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Miss Bernice Goldstein
LA/DP 5517
Department of State
Agency for International Development
Washington, D.C. 20523

Dear Miss Goldstein:

Attached herewith please find a copy of the "Report of the Fifth Visit to review the Land Sale Guarantee Loan Program and the Agricultural Development and Diversification Loan Program.

This report has been prepared for Ecuador's Ministry of Agriculture and Livestock by Mr. Wade F. Gregory, an Agricultural Economist with the Economic Research Service, U.S. Department of Agriculture. We hope that the report will be useful to you and we will welcome any comments or suggestions that you may have.

Sincerely yours,

Al Hankins

Allen C. Hankins, Chief
Rural Development and
Employment Generation Division

Enclosure

INTERNATIONAL MAIL ADDRESS:

U. S. MAIL ADDRESS:

CABLE ADDRESS: USAID QUITO

U. S. AID Mission to Ecuador
c/o American Embassy
Quito, Ecuador

USAID - Quito
Agency for International Development
Washington, D. C. 20523

Phone: 921-100

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REPORT OF THE FIFTH VISIT - APRIL 1975
TO REVIEW
THE LAND SALE GUARANTEE LOAN PROGRAM
and the
AGRICULTURAL DEVELOPMENT AND DIVERSIFICATION LOAN PROGRAM
by
Wade F. Gregory ^{1/}

^{1/} The author, an agricultural economist with the Economic Research Service, U.S. Department of Agriculture, was on TDY in Quito and Guayaquil from April 4 to April 24, 1975.

I. The Land Sale Guarantee Loan Program (PPEA)

This fifth and probably final trip to work with the Land Sale Guarantee Loan Program or Programa de Promocion de Empresas Agricolas (PPEA) was considerably different from the previous four visits as well as from expectations. The intent was to continue to provide on-the-job training to program technicians in the areas of farm planning, farm and financial management, and the use of records in performing the management function. However, it soon became apparent that the PPEA now has none of its staff assigned to nor responsible for farm and financial planning and management aspects of the farm cooperatives enrolled in the program. Therefore, there was no one on the PPEA staff to work with or to train. There were some with passing curiosity but no one who had these areas as assigned responsibilities.

One word of clarification is in order. PPEA does have a Planning Department with four people but its main responsibility is to fill out in a routine manner many of the forms that were initially developed for making a farm and financial plan. Initially, the idea was to use the plan for two purposes: 1) to use as the loan request to financial

institutions, and 2) to use as a management tool to evaluate current practices and to assist in modifying and improving future plans. As indicated, this second objective has been completely discarded. The Planning Department is concerned only with preparing loan requests which are incorrectly referred to as farm plans. Since this work is largely filling out a set of forms by using standardized estimates of costs and returns, with little or no modification for specific farm characteristics, there is little for the Planning Department to do aside from making correct arithmetic calculations.

There is also an Accounting Department whose primary function is the preparation of financial balance sheets. It makes no pretense of recording either physical or financial data that could be used to evaluate farm practices. Likewise, there is no one who has the responsibility for obtaining data on actual production, costs, and returns in both physical and financial terms to use in assessing what has occurred and how to modify future practices. The outstanding example is that not even production and yield data for each cooperative are available to the planning department staff they continue to use standardized yield estimates even for those cooperatives that have been in the program for five or six harvests.

Since there was no one to work with in the areas of farm planning, farm records, and farm management, I was asked by the AID representative in Guayaquil to review to the extent possible the progress made and the present status of PPEA. The rest of the report is therefore my evaluation

of the program as I saw it in April 1975.^{2/} The opinions expressed are largely personal ones since I had little contact with PPEA staff. Furthermore, I was told that no records or data existed of the kind I felt were needed to make a thorough review of progress made by the cooperatives. (This latter item of no available data is, of course, hard evidence and not a personal opinion.) My focus was the preparation and use of farm plans, development and use of a farm record system, and the financial viability of the cooperatives. The subjects treated in my four previous reports are, to a large extent, the basis for this evaluation and a rapid skimming of them would provide useful background for reading this report.

1. Rice production is very profitable: That in one sentence tells the story of PPEA. The major part of the loans made under the program are for production credit and there is at least a 40 percent, and in many cases an 80 to 100 percent, "profit" margin above the cost of production.^{3/} This means that for each dollar spent in producing rice, the expectation is a return of \$1.40 to \$2.00 from the sale of rice. Even if "profits" were zero (that is, that the 40 to 100 percent were reduced to zero), the plan would still be viable, the loan could be repaid, and coop members would probably still have higher incomes than they would have had in the absence of the program, since they have already been paid for their work.

^{2/} I have tried to present observations in a frank, open manner. Prior to leaving Guayaquil, I discussed these ideas with the Director of PPEA and he registered no objections to any particular part of the review.

^{3/} I have not reviewed all the plans and 40 to 100 may not be the actual lower and upper limits but they are the profit margins in some of the plans I reviewed and illustrate the point.

This situation also allows for a 40 to 100 percent margin of error in formulating the plans for production loans. It is not likely that some adverse combination of costs much higher than estimated or revenues (yields times sales price) much lower than estimated would occur to such an extent that absolute losses would result. Therefore, there appears to be little probability for default on most production loans, with or without assistance from PPEA technicians, unless there is a very drastic drop in rice prices (which seems unlikely in Ecuador in the near future) and provided the cooperatives do not have other heavy debt burdens.

2. To simplify the presentation of loan requests, it would be appropriate and much simpler to determine a fixed amount of credit per hectare that would be loaned for each hectare of rice planted. The amount might vary from zone to zone and for the "verano" and "invierno" if there is sufficient difference in costs. Cooperatives would then automatically be able to borrow any amount per hectare up to this maximum with nothing more than a statement from the program director that the cooperative intended to plant the stated number of hectares of rice. This would eliminate a lot of unnecessary and useless "plan" preparation.^{4/} Provision might be made to enable coops to request amounts in excess of this maximum, should special situations warrant a larger loan. (I can't think of any situations that would justify a higher amount and such a provision may cause problems rather than prevent them.)

^{4/} This idea was discussed with Augusto Bueno, Manager of the Guayaquil branch of the Banco Nacional de Fomento and he appeared to accept the idea.

3. Infrastructure and machinery loans are more difficult to assess and require individual evaluations of costs and benefits for each loan. While there is a large margin for error (safety) in production loans, such may not be the case for long or medium term loans and greater care needs to be exercised to insure that future income will in fact be sufficient to repay loans for machinery and infrastructure. The margin for error in production loans can rapidly disappear with over-commitment in machinery and infrastructure loans.

At the start of the program, procedures had been developed and incorporated into the "complete" plan to evaluate the economic feasibility of these investments and the ability of the cooperatives to repay all loans. A review of several current plans now indicates that neither the previously developed procedures nor any other relevant ones are being followed to determine the economic payoff on these investments. A crude estimate of "profitability" is made to demonstrate that income will be sufficient to repay the loan. This is based on the assumption that the 40 to 100 percent "profit" margin mentioned earlier will continue. If, however, some or all of this margin is needed to repay production loans (because the actual situation turned out less favorable than the plan), it cannot also be used to repay long term loans.

4. Words of warning or caution may be in order concerning the financial responsibilities facing cooperatives when the grace period ends and they must begin to repay machinery and infrastructure loans. The granting of a grace period is based on

the assumption that the income from medium and long term investments is too low in the first year or two to permit loan repayments but that income will increase in later years to a level that will enable the loan to be repaid. Because of unexpected increases in rice prices, net returns to rice producers have been higher than expected and in some cases would have permitted repayments to be made on medium and long term loans during the grace period. Instead of using the unexpected income in this way, coops used it to make additional investments. One cannot be sure what will happen to the price of rice in Ecuador in the next two to five years. It seems fairly certain that the world price will decline but since the Ecuador price is still below the world price, a drop in the world price may not affect the price of rice in Ecuador.

However, it would appear to be very desirable that cooperatives review their debt structure to check on the assumption that expected income will be sufficient to meet both current expenses and debt repayment after the grace period ends. This, of course, should include all debts since some cooperatives now have loans from more than one source.

5. On my last visit, February 1973, the idea of preparing a monthly cash flow for each cooperative seemed to have been accepted, but if ever put into practice, was discontinued and no one in the program now knows anything about it. I again recommend that a cash flow be prepared for each cooperative. It should

be rather detailed for the current year, and then extended with much less detail to the end of the repayment period for all medium and long term loans to determine, at least on paper, that money will in fact be available to repay loans on the dates required.

6. The program has no memory!

Aside from the personal experiences gained by program technicians. PPEA is operating with no more information today than at the time the program started. Since not many of the original staff are still with PPEA, there are few personal experiences to draw on.

An illustration of the lack of memory is that the first couple of farm plans for San Felipe (one of the first cooperatives in the program) could not be found. They apparently no longer exist. Since they were not in the office files, I was unable to review the progress made by this cooperative from the time it entered the program.

Another illustration of lack of memory is that, contrary to the terms of the initial AID loan agreement, no records are kept of farm operations. A financial balance is prepared, as required by national law for all cooperatives, but nothing is recorded relative to actual costs and farm practices used. There is not even a record in the Guayaquil office of the actual amount of production harvested for each crop of rice.

7. As there is no attempt made to record any information on farming operations or farm practices, likewise there is no attempt made on the part of PPEA technicians to provide any assistance relative to farm and financial management. As near as I could determine there is no one on the program staff assigned to nor identified as working on these aspects.

There is a planning department as indicated, but their task is to prepare plans (which appear to be done in almost a mechanical abstract manner) which are based principally on standardized costs rather than on actual levels of inputs, costs, and returns specific to each cooperative.

8. There is also an accounting office, but its responsibility is primarily to record financial transactions and prepare financial balance sheets without regard to how these records might be used as a management tool. Given this situation, there was no one to work with relative to training and/or development of improved farm plans and farm records and their use.

In the report of my second visit to work with this program in April, 1972, I wrote:

"One very heartening aspect of the program at the present time is the fact that excellent farm records are now being kept on San Felipe...They certainly will be a big help in preparing a plan for next year as well as providing valuable information for making management decisions."

However, in November, 1972, I wrote:

"I was unable to get a good feel for the condition of accounts now being kept, but I have the uneasy feeling that they are not as good as they could or should be and that at the end of the crop season there will not be a complete record of the inputs used and the practices followed in producing the crop... Unless the record system is designed to facilitate the recording of the kind and amount of resources used, this very useful and important information will not be available for use in planning next year's operation."

