

XD-ARM-865-D
99272

ANNEX IV

**MID-TERM EVALUATION OF THE
NATIONAL RECONSTRUCTION PROJECT
SUPPORT FOR TRANSITION TO PEACE IN EL SALVADOR**

(NO. 519-0394)

(CLUSA)

ACRONYMS

AID	Agency for International Development (U.S.)
CLUSA	Cooperative League of the U.S.A.
CRECER	Equitable Rural Economic Growth Project (No. 519-0397)
EEC	European Economic Community
ERP	Popular Revolutionary Army
FAES	Armed Forces of El Salvador
FMLN	Faribundo Marti National Liberation Movement
FUSADES	Salvadoran Foundation for Economic and Social Development
MZ	manzana = 0.7 ha
NGO	A private, non-profit, non-government organization
NRS	The National Reconstruction Project Support for Transition to Peace in El Salvador (No.519-0394)
NTAE	Non-Traditional Agriculture Export Products
OCIA	Organic Crop Improvement Association
PROESA	Association of Salvadoran Producers and Entrepreneurs
PROXSAL	Salvadoran Producers and Exporters Organization
SRN	National Reconstruction Secretariat
UCRAPROBEX	Union of Coffee Producers, Processors and Exporters
USAID	United States Agency for International Development

NATIONAL RECONSTRUCTION PROJECT
SUPPORT FOR TRANSITION TO PEACE IN EL SALVADOR

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. INTRODUCTION	3
PROJECT BACKGROUND	3
1. PROESA	4
2. Expected Results	5
II. ANALYSIS	6
A. SUITABILITY OF PROJECT DESIGN AND IMPLEMENTATION STRATEGY	6
B. ANALYSIS OF EXTERNAL PROJECT IMPACT	8
1. Overall impact	8
2. Gender impact	9
3. Impact on the environment	9
C. SUSTAINABILITY OF PROJECT BENEFITS	10
1. Sustainability of implementing organizations	10
2. Sustainability of assisted organizations	10
D. EFFECTIVENESS OF PROJECT MONITORING AND MANAGEMENT	10
E. PROJECT COST EFFECTIVENESS	11
III. CONCLUSIONS AND RECOMMENDATIONS	12
A. CONCLUSIONS	12
B. RECOMMENDATIONS	13

EXECUTIVE SUMMARY

The National Reconstruction Project Support for Transition to Peace in El Salvador¹ (No. 519-0394) is being carried out by the Cooperative League of the U.S.A. (CLUSA) in collaboration with the Association of Salvadoran Producers and Entrepreneurs (PROESA). The Project began as an unsolicited proposal submitted jointly by CLUSA and PROESA to USAID in early 1994. The approved project was attached to CLUSA's Non-Traditional Agriculture Export (NTAE) Production and Marketing Project (519-0392). The NRS Project began on May 25, 1994 and will expire on July 30, 1996, whereas the CLUSA/NTAE Project will expire on June 30, 1996. The NRS Project contributes to the goal of increasing rural incomes and employment in El Salvador through production of alternate crops and access to more lucrative markets. The purpose of this Project is to increase production and marketing of non traditional agricultural exports by cooperatives and other participating small farmers operating in rural areas most affected by the civil war.

MAJOR CONCLUSIONS

- CLUSA and PROESA have begun a process of integrating a portion of the demobilized forces into society. CLUSA has also initiated a process of strengthening PROESA to eventually assume the major role in this area.
- The ends and means of the project are confused. The stated purpose of the Project is to increase the production and marketing of NTAEs by cooperatives and small farmers. However, in light of USAID strategic objectives, the greater issue is the reintegration of ex-combatants and sympathizers into the economic mainstream with a sustained increase in employment and family income. PROESA is assisting the ex-combatants with their reintegration into civil society, and CLUSA is providing the means to do so through the production and export of non-traditional crops. If the real purpose of the Project is the reintegration of these groups into civil society, CLUSA should be given greater flexibility to pursue other options, such as relaxing the export focus and pursue more stable local markets when appropriate.
- CLUSA has never established clear-cut objectives for the growth and development of the participating groups, therefore it is not clear when they can "graduate". Without targets and mileposts against which progress can be measured, the program will become self-perpetuating.
- The only producer associations that are run as traditional production cooperatives are those growing perineal crops on a large scale: coffee and cocoa. All other organizations are loose associations of individual farmers. The loosely organized voluntary associations

