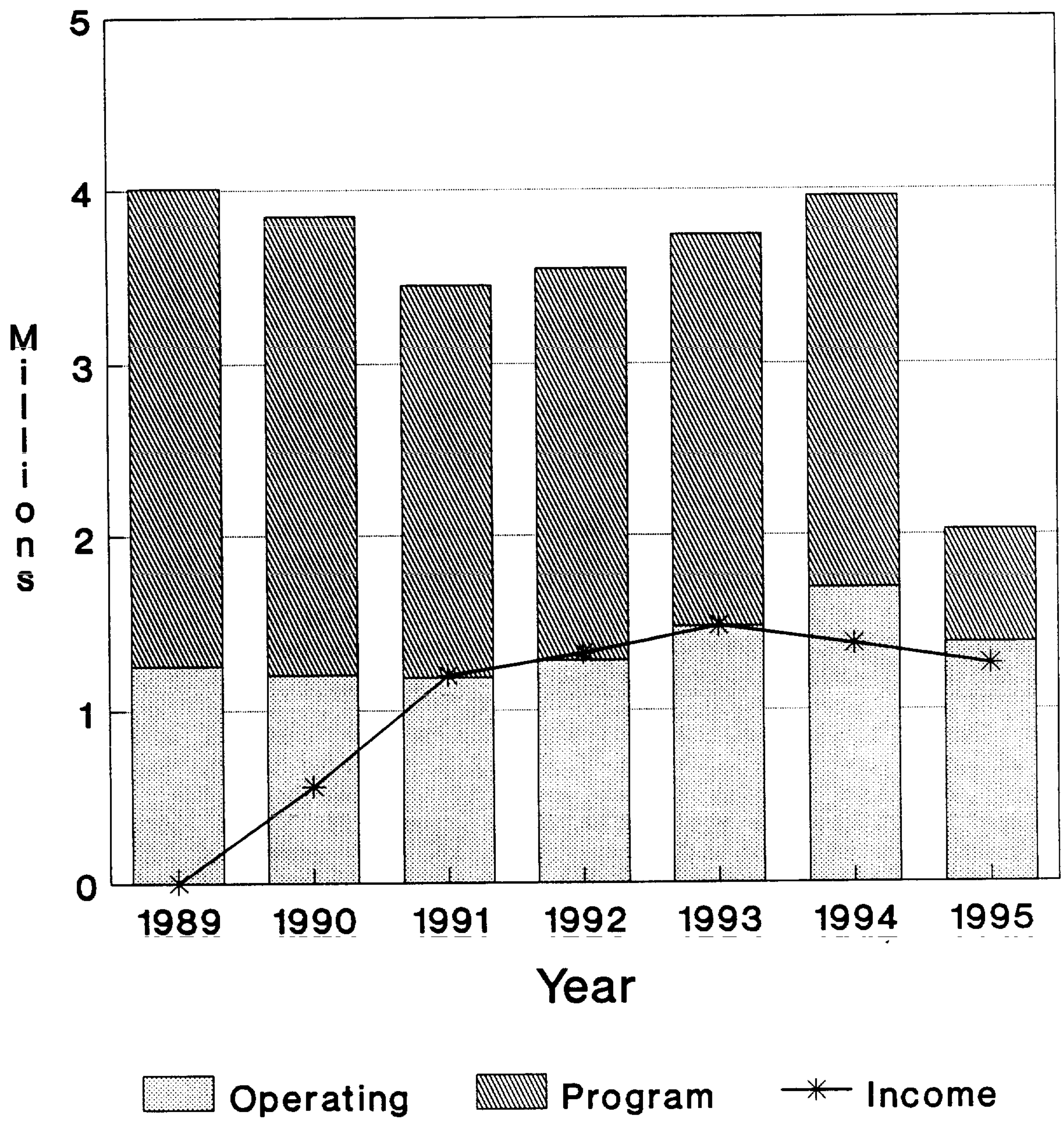
[14] The agricultural portfolio is projected to earn 49 percent of the interest income earned by the present portfolio.

Figure 13
PRIDEX
Cost Reduction Model



(in US $ 000)

In 1995, therefore, the resource shortfall for PRIDEX would be between $127,200 and $689,700 to cover operating costs, and between $770,900 and $5,240,800 to cover total costs. Depending on the scenario selected, at an average interest rate of 13.0 percent, an additional credit portfolio of between $1.0 and $5.0 million would be required to fully fund PRIDEX's projected operating costs, and between $6.0 and $40.3 million to fully fund PRIDEX's on-going program.

F. Income Enhancing Options to Improve Gross Margins

PRIDEX's budget projections include no estimates for self-generated income.

Fee Income

PRIDEX performs a number of services -- especially market research, marketing and brokerage services -- that should be administered on a cost-recovery basis. Until September 1988 PRIDEX did, in fact charge a significant fee (between 25 and 35 percent of the value of the service) to the client. But a recent determination by AID/W has effectively prohibited FUSADES from charging for those services. As a result, instead of accounting for modest fees charged to clients as an income item, these are handled as pass-through arrangements. This is unfortunate, for it reinforces FUSADES' tendency to subsidize or underprice services.

PRIDEX should initiate direct charges for such services -- entering the income in the accounting system as self-generated fee income, and charging the costs as expenditures. Over time the fees collected should approach the full cost of the services provided, or the services should be phased out.

Future USAID/El Salvador Programs

Barring significant changes in the orientation and administration of the Government of El Salvador, USAID/El Salvador is likely to find PRIDEX a convenient vehicle for implementing future projects in the industrial development sector. Such projects can be expected to include funding that covers both direct and indirect costs. One major new program, with a credit component in the range of $5.0 to $10.0 million, would generate sufficient income to sustain the operations and some of the program activities of the department, if interest income from the credit portfolio were allocated to PRIDEX.

G. Cost Reduction Options to Improve Gross Margins

PRIDEX has grown rapidly in the past two years. More than 30 percent of the total increase in FUSADES' 1989 budgeted level of expenditures is due to planned increases in the PRIDEX program.

As pointed out above, the growth of program costs is the major component of the growth in the PRIDEX budget. Controlling program costs significantly lowers the projected budget needs of the department.

H. Conclusions

If we assume that program cost increases will be limited by the availability of AID financing, and thus not likely to grow in the future, interest income on the existing industrial development portfolio will generate sufficient revenues to cover between 65 and 91 percent of PRIDEX's projected operating costs in 1995. Using these same assumptions, the portfolio will generate sufficient revenues to cover between 30 and 62 percent of PRIDEX's total program and operating budget.

An additional portfolio of between $6.0 and $10.0 would generate sufficient revenues to fully fund PRIDEX's operating costs and cover some program activities.