Both of these observations seem to have been correct and are apparently still correct. Even though there are no farm records maintained by PPEA staff - the Guayaquil office does not even have records of amounts of rice harvested for each coop -- I made a visit to San Felipe to check on their record system and found it operative and quite similar to the one mentioned in my April 1972 report (the report prepared by Hatch indicated San Felipe had no system of farm records). The main difference being that now no one in PPEA has anything to do with it and makes no use of it in providing assistance to the coop or in formulating future plans -- my guess is that while program technicians are aware that some kind of records are being kept on San Felipe, no one has any knowledge of the kind of records or where they could be found. This situation suggests that unfortunately my

second observation of November 1972, as it applies to PPEA not to San Felipe, is even more correct today. In November 1973, there was at least some recognition of the need for this type of activity. This seems to have passed; for, as mentioned, no pretense is now being made within PPEA to provide assistance in farm and financial planning and management nor to use actual farm experiences of each coop in developing farm plans for the coming year.

9. Mechanization - Partly due to the fact that rice production has been quite profitable (and also because full costs have not been paid because of grace periods for medium and long term loans), some coops have had considerable cash balances at the end of each harvest season. Mechanization has always had a certain appeal - partly because of being identified with status and high income. Mechanization, theoretically, also makes possible getting work done faster and better. As a result, there appears to be an implicit assumption of "the bigger, the better." It is this assumption on which I wish to comment.

In my opinion, some degree of mechanization is necessary on many of these rice cooperatives, but an effort should be made to keep machine size and investment as low as possible rather than have large machines with excess capacity. This is suggested for two reasons: 1) to keep cooperative debt levels as low as possible for the cooperatives, and for the Government to conserve foreign exchange; and 2) to minimize as much as possible the substitution of machines for labor.

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At the present time there appears to be much interest in importing big combine-harvesters which would replace considerable amounts of labor and require large amounts of foreign exchange. My suggestion would be to use smaller threshers that would require less foreign exchange and also utilize more labor. I do not accept the contention that the labor supply is so small that rice cannot be effectively harvested without the use of combine-harvester

The burden of proof should be on the proponents of this argument to prove, through a set of calculations, that the labor requirements for different methods of harvesting exceeds the available labor supply for all harvesting methods except combine harvesters. Unless this is in fact the case, smaller, less costly machines should be used.

II. Agricultural Development and Diversification Loan Program (PDDA)

Very little time was spent with this program for it was openly stated that PDDA has no provisions for providing assistance in farm planning and farm management to farmers participating in the program. Loan requests are prepared with no pretense that the request will be used for any purpose other than to provide the information required by leading institutions. Likewise, it was made clear that the technical assistance provided is primarily related to purely agronomic-biological, physical aspects of crop production and does not include assistance in areas such as farm planning and farm and financial management.

Apart from the fact that many farmers, particularly small farmers, could benefit considerably from advice on matters related to farm planning and farm and financial management, the lack of concern with these issues has created some potentially harmful aspects to the program. I write "potentially harmful", for I do not wish to predict doom and failure; whether loans are successfully repaid with farmers in an improved financial position will be more a function of events outside PDDA than determined by the actions of program personnel. The fact remains however that because no attention is given to farm and financial management aspects, certain practices are allowed to occur that violate widely accepted rules of good financial management. Should profit margins for oilseed crops fall (because of falling product prices and/or rising production costs), those farmers using improper financial practices will be in a more precarious position than might have been the case if they had followed good farm and financial management principles. Some of the areas of my concern follow:

1. A widely accepted rule is to consolidate credit rather than borrow from different lenders for each need. Yet PDDA arranges credit only for the production of the four oilseed crops with which it is concerned. It gives no attention to other credit needs of the farmer-cooperators. The loan requests do not even list the existence and amount of other outstanding loans.
2. Perhaps the reason that no attention is given to existing debts and credit needs for other parts of the farm business is that PDDA is concerned only with that part of the farm operation

that produces any of the four oilseed crops included in the program. It completely ignores what goes on in other parts of the farm operation. This means that no attention is given to how non-oilseed crops are grown in other parts of the farm or to what happens during the season when oilseed crops are not grown. This likewise, violates principles of good farm management since net farm income and efficient allocation of resources can be maximized only if all farm activities are coordinated and worked into an overall plan.

An example of potential danger: Several loan requests that I reviewed included loans for both production costs and infrastructure or machinery. Some rough estimates of future income from oilseed production indicated only a very slight margin above costs. I pointed out to project personnel that only a very small decrease in price or yields would result in inadequate income to cover all costs, including loan repayment. This caused no surprise nor dismay, for the answer was that oilseed crops are grown in one season and other crops are grown the other half of the year and therefore I had not included the income from these other crops in my estimate of income. I was told that income from the second crop would be more than enough to offset any unexpected drop in income from oilseed crops.

Such reasoning is all the more frightening!

It relies on income from other farm operations to help repay

loans made for oilseed crop production (this suggests to me that oilseed crop production is not a profitable operation and that program personnel suspect it but will not openly recognize it) The additional income is just assumed to exist. Since no attention is given to a consideration of total farm costs and returns, there is no determination of how much income from the production of other crops would be available to repay medium and long term loans. Furthermore, it is almost certain that at least production credit would be required to produce these other crops; yet, no consideration is given to how, where, or under what terms this additional credit would be obtained.

3. Since the simple, uncomplicated farm plan that is now prepared serves no purpose other than as a loan request, it could be made even more simple. Each year standardized production costs and returns are prepared in cooperation with lending institutions to determine the maximum production loan per hectare that these institutions will provide for each of the four oilseed crops.

The loan request could then consist of producers requesting any amount per hectare up to this maximum times the number of hectares to be planted. This would be certified by the program director that the farmer did indeed intend to plant the stated number of hectares of oilseed crops.

4. Medium and long term loans are being made for machinery and infrastructure but I was not able to locate any calculations made to determine whether the income generated by the investment was sufficient to repay the investment costs. Nor were the program people I talked with able to explain to me the procedure used to assess the desirability of making such investments. The answer was that such analyses were made but that these calculations were on file with the credit institution.

5. No records are kept of such things as production practices and costs, yield levels, prices paid and received, and end of year net income position. Without collecting and using this type of information, program technicians have no way of adding to their knowledge concerning the effectiveness of alternative practices on the farms of their clients. At the very minimum, records should be readily available in the office files. With just a little more effort, production costs (in both physical and money terms) could also be recorded. After each harvest, I think it would be very useful to array the yields for all farms in the program from lowest to highest and send this information to each farmer with his yield level identified. A similar array on costs could also be made. This information would show farmers what is possible and how well they did.

6. The oilseed program staff should undertake a serious self-study of the purposes and functions of their program to understand how their specific activities contribute to achieving program objectives. My cursory review indicated three general areas of activities:

a. selling the program to farmers - trying to convince farmers to grow oilseed crops

b. assisting farmers in obtaining credit for (i) production of oilseed crops and (ii) infrastructure and machinery purchase

c. providing advice on technical aspects of oilseed crop production

Some relevant questions to consider might be the following:

a. Can the advantages and disadvantages of producing oilseed crops be adequately presented to farmers without indicating how oilseed crops fit into total farm operations? The net income earned from total farm operations that include oilseed crops needs to be compared to the net income position when oilseeds are replaced with some other crop.

b. Can farmers obtain credit easier and quicker through PDDA than by going directly to credit institutions -- for production credit, for infrastructure and purchase of machinery?

c. What are the dangers in encouraging farmers to fragment their credit by obtaining credit for oilseed crop production without considering credit needs for the remainder of the farm business?

d. If the main part of the program is providing technical assistance on production aspects, might it not be better to largely contain the program to these aspects and leave the credit function to financial institutions?

e. To what extent can technical assistance be provided without some consideration given to farm management and farm financial aspects?

f. Should farm management and financial aspects be included in the technical assistance services provided farmers? If so should all program technicians have these skills, or should the program have specialists in these areas to serve farmers in addition to the other specialists?

7. Very little time was spent on the cacao part of the program and I have just one observation to make. At the time the program started, cacao prices were considerably lower than they are today. Therefore the foregone income from rehabilitation and renovation of low-producing cacao plantations was less than it now is. In view of this situation, I suggest that costs and benefits from replacing old or low producing trees with new plantings be recalculated using current prices. It may well be that practices that were profitable a couple of years ago are not the appropriate practices today when cacao prices are high. Changing price relationships mean that each year practices need to be evaluated to determine the correct course of action for existing and expected prices.

III. Discussion of Agricultural Sector Loan

In Quito I reviewed preliminary drafts of an agricultural sector loan proposal with Bruce W. Blackman and Allen C. Hankins. We discussed agricultural development opportunities and problems that are likely to be encountered in the formulation and execution of capital and technical assistance programs for Ecuador.

1. AID programs are to be specifically aimed at helping small farmers, but Who is a Small Farmer? (Snide answer - a small farmer is someone under five feet in height.) The answer to this question is more difficult in Ecuador because of the very different conditions in the Sierra (minifunda) and the Coasta where the problem is not shortage of land but rather land inaccessibility and large numbers of landless or hired laborers. Part of the problem is shortage of capital needed to develop the land or lack of transportation to reach isolated land areas.

There difinitely is a "small farm" problem in the Sierra and the small farmer there can be fairly easily identified or defined and his farm described. In the Sierra, development programs should be (and probably are) aimed primarily at improving distribution of income and wealth. Issues involved here are land ownership patterns and rights to work land, income distribution, wage rates and employment, and access to or distribution of a whole host of social services such as education, health, government, housing, water supply, etc.

The problems are different on the Coast and therefore a somewhat different approach may be desirable. More attention to and emphasis on production in contrast to distributive aspects may be the appropriate approach. This, it seemed to me, was the approach being taken by the Government of Ecuador. In the context of trying to increase output, con-

sideration would be given to improving the social and economic well-being of those in the lower income groups, but these were secondary goals to be achieved while striving to attain the primary goal of higher output. This strategy resulted in GOE programs on the Coast having little of immediate concern for "small farmers" - in fact the type of agriculture on the Coast may be such that farms of (say) under five hectares are very few in number and may be more rural residences than providing the major source of family income.