¹For the sake of brevity the title of the Project will be shortened to the National Reconstruction Support (NRS) Project in this report.

are loose associations of individual farmers. The loosely organized voluntary associations which form the basis of the solidarity groups fit the "spirit of cooperation" much better than Phase I Agrarian Reform cooperatives. Since these associations are essentially service cooperatives their long term chance of success may be greater than the "top down" production cooperatives created under the Agrarian Reform program. CLUSA's focus should be to help the associations define what group functions can best serve the individuals (i.e. credit, technical assistance, joint marketing, etc.), and to help create the appropriate administrative and organizational structure to fill their needs.

RECOMMENDATIONS

- These cooperatives and groups are too weak to produce and export non-traditional crops over the long term without continued assistance from CLUSA. Therefore, the Project may not be highly cost effective. It is recommended that the "E" be dropped from "NTAE" and that the Project be given the flexibility to promote non-traditional agricultural crops either for local markets, or for export.
- It is also recommended that the project implement a comprehensive management development program to give the small producers a greater sense of their overall operation. This would focus on the whole farm as a business, not only on favored products.
- It is not likely that any of the ten cooperatives and associations currently receiving technical assistance under the Project will be able to continue unaided by the time the pilot project ends. If the momentum gained over the life of the pilot project is not to be lost, then the current pilot project will have to be expanded in some form for a normal project life of approximately five years. It is recommended that USAID and CLUSA explore reasonable alternatives for extending the period of assistance to the benefitting groups.

RESPONSE TO REVIEWER'S COMMENTS:

The draft evaluation report was circulated for review and comment to USAID Officials as well as to the management and staff at CLUSA who have been involved in implementing the National Reconstruction Support Project. In most cases the final report was modified as appropriate to reflect the information provided by the reviewers. In other cases their comments are shown as footnotes to the relevant section of the text. In all cases the evaluation team has attempted to fairly reflect the comments of the reviewer in the final evaluation report.

I. INTRODUCTION

PROJECT BACKGROUND

The National Reconstruction Support Project (No. 519-0394) is being carried out by the Cooperative League of the U.S.A. (CLUSA) in collaboration with the Association of Salvadoran Producers and Entrepreneurs (PROESA). Both organizations are private, non-profit, non-government entities (NGOs). The Project began as an unsolicited proposal submitted jointly by CLUSA and PROESA to USAID in early 1994. The approved project was attached to CLUSA's Non-Traditional Agriculture Export (NTAE) Production and Marketing Project (519-0392). The NRS Project began on May 25, 1994 and will expire on July 30, 1996, the completion date of the NTAE Project.

Similar to Project 519-0392, the NRS Project contributes to the goal of increasing rural incomes and employment in El Salvador through production of alternate crops and access to more lucrative markets. The purpose of this Project is to increase production and marketing of non traditional agricultural exports (NTAEs) by cooperatives and other participating small farmers operating in rural areas most affected by the civil war. The purpose is being achieved by increasing and improving production of NTAEs, improving and expanding NTAE marketing systems, strengthening existing linkages and developing new relationships between NTAE producers, processors and exporters, and by increasing the investments in NTAE production and marketing through a supervised credit program.

The NRS Project provides technical assistance and training in non-traditional crop production and makes agricultural credit available for delivery in a timely manner. It was designed as a pilot project for the cultivation, processing, marketing and exporting of NTAE crops such as organic coffee, chili peppers, cantaloupe, marigold, onions, and organic sesame. The Project budget was fixed at \$900,000 for twenty-seven months of effort, which includes a revolving fund in the amount of \$200,000 to provide short term credit for crop production. The focus of the Project is on emerging cooperatives and small producer groups located in previous war zones of San Miguel and Usulután. Most of these groups are composed of ex-guerilla fighters with little or no previous experience in agriculture, with no cash reserves, with no collateral, and with no private-sector credit history.

