

# **QUARTERLY REPORT**

**FOR GRANT No. AID-LAC-IGR-1297**

**IICA**



**INTER AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE**

---

QUARTERLY REPORT

FOR JULY 1, 1981 - SEPTEMBER 30, 1981

FOR GRANT No. AID/LAC/IGR-1297

IICA



INSTITUTO INTERAMERICANO DE COOPERACION PARA LA AGRICULTURA  
INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE  
INSTITUT INTERAMERICAIN DE COOPERATION POUR L'AGRICULTURE  
INSTITUTO INTERAMERICANO DE COOPERACAO PARA A AGRICULTURA

DIRECCION GENERAL

Sede Central  
Apartado Postal 55  
2200 Coronado  
San José, Costa Rica  
Cable: IICASANJOSE  
Telex: 2144 IICA

SC/MZ-130  
November 2, 1981

Mr. Albert Brown  
Chief, LAC/DR/RD  
2242 NS - USAID  
Washington D.C. 20523  
U.S.A.

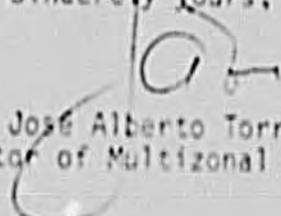
Ref.: USAID GRANT AID/LAC/IGR-1297

Dear Mr. Brown:

I am pleased to submit 10 copies in English of the Quarterly Report for the third calendar quarter of 1981 for the above cited grant. In view of the fact that AID/Washington has informed us by telephone that the cash flow for calendar year 1982 will be \$1,025,000, we have budgeted those funds. The budget is included in the report. In general, it will require all components to stay within this budget.

I should especially like to call your attention to the case of Panama. Almost all of the initial subgrant of \$612,000 has now been disbursed. Only \$145,000 remains undisbursed. We estimate that these funds will be sufficient only to reach 31 August 1982. Our discussions with AID about the continuation of the project have always been positive. IICA is certainly interested in continuing as the implementing agency. We believe that we have now reached the decision stage if the project is to continue uninterrupted. We should very much appreciate your advising us how we may actively participate in planning an extension of this important activity.

Sincerely yours,

  
José Alberto Torres  
Director of Multizonal Projects

2  
QUARTERLY REPORT FOR JULY 1, 1981 - SEPTEMBER 30, 1981

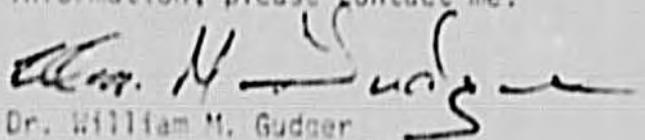
FOR GRANT No. AID/LAC/IGR-1297

Pursuant to Section (1) of Attachment 1 of the above cited grant and Amendment 2 dated May 30, 1980, I have prepared the following Quarterly Report for the third calendar quarter of 1981.

The third quarter has been a period of limited field activities and preparation for the forthcoming cycle. Ecuador has issued its first potato policies. Bolivia is piloting vegetable insurance in the valleys near La Paz and attempting to negotiate to insure lenders other than BAB, given that this institution will have very few loan funds.

After being informed of the level of funding of \$1,025,000 for the calendar year, we worked intensively to build a budget that would keep all components operating. Relatively heavy cutback will be required in all areas, especially in the insurer's field operations to remain within budget. Finally, we are concerned that the subgrant for Panama will enable us to continue operations for about 9 months more, unless the initial grant is extended or another source such as loans are brought on line. At the end of the third quarter of 1982, we do not believe that the initial project goals are likely to have been met or that the insurer will be capable of self sustained growth.

Should you wish any further information, please contact me.



Dr. William M. Gudder  
Head, Crop Credit Insurance Division

## PROJECT ACTIVITIES IN BOLIVIA

The Bolivian component continues to work under very difficult conditions arising principally from the current public sector financial crisis. Very little official credit is available in BAB for agricultural production loans. As a consequence, relatively little insurance can be issued to public sector borrowers.

Seeking to overcome this situation, ASBA is systematically exploring the possibility of working with other lenders. At present, ASBA is planning an insurance program covering rice in the Beni region which is financed by the Corporación de Desarrollo del Beni (CODEBENI), and in which the Cooperativa de Trinidad will be one of the larger insureds. To move this program along as quickly as possible, ASBA is acting as an intermediary between CODEBENI, and the Banco Agrícola to obtain \$b 10. million to finance production credit. The Cooperativa de Ahorro y Crédito "La Catedral" in Tarija is also working with ASBA to develop an insurance program.