2. While the primary objectives of development programs may be different for the Sierra (aimed at helping small farmers) and the Coast (increasing output), it nevertheless may be possible to have generalized programs that can serve both regions and also contribute to the attainment of both objectives. This could be achieved with several kinds of development assistance. Three are mentioned to illustrate the kind of programs that are needed; additional ones will probably also be needed.

a- programs to insure markets at minimum prices for any and all amounts of output farmers wish to sell. The need for this kind of program is illustrated by the current lack of markets for corn and soybeans.

b- programs to provide an assured supply of high quality inputs at the time and place farmers need them, and companion programs to enable farmers to acquire the inputs needed for efficient production. These latter are usually developed

as credit programs. They are included here to emphasize that credit in itself is not an input to the production process -- it is more a lubricant to facilitate the acquisition of purchased inputs. Credit programs, especially those aimed at small farmers, therefore, should be developed for the purpose of helping farmers acquire the kind and amount of purchased inputs needed to improve their farming operations.

c- programs to demonstrate and teach proper method of water use and water control. Such programs are needed at both the level of water shed management and at the individual farm level.

3. In Ecuador, as in most places, the availability and knowledge of new and improved methods and technology is a requirement for agricultural development to occur and this usually comes from research. Programs to improve the level and scope of agricultural research in Ecuador are therefore essential if rapid agricultural development is to occur.

While most research turns out to benefit primarily large farmers, conceptually there is no reason why research cannot be designed to serve the needs of small farmers. Therefore, AID support for improved and expanded research should insure that research projects and experiments are directed towards finding solutions to problems of small farmers rather than those of large commercial farms.

Mechanization can be used to illustrate the difference between appropriate and inappropriate research. Research on and development of large scale machinery and equipment should definitely not be carried out if the research is to benefit small farmers. Rather, research time and effort should be limited to the development and use of equipment that is suitable for small farms.

In general, research to benefit small farmers should concentrate on developing improved farming systems and techniques that minimize the use of purchased inputs. For example, weed control through crop rotation, irrigation methods, and tillage and other labor using practices in place of using high cost purchased herbicides. High yielding plant varieties should be developed that require minimum changes in present farming practices rather than necessitating radical changes in farming methods as the early HYV's did.

4. Mechanization may become a problem, particularly on the Coast, if the trend to more and bigger machines continues. Farmers mechanize for one or both of two reasons:

- a) to increase output and/or yields through the use of new, improved technology that requires mechanization as part of the package of improved inputs.
- b) to reduce labor requirements by substituting capital for labor. This would be done either 1) to reduce costs when wages are high relative to capital (strange as it may seem this is not an uncommon situation in labor

surplus LDC's particularly if subsidized credit is used for machinery purchase, and/or 2) to lessen employment problems -- it is easier to deal with machines than a large number of hired workers. Another reason may be to get a given amount of work done (e.g., land preparation harvesting, etc.) in a shorter period of time to facilitate double cropping, eliminate rain damage during harvests, etc. This, however, could be considered new technology and therefore as part of (a) above.

I would argue that government policy should insure that capital-labor price relationships encourage the maximum use of labor. Mechanization should be profitable to use only when it is an essential part of a bundle of inputs used to obtain higher levels of output; it should never be profitable to use machinery purely as a substitute for labor.

I would also suggest that farm mechanization research be restricted to develop and experiment with machines and equipment suitable for small scale farming.

5. It may be desirable for the loan request to explain or describe the concept and meaning of the word "cooperatiye" as used in Ecuador. The meaning is considerably different than that associated with it in the U.S.

6. In developing a loan proposal directed toward small farmers, it should be recognized that the government of Ecuador has no specific programs on the Coast aimed at small farmers; therefore, if the loan is to reinforce GOE programs, there are no small farmer programs to support or strengthen. This

should not mean that the incomes and welfare of small farmers cannot be improved as the result of a loan program. It just means that direct benefits may not exist or may be difficult to measure. Secondary benefits however should be great enough to justify a program.

Small farmers would benefit from programs that would help bring about:

- a) assured markets for their output at guaranteed, minimum prices -- this would require a competent and reliable price support-storage operation.
- b) input availability at the time and places required, with some means (credit, delayed payment, script, etc.) for farmers to obtain possession and use of the inputs.
- c) improved water management and use for the entire watershed as well as for individual farms
- d) improved transportation and communication systems
- e) research that is orientated toward small farm situations.

4TH VISIT

REPORT OF THE FOURTH VISIT - FEBRUARY 1973
TO REVIEW
THE LAND SALE GUARANTEE LOAN PROGRAM
and the
AGRICULTURAL DEVELOPMENT AND DIVERSIFICATION LOAN PROGRAM
by
Wade F. Gregory 1/

1/ The author, an agricultural economist with the Economic Research Service, U.S. Department of Agriculture, was on TDY with USAID Mission in Guayaquil from February 11 to February 23, 1973.

The purpose of this trip was primarily to work for a week or two with the person responsible for preparing plans for the Land Sale Guarantee Loan Program. Unfortunately, shortly before my arrival there was a series of personnel shifts that affected the program in varying degrees. The most drastic was the resignation of the Director of the Land Sale Guarantee Loan Program. In addition, a new Minister of Production was appointed and shortly thereafter, the Ministry of Production was divided into two ministries: the Ministry of Agriculture and Livestock and the Ministry of Industry and Foreign Trade. The Central Bank also was reorganized and in the shift the Trust Fund got a new head and a somewhat different alignment relative to its line of authority and manner of operation. Changes such as these are to be expected and should not interfere unduly with continued successful project developments.

In my case, however, they assumed an exaggerated importance, particularly in the case of the Land Sale Guarantee Loan Program. My first week followed the resignation of the Director of that program and therefore, coincided with the indefiniteness associated with a temporary acting director who could do no more than execute routine aspects of the program. In the long run, a temporary slow down during one week is of little importance; in the context of a two week assignment, it looms rather large. As in other visits, however, even though I would have liked to have accomplished more, I feel that I was able to accomplish something worthwhile. I continue to have much optimism and enthusiasm for the success of the program and the contribution it can make to increasing rice production and improving the lot of the members of the cooperatives participating in the program.

Since I spent about equal time with both programs, I will begin the report with comments that should have some relevance to both programs.

1. While the staffs of both programs are physically located in the same office, there appears to be little communication and exchange of ideas between them. This is unfortunate, for I think the opportunity exists for each program and the staff members of both programs -- from the Directors to the field staffs -- to benefit from a greater exchange and discussion of problems, procedures, and operations of each of the programs than now take place. This need not (and probably should not) be on a formal basis, rather an informal exchange of ideas and discussion of work plans and operations should be encouraged.

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2. Consideration should be given to jointly carrying out certain operations or functions. Several possibilities that readily come to mind are listed for consideration; they are not listed as something that should be done without considering the pro's and con's of such joint action.

a) Several times I have suggested that benefits could be had from determining the total quantities of inputs (fertilizer, seeds, pesticides, fumigation, etc.) that program borrowers will use and negotiate prices for a bulk purchase. The same could be done for product sales. It would seem that even greater advantages could be obtained if inputs purchases and product sales were negotiated jointly for both programs.

b) While each program has somewhat different formal, contractual arrangements with the participating Financial Institutions, there probably is sufficient similarity to consider developing and using common forms and practices such as the loan application and system of authorizing disbursements. Other practices may also be noted that could serve both programs equally well.

c) Publicity - to a considerable extent both programs have the common goal of improving the economic well-being of small farmers, yet farmers do not have equal access to both programs. The Land Sale Guarantee Program serves only rice production cooperatives and the Agricultural Development and Diversification Program (ADDP) deals only with small and medium sized producers of oilseeds and cocoa. Both programs may be much more readily understood if publicity brochures included information on both programs.

d) Administration - It may be possible to achieve not only increased economy but also improved services by having one set of administrative personnel, such as project accountant, secretarial staff, legal services, garage and motor repair services, etc. While the potential benefits may be great, however, there is also the possibility of greater confusion, mix-ups, and delays, that might result in higher costs; therefore, this proposal merits very careful consideration before being implemented.

3. Both programs place a high priority on keeping farm records, but I have the feeling that there is insufficient appreciation or knowledge of how to use farm records. Part of my assignment was to train some or all of the staff in the use and purpose of farm records. While progress has been made in this regard, there is still much to be done. In the meantime, I think the process of learning can be improved and speeded-up by a continuing interchange between the staffs of the two programs on their respective use,

successes and difficulties with farm plans. The following section contains some comments on the form and use of farm plans. A general observation is that farm plans and records appear to be used mechanically and treated as if they were fixed and frozen rather than as a flexible tool.

4. The development and maintenance of a good system of farm records is usually included as an essential part of a credit system for small farmers. However, it may be useful to question how essential farm records are for successful operation of small farmer credit programs, for it is quite likely that the number of credit programs now operating without maintaining a system of farm records exceeds those for which records of borrowers' farm operations are kept. While farm records can provide much useful information, such information becomes available only after a trained person summarizes and analyzes the records. Most credit agencies neither have such a trained person on their staff nor do they attempt to summarize or use whatever farm data are kept. Fortunately, both programs are attempting to train some or all of their staff in this regard. Record keeping is not a very useful practice unless the records are summarized and used. Therefore, while I strongly endorse the idea of credit agencies developing and maintaining a system of farm records, the form and completeness of the record system used should be a function of the use that can and will be made of the records after they are taken, rather than determined by no more specific goals and objectives than that such and such information would be nice to have and may be useful.

If the kind and amount of farm data to be kept is to be a function of the use that will be made of the data, then the types of records should be determined jointly by the farm supervisors (to reflect the kind and amount of information they feel can be recorded and that will be of interest and use to them and the farm borrowers) and by the central staff personnel (to reflect their need for and interest in various kinds of data). If this procedure were followed, it is quite likely that the farm record system would be quite simple at the start of the program and would not call for a great amount of information. As use was made of the information contained in the farm records, however, the desirability of modifying and expanding the kind and amount of data kept would probably become apparent. For example, it is quite likely that some information originally thought to have some use would turn out to be of no use to anyone and should therefore be dropped from the system; while on the other hand, the need for data not previously anticipated would be identified and provisions should be made for expanding the record system to collect new types of data. Under this process, the farm record system should gradually become a fairly complete and highly useful system.

Applying this line of reasoning to the farm plans and record system for the Land Sale Guarantee Loan Program suggests that these plans and records are much too complex for the program at this time, for aside from serving as the basis for the loan application little other use is now being made of the farm plans and records. One reason for this may be their complexity and the lack of comprehension among project personnel on how to use them. I fear that the ADDP may also be developing a set of plans that will be more complex and call for more information than the staff will use.

