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# *Mid-term Evaluation Report*

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## *Latin American Agribusiness Development Corporation (LAAD) SA*

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### *Executive Summary*

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*Prepared for OeEB  
by Joan Hall and Sandramaria Sanchez-Arguello (Ayani)*

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General Information:	
Region	Central America
Country	Nicaragua, Costa Rica, Guatemala, Honduras, El Salvador, Belize, Panama
Partner	Latin American Agribusiness Development S.A. (LAAD)
Sector	Financial Sector



Project Details of Evaluated Project:		
Project Nr.	122/IF/1	
Type	Debt – Senior Loan	
	Plan	Realized
Investment of OeEB	USD 15M	USD 15M
(Co-)Investment of partner	-	-
Total Investment	USD 15M	USD 15M
Maturity	7 years	7 years

Evaluation Details:	
Project No.	122/IF/1
Timeframe	July – August 2014
Participating Institutions	Latin American Agribusiness Development Corporation (LAAD) SA
Evaluators	Joan Hall and Sandramaria Sanchez -Arguello

## Project Description

This is a USD 15M credit line with a tenor of 7 years. It is the first such investment by OeEB in this financial institution. The loan was to be disbursed in up to 5 installments of at least USD 3M each. At June 2014, there were 30 loans in the portfolio, to 28 agribusinesses, totaling USD 14,832,000 in committed amounts and USD 13,869,000 in outstanding loans. The average loan size is USD 479,400. Ninety-nine percent (99%) of the OeEB credit line is disbursed.

## Project Objective

By supplying a regional financial institution, specialized in lending to agribusinesses, with a USD 15M credit line, OeEB aimed to fulfill the objectives of:

- providing long term and working capital to Central American agribusinesses
- raising productivity of Central American agribusinesses
- improving employment protection and creation for these agribusinesses
- increasing export potential

The target group is agribusinesses in Central America.

Overall Assessment	Assessment based on DAC criteria														
<p><b>Grade 2</b></p> <p>The project fits the OeEB mandate and the national agricultural policies. The problem statement is still valid. The choice of the financial institution partner was good. The credit line has been used appropriately, and has had development impact. No GMO activities are being funded, nor activities on the Exclusion List. Some improvements could be made to the Social and Environmental Management System. A complementary TA Grant Project was approved but never utilized.</p>	<table border="1"> <caption>Data for Overall Assessment Radar Chart</caption> <thead> <tr> <th>Criterion</th> <th>Score (Outer Circle)</th> </tr> </thead> <tbody> <tr> <td>Relevance</td> <td>2</td> </tr> <tr> <td>Effectiveness</td> <td>2</td> </tr> <tr> <td>Efficiency</td> <td>2</td> </tr> <tr> <td>Development Impact</td> <td>2</td> </tr> <tr> <td>Sustainability</td> <td>2</td> </tr> <tr> <td>Additionality</td> <td>2</td> </tr> </tbody> </table>	Criterion	Score (Outer Circle)	Relevance	2	Effectiveness	2	Efficiency	2	Development Impact	2	Sustainability	2	Additionality	2
Criterion	Score (Outer Circle)														
Relevance	2														
Effectiveness	2														
Efficiency	2														
Development Impact	2														
Sustainability	2														
Additionality	2														

## *Assessment Based on the Development Assistance Committee Criteria*

### Overall Assessment

The project is rated along the criteria established by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). The project fits the Oesterreichische Entwicklungsbank AG (Development Bank of Austria—OeEB) mandate and the national agricultural policies of the reason. The problem statement is still valid. The choice of the financial institution partner was good. The credit line has been used appropriately, and has had development impact. No activities involving genetically modified organisms (GMO) are being funded, nor activities on the Exclusion List. Some improvements could be made to the Social and Environmental Management System (SEMS). A complementary technical assistance (TA) Grant Project was approved but never utilized. The overall rating of the project is 2.

