

AIRGRAM

DEPARTMENT OF STATE

5180103 (Batched)

UNCLASSIFIED
CLASSIFICATION

For each address check one ACTION | INFO

58W

DATE REC'D.

5180103-3

1976 AUG 18 AM 11 00

AIR
COM

7p.

DATE SENT

8/13/76

7

DISTRIBUTION
ACTION

LA
INFO.

1-2-3-6

8

ATA

TAAG

IDC

PAC

GC

GCFLD

GLA

FM

CMGT

CTR

TA/RD

AGRIC

COM

TO - AID/W TOAID A 36

FOR: LA/DP

PD-AAA-767-A)

FROM . QUITO
E.O.11652:N/A

SUBJECT . Final Evaluation, Loan 518-L-032 Land Sale Guaranty

REFERENCE . AIDTO CIRC A-131 -?

1. This airgram records the results of the final in house evaluation of the Land Sale Guaranty loan. The loan completion review and report was submitted to LA/DR on May 18, 1976.

The evaluation was made in accordance with repair guidelines and regular Mission evaluation procedures. Since the loan is terminated, the report does not contain specific action recommendations but is offered for its general interest in future program planning.

2. The Mission goals for this loan as part of the AID strategy in Ecuador, and stated in the CAP are:

- "(1) to promote and assist in effecting improvements in the social and economic conditions of lower income groups within the country and
- (2) to assist in meeting near and middle term threats to the economic stability of the country by promoting economic activities tending to improve the balance of payments position in Ecuador."

The first goal, restated in GPO terminology, is the current Mission goal: to "... improve the social and economic conditions and increase the participation of lower income groups in the country."

The second goal is not relevant to Ecuador in today's setting as was the case in 1969 due to crude oil exports which have improved the balance of payments position imperative in overall economic planning.

DRAFTED BY				OFFICE	PHONE NO.	DATE	APPROVED BY	PAGE	PAGES
Allen C. Hankins:bb				RDD/ASB	270	8/13/76	Harry Ackerman, Director	1	OF 7

AID AND OTHER CLEARANCES

O/DP:PMaldonado

AD:ADSchantz

UNCLASSIFIED
CLASSIFICATION

RDD/ASB:MSchwartz

Although quantitative measures of the impact on the project goals were not presented in the CAP, there is adequate evidence that the project did contribute to the overall improvement of the targetted groups in the Guayas Basin.

EXAMPLES

a) The loan triggered a new production emphasis on rice which had experienced declines in the 1960's and early 1970's. The loan served as a basis for the GOE to effect a supervised credit program with corresponding technical assistance for small scale rice farmers with regard to infrastructure development and production improvement. The banking institutions worked with the Ministry of Agriculture in implementing this activity and many of the operational mechanisms used in this loan were utilized in allocating complementary credit resources provided by the GOE. It is estimated that the loan provided about 28% of the total credit needs of rice producers in the country.

b) Production increments were significant as noted in following table:

YEAR	HECTARES HARVESTED	MILLED RICE PRODUCED (IN M.T.)
1971	56,590	82,350
1972	91,390	104,640
1973	84,760	133,690
1974	102,690	151,810
1975	114,900	186,300
*1976	115,150	187,500

* Estimated

c) The Ministry of Agriculture established the Department of Rural Development in late 1974. This office was created to specifically address small farmer socio-economic concerns, including cooperative development. A pilot Grant funded program, Improved Rural Life, was created in the Guayas Basin which focused on improved financial management of cooperatives, health and nutrition, access roads, and small scale industry. Basically, the principal target groups were the rice cooperatives that were being assisted under the loan.

3. The Mission purposes, as stated in the CAP and loan agreement are:
 "Develop a program to facilitate the private sale of agricultural lands to cooperatives which are capable of conducting an effective farming enterprise once provided with land, production credit and technical assistance, but which are unable under present conditions to secure credit on reasonable terms.

As noted in the CAP, the project would focus in the rice growing areas of the Guayas River Basin and would have as its principal beneficiaries the members of the rice growing and marketing cooperatives formed under projects sponsored and financed by AID.

The quantitative measure of the goals contained in the CAP were: "The project will be concentrated in the main rice producing area in the southern portion of the Guayas River Basin, some 700,000 hectares of which approximately 100,000 hectares are used for rice growing. It is estimated by the National Rice Program that from 65% to 75% of this area is worked under the leasing systems. This means that the potential reach of the project would be from 65,000 to 75,000 hectares. On the basis of a determination by the Ecuadorean Land Reform Institute (IERAC) that the minimum family farm in the area should be 10 hectares and assuming 6 of those 10 hectares are planted in rice, the potential clientele for the program in the area would be from 10,800 to 12,500 families."

In the CPOI the goal was more precisely established whereby the loan would serve 2500 families in 50 cooperatives. This averaged to about 7 hectares of riceland per family unit.