My plea is not to forgo collecting useful information, but rather to keep the forms and process simple; and as the need for more information is recognized, the record system should then be expanded to fill this need.

5. I have cautioned both programs about being too optimistic relative to yield and income levels expected from farm operations. Even though actual performance of borrowers in the Land Sale Guarantee Loan Program has improved over what it was before entering the program, actual performance has not reached the level stated in the plans. So far, this lower than planned performance has not caused any problems, for the margin of profitability or the difference between costs and returns was large enough to meet loan repayment costs even with lower than planned for levels of output.

I have not calculated the percent by which borrowers failed to reach planned profit levels in the Land Sale Loan Program, but from my brief contacts with the ADDP I feel fairly sure that if the proposed tentative ability to repay loans for oilseed crops and cocoa based on existing costs and returns estimates were to fall short by the same percentage as has occurred in the Land Sale Guarantee Program that repayment ability in the ADDP would be very questionable. I want to emphasize that I am not making this as a statement of fact, but rather as a word of caution of some types of calculations that should be made and how one program can benefit from the experience of the other.

6. As a further word of caution against the tendency of showing how profitable farming can be on the basis of "paper plans" I want to include some ideas I have presented elsewhere on this matter.

Loan programs, such as these two, are developed to provide financing for the purchase of inputs required to adopt "improved technology" which is supposed to increase output and, in turn, income by more than the increased cost of the additional inputs. The new, higher, profitability then is a function of the extent to which the "improved technology" results in higher yields and the corresponding change in costs and returns over the traditional methods. Since these programs

are for small to medium sized farmers, it means that the "improved" technology must be successful when used under conditions facing small to medium sized farmers. This means that the entire bundle of practices associated with the "improved" technology must be identified and their use in the production process described so that the correct procedure can be followed in a step-by-step manner. To determine the increased profitability of the "improved" technology, it must also be possible to calculate costs and returns from the improved system and compare them with the costs and returns from traditional methods.

In many cases, small farmers would prefer to continue their traditional way of life which is fairly safe and sure even if standards of living are at fairly low levels. Because of society's interest in growth and development, however, programs are developed that encourage those in the traditional sector to modify their existing practices or to adopt new ones in order to increase output and productivity. Those using traditional methods are encouraged to adopt improved practices because of the beneficial impact (probable but by no means sure) they will have on the adopter, but more importantly, because of the more certain beneficial impact they will have in the aggregate. In this case, society stands to gain more than the individual, but the individual bears the greatest portion of the risk.

Furthermore, it seems to me that in many cases small farmers are encouraged to adopt technology, or forced to adopt it as a precondition for participation in loan programs, but the administrators of these programs have such little faith in the probable success of the technology that the adopter must bear all of the risks. This, I suggest, should be changed.

Credit programs that require the adoption of new (improved) technology as a precondition for participation in the program should bear some or all of the risk of failure associated with the use of the new technology. In the case of credit programs for small farmers, credit is often granted only on the condition that part or all of the credit be used to purchase specified inputs and that the traditional, fairly safe, method of production be replaced by improved technology that has the potential for much higher levels of output. This potential may or may not be realized due to factors within the control, or completely beyond the control of the farm borrower. However, while the credit agency feels sure enough of the probability of the success of the new technology to insist on its adoption, all risks connected with the adoption and use of the new technology have always been fully borne by the borrower. My suggestion is that this be changed and that any worsening in the financial position of the borrower, related to the use of the new technology, be borne at least in part, if not in full, by the credit agency. This needs to be qualified, of course, to except those cases due to negligence on the part of the borrower. It would

include those cases where yields did not increase enough to pay for the cost of applying the new technology either due to weather hazards, adverse price changes, or simply lack of response to the new technology for no apparent reason. Under such a program of shared risks, it is my feeling that credit agencies would be less prone to recommend the adoption of various practices without more proof than they now have of the profitability of that practice under the conditions in which small farmers must operate.

7. Prior to my departure on previous visits a tentative target date was set for my return. This time it was decided that the status of work on both projects was such that it was difficult to estimate a tentative return date and therefore, that it would be preferable not to set a date. Instead, whenever the need arises, either or both program Directors are to transmit a request to AID for additional assistance. I emphasized the continued personal interest I have in both programs as well as the continuing relationship between AID and the U. S. Department of Agriculture whereby USDA stands ready to provide specialized agricultural expertise whenever requested. Therefore, additional USDA assistance is available to either or both programs. These services will be made available at such time that either or both programs make a specific request to AID. A lead time of five to eight weeks is suggested.

Land Sale Guaranty Loan Program

1. Existing plans for the nine cooperatives were to be reviewed and revised to more nearly reflect actual conditions. It was recognized that the standard plan now being used was not very well suited for those six cooperatives whose members work their own individual plots. Therefore, the original plan will be modified for these six cooperatives. A less complicated plan will better fit the needs of these six cooperatives. A version of this simplified plan was worked out with Ramón Mesa.

2. As a way of learning the process of planning, Carlos Lozano was to work with Ramón Meza to revise the plans for the nine cooperatives now in the program. This should provide sufficient opportunity to learn how to deal with variations that exist from cooperative to cooperative. Carlos Lozano would then become responsible for preparing plans for the new cooperatives that enter the program. In the future, plans are to be modified to the extent necessary and desirable to fit the needs of each particular cooperative.

3. While the plans will be prepared in final form by Carlos Lozano, he will need close collaboration from the field staff. Likewise, the plan will not be as useful as it should be unless the field staff understands the meaning and purpose for each sub-part of the plan.

4. Farm records are to be kept current. This will be the responsibility of Ram6n Mesa, but again the close cooperation and understanding of the field staff is needed.
5. Special efforts were to be made to obtain records on San Felipe for at least the past two crops so that complete records of production practices, costs and returns would be available for analysis and use in future planning.
6. Steps were to be taken to have copies of all important and useful records and documents available in the Guayaquil office for use by program personnel.
7. Program leaders need to review farm plans and records with the field staff at frequent intervals for the purpose of guiding their work and also as a training device to help them acquire additional skills in farm management techniques and analysis.

Agricultural Development and Diversification Program

1. Even though the final form of the plans will be different in this program from those used by the Land Sale Guarantee Loan Program, it should be useful to discuss problems, procedures, uses, etc., of preparing farm plans with personnel from the other Program.
2. Attention needs to be given to the kind of farm records that will be kept and how the data will be obtained.
3. Because of the quite narrow profit margin that will likely prevail for most of the plans, it would be advisable to anticipate partial failure and consider what steps will be taken in case income is insufficient to meet scheduled debt payments.
4. In the case of cacao, it was agreed that price data would be plotted as far back to 1960 as possible. This would provide some basis for projecting cacao prices into the future.
5. It would appear imperative that the field staff have vehicles to enable them to visit their clients quickly and efficiently.

Ecuador Field
(Studies & Report)
3RD VISIT

THE LAND SALE GUARANTEE LOAN PROGRAM
AGRICULTURAL DEVELOPMENT AND DIVERSIFICATION LOAN PROGRAM

Report of Third Visit - November 1972

by
Wade F. Gregory

This report attempts to present some impressions on the present status of two different but related loan programs: The Land Sale Guarantee Program (for which this is my third review) and the Agricultural Development and Diversification Program, which is just now getting under way. Since there is both the need and possibility for complementary between these two programs, both parts of the report may be of interest to those working with only one of the programs.

Land Sale Guarantee Loan Program

The program has made much progress since my April visit. Farm plans for nine cooperatives had been prepared and submitted to institutions for financing, and loans for these nine cooperatives were approved by the end of October. (In a few cases, disbursements have not yet been made because of delays in getting all necessary papers signed, but temporary interim financial arrangements were usually made so that work could go ahead). The loan requests for these nine farm plans amount to over 18 million sucres (about US \$7. 00) or around one-fifth of the total loan. Given that the AID loan was to be disbursed in five years, it appears that the first year was in fact a good year, at least from the standpoint of allocating funds under the AID loan.

1/ The author, an agricultural economist with the Economic Research Service, U.S. Department of Agriculture, was on TDY with USAID Mission in Guayaquil from November 5 to November 22, 1972.

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I shall not dwell long on those parts of the program that merit praise and commendation; for my task was the less desirable one of identifying weak spots and suggesting ways to improve them. However, I do want to at least mention that program personnel should be congratulated (and paid higher salaries) for their many accomplishments. Among these accomplishments, I would list as one of the more important, an intangible sense of drive, purpose, and progress in getting the overall program moving. There seems to have been action toward achieving specific goals on many different fronts. This drive seems to have emanated from the Director of the Program down to and through the activities of the entire program staff. I would list this drive and determination, that got the program moving, as a very significant accomplishment.

The following observations are related to those specific parts of the program where I think some improvements could be made. I want to emphasize again, however, that in identifying program aspects that need improvement in no way suggests that I find the overall program weak. On the contrary, I think it a strong, viable, and successful program.

Farm Plans - The plans as presented to institutions for financing leave much to be desired. Some plans contain errors in arithmetic, inconsistencies in concepts, incomplete information on various sub-parts of the plan, and discrepancies between plan contents and actual operations. Given these inadequacies, one may conclude that sound loans could not have been made. I do not feel this in the case; for, even though the plans and the planning process need some improvements, I think that in general the plans are near enough to reality (and fortunately the investments productive enough) that

even with the limitations indicated, the loans still appear to be financially sound. These suggestions are related more to the need for improvements in the planning process from the standpoint of using the plans as a management tool rather than from the point of view of correcting or preventing unsound financial loans from being made. (If the technical coefficients used in the plans are anywhere near correct, there is no doubt that the planned investments are financially sound. I have no basis for not accepting the technical coefficients as correct. Time alone will tell whether in fact they are correct).

1. Prior to submitting plans, they should be completely checked to insure that they are free of inconsistencies and typing and arithmetical errors.
2. Plans should be presented in such a way that the source of each and every number contained in the plan is easily found and understood. Then, even though one may not agree with the actual magnitude of the numbers used, he will still be able to understand and evaluate the source and manner in which the numbers were arrived at.
3. The plan for each cooperative should be specifically related to that cooperative. The general format of the plan was developed to cover all situations and therefore probably does not exactly fit in all respects the needs of any one cooperative. Hence, the precise plan for each cooperative probably needs some modification from the general format to make it better fit the specific situation of that cooperative. This has not been done to date; rather each part of the general plan has been completed for all cooperatives regardless of whether that part had any relevance to a particular cooperative or not.