This pilot effort should demonstrate that these individuals and groups are capable of producing and marketing NTAE crops and can manage credit in a responsible manner. Participating farmers and cooperatives will benefit from increased income earned from NTAE crop sales which should stimulate savings and investment. Expected ancillary benefits include a) increased employment and income in these economically depressed areas, b) the introduction of a formal, supervised credit system serving project beneficiaries and other, similar groups, and c) the creation of a network of collaborating processors, exporters, marketers and brokers who are responsible, reliable, and trustworthy.

An important objective is that the credit component must be sustainable by the time the pilot project ends. It was originally intended that by the end of the Project the cooperatives as well as participating banking institutions would have made sufficient progress so that further technical assistance and administrative support for providing credit would no longer be required. Producers and cooperatives were expected to be technically competent in the production of selected non-traditional crops, and credit-worthy from the standpoint of the lending institution. The participating financial institutions were expected to conclude from their experience with NTAEs that the sector is not necessarily more risky than traditional agriculture, and therefore would be willing to provide continued credit to the participating cooperatives. Unfortunately, none of the commercial banks invited by CLUSA to enter into the credit program were willing to administer credit to the participating groups. It therefore became necessary for CLUSA and PROESA to assume direct responsibility for the program. These two organizations have formed a loan authorization committee which approves credit for the benefitting associations, with loan administration handled by a committee composed of PROESA and NRS Project staff. The cooperatives participate in a "managed" or "supervised" loan program wherein they receive cash for only those expenses that the PROESA administrator is unable to pay by check, such as the bi-weekly wages of hired labor. Credit policy is similar to that of a commercial bank: interest is charged at the market rate and formal applications and loan agreements are required. Additionally, before loan disbursements are made the need must be verified and approval granted by CLUSA project officers.

CLUSA and PROESA collaborate on the selection of the participants in the pilot project. Ten groups currently participate: Six are composed of ex-guerilla fighters and/or sympathizers; one is composed of demobilized members of El Salvador's armed forces, (FAES), and the three remaining groups are Agrarian Reform cooperatives which were originally created in the early 1980s but were practically destroyed by the civil war. The total area farmed in NTAE crops by the ten associations during their first full year of participation in the Project was 891 manzanas. The breakdown in area farmed by product was as follows: Organic coffee - 519 mz; organic cacao - 191 mz; black-eyed peas - 129 mz; honeydew melons - 23 mz; sesame - 20 mz; marigold - 9 mz. The area in production by individual groups ranged from a minimum of 9 mz to a maximum of 278 mz.

1. PROESA

PROESA was formed in 1992, and legalized in June, 1995. The majority of its constituency is composed of former members and supporters of the Popular Revolutionary Army (ERP), one of the five splinter groups forming the Faribundo Marti National Liberation Movement (FMLN). The organization claims to represent approximately one-third of the 7,500 ex-guerilla fighters, and a similar percentage of some 23,500 ex-collaborators with the guerilla movement.

PROESA sees its primary roles as a sourcing agency for services (credit and technical assistance) required by ex-combatant and civilian groups in zones heavily affected by the civil war. Services

are provided to renovate abandoned farms, to rehabilitate agricultural enterprises, and to repair and/or install rural infrastructure. In addition to its work with CLUSA, the foundation has a contract with the National Reconstruction Secretariat (SRN) to provide technical assistance to recently formed cooperatives in grain, cattle, and poultry production. PROESA has also assisted 34 rural groups and cooperatives to legalize land transfers arising from the peace accords, in coordination with the USAID-funded Land Bank. In addition, the foundation has assisted rural groups in the preparation of necessary documentation to participate in a number of self-help housing projects.