### Relevance

The development rationale for the project was to address the need of Central American agribusinesses to raise their productivity, using long-term finance for both working capital and investments. These investments would then contribute to more employment opportunities and/or to additional exports. In order to promote this development rationale, OeEB provided a credit line to the Latin American Agribusiness Development Corporation (LAAD), a specialized financial institution in agricultural finance. Ecological sustainability would be enhanced by excluding activities related to genetically modified organisms, as well as those determined in the Exclusion List. Complementary to this credit line, OeEB approved a Technical Assistance Project (grant) supporting fulfilling the requirements for a certification (e.g. Fair Trade) of LAAD borrowers in order to enhance local agribusiness.

The evaluation finds that rationale for the project was valid at the time the project was conceived, and continues to be valid. The credit line is used to finance agribusinesses in Central America with working and investment capital. Latin American agribusinesses needed and continue to need improvements in productivity, which can be done by investing in equipment, machinery, new varieties, improved planting techniques, and so on. This continues to be the case.

The project fits the OeEB mandate to facilitate and support private sector projects with development benefits. LAAD is a private sector actor, active in developing countries in Latin America, and is an economically stable and sustainable entity with development goals that adheres to country-level labour, environmental and social standards. The goal of the project is consistent with the national and regional policy goals of the governments in the OeEB target area of Central America.

The project objective fits with LAAD's mission and institutional culture. LAAD's institutional mission is "to finance small and medium-sized agribusiness projects to promote sustainable economic and social development in Latin America", with a goal "to improve production, distribution, and marketing of

agriculture-based products and encourage the development of private enterprise in the region.” LAAD’s lending philosophy and practice (sectoral lending, loan terms, due diligence, environmental compliance) conform to OeEB mandates, with the exception of the restriction on genetically modified organisms. LAAD finances these projects. However, LAAD has respected the OeEB mandate of not financing activities related to genetically modified organisms with the OeEB credit line.

The Technical Assistant Grant that was approved by OeEB to help borrowers achieve product certifications was never implemented for reasons that are not clear. According to interviews with LAAD borrowers during the evaluation, the purpose of the technical assistance grant facility remains relevant. Some borrowers were clearly interested in assistance to complete some certification processes.

LAAD has in place a Social and Environmental Management System, which is a set of procedures that are designed to ensure that LAAD avoids financing activities that have a negative impact on the environment, have negative impacts on workers, or that fail to comply with local regulations in these areas. The manual follows best practices, and was supported in its design and content by International Finance Corporation’s Environmental and Social Management System (ESMS) Program. IFC and LAAD recently conducted a self-assessment of this system, which came to the conclusion that LAAD’s Social and Environmental Management System is very well developed.<sup>1</sup>

The Social and Environmental Management System Manual is in line with OeEB mandates on social and environmental issues, with the exception of the genetically modified organism exclusion, which the manual does not address because the restriction is not a common factor for all LAAD loans. The manual uses the categorization of loans into three categories to indicate the potential for negative impacts: Category A for high risk projects, Category B for medium risk projects, and Category C with low/no risk projects.

Accordingly, the relevance of the project is rated as “Grade 1” (very good).

## Effectiveness

On 20 September 2012, OeEB signed a long-term credit line in a total of USD 15 million for financing agricultural enterprises in Central America; therefore this project has been operating for two years.

The objectives of the credit line were to:

- provide long term and working capital to Central American agribusinesses
- raise productivity of Central American agribusinesses
- improve employment protection and creation for these agribusinesses
- increase export potential.

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<sup>1</sup> Evaluation and Self-Assessment of the ESMS (or SEMS) – LAAD August 25-26, 2014. IFC/LAAD document. 2014.

The criteria in the loan agreement for sub-borrowers are being followed<sup>2</sup>:

- projects are private enterprises or natural persons – no cooperatives were financed
- businesses are in the agricultural or cattle sector – all sub-borrowers are agribusinesses
- the agribusinesses are all in OeEB-eligible countries
- projects have been evaluated by LAAD and deemed to be viable and sound from all aspects
- projects are not involved in any excluded activity (as per the List of Excluded Activities), including GMOs.