4. I have the feeling that the plans are very much the work and ideas of the program technicians rather than the ideas and desires of the cooperative members. I am sure production and income on the cooperatives will be higher in the next few years because of this; however, there are also disadvantages related to this method of plan preparation, and I think the disadvantages probably exceed the value of the larger production and income resulting from this process. The disadvantages are the lack of cooperative development and incorporation of cooperative members into the decision making process. Unless they participate in the planning it is doubtful whether they will feel much responsibility for the success or failure of activities undertaken. I realize this observation on the extent of member participation is almost completely subjective and that the "Actas" of the cooperative meetings indicate that "members were given the opportunity to question the plans but that everyone was in agreement and the plans were unanimously approved."

My guess is that most members did not know enough about the plan to question government people from Guayaquil who had promised them all that money and the good things that go with it. While I have some specific recommendations for various aspects of the program, unfortunately I have none for this other than to urge that cooperative members be brought more fully into the decision making process. If this can be done, I think it quite possible that future loans may be smaller and immediate production increases not so rapid.

However, (say) five years from now, these cooperatives may be in a much better position to manage their own affairs with less outside assistance than they would be otherwise. It is also quite likely that the total income earned by cooperatives in these (say) five years would also be less as a consequence of less direct program intervention by program technicians in directing members' decisions in the planning process.

5. Initial plans should include data on actual land use, costs and returns for the cooperative for the period immediately preceding its entrance into the program. This would provide information on the level of practices coop members were using prior to receiving loans and also serve as a guide on how big a step is needed in going from the present level of technology to the adoption of the full set of improved practices incorporated in the plan. It would also serve as a point of reference in any future evaluation of the progress made. It would show increases in land area brought into cultivation and investments related to increased land use, changes in yields, costs and returns, and the overall financial improvement of the cooperatives.
6. More attention needs to be given to an economic analysis of alternatives. To date, an analysis of alternatives only consisted of calculating total costs and returns for two or three different estimates of the number of hectares planted to crops and selecting one of them. However, I suggest that an analysis be made of many (all) different types of decisions. For example: the effect of providing infrastructure on the increased number of hectares

available for crop production, costs, returns, use of labor, need for hired labor, tractor use, etc; whether to buy or rent a tractor; and of course, the effect on labor use, income, risk, etc., in determining the appropriate level of land use.

7. At the present, all plans provide for loans covering 100 percent of all costs. (It should be noted, however, that this has been used to establish a line of credit and that so far cooperatives are not borrowing the full amount specified in the plan, but only the amount actually needed. It is probably desirable to have such an extra margin of safety at the beginning of the program). However, with the experience gained to date, it is probably possible (and I think highly desirable) to amplify the plans to show what part of total resource costs will be provided by the cooperative and what part will be financed by loan funds.
8. I have never been satisfied with the idea of paying cooperative members for the work done on the cooperatives. To me, this treats cooperative members as hired workers, and as such they are probably more interested in their daily wage than in the success of the crop and the final production. If members' income were primarily the result of the net income of the cooperative (as determined by the difference between value of sales and costs including loan repayment), they may be much more interested in participation in plan preparation and entering into the decision making process and thereby become more aware of the consequences of their individual as well as group actions. Members, course, would need some kind of financial advance to live on until harvest time. Several suggestions

were made concerning this in my first report; these I will not repeat here.

8. In the introduction to this part of the report, I mentioned the need for program technicians to make better use of the plans as a management tool in their work with cooperative managers. To this end, I think there is the need for a better recognition and understanding that the plan consists of several sub-plans. For example, there should be a sub-plan for the use of each of the major resources or inputs; land, labor of cooperative members and their families, hired labor, tractor and machinery, purchased inputs, etc. There should also be sub-plans for each crop or enterprise. The larger plan then ties together or consolidates these various sub-plans for resource use and crops into a consistent coordinated farm plan for the entire enterprise.

This overall plan therefore consists not only of the kinds and amounts of various resources needed and how to combine them, but also includes the financial plan of how these resources will be paid for. In contrast to the shorter time period appropriate for some of the sub-plans, the final plan should be for a full year.

(In those cases where 13 or 14 months are needed for two harvests a year, the overall plan should be for this period of time).

My recommendation here is that program technicians recognize the several ways they can use the plan in providing technical assistance to cooperatives and their members and also that those preparing

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the plan keep this use in mind at the time the plan is prepared. The plan can and should be something more than just a set of papers submitted to financial agencies to obtain a loan. It should also be a working tool for program technicians to help them provide day-to-day technical assistance to the cooperatives.

9. There is sufficient experience now for the Guayaquil office of the program to start pulling together common experiences from each cooperative and to put this information at the disposal of all program technicians. For instance, when the program started there was no accepted recommendation of inputs for the various crops and the corresponding yields. The program staff used the best information available. It is now possible, however, to compare the level of inputs used in the nine different plans. Considerable variation exists among the plans for the same crop without any explanation given for the variation. As time goes on and data ^{are} accumulated on the actual level of inputs used and yields realized, program technicians can do a much better job of planning. This process of summarizing and comparing information and results on the various cooperatives should become an on-going activity of the central office in Guayaquil.
10. Long term plans need to be prepared. For most cooperatives, at least those for which additional infrastructure is proposed, additional land will be brought into use over a period of years. Present plans, however, are for only one year and therefore do not show how or when all land will be fully used. Now that

the program is well under way, I suggest that in addition to the preparation of annual plans, as is now being done (with the modifications suggested), a subsidiary long-term plan also be prepared. This long-term plan would be less detailed using principally annual estimates in contrast to monthly data, and would be a year-by-year description or estimation of the steps that would be taken each year to bring the cooperative into full production. The period of this long-term plan would vary from cooperative to cooperative depending upon the estimate of how many years are needed to bring all land into full use.

A word of caution here may be appropriate: this long-term plan should be looked upon more as a general guide rather than something that will be followed exactly. It should be revised each year, along with the preparation for the annual plan, and hopefully the second year of the long-term plan would be fairly close to the annual plan that is prepared for that year. However, no one should be alarmed that if what actually happens in (say) the fifth year is quite different from what is contained in the first long-term plan for that year.

Record System - The keeping of accurate, detailed records needs to be an integral part of the program. The record system should be designed not only to record financial transactions and the flow of money but also to record the kind and amount of physical resources used. I was unable to get a good feel for the condition of accounts now being kept, but I have the uneasy feeling that they are not as good as they could or should be and that at the end

of the crop season there will not be a complete record of the inputs used and the practices followed in producing the crop. This does not imply that there will not be adequate financial records to document that funds were properly used and to calculate costs and returns. However, unless the record system is designed to facilitate the recording of the kind and amount of resources used, this very useful and important information will not be available for use in planning next year's operation.

A contract has been signed with FENACOPARR for it to be responsible for the record-keeping on the six cooperatives that are members of FENACOPARR. This may help alleviate work pressure on the technicians in the program. However, in the hope that by expressing a worry or doubt that I have that it will then not come true, I make the following comment: to date, the accounts FENACOPARR has maintained or assisted its members in maintaining have been principally financial balance sheets. These are necessary, and relatively simple to maintain compared to accounts recording resource use. My worry is whether FENACOPARR at this moment has the ability to provide the kind of assistance required to keep records on resource use. I was impressed with the spirit of willingness on the part of FENACOPARR personnel to modify their existing system and have no doubt that in time they can develop this ability (if they in fact do not already have it). My worry is whether this ability will be available soon enough to insure that the needed information will be obtained for this first year's experience.

Tie-in Between Plans and Records - Farm plans are a description of what is intended to happen during the course of a year, the beginning of which is some future date from when the plan is made. It is almost certain that due to circumstances beyond anyone's control, as well as imperfect knowledge, that not all events described in the plan will be realized exactly as stated in the plan. This should be expected. However, there should be a record of the actual outcome and how it differs from the plan. Depending upon how great this variation is, a new or modified plan should either be prepared or the variations merely noted in the records. For example, due to delays in the approval of loans and disbursement of funds, some cooperatives were not able to plant the area of land specified in the plans. However, the actual level of operations being carried out by these cooperatives is not readily available in any of the records or plans I saw. Instead, the original (outdated) plans are still the documents being referred to. They need to be revised to reflect the actual situation. This does not mean that the original plans were not good; but rather, because of circumstances beyond the control of program personnel, actual land use changed from that contained in the plans. While these changes were made in fact, plans were not revised to reflect these changes.

It should be obvious that plans cannot be changed continuously. I would suggest that they be revised to reflect actual area planted and that from that point on, any changes be noted through the system of records rather than further modification on the plan. However, technicians should make continued reference to what the plan suggests in terms of resource use, what has happened as described in the accounts, and what needs to be done

as determined by the actual situation in the fields and elsewhere. This means that the accounts must be kept current and there there must be some relationship between the type of information contained in the plan and that in the system of accounts. To assure this, there must also be communication between those responsible for plan preparation, for plan execution, and for record keeping.

Program Control - In my first report, I wrote that I sensed a lack of "checks and controls" on the work being done throughout the program. I now think the reasons given for this feeling at that time have, for the most part, been corrected; however, I still sense a lack of sufficient "checks and controls" and even though different cures are needed now, I would like to repeat what I wrote in the first report on this matter: "There appears to be little review and checking of each other's work to make sure that there are no oversights, wrong calculations, etc. This aspect of review by one's colleagues I think is extremely important. In addition to this type of continual informal review, there must also be a review and check by others higher in the administrative hierarchy. There appears to be little of this being done relative to the need for it as measured by the large sums of money that are involved." I strongly suggest the development of more stringent "checks and controls."

Creation of a Position for Preparing Plans - Approval has just been given for the appointment of a person who will have the responsibility for the preparation of final plans. This, I think, is a very desirable development. As I visualize his work, the "Jefes de Equipo" would discuss alternative work plans with members of the cooperatives and upon reaching some tentative decision about the kind of farm operation desired would provide this

information to the person responsible for preparing the plan. This person would then arrange the information in the proper form and make the needed economic analyses as he proceeded to prepare the plan. Should he find as a result of these analyses that some part or parts of the proposal (the purchase of a tractor, for example) were not justified on economic grounds, he would relay this information to the Jefe del Equipo who would in turn discuss it with the members of the cooperative. They would then come up with another alternative to give to the person preparing the plan. In this way, the final plan would be the joint responsibility of the planner, the Jefe del Equipo, and the cooperative members. This system should enable the plan to be made more easily and accurately, and also enable those responsible for the execution of the plan to devote more of their time to the technical aspects of agricultural production.