The initial insurance operation -potatoes in the Cochabamba area- is also encountering problems arising from the restriction of credit. ASBA and the IICA technicians' are negotiating an additional credit of \$b 10. million from the Central Bank to meet the demand generated by last year's successful operations. The Central Bank has agreed to finance farmers through credits to both BAB and the PCPA as well as other banks through the FRA-II lines of credit.

At the same time that ASBA has had to take on an intermediary role in negotiating finances to insure, it has been necessary to attempt to convince BAB to cease lending the funds recovered in last year's insurance operations to ineligible clients and in amounts for in excess of production credit needs and to farmers who do not qualify. These non insurance role have become increasingly important to the success of the program. Otherwise, credit will not be available and the little that

is extended will not be based on production costs of eligible farmers and probably will not be recovered. Fortunately, the reputation of ASBA for honesty, integrity, and technical competence is such that most of the requests for funds are honored and complaints about operational practices are remedied.

The IICA advisor in Bolivia, Gerardo Mendoza, deserves special mention for his excellent work, his integrity and his innovative problem solving. He has been a great asset to the project and it can be fairly said that he has been instrumental in guiding ASBA through a very difficult time. Much of the credit for the diversification of ASBA's insurance operations to include private banks, cooperatives, and even self-financing farmers belongs to Gerardo.

At present, ASBA has received 72 requests for insurance for the forthcoming agricultural year. All but 5 of these requested potato insurance. There are currently 14 requests for corn insurance, 19 for carrots, 4 for beets, 16 for onions, 6 for beans (haba), and three for other crops. Some farmers have requested 4 different policies. Almost one-half want to insure at least 2 crops. If financing is forthcoming, insurance coverage will grow to about \$b 3.5 million, an increase of about \$b2.5 million.

The Superintendencia de Seguros has not issued the authority to initiate cattle insurance operations after four months of study. At present, a revised version which, at the Superintendencia's suggestion, removed loss of function as an insurable risk, is under study. We remain hopeful that final approval will be forthcoming in short time so that we can issue coverage this year. Several other important documents including the life insurance project and the conversion of ASBA into a Mutual insurer are also in the Superintendencia. The change over to a mutual structure is becoming

daily more urgent given that the reserve is steadily being eroded by a deteriorating exchange rate and the inability of ASBA to convert part of its liquid assets to stable currencies.

In summary, ASBA continues to grow and diversify under quite adverse conditions. It has been forced by circumstances to become involved in many new areas such as negotiating finance in order to keep its programs growing. The continued development of ASBA depends as much upon exogenous variables as it does upon the insurer itself. ASBA is growing more and more technically competent and capable of larger scale operations but still depends heavily upon lending institutions decisions to provide production credits. It is abundantly clear that to protect the reserve against the devaluation of the Bolivian peso, it is necessary to alter the legal structure to permit holding of stable currencies.

PROJECT ACTIVITIES IN ECUADOR

The Ecuadorian insurer, CONASA, has undertaken pilot insurance operations in Carchí in the north of Ecuador. The first insurance is on potatoes. The first insureds are the production cooperatives of the area. At present, there are 41 requests for insurance. Of this number 26 have been given definite coverage. The rest will be issued policies as soon as an adequate germination is evident. About 150 hectares are to be insured. The planned winter rice insurance was delayed by the lack of resolution of the dispute between producers and the government over the official price of the product. The lack of a final decision has forced the insurer to hold up the planned operation. As soon as a final resolution on the price of the grain is issued, operations can begin. As much of the area is irrigated there are almost year around operations. However, 2 policies covering 15 irrigated hectares were issued for the summer (dry) cycle.

In addition, planning for the livestock insurance component is going ahead. At present, all the required documentation is in the Superintendencia. The planning for the life insurance program has been effectively halted by legal problem. The statutes approved by the Superintendencia last year established CONASA as a mixed capital insurer and not a stock company (sociedad anónima). It appears under Ecuadorian law only the latter can be authorized to issue life insurance. However, the conversion to a stock company would require most of the present members to retire from the board of directors, thus depriving CONASA of its sources of capitalization. Apparently a special law will be required. The recent loss by the Superintendencia of a key person may imply a rather lengthy process before the life product will be authorized.