The final report of the Ministry of Agriculture concluded that the loan effectively reached 48 cooperatives with 2,650 small scale farm families who cultivated 18,850 hectares of rice. The land sale guaranty goal which was an important feature of this loan never was implemented for reasons stated in #4.

4. The CAP and CPOI established \$650,000 of the AID financed loan for a land sale guaranty fund with a mechanism whereby campesino cooperatives could purchase land. This was based on 2 premises: 1) land owners were willing to sell parcels of land to small farmers at reasonable prices and on reasonable terms, provided they were given an acceptable guaranty of payments, and 2) numerous small farmers had a strong desire to own land.

The borrower did not enact the land guaranty portion for facilitating acquisition of land because the Central Bank was legally unable to initiate guaranty operations without first having AID guaranty funds in its own account for the period of the subloans, which was longer than the active period of the AID loan. In October 1973 a new Agrarian Reform Law was implemented which defined a land transfer process that included its own mechanism for implementation, thus effectively obviating the need for the mechanism for land transfer stated in the loan.

Although this feature of the loan never became operational the project successfully conducted a supervised credit program to the targetted group and was influential in assisting cooperative organizations acquire land under the new GOE agrarian reform law.

5. The CAP and CPOI expressly states as its purpose to goal linkage that an effective procedure for cooperatives to purchase land and obtain production credit and technical assistance will contribute towards improving the overall socio-economic conditions of low income groups in Ecuador. Although the land sale guaranty feature of the loan never was utilized, the rest of the operational aspects of the program were implemented and assisted cooperatives direct their efforts in improving their fiscal management and develop credit worthiness with banking institutions. The resources provided by the loan did make an appreciable impact on the levels of income to the targetted group, particularly as these resources were complemented by substantial internal lines of credit from the GOE. The loan definitely is credited as being a catalyst for bringing the Central Bank into the field of development finance.

6. The output-to-purpose linkage assumption is that subloans made to borrowers would focus on the smaller rice farmers and stimulate income generation through an improved system of production packages. The high yield rice technology offered with adequate lines of credit would benefit the small farmers in exactly the same way it benefits medium and large scale groups. The new agrarian reform legislation gave (although at a very slow rate) the region's tenant farmers provisional tenure rights to the land they farm and, therefore, provided the means and incentives for investments financed by public credit.

7. Concerning outputs, the CAP and CPOI stated that the project would provide a land guaranty mechanism, and develop appropriate farm plans for using the credit resources provided for under the loan. The total amount of the loan actually utilized in developing project activities was \$2,841,080.00.

8. At the input level, \$758,920 was not disbursed. This is principally attributed to the fact that the \$650,000 set aside for the guaranty fund was never utilized.

Although there was a surge of disbursements for production credit towards the end of the loan, the actions were not sufficient to meet the \$3.6 million authorized in the loan. It simply took longer than expected for the Central Bank and the participating banks to perfect a disbursement system that would qualify and discount these subloans in a timely manner.

9. A key element of the loan was the implementation of the financial mechanism and a brief summary of its operational history is in order.

The original financial mechanism for the loan was a Trust Fund approach. This was established after AID/W authorized the loan, but prior to the signing of the loan agreement. In this intervening period the Banco Nacional de Fomento (BNF) had withdrawn from the program and an alternate arrangement was explored. The mechanism devised was the Central Bank Trust Fund which reflected the concept of the GOE turning over external loan funds to the Central Bank for administration. This mechanism was established in the Trust Fund Division of the Central Bank and was essentially copied from the operations of the Mexican Central Bank.

By 1973, it was evident that the financial arrangement needed significant modifications. Several factors accounted for a change in the Trust Fund concept: 1) discontentment of the new General Manager of the Central Bank for having been given responsibility for supervising technical aspects of the program, 2) the desire of the Ministry of Production (Agriculture) to have operational control of programs as part of their reorganization to centralize administration of agricultural activities, 3) growing interest of monetary authorities in adopting the Colombian system of portfolio allocation requirements of private banks as a means of encouraging increased farm production credit and 4) the increasing concern, as reported in the press, of the apparent complexities of Trust Fund operations in view of the felt need to have a more agile mechanism for achieving a rapid and significant impact on national production.

Also compounding the problem was the "strangeness" of the discount/rediscount mechanism imposed by the loan on the conservative banking institutions. No precedent existed which could aid in the implementation of this new method of operation by which funds in the Central Bank could be borrowed by Commercial Banks in order to increase their lending capacity. Therefore, the procedures used by the Central Bank were unwieldy and the private banks were reluctant to adopt this method until adequately clarified.

Thus, in April 1973 Presidential Decree 374 created the Financial Funds department within the CB and was heavily funded by the GOE. This eliminated the Trust Fund and established an agricultural fund and an industrial fund in the Central Bank. These funds were used exclusively for financing credits extended by private or public banks for agricultural or industrial purposes. The external funds formerly channelled through the Trust Fund were now to be a part of the new Financial Funds department. The credits financed from these sources had to comply with terms and purposes stipulated in the respective loan agreements. Additionally, the Central Bank added extensive domestic or internal resources to the Financial Funds by creating additional lines of credit.