TABLE 31

CONTINUED GROWTH MODEL
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
No Projected Income							
EXPENSES							
Program Expenses							
Tech. Assistance	2,351.0	2,253.0	2,220.9	2,554.0	2,937.1	3,377.6	3,884.3
Client Travel	350.4	335.8	331.0	380.7	437.8	503.4	578.9
Seminars & Courses	53.2	51.0	50.3	57.8	66.5	76.4	87.9
Subtotal	2,754.6	2,639.8	2,602.1	2,992.4	3,441.3	3,957.5	4,551.1
Operating Expenses							
Salaries & Benefits	585.1	560.7	552.7	635.6	731.0	840.6	966.7
Furnishings	83.7	80.2	79.1	10.3	10.3	10.3	10.3
Employee Travel	140.4	134.5	132.6	152.5	175.4	201.7	232.0
Publicity/Promotion	300.1	287.6	283.5	326.0	374.9	431.1	495.8
Rents and Services	148.2	142.0	140.0	161.0	185.2	212.9	244.9
Subtotal	1,257.5	1,205.2	1,187.9	1,285.5	1,476.8	1,696.8	1,949.7
Total Expenses	4,012.2	3,845.0	3,790.0	4,277.9	4,918.1	5,654.3	6,500.8
GROSS MARGIN	-4,012.2	-3,845.0	-3,790.0	-4,277.9	-4,918.1	-5,654.3	-6,500.8
RATIOS (percents)							
Income/Op. Expenses	-	-	-	-	-	-	-
Income/Tot. Expenses	-	-	-	-	-	-	-

TABLE 32

CONSTANT COST MODEL
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
No Projected Income							
EXPENSES							
Program Expenses							
Tech. Assistance	2,351.0	2,253.0	1,931.2	1,931.2	1,931.2	1,931.2	1,931.2
Client Travel	350.4	335.8	287.8	287.8	287.8	287.8	287.8
Seminars & Courses	53.2	51.0	43.7	43.7	43.7	43.7	43.7
Subtotal	2,754.6	2,639.8	2,262.7	2,262.7	2,262.7	2,262.7	2,262.7
Operating Expenses							
Salaries & Benefits	585.1	560.7	552.7	635.6	731.0	840.6	966.7
Furnishings	83.7	80.2	79.1	10.3	10.3	10.3	10.3
Employee Travel	140.4	134.5	132.6	152.5	175.4	201.7	232.0
Publicity/Promotion	300.1	287.6	283.5	326.0	374.9	431.1	495.8
Rents and Services	148.2	142.0	140.0	161.0	185.2	212.9	244.9
Subtotal	1,257.5	1,205.2	1,187.9	1,285.5	1,476.8	1,696.8	1,949.7
Total Expenses	4,012.2	3,845.0	3,450.6	3,548.2	3,739.5	3,959.5	4,212.4
GROSS MARGIN	-4,012.2	-3,845.0	-3,450.6	-3,548.2	-3,739.5	-3,959.5	-4,212.4
RATIOS (percents)							
Income/Op. Expenses	-	-	-	-	-	-	-
Income/Tot. Expenses	-	-	-	-	-	-	-

TABLE 33

COST REDUCTION MODEL
INCOME AND EXPENSE PROJECTIONS
(in US $000)

	1989	1990	1991	1992	1993	1994	1995
INCOME							
No Projected Income							
EXPENSES							
Program Expenses							
Tech. Assistance	2,351.0	2,253.0	1,931.2	1,931.2	1,931.2	1,931.2	500.0
Client Travel	350.4	335.8	287.8	287.8	287.8	287.8	100.0
Seminars & Courses	53.2	51.0	43.7	43.7	43.7	43.7	43.7
Subtotal	2,754.6	2,639.8	2,262.7	2,262.7	2,262.7	2,262.7	643.7
Operating Expenses							
Salaries & Benefits	585.1	560.7	552.7	635.6	731.0	840.6	500.0
Furnishings	83.7	80.2	79.1	10.3	10.3	10.3	10.3
Employee Travel	140.4	134.5	132.6	152.5	175.4	201.7	232.0
Publicity/Promotion	300.1	287.6	283.5	326.0	374.9	431.1	400.0
Rents and Services	148.2	142.0	140.0	161.0	185.2	212.9	244.9
Subtotal	1,257.5	1,205.2	1,187.9	1,285.5	1,476.8	1,696.8	1,387.2
Total Expenses	4,012.2	3,845.0	3,450.6	3,548.2	3,739.5	3,959.5	2,030.9
GROSS MARGIN	-4,012.2	-3,845.0	-3,450.6	-3,548.2	-3,739.5	-3,959.5	-2,030.9
RATIOS (percents)							
Income/Op. Expenses	-	-	-	-	-	-	-
Income/Tot. Expenses	-	-	-	-	-	-	-

VII. PROMOCION DE LA PEQUENA Y MICROEMPRESA (PROPEMI)

A. Background

PROPEMI was established in 1985 to promote the development of small and micro-enterprises by providing training in business administration, technical assistance, and credit to entrepreneurs in San Salvador. In August 1988, the Program for the Promotion of Micro-enterprises of San Miguel (PROMISAM) was launched with funds from the Inter-American Development Bank (IDB). The IDB specified that PROMISAM remain independent of the AID-funded PROPEMI project. Since PROMISAM operations and finances are segregated from PROPEMI's, PROMISAM is not included in this analysis.

PROPEMI received $3.0 million in USAID support through 1988, 70 percent in capital funds for the loan portfolio and 30 percent for operating expenses and technical assistance. In 1989, an amendment to 304 will provide an additional $340,000 for the loan portfolio and $160,000 for operating expenses. It is expected that an additional $2.5 million dollars will be contributed by USAID to the loan portfolio, although this increase has been deferred until the Small-Scale Enterprise Strategy and Small Business Development Project become realities. This disbursement was included in the financial projections: $1.5 million in 1990, $1.0 million in 1991.

The more than 100 percent increase in the 1989 budget over 1988 expenditure levels is related to the planned addition of 13 salaried positions as well as the establishment of a satellite office serving Santa Ana. The level of staffing at the end of 1989 is expected to sustain the organization through the next five years. No increases in the number of employees is expected to occur after this year.

Expenditures in the first quarter of 1989, annualized, are running more than 50 percent below the budgeted amounts, apparently due to delays in the filling of the new positions and deferral of other expenditures. On the other hand, revenues from course fees are running 60 percent below projections and loan disbursements are also well below projected levels. This would appear to be related to increased uncertainty surrounding the recent presidential elections.