It is intended that PROESA will be one of the sustainable institutions when CLUSA leaves El Salvador. CLUSA has provided technical assistance to strengthen PROESA as an organization, and continues to facilitate PROESA's development through a policy of open-door collaboration on all Project activity. CLUSA's support has made it possible for PROESA to copy the former's techniques of production planning, control and agricultural extension in locations outside the NRS Project area. With the maturing of the pilot project, PROESA has begun to fill the role of full partner in almost all aspects of project administration. Once the pilot project ends, PROESA will receive the monies remaining in the revolving credit fund to continue other, similar initiatives in the economically depressed previous battle zones of El Salvador.

2. Expected Results

The following objectives are expected to be achieved by the time the NRS Project ends:

- NTAE crops will be grown on 1,050 hectares.
- Cumulative NTAE production will have reached 12,500 metric tons.
- Ten cooperatives or producer groups will be served, with a minimum total number of beneficiaries of 1,000 people.
- PROESA will be trained to manage the production, post-harvest handling and marketing of five NTAE products.

Attached Table 1 shows actual progress made toward accomplishing Project objectives after the first year of activity.

Attached Table 2 shows the actual level of expenditures to-date for each line item, compared with the budget for the entire Project.

II. ANALYSIS

A. SUITABILITY OF PROJECT DESIGN AND IMPLEMENTATION STRATEGY

The unsolicited proposal for the NRS Project was developed jointly by CLUSA and PROESA to provide for the transfer of production technology and marketing assistance to newly-formed cooperatives and producer associations in the ex-conflictive zones of El Salvador. The CLUSA "package" of technical assistance and training provided to these cooperatives is similar to that provided under the NTAE Production and Marketing Project but with the additional benefit that production credit is available. Most of the assisted organizations would not otherwise qualify for crop production credit, in light of their limited business experience and the political controversy surrounding their creation.

The Project has six components:

- a) To bring about technology transfer by technical assistance and training of NTAE producers by linking them to processors and exporters, and by developing a supporting network of agricultural service enterprises.
- b) To carry out NTAE market promotion to local and U.S. buyers, brokers, exporters and processors. Information is to be provided to processors as well as exporters about market demand and price quotations for NTAE products.
- c) To strengthen the administrative, organizational, and financial management capacity of the participating cooperatives and producer associations. CLUSA is expected to help the enterprises develop comprehensive action plans, to design and install accounting systems, to help bring about a functional management structure, to develop business procedures and administrative controls, and to assist in the development of second-level cooperative Associations.
- d) Assistance is to be provided in training and information management. Modular programs must be developed for purposes of training cooperative members and certain individuals designated as training instructors. The Project must also maintain a record keeping and reporting system to monitor the production of the participating cooperatives.
- e) A revolving loan fund was created in the amount of \$200,000 to finance the production and marketing on non-traditional crops for export by project beneficiaries.
- f) CLUSA provides administrative support to the Project. A separate NRS Project administrator was employed, and CLUSA uses established administrative systems made available by the NTAE Production and Marketing Project, at no extra cost.

Although USAID's efforts to reintegrate these groups into the mainstream of El Salvador's economy has tremendous merit and will surely play an important role in maintaining the peace, CLUSA's task appears extremely difficult. CLUSA is currently assisting cooperatives and farmers' associations with NTAE crop production and marketing under the following conditions:

- a) Crops are grown by "new" farmers, generally without agricultural experience, most of whom are experienced only in warfare;
- b) crops are grown on "new" land, which has been generally unused or under utilized for many years since it is located in previous combat zones;
- c) these "new" farmers are producing "new" crops, which are non-traditional, and therefore untried, and
- d) "new" food products are shipped to "new" markets overseas, under vigorously competitive conditions which demand extremely high product quality.

CLUSA has wisely mitigated some of the risk of these new ventures by first, promoting "organic" cultivation of coffee and cacao - both being perennial tree crops which have been grown for many years in El Salvador, yet require more disciplined agricultural practices to qualify as "organic". Secondly, the project has encouraged the cultivation of chili peppers, black-eyed peas, and marigold for local sale to processors at fixed prices, so the grower assumes none of the overseas market risk. The only venture promoted so far which has been subject to greater risk was a melon crop grown by one cooperative. Unfortunately the crop was not profitable due to weather-related production problems.