System of Centralized Automated Accounts - As a further step toward getting increased efficiency in program operations, there is interest in automating and centralizing the farm accounts. In theory this appears to be a desirable action and, in time, as the programs mature, probably a necessary step. However, I am hesitant to endorse this idea at the present time because I feel that in the absence of a workable system and the lack of knowledgeable people to operate such a system, that such a step at this time would cause more work and provide less useful information than a manually operated system. Perhaps in two or three years after a manually operated system is working well, and the work is too great to be done manually, it would be appropriate to automate it; but I doubt the advisability of going directly to an automated system. In almost all cases for an

automated system to work well, a manually operated system must first be developed. I think the program will still be small enough, during the next year, for a manually operated system to be the most efficient and effective way to operate it.

Transfer of Land - In my last report I wrote that "this is an excellent program that offers much hope for attaining considerable success in at least four important areas: (1) increased agricultural production, (2) higher incomes for present low income families, (3) increased employment, and (4) an easy, effective way to transfer land to landless peasants, thus helping to bring about part of the desired land reform." If the plans for the nine cooperatives now included in the program come anywhere near to being realized, the first three of these objectives will be realized. However, while still an objective of the overall program, the fourth area has received little or no attention.

Attention to Marketing - Steps appear to be under way to insure the purchase of inputs and the sale of products at favorable prices. I would urge that these steps be made more explicit. However, it is possible that with the start of the Agricultural Development and Diversification Program, which has marketing as an explicit part of its program, that it can carry out the marketing function for both programs. The details of any such arrangements need to be worked out and responsibility assigned and agreed to as soon as possible.

Salaries - In my April report I mentioned that personnel attitudes and morale did not appear to be as high as desirable nor as high as they had been in November of the previous year, and that much of this could be traced to the low salaries being paid. It appears that low salaries still persist, but for some reason, to the good credit of the staff, morale appears to have improved and there is again an eagerness to get on with the program and do whatever can be done.

The Land Sale Guarantee Loan Program is a special program and as such certainly merits special salary considerations. The total salary cost of all technicians working in the program is certainly very low relative to the amount of money for which they are responsible. From an investment standpoint, it would appear to make good financial sense to protect the investment by increasing salaries to insure that the program is staffed by competent people and that salaries are high enough to hold these people rather than have them leave for other higher paying jobs.

Future Work - Tentative agreement was reached that I should return around the end of January 1973 for a week or two to work with the person responsible for preparing plans. This work would consist primarily of revising plans for the nine cooperatives now included in the program and in preparing final plans for the new cooperatives that are to be added to the program in the first half of 1973.

Agricultural Development and Diversification Loan Program

This program was just getting under way at the time of my visit. Personnel had been recruited and my visit coincided with the first orientation and training program for the staff. My part of the training program was to discuss the preparation of farm plans and credit applications and general principles of farm management that would be immediately relevant to the program technicians, most of whom have had no economic or farm management training. The shortage of time prevented me from giving much attention to this latter item, however.

Because the program is just getting started (the program still did not have permanent office space), my comments will have to be principally an attempt to anticipate likely trouble spots in an effort to try to reduce their importance or prevent their occurrence. I make these observations, however, with some hesitation and many reservations, for I have little to document or back them up; they are largely impressions that grow out of experiences and information of places other than Ecuador. Therefore, it may be my observations that are incorrect rather than the parts of the program to which they refer.

Program Goals (for oilseed crops) - The production of oilseed crops may not be the best way to achieve some of the goals of the program. I will comment specifically on two of these: (1) increase employment and (2) improve efficiency of resource use. 1/

1/ The objective of conserving foreign exchange is another goal that is also questionable. It is very likely, at least for the next few years, that if land suitable for both rice and oilseed crops were planted to rice instead of oilseed crops, the net foreign exchange position would be improved by producing and exporting rice than by producing oilseed crops and reducing vegetable oil imports by the amount of oilseed production.

The basis of my comments is that much of the land in the area encompassed by the program is suitable for the production of both the oilseed crops included in the program (sesame, peanuts, soybeans, and castor beans) as well as rice and/or cotton. Therefore, the choice must be made between either growing these oilseed crops or some other crop, such as rice, cotton, tomatoes, or melons. It seems to me that any of these latter crops require higher labor inputs than does the production of any of the four oilseed crops included in the program, with perhaps the exception of peanuts. However, in the case of peanuts, there are indications that few farmers would be interested in growing them without considerable mechanization, and if peanut production is mechanized, it also probably requires less labor than alternate crops. Therefore, production of oilseed crops may not increase employment on land suitable for the production of other crops. This observation is not intended to discourage the program, but rather to try to modify some initial goals that seem difficult or impossible to attain.

Similar comments can be made about the goal of improving resource use through the production of oilseed crops. Using net returns as a measure of the efficiency of resource use would indicate that land should be planted to those crops that have the higher net returns. Information from the Land Sale Guarantee Loan Program indicates that rice, cotton, and tomatoes all have higher net returns than soybeans or sesame. These figures therefore suggest that production of oilseed crops may not make for efficient resource use in those cases where rice and cotton can also be grown.

These comments on the difficulty of increasing employment and improving the efficiency of resource use through the production of oilseed crops are not meant to suggest that the program is not a good program nor that it cannot be justified on economic grounds. Instead these observations are meant to suggest that perhaps the program ought to explicitly recognize, that with the present state of knowledge, that there are probably better alternative land uses than the production of these oilseed crops. The comments are also meant to suggest that caution should be exercised in using program funds for the production of oilseeds if in fact resources could be used more efficiently in the production of other crops.

Cacao Program - I am impressed by the very big differences between the level of cacao yields and income contemplated under the program and the level actually produced under farm conditions. This latter includes both the very low average for Ecuador as well as experiences on "well-operated" commercial ventures. If, with the assistance of program technicians, cacao production on small to medium sized farms can begin to approach the results the program has estimated on paper, cacao production will be highly profitable. While the gap between actual yields and projected yields is very great, the gap between actual cultural practices and projected cultural practices is also quite large. Therefore, the challenge facing the program is to insure that its technicians can identify problems and provide workable solutions. They must not only be fully informed on the technical aspects of cacao production, they must also be able to convince cacao producers to adopt the recommended practices and make the associated financial investments.

Getting Started - My admonition here is: "Haste makes waste!" I commend everyone in the program for their eagerness, drive, and hard work and for their willingness to accept work targets that would require spending a lot of time beyond their normal work schedule. However, I seriously question the advisability of trying to go so fast and so far in the first six months.

Relative to the oilseed crops, which are primarily summer crops, my suggestion is to concentrate on identifying farmers interested in producing oilseeds and working with them in developing a production and financial plan that would begin with the summer season. In the meantime, technicians could provide technical advice to these farmers on whatever crops they might be growing. I would advise against making any loans for winter crops this year (January-June 1973) with one exception. Prior to starting loan operations on a large scale, it may be desirable to get some experience in working with lending institutions. For this reason, I think two or three loans per technician may be advantageous.

In the case of cacao, the timing is different. The extent to which certain tasks are accomplished within the next weeks or months will determine to a large degree how fast the program can expand during the rest of the year. Therefore, there must be more immediate activity and results in the cacao part of the program than that related to oilseeds. However, I would also caution against pushing the cacao program too fast or too vigorously. The real goal for the total program ought to be the status of cacao and oilseed production five to ten years from now; not what happens in the first year or the first three years. A slow, but sure, start that

minimizes mistakes appears to me to be the best approach for a program like this. This appears better than one that moves faster the first year but by doing so passes over the many problems that are bound to arise without properly resolving them and thereby jeopardizes the success of the program in subsequent years.

Guayas Basin, Ecuador
Report of Second Visit, April 1972

by
Wade F. Gregory 1/

2ND VISIT

This trip was a follow-up to work done in November 1971. At that time it was recommended that a training course on farm planning and farm management principles be given to technicians in the Land Sale Guarantee Loan Program that would enable them to (a) prepare more useful farm plans and (b) provide to cooperative managers more meaningful supervision in the use of farm resources. Copies of farm plans and records of farm operations for several cooperatives were to serve as the principal training materials for the course. These records and plans were to have been sent to me and also were to have been made available to participants in the course several weeks prior to the initiation of the course. However, delays were experienced in completing farm plans and in pulling together data on farm operations and only partial plans for two cooperatives were sent to me. Therefore, the main focus of how my time was spent in Guayaquil changed somewhat from one aimed primarily at teaching principles, procedures, and uses of farm planning and farm management to the more immediate task of helping to complete at least one farm plan. Fortunately, before I left Guayaquil, we were able to prepare two farm plans in rough draft, one for San Felipe and one for Pedro Carbo. The responsible program technicians should now be able to completely finish these plans and put them in a form ready for submission to banks by the end of the first week in May.

While not as much subject material was covered in the course as originally anticipated, I think the actual working out of the two farm plans did provide a good basis for a better understanding by program

1/ The author, an agricultural economist with the Economic Research Service, U.S. Department of Agriculture, was on TDY with USAID Mission in Quito and Guayaquil from April 12 to May 5, 1972.

technicians of the "what," "how," and "why" of agricultural planning. In addition to the preparation and discussion of farm plans, attention was also given to the keeping and use of farm records and the inter-relationships between farm records and farm planning and how program technicians and cooperative managers can use such information to increase income levels through improved use of farm resources.

One disappointing aspect of the course was the small number of persons participating. Eight people from the Guayaquil staff attended at one time or another; however, one of these attended only a few hours and three others only off and on. Four persons attended more or less all of the sessions. In addition to the Guayaquil staff, two people from the office of Fondos Fiduciarios of the Central Bank in Quito participated in most of the seminar. One other person from that office attended the first week. In addition to these, the Banco de Pacifico, a newly established private bank in Guayaquil, sent a representative to most of the sessions.

The next to the last day of the course, the plan for the cooperative San Felipe was presented to representatives of four private lending institutions interested in considering the possibilities of lending the capital required to implement the farm plan. This presentation was made entirely by personnel from the program, principally the coordinator of the program in Guayaquil, Ing. Augusto Bueno. The reaction by the bank representatives to the plan appeared to be quite favorable.

One very heartening aspect of the program at the present time is the fact that excellent farm records are now being kept on San Felipe.