PROPEMI's primary source of income is interest from its credit fund, nearly half of which is currently on deposit in the bank earning 15 percent interest. A $30 fee for the training course contributed less than 10 percent of PROPEMI's self-generated income in 1988 and is projected to contribute 8 to 10 percent through 1994. PROPEMI is unique among FUSADES' departments in that it has principal control over its self-generated income. Interest income from the loan portfolio is applied to PROPEMI's own capital fund instead of a FUSADES fund. Core Operating Costs represent 92 percent of total costs in 1988, 74 percent of total costs in the 1989 budget, and 85 percent of total costs through 1994.

B. The PROPEMI Model

The model used to project PROPEMI's expenditures and revenues through 1994 is based on 1988 actual expenditures, budget figures for the 1989 annual plan, and a budget proposed for 1990 by PROPEMI which is extrapolated at the specified growth rates through 1994. The model operates under the following department-specific assumptions:

Interest on portfolio is calculated using the prevailing 15 percent rate on the balance of the outstanding loans and the capital funds on deposit in the bank. AID contributions of capital are assumed to occur at mid-year, earning 15 percent deposit interest before becoming a part of the active portfolio balance in the following year.

Bad debt losses, the projected amount to be written-off every year as non-recoverable principal and non-collectible interest, is calculated by multiplying the rate specified in the model by the portfolio balance.

Loan premium is the differential interest rate above 15 percent, multiplied by 90 percent of the total portfolio balance. Ten percent of the portfolio is assumed to be on reserve.

When the cumulative surplus/deficit becomes positive, that amount is rolled over into the portfolio (plowback).

The portfolio balance grows from the actual balance at the beginning of 1989. This includes both the value of outstanding loans and the recovered capital and interest currently held as bank deposits.

C. Prospects for Self-Sufficiency

The graphs below summarize the projected financial performance of PROPEMI under three different scenarios[15]. In every case, during 1989, PROPEMI is not able to cover its core or total costs. AID operating expense support enables PROPEMI to virtually break-even in 1989, the last year such support is scheduled to be provided.

For 1990 and the years following, under the first "baseline" scenario (see Table 34), with 15 percent annual growth in expenses, self-generated income covers core operating costs through 1994, and total costs are covered in every year but 1994 (see Figure 14).

Figure 15 shows that in a scenario where expenses are limited to 10 percent annual growth, core and total costs are covered in every year (see Table 35).

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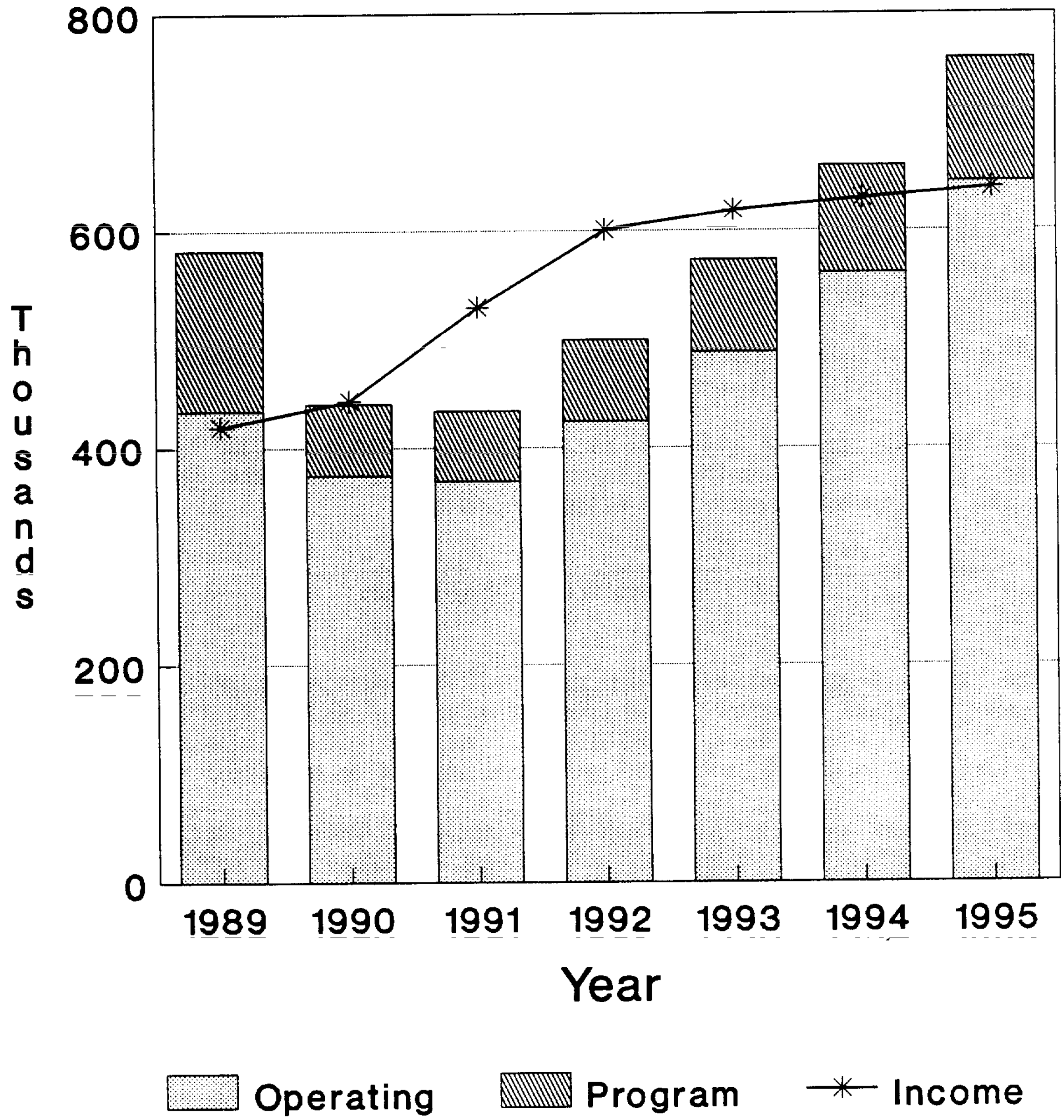
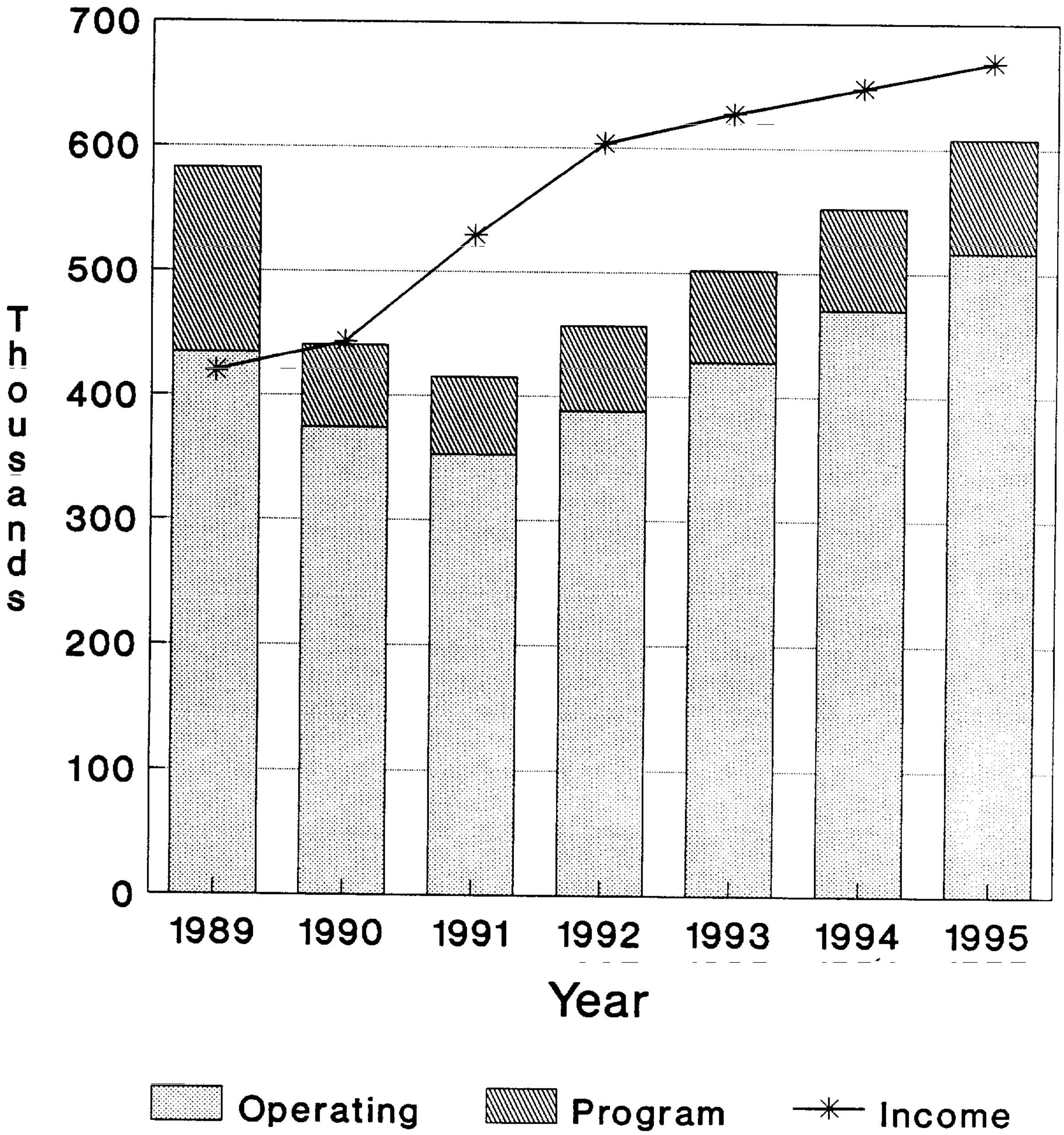
[15] Detailed budgets for each scenario appear in the tables at the end of this section.