As well, the criteria for the sub-loans is being followed:

- loans may not exceed USD 2M – the largest LAAD loan in the OeEB portfolio is USD 1.5M
- loans must be used exclusively for the financing of non-consumer goods and productive services – no loans were used for other purposes
- loans must have a term of at least 12 months – the shortest tenor of OeEB-financed sub-loans is 12 months.

The evaluation finds that the credit line was used according to OeEB criteria. LAAD as a partner was a suitable choice; LAAD has a niche in Latin American agribusiness financing that is not occupied by other financial institutions, due to specialized staff in agribusiness, less bureaucracy than local providers, more flexibility in repayment terms, and other factors. In addition, the tenor of the credit line (7 years) was a distinct advantage, as it allowed LAAD to extend the tenor of its own loans, making it more competitive vis-à-vis the state and private banking sectors.

LAAD is using solid collateral, strict loan analysis, export contracts, buyer retention agreements, frequent monitoring, use of external appraisers, and portfolio diversification to ensure that its portfolio remains clean. Infrequently, LAAD will reschedule a problem loan. On rare occasions, collateral has been seized and sold to pay off a debt. Its portfolio, at risk rate (90 days) for its entire portfolio at Oct 31, 2013, was 1.2%; non-performing loans represented 3.7% of the portfolio (or USD 17.1 million). In 2013, the company wrote off US\$1.6 million in loans to 23 clients in 11 countries, representing 0.34% of the total portfolio. The reserve for possible losses stands at 2.4% of the agribusiness loan portfolio.<sup>3</sup>

Major factors contributing to the achievement of these objectives were:

- LAAD's expertise in agribusiness (human resources)
- LAAD's choice of clientele (producers linked to export markets)
- LAAD's investors, including DFIs and private sector companies
- LAAD's credit policies and procedures
- LAAD's flat organizational structure (consisting of a Country Manager and a few support staff in larger countries)
- The inflexibility of commercial and state bank financing for agribusiness

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<sup>2</sup> As per Schedule 8 – Loan Portfolio Report per April 2014.

<sup>3</sup> LAAD Annual Report 2013.

In sum, LAAD is effectively using the credit line as it was designed.

Regarding activities on the Exclusion List, the evaluation found no evidence of these activities being financed. The procedures in place seem effective in excluding these activities.

Regarding categorization of projects, all LAAD projects are categorized. All of the OeEB-financed loans have been classified as Category B projects. LAAD has mechanisms in place to mitigate the negative impacts of these projects, such as requiring certifications from national and international authorities and buyers of the product. However, the procedures to monitor certification updates within client files do not seem standardized. No Category “A” Project has been financed with OeEB funds. LAAD portfolio only has three Category “A” projects (two agrochemical commercialization in Paraguay and one dealing with aquaculture in El Salvador). Category A projects should have rigorous mitigation measures (“action plans”), certainly stricter than Category B projects. In Category A projects, it is insufficient for the borrower to show certifications or letters of compliance with buyers or exporters. However, based on information provided by LAAD about these projects, their action plans are not strict enough, and there is no clear procedure for collecting evidence that the borrower is complying with the action plan.

In general terms, the Social and Environmental Management System is well implemented and effective. However, written formats, as well as compliance evidence (for example, periodic renewal of certifications) as part of project records, are sometimes not complete or are out-of-date. However, LAAD relies on certifications or permits given to borrowers’ projects.