These are the results of the work and advice of Ramon Meza Villao who deserves high commendation for his accomplishments. Unfortunately, since he has been working in the program only a short while, there had not been time to bring all the farm production and financial data together until the course was half over. However, these data now serve as excellent illustrations of what other cooperatives can and should do. One day of the training course was taken over by Ramon Meza, who explained the system of accounts in use at San Felipe. He also worked with the group in deciding what changes would have to be made to adapt this system to fit the particular situations of the other cooperatives. While the system in use at San Felipe builds up to a rather elaborate set of double entry bookkeeping accounts, plus supporting records of labor use, he indicated that one of the teen-age boys of the cooperative (with only a few years of schooling) has been able to follow the system and make the appropriate entries with only limited supervision.

The availability of these records at an earlier date would have made the preparation of the plan for San Felipe much easier and also more reliable. They certainly will be a big help in preparing a plan for next year as well as providing valuable information for making management decisions. In the next few weeks, Ramon Meza plans to work with at least two other cooperatives, Pedro Carbo and Santa Isabel, to set up farm record systems for these cooperatives. Since some of the cooperatives to be included in the program are farmed on an individual basis, in contrast to farming the entire land area cooperatively, attention

will also be given to keeping records on individual farms. In the beginning, this will be on a few farms and later expanded as more farmers are willing to cooperate in this phase of the program.

The establishment of a position for the purpose of setting up and maintaining a system of farm records and the success that Ramon Meza has had in discharging these responsibilities suggests the advisability for having one person responsible for the final preparation of farm plans. The appointment of a person to this task would not eliminate the need for all program technicians to understand and be involved in broad aspects of farm planning, but it would eliminate the need for all technicians, other than the one assigned, to master the intricacies of all the forms used in preparing farm plans. Under this proposal, the technicians assigned to each cooperative would provide the person responsible for final plan preparation with the basic aspects of the farm plan, such as proposed land use and the inputs and yields for the crops to be grown. The planner would then systematically organize these data to present an orderly, easily understood farm plan.

In my November 1971 report, I commented at some length on the fact that the farm plans at that time were too ambitious relative to the rate they proposed to transform the cooperatives from present rather small operations to one many times larger in a period of one or a few years. The present plans for San Felipe and Pedro Carbo are considerably more realistic. They appear to be sufficiently ambitious in developing land resources and raising income levels but at the same time modest enough

in that investment requirements and expanded operations should not unduly stretch existing management capacity. I likewise think that if for some reason these plans cannot be carried out with loans from the program, they are small enough that private lending institutions may be willing to make these loans as part of their own lending program. This certainly should be true of Pedro Carbo for the total loan requirement, including both production credit and infrastructive costs, is less than 200,000 sucres (U.S. \$8,000).

Perhaps the most disturbing aspect of the program relates to what I call, for want of a better term, personnel attitudes. In the November report I referred to administrative deficiencies, some but not all of which have been or are in the process of being corrected. I paid little attention to administrative aspects this time and suggest that readers who may have an interest in these refer to the November report for details. However, while I was not directly concerned with administration and management of the program, it became readily apparent that some of the eagerness and enthusiasm that the staff appeared to have in November had slipped away in the intervening six months. The cause for much of this change is low salaries and the non-payment of "promised" additional staff benefits. (I write "promised" in this form, for I am not certain whether firm agreements had been made or the extent to which personnel assumed that firm commitments had been made. While the "legal" distinction may be great, the effect on morale and attitude is the same).

In November I was led to believe that salaries paid under this program would be high enough to attract and hold highly qualified technicians. Employees now report that their salaries are no higher than they could earn elsewhere. One technician reported that the salary paid him by the Ministry of Production was less than the Central Bank (a co-sponsor of the program) paid some of its secretaries in Guayaquil.

I continue to view this as an excellent program that offers much hope for attaining considerable success in at least four important areas: (1) increased agricultural production, (2) higher incomes for present low income families, (3) increased employment, and (4) an easy effective way to transfer land to landless peasants, thus helping to bring about part of the desired land reform. While, in some respects, the program has not developed as rapidly as had been anticipated, it appears that a "take-off" is quite likely in the very near future. However, the program may need some nudging and perhaps a push from time to time to keep it moving.

All parties concerned indicated that provisions should be made for a return visit on my part; USAID/Ecuador indicated its willingness to continue to provide my services to the program on repetitive short-term visits as needed. However, at the present time, it is difficult to even tentatively set a date for the next visit, for until some of the plans now developed begin to be executed, it is questionable what role I could or should perform that would benefit the program. I indicated my willingness to return at such time as my services could be of use in furthering program objectives.

THE LAND SALE GUARANTEE LOAN PROGRAM

Guayas Basin, Ecuador
Comments and Observations

1ST VISIT

by
Wade F. Gregory 1/

In the following pages, an attempt is made to present some of my impressions concerning the present status of The Land Sale Guarantee Loan Program. These comments pertain to the conditions as I saw them at the time I was in Guayaquil. Even though some steps were already being taken at the time of my departure to modify some of the conditions I have described, I have not attempted to update my report to include these changes. Therefore, the report may also serve partially as a benchmark to indicate the progress that has and is being made.

I was asked to take a critical look at the program with a view "to identifying its deficiencies and weaknesses" and how these might be improved. Therefore, in compliance with this request, this report tends to emphasize those areas in which some changes appeared to be desirable. In view of this, it is my hope that these comments will not cause readers to view this as a negative report and conclude that I have an unfavorable impression of the program. Such is certainly not the case. Rather, I have tried to identify those areas in which steps can be taken to improve an already good program rather than to "throw bouquets" and to praise what is already recognized as a beginning, successful program.

1/ The author, an agricultural economist with the Economic Research Service, U.S. Department of Agriculture, was on TDY in Quito and Guayaquil from October 26 to November 16, 1971.

My comments relative to the present status of the program are grouped under two main headings, followed by several specific recommendations. Since I was asked to direct my attention toward farm planning and farm management aspects of the program, my comments are primarily related to those parts of the program.

Part I - Farm Plans

A. Development of Farm Plans

To date the technical teams have directed their attention toward preparing farm plans that assume that all the financial resources needed to complete most, if not all, of the infrastructure required will be available at the start of the plan and that the farm will be fully developed within a few years. This means that farm operations will go from present rather small farm operations to one many times bigger in just a few years. I view this as too rapid a rate of expansion and the plans as much too ambitious. This conclusion is based on the following reasons:

- (1) Even though the technicians reported that high cost estimates and modest yield estimates ^{2/}were used in preparing farm plans, I still think the net income figures are overly optimistic and not likely to be realized. This observation, while highly subjective, is based on the following line of reasoning:

^{2/} I question whether yield estimates are modest; the Comission de Guayas uses 48 qq per cuadro, whereas 50 to 55 qq per cuadro is the yield estimate used in the farm plans.

- a. No allowance has been made for crop failure or possible reduction in yields. However, lower yields often occur even in the best of farming situations, as the result of unanticipated or new insect attack and/or diseases; unusual weather conditions; not getting work done on time; etc.
- b. I feel that there has not been sufficient experience to accurately estimate costs and returns nor that there are sufficient reliable data to be sure of the appropriate input-output coefficients that apply to these farms. Therefore, costs and returns, and in turn net income, may be under or over estimated--we cannot know which--but the possibility remains that the coefficients used in the plan (even though the best available) may in fact over estimate net income. At the beginning of a program such as this, there is no way to overcome this limitation, but one can be aware of it and proceed somewhat more cautiously than he would if more reliable information were available.
- c. The plans assume that the work called for will be done at the appropriate time and in a competent, adequate manner so as to realize the estimated yield levels. I have great reservations that the necessary administrative skills exist within the present cooperatives and/or by the technicians of the program to actually execute the plans at the time and in the manner programmed. This is not to characterize the people as irresponsible but rather that this type of competence

is usually acquired only over time and through experience. I doubt whether this required level of managerial ability can be developed immediately and be available within one crop season. If my assumption is correct, and work is not performed as anticipated in the plan, then in all likelihood, one or a combination of the following will result: costs will increase, yields will be less than planned, or some of both may occur.

Unfortunately, there is no good way to modify the plans to incorporate these reservations. One must use, as has been done in the plan, the best estimates available. However, one can maintain an air of skepticism about the probability that the end result will be as favorable as that indicated in the plan, and as I have tried to indicate, the bigger and more ambitious the plan, the greater the probability of at least partial failure and the risk that income will be less than planned for.

- (2) I think the plans are overly ambitious also from the standpoint of the amount of labor that must be hired from outside the cooperatives. In some cases, this amounts to as much as 30 to 40 percent or more of total labor requirements. More important, however, is that for some months work requirements are such that as many as 150 to 250 additional workers must be hired outside the cooperative. I have great reservations about the present ability of cooperative members to adequately manage and control this number of hired workers.

- (3) I think the plans are also too ambitious from the standpoint of the administrative ability of those charged with the responsibility of executing the plan. This limitation applies to both the people in the cooperative as well as to the technicians of the program assigned to help the cooperative. The comments made in A-1-c above relative to getting work done on time not only also applies here, but also assumes greater importance and encompasses all aspects of the plan, including the ability to handle large sums of money, keeping adequate records, maintaining harmonious relations among co-op members, etc. Again, there is no formal way to incorporate these limitations into the plan; but one must be aware of the fact that the bigger the plan is, the more important it is to have good administration and that, at the same time, the greater will be the demands that are made on management.
- (4) Finally, for all the above reasons, I think the size of the loan required to carry out these plans is too big for a first loan. While the benefits of the program may be delayed by six months or more in being fully realized by not immediately implementing such an ambitious program, I think it advisable to proceed on a more sure and safe basis by beginning to develop these cooperatives on a step by step basis rather than in one big jump. Also, successful experiences by both the cooperatives and the technical assistance teams during the coming winter crop season should help to reduce the risks discussed above and thereby provide a more sound basis for future loans.

B. Determination of Benefits from Investments in Infrastructure.

The present plans provide an estimate of the net income that would be realized by the cooperatives after making large investments in infrastructure. The returns are sufficiently high to indicate that the loans required to finance the infrastructure can be repaid. However, this does not provide information on the returns to the investment in infrastructure. What is needed is the preparation of similar plans without the benefits of infrastructure to determine whether the additional income with infrastructure justifies the investment.

In line with this, I suggest that simple sketches be made of the cooperative farm by fields indicating land use in the absence of the planned-for infrastructure and projected land use with the infrastructure. This will not only provide an easily grasped idea of the purpose of the infrastructure, but also enable estimates to be made of the contribution of individual parts of the total infrastructure.