Figure 14
PROPEMI
Baseline Scenario



(in US $ 000)

Figure 15
PROPEMI
Cost Control Scenario



(in US $ 000)

In Figure 16, bad debt losses are assumed to be high, equal to 3 percent of the portfolio per year, (with annual expense growth of 15 percent). Self-generated income covers core costs in every year, but program costs are only partially covered in 1990, 1993 and 1994. The delinquency rate on PROPEMI loans is currently 6 to 7 percent, making a loss to bad debt of 3 percent a conservative estimate. This assumes, for example, that no value would be recovered from half the delinquent loans (Table 36).

In the short-run, PROPEMI's prospects for self-sufficiency are good, assuming the addition of $2.5 million to the portfolio. Returns decline over time, however, as inflation erodes the real value of the portfolio and interest income fails to keep pace with the growth in operating costs. Additional capital could be contributed to the portfolio, but even massive amounts of capital will not enable the portfolio to sustain itself so long as the real interest rate on the loans is less than the growth in costs. In order for PROPEMI to be self-sustaining in the longer run, the net return on its portfolio must increase, through a real decrease in costs and/or an increase in the interest rate. If costs are limited to 10 percent growth per year, a premium of 11 percent would have to be earned on the portfolio in order for the portfolio to maintain its value ad infinitum[16] (see Table 37). Net of 2 percent bad debt expense, this represents a 24 percent return on the loans, or a real net return of 9 percent. If costs are allowed to increase 15 percent per year, a 12.5 percent premium would be required to maintain the portfolio's value.

Further additions of capital to the portfolio would reduce the loan premium required to perpetually maintain the value of the portfolio. For example, assuming costs are controlled at 10 percent growth, the model projects that each additional $1.0 million disbursed in 1991 would lower the premium required approximately 1 percent, declining to a 0.6 percent interest rate reduction for the fourth million. An increase in the interest rate is critical however, and should receive priority over additional capital infusions.

Given the current 15 percent interest rate, in fact, PROPEMI has no direct incentive to loan funds, since the funds alternatively earn a 15 percent return as bank deposits, free from expenses of administration and bad debt losses. It is thus not surprising that 46 percent of the portfolio is presently held as bank deposits. Whether real, positive interest rates are attainable would depend on prevailing market conditions, as well as the size of the borrowing enterprise. If PROPEMI were able to reorient its program to begin disbursing loans to smaller micro-enterprises, they would earn the higher interest rates which prevail in that segment of the market.

A 5 percent premium on loans would have to be charged in 1990 if PROPEMI were to be assigned a portion of the costs of FUSADES administration relative to the level of its own expenditures, to meet this expense in 1990. The premium would decline to 1 percent in 1991 and 1992 before increasing to 3 percent by 1994 under the baseline scenario.

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[16] As long as the assumed 15 percent rate of inflation does not increase.