Under the watchful eyes of CLUSA and PROESA the Project appears to be performing well. However, of real concern is that the project may not be highly cost-effective in light of the length and intensity of the technical assistance which will most likely be required to move the benefitting organizations to a level of management and financial self-sufficiency where they become sustainable producers and exporters of non-traditional agricultural products. With the benefit of hindsight, it appears that the "standard" CLUSA-NTAE Project benefits package has been applied to new cooperatives and associations which started from a much lower level of development and which are working under more difficult conditions than those encountered by the mature Agrarian Reform cooperatives. Therefore, progress with these groups is likely to be much slower and the time required to achieve self-sufficiency much greater than has been the case for other cooperatives.

A reexamination of the strategy for achieving Project goals may be in order, in light of USAID's strategic objectives of creating democratic institutions and broad-based economic growth. The real issue at hand is the reintegration of the participating groups and their affiliates into the economic mainstream, and to bring about a sustained increase in employment and family income by the Project participants. The "raison d'etre" of the Project should be the reintegration of these groups into the economic fabric of the nation - and to ensure that they remain there - not to produce and export more NTAEs. In view of the stated Project purpose (to increase the production and marketing of NTAEs by cooperatives), it appears that the means and end of the Project are awry. The purpose of the Project should be the reintegration of these groups into the economy. The strategy chosen to carry out the Project is to produce and export NTAEs. Other

strategies could well be considered to bring about the reintegration of ex-combatants into the economy.

The evaluation team feels strongly that the Project's requirement to export non-traditional crops by farmer's organizations whose development needs are at such a basic level should be reconsidered. The requirement to fit the NTAE "mold" should be relaxed. This does not imply a radical change in the project concept - the simple elimination of the "E" in NTAE would suffice. The modified Project would focus on crop diversification, or the production of non-traditional agriculture (NTA) crops, either for export or for local markets. Diversified crops sold locally in substitution for imports have a similar economic impact as export crops, but are less demanding in terms of production technology, and generally carry lower market risk.

B. ANALYSIS OF EXTERNAL PROJECT IMPACT

1. Overall impact

With the exception of NTAE production, the project has already met or exceeded its end of project status (Table 1). The production target remains a formidable challenge, however. The limited progress made to date is probably a reflection of the relative inexperience that most of the ex-combatants face in working in a highly demanding export market, the badly deteriorated conditions found on some of the farms in the battle-torn areas as a result of being abandoned for 12 years, and because the producers have only been growing non-traditional crops for one year. The team was impressed by the determination of the ex-combatants to persevere in their task, and to become productive members of society.

CLUSA and PROESA may ultimately be more successful in the reintegration of the ex-combatants into civil society than in producing and exporting non-traditional crops. It seemed apparent from our interviews with the leaders of the associations that considerable progress has been made in forming cohesive groups. Because of their youth and the lengthy period of involvement in the war, many of the members have spent the greater part of their lives in a military culture, where military organization and a command structure figured largely. We heard repeatedly that for many, this new agricultural activity represents a major cultural shift toward a situation where individuals decide how to freely associate to achieve socially desirable ends. The groups have yet to decide fully which functions they wish to carry out on a cooperative basis and which they wish to pursue individually. CLUSA has much to offer in this process.

Clearly, earning a decent living is a high priority for the demobilized fighters. One might say that they are intense in their desire to make up for lost time. Many felt that they would not be able to accomplish this through the production of traditional crops, such as maize. The argument can be made that since most of these individuals are beginning essentially from zero, they should be directed toward an activity that, if successful, at least has the possibility of providing them with an adequate income. The problem, as the evaluation team sees it, is the higher level of risk

inherent in NTAEs. The team recognizes the efforts that CLUSA and PROESA are making to reduce these risks where possible, such as by selling through local processors. However we are still concerned that the inherent risk in selling fresh products for export, given market and production uncertainties, could result in financial losses which would slow or even reverse the cultural changes taking place.