CONASA is also well-advanced with feasibility studies for insurance operation in the integrated rural development, DRI-Salcedo, financed by USAID. The local mission is disposed to help offset the additional administrative costs of offering potato insurance beginning in 1982.

At present, finances for the forthcoming year appear to be too tight to begin a research effort in Ecuador. We plan to use limited amounts of finance to lay the basis upon which future efforts can build if additional research money become available. While a great deal of potentially valuable data will be lost, there appears little alternative given the estimated cash flow of slightly more than \$1 million for calendar year 1982. The research will produce extensive research from Panama and some illustrative comparative finding from a quite different mileau, Bolivia. The project can not at this stage, given the late start-up and the financial restriction for calendar year 1981, produce good time-series data in Ecuador within the life of the present project. Instead, we will destine research money to assisting CONASA to develop an "organization and methods" section with the capability of surveying insured on their acceptance of the products and on how CONASA's servicing may be improved.

The insurance plan for the forthcoming cycle is currently under development. The principle insurance operations that CONASA will undertake are the following:

1. Carchi: Expansion of potato insurance and inclusion of corn insurance.
2. North Central Region: 200 hectares of potato insurance.
3. Daule: a- Issuance of rice insurance for the winter cycle.
4. Daule: b- Issuance of winter corn insurance.
5. Sierra: Livestock insurance of which 20% will be reproductive and crossbreeds (mestizo) stock, and 80% native (crioll ) stock.

At this stage, it is uncertain how much of this planned operation can be carried out due to the present financial restrictions imposed by the reduced cash flow. If both the national contribution of 2.5 million Sucres (32.6 Sucres = \$1), and \$150,000 supplied by the subgrant are considered, the operational deficit under strict austerity is estimated at about \$20,000. To carry out the planned operations, 2 additional vehicles costing about \$17,000 are required. An additional 2 inspectors will be required. We estimate the personnel costs at approximately \$16,000. The total shortfall appears to be about \$53,000.

There are relatively few options at present to offset this shortfall. Ecuadorian law requires a large part of the reserve to be invested in government paper with a very low yield. Interest income previously destined to capitalization can cover part of the shortfall. The other option, unless more capital becomes available upon which interest can be earned, is to reduce the planned insurance program sharply to make them cost compatible with available resources. We will continue to explore these options and reach a final decision by year's end.

### PROJECT ACTIVITIES IN PANAMA

In the last Quarterly Report, we presented an extensive analysis of the Panamanian experience. Since the agriculture is cyclical and this quarter has been characterized by a low level of activity, there is relatively little new information to report from the agricultural insurer's operations.

Panama continues to be our primary research laboratory. By year's end, we expect to have completed the first extensive and sophisticated study of the impact of agricultural credit insurance upon small farmers and the agricultural lenders. These documents will be forwarded for your review, comments and criticism as soon as completed. We also plan to present them at an IICA/IFPRI symposium in February to a large audience drawn from the countries of the hemisphere and the international lending institutions. This will we believe be the first in depth theoretical and policy discussion of agricultural insurance in Latin America.

In addition, Panamá has recently served as our field laboratory for training the Ecuadorian staff. The Ecuadorians were able to work together with their Panamanian counterparts in a week of intensive field training. This will be followed up by TDY's of Panamanian personnel in Ecuador at several key stages of agricultural insurance activities such as at germination time, as well as after losses and at harvest time.

The Panamanian program remains the strongest of the three. On other occasion, we have, however, pointed out several potential problems. ISA continues to operate with a very small reserve and a vague government guarantee. Its board is for all practical purposes composed of the Minister of Agriculture and

the head of the insurer and, needless to say, subject to changes of critical personnel. These risks take on added importance given to recent changes of political power. We continue to believe that the long term success of the insurer depends less upon climatological variables and more upon government decisions. We have developed a highly diversified portfolio to protect against almost all losses. However, to leave the insurer at the project's end in a strong position, the reserve must be strengthened and the legal structure must be changed.

These changes acquire particular importance in light of the fact that the \$612,000 sub-grant to ISA will be exhausted in August 1982. At present only about \$145,000 remains to be disbursed. If the project is to continue its work in Panama urgent action is required to get additional grant or loan resources on line. At present, we estimate that we will begin to close down operations about mid-June 1982 unless additional funding is available.