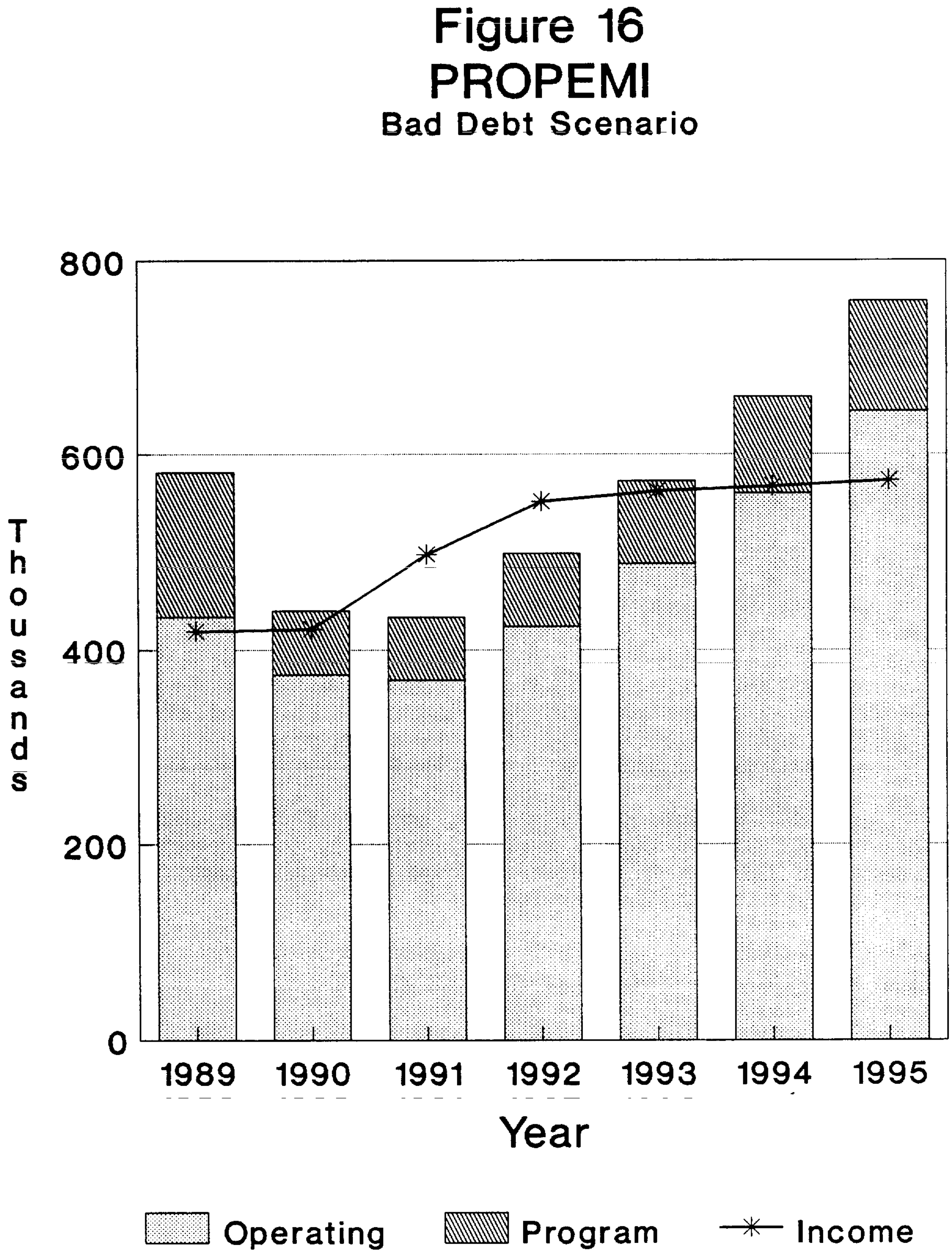


Figure 16
PROPEMI
Bad Debt Scenario
800
600
400
200
0
Thousands
1989
1990
1991
1992
1993
1994
1995
Year
Operating
Program
Income

(in US $ 000)

The model assumes that $1.5 million and $1.0 million will be added to the portfolio in 1990 and 1991 respectively as the exhange rate is devalued 40 percent over those two years. The greater the amount of the dollar-denominated disbursement which is deferred until immediately after any devaluation occuring before 1992, the greater will be the value of the portfolio by 1994. If this $2.5 million were not disbursed, self-generated income would cover a declining portion of core costs, decreasing to 54 percent by 1994. Without this capital infusion, PROPEMI would have to earn a 13 percent premium on its loan portfolio in order to simply break-even through 1994.

D. Conclusions and Recommendations

PROPEMI's prospects for self-sufficiency through 1994 appear to be good, provided the additional $2.5 million in capital is disbursed. Barring an increase in the loan interest rate, effective control of growth in expenses will insure that core and program costs will be covered through 1994.

The disbursement of an additional $2.5 million in capital funds is essential to PROPEMI's achievement of self-sufficency.

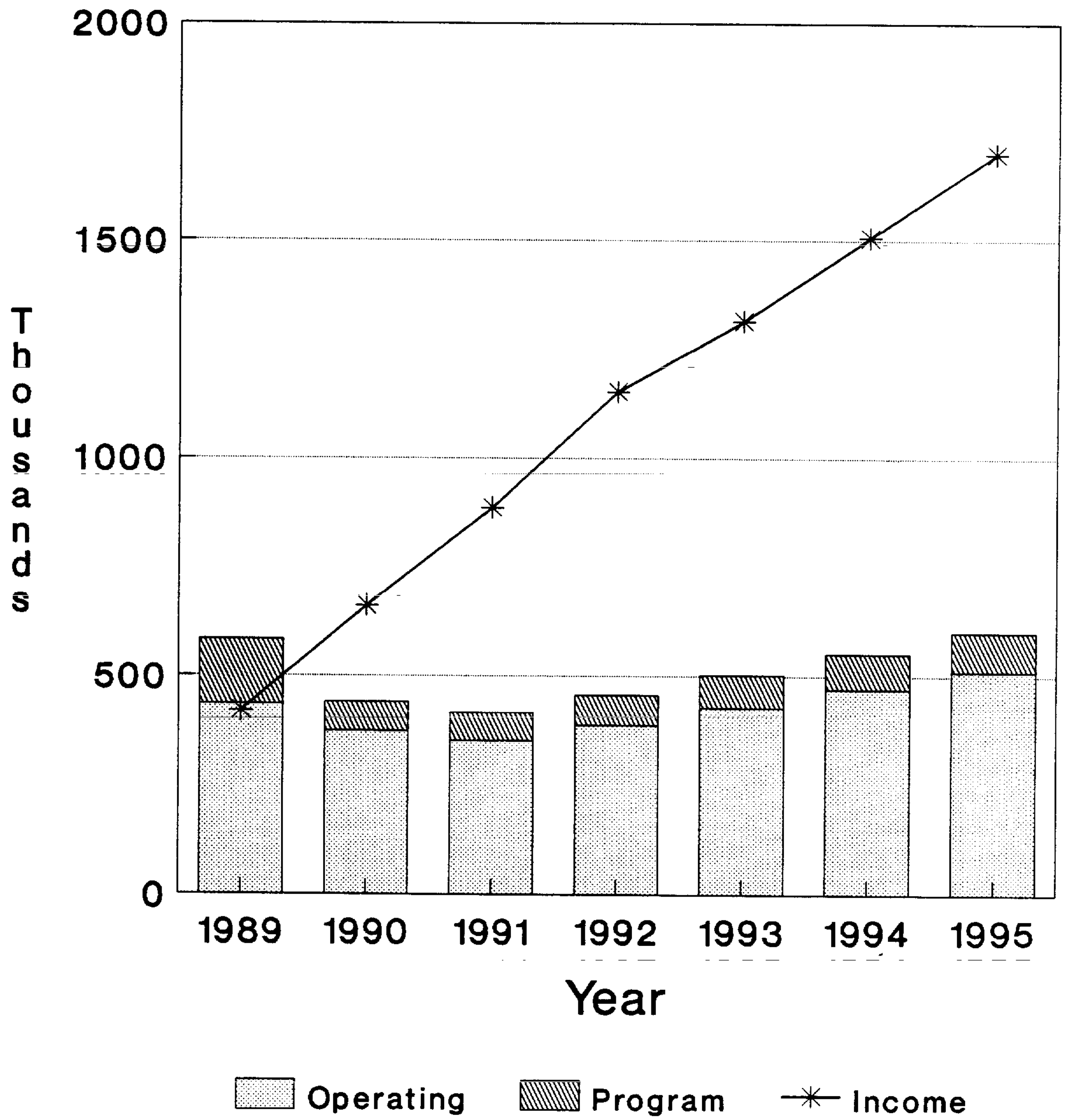
If a devaluation of approximately 40 percent over the next two years occurs, the disbursement of additional capital funds should be deferred until immediately after the expected devaluation in order to minimize the erosion of the value of the portfolio.