Regarding the OeEB exclusion of genetically modified organisms, LAAD does finance inputs using genetically modified organisms, but not with funds from agencies that prohibit it, of which OeEB is one. The evaluators found no evidence that LAAD is financing genetically modified organisms in OeEB target countries. None of the borrowers interviewed was using inputs with genetically modified organisms. In both countries visited, products that include genetically modified organisms are prohibited. Finally, all borrowers stated that using inputs of genetically modified organisms would jeopardize their quality certifications with their buyers and/or exporters. The evaluators found no evidence that the exclusion of activities involving genetically modified organisms influenced demand for financing by LAAD borrowers either positively or negatively.

Given the minor observations relating to the Social and Environmental Management System procedures, the rating of the effectiveness of the OeEB loan to LAAD is Grade 2 (good).

## Efficiency

LAAD is an efficient partner for OeEB, having lent nearly (99% as of 16 July 2014) the entire USD 15M portfolio in less than 2 years.<sup>4</sup> LAAD is equally efficient at recovering loans. Non-performing loans of USD 17.1 million represented 3.7% of the portfolio with a write-off of 0.34% (2013 Annual Report).

At the borrower level, LAAD is also seen as efficient, measured by the speed of disbursement compared to the banking industry.

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<sup>4</sup> 16.7.2014 Schedule 8 Loan Portfolio Report for April 30, 2014.

In comparing OeEB financing to other financing, the major advantage is the 7-year tenor of the credit line, longer than financing available from commercial banks. Compared to other Development Finance Institutions (DFIs), OeEB is seen as faster in response times. However, the negotiations and procedures leading to the approval of the credit line were slow due to the complexity of the legal agreement.

There are efficiencies due to shared tools, in particular, the Social and Environmental Management System manual and procedures, which is used on all LAAD loans. Other tools (loan proposal formats, for example) are also standardized throughout the institution, which creates efficiencies. Staff turnover is stable, which also creates efficiencies in operations.

The Social and Environmental Management System is well established; it is used with every loan application. It does not cause delays in disbursement. It is perceived as somewhat useful by staff. Loans are rarely rejected due to Social and Environmental Management System issues (with the exception of activities on the Exclusion List, which are always excluded), because LAAD borrowers must comply with export and buyer certifications that ensure the Social and Environmental Management System criteria are followed. Agribusiness projects are categorized by A, B or C, however, the use of action plans to mitigate potential environmental problems is not standardized efficiently.

The Social and Environmental Management System analysis carried out by staff is also applied across all LAAD loans, and this is efficient. However, the forms used to collect Social and Environmental Management System data are somewhat duplicative, i.e., the information overlaps. They are also too general to pinpoint impacts relating to specific agribusinesses.

The procedure for establishing and verifying compliance with action plans is neither efficient nor effective. Annexing certifications to the client file is insufficient to ensure that environmental impacts are controlled in Category A projects.

While the lending aspects of the project are highly efficient, due to the observations on the Social and Environmental Management System, the efficiency of the project is rated as Grade 2 (good).

## Development Impact

One of the desired development impacts was an increase in access to finance for agribusinesses in the region. The evaluators find that the impact on access to finance for agribusinesses has been good. From the OeEB credit line, LAAD has issued 30 loans, totaling USD 14,832,000, to 28 agribusinesses in four countries (Guatemala, Nicaragua, Belize, and Costa Rica) in the first two years of the project.<sup>5</sup> The loans have been issued to diverse sectors – cattle, coffee, pineapple, ornamental plants, timber, peanuts, and rice. The loans have been invested in improvements to land (irrigation), diversification of crops, improvements to infrastructure (stables), rural worker housing improvement, improved crop varieties, drying plants, cross-breeding of livestock, purchase of machinery, and occasionally debt refinancing.

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<sup>5</sup> Ibid.

The results of the loan investments have been greater margins (due to a reduction in costs or an increase in productivity), more/better employment (either an increase in the number of days worked per year for existing employees, or hiring of new employees, or keeping existing employees working), better use of technology (including improved breeds or varieties), and by improved practices (such as water conservation). OeEB's monitoring form from July 2014 estimates that 3,415 jobs have been created or protected by its credit line.