#### FINANCIAL ACTIVITIES

In the last Quarterly Report, we reported our budgeted and actual expenditures for the first semester of 1981 and our anticipated Second Semester expenses. We anticipated a cash shortfall of \$142,000 for the calendar year. As of the end of the third quarter, the economies that we have introduced in delayed contracting, deferred capital purchases, and reduced levels of operations, we are currently estimating that due the \$150,000 year end money we will reach year's end with \$50,000 on hand.

The cash flow for CY 1982 of \$1,025 million has been tentatively budgeted. We estimate a shortfall of about \$156,000 for the three insurers. It

is our belief that all three insurers probably can survive these sharp cuts. However, the consequences will be quite severe.

In Panama, the Director General of ISA has reported that the loss of anticipated grant funds will require a "drastic" reduction of field operations and, consequently, a reduction in the amount of insurance. There is almost no flexibility in other areas such as personnel. ISA's staff are government employees and cannot easily be fired. The interest earned on the reserve and part of the reserve itself would be required to maintain the same level of operations. Additional government funding will have to be obtained if the same level of operations is to be maintained. At present, prospects are not too bright for additional government funds.

Bolivia and Ecuador have cash shortfalls of \$35,000 and \$46,000 respectively. Both will be required to maintain very small programs of insurance to stay within budget. Interests on the small reserves are inadequate to offset these shortfalls. Additional capital will be required or else the reserve will have to cover part of operating expenses. (A contingency expressly prohibited in Bolivia).

The IICA component of the project is estimating a cash shortfall of \$163,000. This will require a sharp reduction in consultants, training, travel, and research. As of year's end, should mission funds not be available, our activities in the Dominican Republic will be terminated as quickly as possible. The overdue contracting of another technician to remove the increasingly heavy travel demand on the San Jose staff cannot be contemplated. While we believe we can hold together most, if not all, the carefully recruited and well trained

staff, our ability to provide technical services and supervision to the insurers will be very limited. Likewise, our ability to operate a research program will be restricted.

Each of the insurers has been informed of the funds available. It will be necessary as of 1 January to begin reviewing the requests for reimbursement within the framework of the available resources and perhaps reimbursing only a percentage of the request to stay within budget. It will also be necessary to revise the annual operational plans to make them compatible with available resources. We anticipate that the required revisions will be very difficult and painful.

While we remain hopeful that AID/Washington will be able to augment the cash flow by about \$250,000 during the first months of 1981 so that there will be sufficient lead time to program insurance activities, we are prepared to try to keep all components functioning, albeit at a reduced level. Our belief is that it is possible and we trust that AID's evaluation of IICA's performance of the contract will be based upon our reduced capabilities.

BUDGET ANALYSIS FOR 1982

(US Dollars)

	PRELIMINARY BUDGET FOR 1982			Proposed IICA/AID Contribution	Deficit	Comments
	Total Budget	Local Contribution	IICA/AID Sub-grant			
<b>SUB GRANTS</b>						
Panama	500 000	280 000 <sup>1/</sup>	220 000	145 000	75 000	Reduction means the removal of 3 to 4 field technicians and the cancellation of promotion activities.
Bolivia	305 000	- -	305 000	270 000	35 000	Currency devaluation may help to cover difference without impairing field operations.
Ecuador	273 750	78 125	195 625	150 000	45 625	Reduction means a significant detriment of proposed coverage due to reduced field staff and insufficient transportation equipment.
<b>SUB TOTAL</b>	<b>1 078 750</b>	<b>358 125</b>	<b>720 625</b>	<b>565 000</b>	<b>155 625</b>	
<b>IICA Project</b>						
Project & Research Coordination	285 132	- -	354 927	263 673	91 254	The overdue contracting of another technician cannot be contemplated. A sharp reduction in consultants, training, travel and research will reduce the effectiveness of project supervision and technical support to insurers.
Panama	81 136	- -	81 136	73 000	8 136	
Bolivia	70 573	- -	70 573	63 500	7 073	
Ecuador <sup>2/</sup>	116 290	- -	116 290	59 827	56 463	
<b>SUB TOTAL</b>	<b>553 131</b>	<b>- -</b>	<b>622 926</b>	<b>460 000</b>	<b>162 926</b>	
<b>TOTAL</b>	<b>1 631 881</b>	<b>358 125</b>	<b>1 343 551</b>	<b>1 025 000</b>	<b>318 551</b>	

1/ Preliminary figure subject to final budget approval.

2/ Include the cost of an Associate Researcher to assist in Ecuador and Bolivia.