The interest rate on loans should be increased to reflect the higher risk of loans in comparison to the alternative bank deposits. Improving PROPEMI's return on its portfolio will limit the erosion of its value due to inflation, and provide an incentive for disbursing loans rather than maintaining high deposit reserves.

In order to maintain the real value of the portfolio under inflationary conditions, a real rate of interest must be charged. A 26 percent interest rate would allow the portfolio to maintain its value under 15 percent inflation, given that costs are limited to 10 percent annual growth.

Effective limitation of the growth of expenses to a rate at or below the rate of inflation is essential to the self-sufficiency of the program.

Figure 17
PROPEMI
Baseline Scenario



(in US $ 000)

TABLE 34

PROPEMI
"Baseline" Scenario

ASSUMPTIONS:
* 304 amended to provide $2.5m in capital in '90 and '91
* Expenses grow at rate of inflation

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate 1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income (Course fees):			10%	10%	10%	10%	10%
* Growth Rate of Expenses:			15%	15%	15%	15%	15%

Figures in US Dollars (000s)		actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME								
AID Expense Support (304)		266.3	0.0	0.0	0.0	0.0	0.0	0.0
(304 Amendment)		0.0	160.0	0.0	0.0	0.0	0.0	0.0
Client Donations		120.0	0.0	0.0	0.0	0.0	0.0	0.0
Course fees		30.4	48.5	44.4	41.9	46.1	50.7	55.7
Interest on Portfolio	15%	166.2	370.5	442.5	550.7	640.0	655.3	662.1
less Bad Debt Loss	2.0%	0.0	0.0	(44.0)	(63.4)	(85.3)	(87.4)	(88.3)
Loan Premium	0.0%	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Income		582.8	579.0	442.9	529.2	600.8	618.6	629.5
EXPENSES								
Program Costs								
Technical Assistance		5.5	68.2	3.3	3.3	3.8	4.3	5.0
Seminars & Conferences		2.9	3.8	5.0	4.9	5.7	6.5	7.5
Publicity & Publications		14.7	76.7	57.5	56.7	65.2	75.0	86.2
Core Operating Costs								
Salaries and Benefits		194.6	281.2	296.7	292.4	336.3	386.7	444.7
Rent and Services		52.7	68.6	60.8	60.0	69.0	79.3	91.2
Employee Travel		4.5	13.3	7.5	7.4	8.5	9.8	11.2
Furniture and Equipment		3.2	70.7	2.5	2.5	2.8	3.3	3.7
Contingency		0.0	0.0	6.7	6.6	7.6	8.7	10.0
Total Expenses		278.2	582.5	440.0	433.7	498.8	573.6	659.6
Net Margin		304.6	(3.5)	2.9	95.4	102.0	45.0	(30.1)
Cumulative Surplus (Deficit)			(3.5)	(0.0)	95.4	102.0	45.0	(30.1)
less Plowback			0.0	0.0	(95.4)	(102.0)	(45.0)	0.0
Portfolio Balance (Loans & Deposits)			2,300.0	2,200.0	3,171.4	4,266.8	4,368.8	4,413.9
Additions - Internal (Plowback)			0.0	0.0	95.4	102.0	45.0	0.0
- AID Contributions			340.0	1,500.0	1,000.0	0.0	0.0	0.0
Next Year's Portfolio			2,640.0	3,700.0	4,266.8	4,368.8	4,413.9	4,413.9

TABLE 34 -- Continued

PROPEMI
"Baseline" Scenario

SUFFICIENCY OF SELF-GENERATED INCOME
(US$000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	316.5	419.0	442.9	529.2	600.8	618.6	629.5
less Core Operating Costs	255.1	433.8	374.2	368.8	424.1	487.8	560.9
Surplus (Deficit) on Core Ops.	61.4	(14.9)	68.7	160.3	176.6	130.8	68.6
less Program Costs	23.1	148.7	65.8	64.9	74.6	85.8	98.7
Margin	38.3	(163.5)	2.9	95.4	102.0	45.0	(30.1)
plus AID Grants	266.3	160.0	0.0	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	304.6	(3.5)	2.9	95.4	102.0	45.0	(30.1)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	124.1%	96.6%	118.4%	143.5%	141.6%	126.8%	112.2%
Percent of Total (Program + Core) Costs Covered	113.8%	71.9%	100.7%	122.0%	120.4%	107.9%	95.4%

TABLE 35

PROPEMI
Cost Control Scenario

ASSUMPTIONS:
* 304 amended to provide $1.5m and $1.0m in capital in '90 and '91, respectively

	1988	1989	1990	1991	1992	1993	1994
* Exchange Rate 1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income (Course fees):			10%	10%	10%	10%	10%
* Growth Rate of Expenses:			10%	10%	10%	10%	10%