The ex-combatants themselves often described the change they were experiencing as an evolution. One could envision a slightly different evolutionary scenario in which the target population begins with less demanding crops produced for local markets, and as experience and greater skills are acquired, moving into higher value products destined for export.

2. Gender impact

CLUSA's project paper for the National Reconstruction Support Project did mention women as being present in the targeted communities, although specific objectives were not set for female beneficiaries. Quarterly reports provide breakdowns of employment participation, training, credit disbursements, and beneficiaries by gender, and also report on project accomplishments which involve women.

Women have meaningful participation in project activities through several avenues. The three senior executives and most members of PROESA's staff are women. One of the Agrarian Reform coffee cooperatives targeted by CLUSA has a predominantly female membership. About one-third of the employment days generated to date under the Project have benefitted women; one fifth of those who have participated in training events are women, and just over one fourth of those who have received credit are women. There is no indication that activities related to the projects have affected the way women and men are perceived.

3. Impact on the environment

The production of many of the NTAEs call for the use of agricultural chemicals. CLUSA and PROESA have focused attention on the proper management of these chemicals through training events, and 176 men and women have participated in training on natural pest controls, integrated pest management, and the safe use of pesticides. CLUSA has included reforestation projects in its technical assistance program, as an environmental activity and also as a perineal agricultural crop. During the first year of the Project, participating cooperatives have reforested thirteen hectares. Additionally, sixty-three hectares have been included in soil conservation programs for watershed protection by the excavation of rainfall catch basins, and by constructing terraces on hillside coffee farms.

CLUSA and PROESA seem to be on track with their strategy to produce organic crops directed toward niche markets. CLUSA is pursuing a strategy which takes advantage of the dozen years of abandonment of farms in the ex-conflictive zone to obtain certified organic status by the

Organic Crop Improvement Association (OCIA) for three coffee plantations, one organic sesame unit, and one organic cacao production unit. This certification enables the producers to take advantage of a price premium, and the cultivation of organic crops generates additional employment through the on- farm production of fertilizer and natural pesticides. In addition, the crops can be grown at lower cost, and are less damaging to the environment than conventional farming practices.²

C. SUSTAINABILITY OF PROJECT BENEFITS

1. Sustainability of implementing organizations

The CLUSA/El Salvador effort is not considered sustainable without continued USAID support, nor was it intended to be. It is planned that PROESA will be the organization remaining behind after CLUSA's work ends. However, it is doubtful that PROESA will be capable of carrying out CLUSA's technical services and export marketing assistance to the cooperatives and small farmer organizations when the current pilot project ends. USAID should consider providing continued institutional support to PROESA by linking the organization with the cooperative development component of the Equitable Rural Economic Growth (CRECER) Project (519-0397). If this is not possible, USAID should consider the possibility of providing the services of a resident advisor for a period of approximately two years to help the organization develop and implement effective internal management systems, and to train a cadre of technicians with skills in the production and post-harvest handling of non-traditional crops.

2. Sustainability of assisted organizations

It is not likely that any of the ten cooperatives and associations currently receiving technical assistance under the Project will be able to continue unaided by the time the pilot project ends. If the momentum gained over the life of the pilot project is not to be lost, then the current pilot project will have to be expanded, or otherwise the benefitting cooperatives will have to be incorporated into the CRECER Project.

D. EFFECTIVENESS OF PROJECT MONITORING AND MANAGEMENT

It is evident that CLUSA and PROESA are deeply involved in the day to day activities of the participating groups in the production and marketing of non-traditional crops, and USAID is

²CLUSA took the initiative in promoting, during project design and environmental impact assessment, the elimination of the use of Category 1 and 2 pesticides by projec. related producers. These pesticides are arguably the most toxic and high risk pesticides for people and the environment. CLUSA has actively sought to use Integrated Pest Control strategies that use safer and more environmentally friendly technologies, such as traps, and repellents. In addition organic control measures and farming practices have been promoted for a number of crops. All these efforts have been focused on the goal of reducing or eliminating the use of potentially harmful agricultural pesticides.

closely following their progress. The evaluation team was favorably impressed by the quality and effectiveness of project monitoring and management.