This procedure remained in effect during the life of the loan. Although considerable time was lost trying to perfect the appropriate loan discount mechanism, the loan did become more effective in meeting prescribed goals. The learning experience paved the way for a stream-lined operation that has materially benefitted the current two loans, 518-L-034/Small Industry Development and 518-L-033/Agricultural Development and Diversification.

10. Lessons learned from the experience of the loan include:
 - a) Developing complex funding mechanisms (e.g. Trust Funds) based on a successful experience elsewhere is a risky undertaking in that there is no assurance it will work in a different environment. The assumption that the GOE could and would adopt such a mechanism proved erroneous and the assumption that they had the capability and capacity for administering the Fund with its complex procedures was equally false.

b) Land Guaranty programs must be undertaken only in the context of an active and supportive host country land tenure program, and must have clearly identified the private land sale opportunities. Full host government involvement in the initial design of the land sale guaranty mechanism, particularly with the administrative and legal aspects, is an essential requirement. The GOE, although well intended, did not possess the depth and capacity to effectively manage an agrarian reform program that could meet the requirements of the target group of the loan. The political dynamics of a land reform effort have to be taken into account. Government ambivalence in implementing activities such as this where political stakes are high can overrule any of the social and economic considerations.

c) Careful coordination and orchestration of a number of government agencies is required to plan and implement a land sale guaranty program for campesino groups. Skilled manpower for technical outreach efforts and project management design is essential to the success of such a complex operation. ~~The~~ The assumption that this human resource existed was never fully justified even during the final stages of the loan. While the absence of this factor definitely had an adverse effect on the implementation of the loan, the lessons learned have materially improved two similar AID loans currently in operation, and it appears that a major obstacle has been overcome.

d) The loan assumed a GOE capacity to handle the large increments of rice produced. In reality, the GOE had no systematic marketing program and heavy losses were incurred during the past 2 years through inadequate harvesting, processing and storage arrangements. By the time this problem was acknowledged and addressed, the loan resources were inadequate to meet the problem.

e) Funds entering the Agricultural sector via external loans provide an excellent opportunity for ongoing development financing. After the sub-loans have been recuperated this money can be made available for further utilization along the lines defined by the original loan agreements, or to address second generation needs and problems. The overriding consideration is that the funds be maintained in the sector, and their use be determined by current priorities.

An interesting application of this idea is illustrated by the evolution of the needs of the rice sector in Ecuador. A principal concern of O32 was to increase rice production in the country. As has already been indicated, the loan apparently was successful, and the increase of production created a serious problem in the management, handling and disposal of the crop. It would appear that a logical sequential use of recuperated loan funds would be in the field of marketing. This opens up a completely new and equally important area of investment and development, which can eventually be extended into the national and international markets.

UNCLASSIFIED

With each advance in sector development a new array of investment opportunities present themselves, and the careful re-cycling of external loan funds will guarantee their availability for the new projects.

11. In summary, despite difficulties outlined, the loan did achieve significant results. The GOE through this loan learned and appreciated the problems of reaching the small farmer to effect change. Rice production greatly increased, and a very significant increase in the use of modern inputs was realized, especially the use of high yielding seed varieties. The target groups did improve their economic status and have been the recipients of added assistance that is directed towards resolving some of their social problems. The CB and participating banks were successfully drawn into the field of development finance.

Finally, while many important aspects of the project purpose were achieved and the goal linkages were a step in the right direction, the conclusion remains that much needs to be done to achieve the Mission goal of more equitable distribution of income and full participation of the rural poor in the development process.

12. Extensive evaluations have been made of this program. The following represents the more important reports:

- a) "Strategies for Small Farmer Development: An Empirical Study of Rural Development Projects" by Development Alternates, Inc. (Contract No. AID/CM ta-C-73-41, May 1975), Ecuador section pages 381-390.
- b) "AID and Small Farmer Organizations: Lessons of the Ecuadorean Experience" by Dr. Judith Tendler (for office of Development Programs of the AID Latin America Bureau, July 1975).
- c) "Inter-country Evaluation of AID Land Sale Guaranty Programs, Ecuador and Costa Rica" by Ms. B. Goldstein and Mr. Robert House (for Office of Development Programs of the AID Latin America Bureau, July 1975).
- d) "Report on Ecuador's Guayas Basin Rice Cooperative Project" by Cooperative League of the USA, July 1970."
- e) "The Relevancy and effectiveness of INIAP's Rice Research Program: A self evaluation" by Mr. Wm. Kaschak and Dr. Michael Schwartz (AID Ecuador contract 518-396, January 1976).
- f) "A Study of the Information/Transfer/Adoption Process of Production Technology in Rice Production in Ecuador" by Mr. Wm. Kaschak and Dr. Donald Swanson (AID Ecuador contract 518-051-3-50062 Dec. 1975).



BLOOMFIELD

UNCLASSIFIED