In relation to women-owned agribusiness, there are not so many; however, gender does not appear to present an obstacle in obtaining loans. The established requirements for obtaining loans do not show a difference in terms of gender.

At the institutional level (LAAD), the impact has included the ability to lend at longer terms, which is a comparative advantage, an increase in portfolio and profits, and an overall improvement in financial sustainability.

Agribusinesses financed by LAAD have used the loans to lower their negative impact on the environment, through more efficient use of water and land, through the use of more productive crops and animals, through the use of biomaterials for fuel sources, and so on. OeEB's credit line has helped borrowers finance these improvements.

The impact of the project is rated as Grade 1 (very good).

## Sustainability

LAAD was founded in 1969, and has increased since then in portfolio, profitability, regional outreach, number of staff, quality of systems, and number of shareholders. It currently has 12 leading agribusiness and financial corporations as shareholders. In 2013, LAAD achieved a global portfolio of USD 447.1M, assets of USD 499.8M, and a net worth of USD 117.5M. LAAD has a highly trained and stable staff, and is using SAP software as its management information system. Its loan tracking procedures, especially regarding Anti-Money Laundering (AML) and Know Your Client (KYC), have greatly improved over the last few years. LAAD's reputation is assured; a sign of this is that its existence is spread by word-of-mouth rather than overt advertising.

It is highly likely that the activities supported by the OeEB credit line will continue after the mid-term evaluation and after OeEB funding ceases. LAAD has taken steps to ensure its sustainability by promptly lending the OeEB credit line to qualified borrowers at market rates of interest, and ensuring the repayment of the sub-loans.

The sustainability of the Social and Environmental Management System is assured through LAAD's commitment to the system, indicated by its updating of the documentation, training of staff, and applying the system in the field. LAAD continues to work with the International Finance Corporation (IFC) to improve the SEMS. According to the document, "Responsibilities for Environmental & Social Department, 2013", some of the goals set for 2014 which coincide with the analysis, are to revise/update LAAD's Social and Environmental Management System, with direct help of IFC, to reflect the latest IFC performance standard and requirements; continue monitoring Social and Environmental Management System in the field and provide support and supervision; define / carry out pending staff courses required by IFC on environmental and social areas; provide operational training for field officers, especially new hires, and staff; improve annual reporting formats.

Overall, the evaluators find that the objectives of this project are likely to be achieved, these being:

- i) increased access to finance for Central American agribusinesses;
- ii) increase in productivity of OeEB-financed LAAD borrowers;
- iii) increased employment opportunities for workers on OeEB-financed LAAD agribusinesses; and
- iv) indirect fulfillment of verification of environmental, labor and social issues through LAAD formats and through certifications and/or authorizations from national, international institutions or organizations to order to verify environmental and social compliances.

The sustainability of the project is therefore rated Grade 1 (very good).

## Additionality

LAAD is providing loans with conditions that are not offered by other financial institutions. LAAD's comparative advantages are a combination of: long tenors, flexible repayment terms, and fast response times. In addition, LAAD has specialized staff who are knowledgeable about agribusiness, and a flat organizational structure where essentially one person is responsible for the whole lending process, making communication more rapid and building relationships with clients. Many of LAAD loans are lent to repeat clients. The OeEB credit line has helped LAAD with the tenor of the loans.

The LAAD financing does not seem to be crowding out other providers. Most (60%) of LAAD's clientele have loans with other lenders, either state banks or private banks. Clients interviewed in the course of the mid-term evaluation stated that they use bank loans when the terms are right, and LAAD loans when they need fast, flexible, and/or longer term financing.

The OeEB financing is also providing additionality by:

- helping promote environmental and social impact management in lending;
- demonstrating to commercial lenders that agribusinesses can be financed without undue losses due to risk, and showing profitability of doing so; and
- demonstrating development outcomes.

The additionality of the project is therefore rated good, Grade 2.



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