Because the NRS project is an add-on to CLUSA's main NTAE Production and Marketing Project, it also benefits from the market linkages and export promotion activities carried out by the primary Project. Project management has been more effective through linkage with other projects and institutions. For example, PROESA is working with the Union of Coffee Producers, Processors and Exporters (UCRAPROBEX), and is a founding member of the Salvadoran Producers and Exporters Organization (PROXSAL). PROESA received assistance from the Salvadoran Foundation for Economic and Social Development (FUSADES) when developing its original project proposal, which was extensively modified by CLUSA prior to being approved by USAID. PROESA also benefitted from management training provided by TechnoServe under the Rural Enterprise Development Project before the latter project ended. PROESA also benefits from other projects which it administers, such as European Economic Community (EEC) assistance for the integration of ex-combatants into civil society.

E. PROJECT COST EFFECTIVENESS

CLUSA uses a method of measuring cost effectiveness for its NTAE Production and Marketing Project which has been modified slightly to meet the needs of this evaluation. CLUSA's method is to add together all costs related to project implementation which are under the control of the CLUSA/El Salvador Chief of Party, and to relate this sum to the number of cooperatives assisted, the number of hectares in production, the amount of NTAEs exported, and so on. For purposes of this evaluation, a similar calculation is made, except that the total Project expenditure is used as the basis for the calculation, which includes CLUSA home office overhead, USAID-controlled costs, and those costs incurred by CLUSA's local office. From USAID's point of view, all these are elements of the total Project cost and should be considered. Note that the Project ends on July 31, 1996.

Under this criterion, the indices of cost-effectiveness are shown by the following table:

**NRS PROJECT INDICATORS OF COST EFFECTIVENESS
(LIFE OF PROJECT UNTIL 6-30-95)**

<u>ITEM</u>	<u>TOTAL AMOUNT</u>	<u>UNIT COST (\$)</u>
Direct Project Expenses (\$)	279,811	n/a
Funds in Revolving Loan Account (\$)	177,000	n/a
Total outlays (\$)	456,811	n/a
Employment days generated (days)	23,178	\$19.70
Increase in NTAE area planted (ha)	623	\$733.24
NTAE production (lbs.)	501,600	\$0.91
Cooperatives and small producers assisted	10	\$41,528.30
Exporters and foundations assisted	1	\$41,528.30
No. cooperative members	4,874	\$93.72

Not surprisingly, the cost per group assisted by the National Reconstruction Project is similar to CLUSA's cost per cooperative assisted under the NTAE Production and Marketing Project. However, in terms of output achieved, the NRS Project is expensive. For example, the cost of \$19.70 per employment day generated is approximately five times the average daily wage for farm labor. Furthermore, at a cost of \$.91 per pound of NTAE production, the Project cost is greater than the farmgate price of many of the crops grown. However, the output should increase as the Project evolves, and once the production on non-traditional crops becomes sustainable the benefits will continue for the indefinite future. Both factors will tend to reduce the per-unit cost.

III. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

- CLUSA/PROESA have begun a process of integrating a portion of the demobilized forces into society. CLUSA has also initiated a process of strengthening PROESA to eventually assume the major role in this area.
- The ends and means of the Project are confused. The stated purpose of the Project is to increase the production and marketing of NTAEs by cooperatives and small farmers. However, in light of USAID strategic objectives, the greater issue is the reintegration of ex-combatants and sympathizers into the economic mainstream with a sustained increase in employment and family income. PROESA is assisting the ex-combatants with their

reintegration into civil society, and CLUSA is providing the means to do so through the production and export of non-traditional crops. If the real purpose of the Project is the reintegration of these groups into civil society, CLUSA should be given greater flexibility to pursue other options, such as relaxing the export focus and pursue more stable local markets when appropriate.