Figures in US Dollars (000s)		actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME								
AID Expense Support (304)		266.3	0.0	0.0	0.0	0.0	0.0	0.0
(304 Amendment)		0.0	160.0	0.0	0.0	0.0	0.0	0.0
Client Donations		120.0	0.0	0.0	0.0	0.0	0.0	0.0
Course fees		30.4	48.5	44.4	41.9	46.1	50.7	55.7
Interest on Portfolio	15%	166.2	370.5	442.5	550.7	642.9	664.9	683.6
less Bad Debt Loss	2.0%	0.0	0.0	(44.0)	(63.4)	(85.7)	(88.7)	(91.1)
Loan Premium	0.0%	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Income		582.8	579.0	442.9	529.2	603.2	626.9	648.2
EXPENSES								
Program Costs								
Technical Assistance		5.5	68.2	3.3	3.1	3.5	3.8	4.2
Seminars & Conferences		2.9	3.8	5.0	4.7	5.2	5.7	6.3
Publicity & Publications		14.7	76.7	57.5	54.2	59.6	65.6	72.2
Core Operating Costs								
Salaries and Benefits		194.6	281.2	296.7	279.7	307.7	338.5	372.3
Rent and Services		52.7	68.6	60.8	57.4	63.1	69.4	76.3
Employee Travel		4.5	13.3	7.5	7.1	7.8	8.6	9.4
Furniture and Equipment		3.2	70.7	2.5	2.4	2.6	2.9	3.1
Contingency		0.0	0.0	6.7	6.3	6.9	7.6	8.4
Total Expenses		278.2	582.5	440.0	414.9	456.3	502.0	552.2
Net Margin		304.6	(3.5)	2.9	114.3	146.9	124.9	96.0
Cumulative Surplus (Deficit)			(3.5)	(0.0)	114.3	146.9	124.9	96.0
less Plowback			0.0	0.0	(114.3)	(146.9)	(124.9)	(96.0)

	1989	1990	1991	1992	1993	1994
Portfolio Balance (Loans & Deposits)	2,300.0	2,200.0	3,171.4	4,285.7	4,432.6	4,557.5
Additions - Internal (Plowback)	0.0	0.0	114.3	146.9	124.9	96.0
- AID Contributions	340.0	1,500.0	1,000.0	0.0	0.0	0.0
Next Year's Portfolio	2,640.0	3,700.0	4,285.7	4,432.6	4,557.5	4,653.5

TABLE 35 -- Continued

PROPEMI

Cost Control Scenario

SUFFICIENCY OF SELF-GENERATED INCOME

(US$000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	316.5	419.0	442.9	529.2	603.2	626.9	648.2
less Core Operating Costs	255.1	433.8	374.2	352.8	388.1	426.9	469.6
Surplus (Deficit) on Core Ops.	61.4	(14.9)	68.7	176.4	215.1	200.0	178.7
less Program Costs	23.1	148.7	65.8	62.1	68.3	75.1	82.6
Margin	38.3	(163.5)	2.9	114.3	146.9	124.9	96.0
plus AID Grants	266.3	160.0	0.0	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	304.6	(3.5)	2.9	114.3	146.9	124.9	96.0
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	124.1%	96.6%	118.4%	150.0%	155.4%	146.9%	138.0%
Percent of Total (Program + Core) Costs Covered	113.8%	71.9%	100.7%	127.6%	132.2%	124.9%	117.4%

TABLE 36

PROPEMI

High Bad Debt Loss Scenario

ASSUMPTIONS:

* 304 amended to provide $2.5m in capital in '90 and '91
* Bad Debt Loss = 3%

		1988	1989	1990	1991	1992	1993	1994
* Exchange Rate	1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income (Course fees):				10%	10%	10%	10%	10%
* Growth Rate of Expenses:				15%	15%	15%	15%	15%

Figures in US Dollars (000s)		actual 1988	projected 1989	1990	1991	1992	1993	1994
INCOME								
AID Expense Support (304)		266.3	0.0	0.0	0.0	0.0	0.0	0.0
(304 Amendment)		0.0	160.0	0.0	0.0	0.0	0.0	0.0
Client Donations		120.0	0.0	0.0	0.0	0.0	0.0	0.0
Course fees		30.4	48.5	44.4	41.9	46.1	50.7	55.7
Interest on Portfolio	15%	166.2	370.5	442.5	550.7	632.4	640.4	640.4
less Bad Debt Loss	3.0%	0.0	0.0	(66.0)	(95.1)	(126.5)	(128.1)	(128.1)
Loan Premium	0.0%	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Income		582.8	579.0	420.9	497.4	552.0	563.0	568.1
EXPENSES								
Program Costs								
Technical Assistance		5.5	68.2	3.3	3.3	3.8	4.3	5.0
Seminars & Conferences		2.9	3.8	5.0	4.9	5.7	6.5	7.5
Publicity & Publications		14.7	76.7	57.5	56.7	65.2	75.0	86.2
Core Operating Costs								
Salaries and Benefits		194.6	281.2	296.7	292.4	336.3	386.7	444.7
Rent and Services		52.7	68.6	60.8	60.0	69.0	79.3	91.2
Employee Travel		4.5	13.3	7.5	7.4	8.5	9.8	11.2
Furniture and Equipment		3.2	70.7	2.5	2.5	2.8	3.3	3.7
Contingency		0.0	0.0	6.7	6.6	7.6	8.7	10.0
Total Expenses		278.2	582.5	440.0	433.7	498.8	573.6	659.6
Net Margin		304.6	(3.5)	(19.1)	63.7	53.2	(10.6)	(91.5)
Cumulative Surplus (Deficit)			(3.5)	(22.0)	44.8	53.2	(10.6)	(102.1)
less Plowback			0.0	0.0	(44.8)	(53.2)	0.0	0.0

	1989	1990	1991	1992	1993	1994
Portfolio Balance (Loans & Deposits)	2,300.0	2,200.0	3,171.4	4,216.3	4,269.5	4,269.5
Additions - Internal (Plowback)	0.0	0.0	44.8	53.2	0.0	0.0
- AID Contributions	340.0	1,500.0	1,000.0	0.0	0.0	0.0
Next Year's Portfolio	2,640.0	3,700.0	4,216.3	4,269.5	4,269.5	4,269.5

TABLE 36 -- Continued

PROPEMI

High Bad Debt Loss Scenario

SUFFICIENCY OF SELF-GENERATED INCOME

(US$000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	316.5	419.0	420.9	497.4	552.0	563.0	568.1
less Core Operating Costs	255.1	433.8	374.2	368.8	424.1	487.8	560.9
Surplus (Deficit) on Core Ops.	61.4	(14.9)	46.7	128.6	127.9	75.2	7.1
less Program Costs	23.1	148.7	65.8	64.9	74.6	85.8	98.7
Margin	38.3	(163.5)	(19.1)	63.7	53.2	(10.6)	(91.5)
plus AID Grants	266.3	160.0	0.0	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	304.6	(3.5)	(19.1)	63.7	53.2	(10.6)	(91.5)
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	124.1%	96.6%	112.5%	134.9%	130.1%	115.4%	101.3%
Percent of Total (Program + Core) Costs Covered	113.8%	71.9%	95.7%	114.7%	110.7%	98.2%	86.1%