- CLUSA has never established clear-cut objectives for the development of the participating groups, therefore it is not clear when they can never graduate. Without targets and mileposts against which progress can be measured, the program will become self-perpetuating.
- The only producer associations that are run as traditional production cooperatives are those growing perineal crops on a large scale: coffee and cocoa. All other organizations are loose associations of individual farmers. The loosely organized voluntary associations which form the basis of the solidarity groups fit the "spirit of cooperation" much better than Phase I Agrarian Reform cooperatives. Since these associations are essentially service cooperatives their long term chance of success may be greater than the "top down" production cooperatives created under the Agrarian Reform program. CLUSA's focus should be to help the associations define what group functions can best serve the individuals (i.e. credit, technical assistance, joint marketing, etc.), and to help create the appropriate administrative and organizational structure to fill their needs.

B. RECOMMENDATIONS

- These cooperatives and groups are too weak to produce and export non-traditional crops over the long term without continued assistance from CLUSA. Therefore, the Project may not be highly cost effective. It is recommended that the "E" be dropped from "NTAE" and that the Project be given the flexibility to promote non-traditional agricultural crops. It is also recommended that the project implement a comprehensive management development program to give the small producers a greater sense of their overall operation. This would focus on the whole farm as a business, not only on favored products.
- Under the assumption that USAID's program in El Salvador will be reduced overall, but that a high priority will continue to be placed on the successful execution of the peace accords, it is assumed that USAID/El Salvador will want to continue its effort to support the development of these demobilized groups. In that case, the pilot project should be extended in some form for a normal project life of approximately five years. Under the expanded project CLUSA will have the opportunity to build service organizations or cooperative enterprises as needed instead of having to "retrofit" Agrarian Reform production cooperatives.

It is recommended that USAID and CLUSA explore reasonable alternatives for extending the period of assistance to the benefiting groups.

- It is also recommended that the project implement a comprehensive management development program to give the small producers a greater sense of their overall operation. This would focus on the whole farm as a business, not only on favored products.

CLUSA's recommended approach will be:

- 1) To work on the basis of a farm enterprise model to create viable businesses.
- 2) To provide the institutional support to create and develop the organization needed to provide the required services.
- 3) To transfer production technology to the participating farmers, focusing on NTA as an income generator and as a methodology for transferring production and management skills to traditional crops.
- 4) Institute a comprehensive program of management development for the management team of the service enterprises.
- 5) Establish mileposts and clearly defined targets against which progress can be measured, so that the cooperatives and producer associations can ultimately graduate upon reaching the desired level of development.

TABLE 1 **NATIONAL RECONSTRUCTION PROJECT**

SUPPORT FOR TRANSITION TO PEACE IN EL SALVADOR

ACCOMPLISHMENT OF MAJOR PROJECT OUTPUTS

PROJECT OUTPUT	PLANNED LEVEL OF OUTPUT (ENTIRE PROJECT)	ACTUAL OUTPUT AS OF 6/30/95
Hectares on which NTAE products are grown	1,050	1,065
NTAE production (mt) (cumulative total)	11,500	228
Number of cooperatives served	10	10
Number of benefitting cooperative members	1,000	4,784
PROESA capable of managing NTAE products (No. products)	5	7

TABLE 2 **NATIONAL RECONSTRUCTION PROJECT**

SUPPORT FOR TRANSITION TO PEACE IN EL SALVADOR

PLANNED AND ACTUAL EXPENDITURES

BY PROJECT LINE ITEM

(UNTIL JUNE 30, 1995)

ITEM	PROJECT BUDGET	EXPENSES TO DATE
AID CONTRIBUTION		
Salaries and Wages	233,350	97,852
Fringe Benefits	58,037	23,173
Travel and Transportation	52,246	11,134
Allowances	61,995	20,410
Other Direct Costs	22,911	23,260
Overhead	171,414	56,090
Revolving Fund	200,000	177,000
Subcontracts	6,877	0
Procurement of Equipment	65,150	50,950
General and Administrative	28,020	10,908
Sub-Total USAID Contribution	900,000	456,811
CLUSA COUNTERPART		
In-Kind Counterpart Contribution	225,395	94,800
TOTAL COST OF PROJECT	1,125,395	551,611