TABLE 37

PROPEMI

Loan Premium Scenario

ASSUMPTIONS:

* 304 amended to provide $2.5m in capital in '90 and '91
* Loan Premium = 11 %
* Cost Control

		1988	1989	1990	1991	1992	1993	1994
* Exchange Rate	1 $US =	5.0	5.0	6.0	7.0	7.0	7.0	7.0
* Growth Rate of Income (Course fees):				10%	10%	10%	10%	10%
* Growth Rate of Expenses:				10%	10%	10%	10%	10%

Figures in US Dollars (000s)		actual	projected					
		1988	1989	1990	1991	1992	1993	1994
INCOME								
AID Expense Support (304)		266.3	0.0	0.0	0.0	0.0	0.0	0.0
(304 Amendment)		0.0	160.0	0.0	0.0	0.0	0.0	0.0
Client Donations		120.0	0.0	0.0	0.0	0.0	0.0	0.0
Course fees		30.4	48.5	44.4	41.9	46.1	50.7	55.7
Interest on Portfolio	15%	166.2	370.5	442.5	578.7	724.4	828.7	950.8
less Bad Debt Loss	2.0%	0.0	0.0	(44.0)	(67.2)	(96.6)	(110.5)	(126.8)
Loan Premium	11.0%	0.0	0.0	217.8	332.5	478.1	546.9	627.5
Total Income		582.8	579.0	660.7	885.9	1,151.9	1,315.8	1,507.3
EXPENSES								
Program Costs								
Technical Assistance		5.5	68.2	3.3	3.1	3.5	3.8	4.2
Seminars & Conferences		2.9	3.8	5.0	4.7	5.2	5.7	6.3
Publicity & Publications		14.7	76.7	57.5	54.2	59.6	65.6	72.2
Core Operating Costs								
Salaries and Benefits		194.6	281.2	296.7	279.7	307.7	338.5	372.3
Rent and Services		52.7	68.6	60.8	57.4	63.1	69.4	76.3
Employee Travel		4.5	13.3	7.5	7.1	7.8	8.6	9.4
Furniture and Equipment		3.2	70.7	2.5	2.4	2.6	2.9	3.1
Contingency		0.0	0.0	6.7	6.3	6.9	7.6	8.4
Total Expenses		278.2	582.5	440.0	414.9	456.3	502.0	552.2
Net Margin		304.6	(3.5)	220.7	471.0	695.6	813.8	955.1
Cumulative Surplus (Deficit)			(3.5)	217.8	471.0	695.6	813.8	955.1
less Plowback			0.0	(217.8)	(471.0)	(695.6)	(813.8)	(955.1)

	1989	1990	1991	1992	1993	1994
Portfolio Balance (Loans & Deposits)	2,300.0	2,200.0	3,358.1	4,829.1	5,524.7	6,338.5
Additions - Internal (Plowback)	0.0	217.8	471.0	695.6	813.8	955.1
- AID Contributions	340.0	1,500.0	1,000.0	0.0	0.0	0.0
Next Year's Portfolio	2,640.0	3,917.8	4,829.1	5,524.7	6,338.5	7,293.6

TABLE 37 -- Continued

PROPEMI

Loan Premium Scenario

SUFFICIENCY OF SELF-GENERATED INCOME

(US$000s)

	1988	1989	1990	1991	1992	1993	1994
Self-Generated Income	316.5	419.0	660.7	885.9	1,151.9	1,315.8	1,507.3
less Core Operating Costs	255.1	433.8	374.2	352.8	388.1	426.9	469.6
Surplus (Deficit) on Core Ops.	61.4	(14.9)	286.5	533.1	763.9	889.0	1,037.7
less Program Costs	23.1	148.7	65.8	62.1	68.3	75.1	82.6
Margin	38.3	(163.5)	220.7	471.0	695.6	813.8	955.1
plus AID Grants	266.3	160.0	0.0	0.0	0.0	0.0	0.0
Overall Surplus (Deficit)	304.6	(3.5)	220.7	471.0	695.6	813.8	955.1
SELF-SUFFICIENCY							
Percent of Core Operating Costs Covered	124.1%	96.6%	176.6%	251.1%	296.8%	308.2%	321.0%
Percent of Total (Program + Core) Costs Covered	113.8%	71.9%	150.2%	213.5%	252.4%	262.1%	273.0%

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ANNEX A

LIST OF PERSONS CONTACTED

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LIST OF PERSONS CONTACTED

USAID/El Salvador

Frank Skowronski, Rural Development
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Rosa Maria Alvarez, Private Enterprise
Juan Butari, Economics

FUSADES

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Raul Montenegro, Planificacion y Desarrollo
Jose Angel Landaverde, Director de Administracion y Finanzas
Alonso Figueroa, Contralor
Jorge Flores, Contador

DIVAGRO
Fildelfo Baires, Director
Jenaro Martinez, Gerente de Administracion
Mario Molina, Gerente de Mercadeo

PRIDEX
Carlos A. Palacios E., Director

FIDEX
Raul Alvarez, Director

FORTAS
Mario Eduardo Valiente, Director

DEES
Jose Angel Quiros, Director de Planificacion y Desarrollo

PROPEMI
Jose Luis Avalos, Director Ejecutivo

ANNEX B

ACRONYMS AND TERMS

ANNEX B

ACRONYMS AND TERMS

DEES	Departamento de Estudios Economicos y Sociales (Economic and Social Studies Department of FUSADES)
DIVAGRO	Diversificacion Agricola (Department of FUSADES responsible for agricultural research, technical assistance and promotion)
FUSADES	Fundacion Salvadorena para el Desarrollo Economico y Social (Salvadorean Foundation for Economic and Social Development)
FIDEX	Fondo de Inversion para la Exportacion (Department of FUSADES to provide financing for industrial export projects)
FORTAS	Fortalecimiento de Asociaciones (Department in FUSADES to provide assistance to private secotor business and trade associations)
PRIDEX	Programa de Promocion de Inversiones y Diversificacion de Exportaciones (Department in FUSADES responsible for promoting investment in and exportation of nontraditional products)
PROMISAN	Programa de Promocion de Microempresas de San Miguel. A program funded by the Interamerican Development Bank
PROPEMI	Promocion de la Pequena y Microempresa (Department of FUSADES responsible for providing training and credit assistance to small scale enterprises)