C. Lack of Objectives of the Plan

While the plans undoubtedly have the implicit goal of producing sufficient income to repay the loan and all other costs, the planning process could provide for much more than this. For example, there is no apparent attempt to organize the farm plans to maximize or minimize some goal or objective, once income is sufficient to repay the loan and all costs. The plan is primarily the input and income for one cuadro multiplied by the number of cuadros. Also, the number of cuadros is not determined within the plan but rather is either arbitrarily determined by the planner or by the availability of land.

This does not mean that no attention should be given to maximizing income but that rather there may be several ways to arrive at more or less the same level of income and that some of these ways may result in more desirable and others in less desirable secondary results. This additional analysis can, and I feel should, be incorporated into the plan. For example, for the same level of income a plan that uses more labor and less capital would be preferable to one that uses more capital and less labor. As indicated in A-2, placing no restrictions on the amount of labor that can be used results in what appears to me to be unreasonable and perhaps unmanageable quantities of hired labor.

Furthermore, except where land availability may be a restriction, there are no limitations on any other factors of production; that is, the plans assume unlimited availability of management, labor and capital. For reasons mentioned under A above, I think this results in unrealistic plans and that some restrictions ought to be placed on the amount of capital and/or labor that can be adequately (safely) used in the first year. These amounts should probably be increased in the plan for the second and each succeeding year, assuming successful results in each preceding year. Unfortunately, here as in other cases, there is no objective, empirical way to determine the restrictions that should be placed on capital and/or labor. This must be done somewhat arbitrarily, based on an evaluation of the people and conditions involved. However, unless restrictions are placed on the use of some factors, the plans may become impractical. For as indicated in A-2, no restriction on the amount of hired labor that can be used results in what I consider to be unreasonable and perhaps unmanageable quantities of hired labor in the plan.

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D. Attention to Purchase of Inputs and Sale of Products

To date, there does not appear to be any explicit attention given to planning for the purchase of inputs and the sale of products. I think the program offers considerable advantages in these areas by making it possible for cooperatives to pool their purchases and sales. FENACOPARR appears to be the appropriate entity for performing this function.

Each cooperative, as a part of its farm plan, prepares the kinds and quantities of each of the inputs needed and the dates at which these inputs are required by the cooperative. In like manner, plans show the approximate dates and the quantities of each product that will be available for sale. FENACOPARR could then assemble these orders from the several individual cooperatives into an overall list and do the purchasing and make arrangements for delivery for all the cooperatives. This system should help to assure the lowest prices, good quality, and timely delivery of the inputs. This can be achieved, however, only if each cooperative submits its requirements in time and FENACOPARR develops the necessary capability in purchasing and delivery to handle this potentially large quantity of inputs.

On the selling side, there are probably also large gains to be made if FENACOPARR were to be responsible for selling large quantities of products. In the case of rice, for example, it may be possible for FENACOPARR to persuade some buyers to purchase on the basis of a direct

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price for paddy rice rather than the present system of a sales price for milled rice equivalent. I have no data, but I suspect that direct sale as paddy in contrast to the present system would result in more money to the producers for the rice sold.

E. Distribution of Surplus

While some informal discussions have been held concerning what to do with profits at the end of the year, no provisions have been made nor steps taken to include as part of the plan, the way in which profits will be used--whether they are to be reinvested in the business, distributed to members, or some combination of the two. If part of the surplus is to be distributed to members, the method of determining each member's share must be indicated, for there is more than one "fair" basis for determining each member's share. These decisions should be made prior to the planting season or as soon thereafter as possible.

F. Price Paid per Jornal ^{3/}

Closely related to the distribution of surplus is the problem of determining the price per jornal the cooperative should pay its members for work done on the cooperative. Until such time as members can assume part of the risk of failure by investing more of their own capital in the cooperative, one way they can assume some risk is by accepting less than the going wage rate for some of the work they do.

The plans now contemplate paying a full jornal for each day worked, in recognition that members must have an adequate income to care for their family and that work on the cooperative is the main source of

3/ Daily wage paid workers

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income. However, I would guess that members' incomes would increase under the program because of the possibility of working a greater number of days. (This should be able to be checked without too great an effort). If members can work more days during the year, a reduction in the daily wage paid would not appear to be unreasonable. However, paying a lower wage has the danger that during peak periods of work when work off the cooperative is readily available, members may want to work off the cooperative at a higher wage during these periods rather than on the cooperative at a lower wage. A compromise may then be desirable: work during peak periods, such as transplanting and harvesting, would be paid the going wage while other work would be paid at a lower rate at the time the work was performed but the remainder would be paid at the end of the year, provided there was sufficient income for this supplementary payment.

Perhaps an even better system would be one patterned after that used by INCORA in Colombia. Cooperatives receiving operating credit from INCORA do not pay their members for work they perform on the cooperative. Rather, records are kept of the work done by each member and the number of days worked then becomes the basis upon which any surplus is divided among members at the end of the year.

In the meantime, members can request and receive cash advances from the cooperative to defray their personal living expenses. The amount of cash advances a member can receive is limited by the number of days he has worked. Cash advances are then deducted from each member's account before any surplus is paid to him. In this way, members are not "paid" for working on the cooperative, but through a system of cash

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advances are able to pay for their day-to-day living expenses. Family members, other than the "socio", usually are paid for their work at the time the work is performed.

G. Immediate Farm Plans

If the plans that have been developed are too ambitious, what is the alternative? I suggest that members of existing cooperatives are going to carry on some kind of farming operation during the winter season, with or without farm plans and/or assistance (technical and/or financial) from the program. I further suggest that even in the absence of financial help from the program, that the cooperatives ought to be able to realize greater income from their farming operations during this winter season with technical assistance from the program than without it. Therefore, the technicians of the program ought to begin to give immediate attention to assisting the cooperatives in developing plans for the winter cycle of production and in helping them execute them. This type of help by program technicians should not only result in higher incomes for cooperative members but should also provide valuable information on more likely input-output coefficients to use in future plans as well as the opportunity to work together as a group in following and executing plan. How well the activities turn out during the winter cycle should throw valuable light on how great some of the risks are that were discussed in A above.

H. Keeping Farm Records

To some extent the usefulness of the winter experience will depend upon the kind of data kept and the extent to which experiences are accurately recorded. Therefore, a first essential step is the development of an adequate system for keeping records. The next step is insuring that the records are in fact kept up to date. A satisfactory system of records needs to go beyond just a simple accounting system of income and expenditures; it needs to include information on the kind and amount of inputs used, dates, and related information that will be useful in analyzing the farm business and in explaining events not anticipated in the plan.

I. Individual Family Units vs. Cooperative Unit

So far all the plans have been developed on the basis of operating them as one big unit. However, there are some indications that members of some cooperatives desire to have their own plots. There appears to be no reason why the cooperative could not assign specific plots to members. This would entail the development of farm plans for each individual plot. This may appear as an insurmountable task, but after gaining a little experience, technicians should be able to prepare individual farm plans in three or four hours, or less.

The development of individual farm plans does not appear to me to present as much of a problem as that of identifying and assigning individual plots within the cooperative to members and deciding which

tasks should be done on a cooperative basis and which left up to individual members to perform. For it appears that at least two tasks-- land preparation and irrigation--can best be done on a cooperative wide basis.

One way to help determine the advisability of working as a cooperative unit or on an individual basis would be to have members indicate their preference for carrying out the separate tasks on either a cooperative or individual basis and then determining how much was to be done cooperative and how much on an individual basis.

Part II - Other Aspects

In addition to those parts of the program related principally to developing and analyzing farm plans, the present status of overall administration probably merits a few comments.

J. Administration

It appears that there is no one with overall responsibility and authority for the execution and success of the program. Several different agencies are working together in developing and carrying out the program and each has been assigned its specific responsibilities. But, if one agency is lax in fulfilling its responsibilities, the program lags in that particular area because personnel from the other agencies are hesitant to overstep their bounds and infringe on those of the agency responsible for this particular area. This has resulted in the program not being developed as fully as it might be and has also

raised a doubt as to its ability to adequately execute a program of the magnitude expressed in the farm plans. This doubt relative to the present administrative capacity of those persons now responsible for the program also provides the basis for some of the ideas expressed in A above.

Some examples of apparent laxness in administration and overall control of the program are:

1. No one apparently felt he had the responsibility (or authority) to redirect technicians from working on long range plans to preparing plans for the immediate crop season.
2. Little or no attention has been given to developing a farm record system.
3. Little apparent relationship between activities programmed in PERT and the day-to-day activities of the various technicians.
4. Little or no attention given to developing realistic goals for each of the cooperatives.
5. No one to check on and insure that individual technicians were executing their duties as planned and in a competent manner.

One disturbing aspect of the administrative organization is the absence of identification on the part of many of the technicians that they are responsible for and are an integral part of the program. My initial understanding was that technicians from various agencies (principally the Ministry of Production and FENACOOOPARR) would form teams to work with specific cooperatives as technicians from the program.

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However, what sound was that the individuals did not consider themselves part of the program but rather as employees of their particular agency working for the program. This difference is not as subtle as it may sound. Since some of the technicians do not identify with the program, but rather work for the program on assignment from their agency, they in turn do not feel the responsibility for the program that they should.

Perhaps partially because of the undue caution exercised on the part of representatives from each agency to insure that they did not overstep their bounds and "interfere" with the work of representatives from other agencies, I sensed a lack of "checks and controls" on the work being done throughout the program. There appeared to be little review and checking of each others work to make sure that there were no oversights, wrong calculations, etc. This aspect of review by one's colleagues I think is extremely important. In addition to this type of continual informal review, there must also be a review and check by others higher in the administrative hierarchy. There appeared to be little of this being done relative to the need for it as measured by the large sums of money that will be involved.

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III. Recommendations

In presenting the following recommendations, an attempt has been made to present them in as simple and straight forward a manner as possible. They are principally the "logical" conclusions from the comments presented in Parts I and II. Hopefully, the comments made in those Parts will explain and serve as justification for making these recommendations. If adequately carried out, these recommendations should take care of most, if not all, of the points discussed in Parts I and II.

- (1) Prepare simple farm plans for the winter season period for those cooperatives which have been receiving assistance from program technicians. These plans need to be completed immediately.
- (2) Provide technical assistance to the above cooperatives in carrying out all aspects of the farm plans.
- (3) Develop a farm record system for use in analyzing the farm business. The system should provide for items such as the kind and amount of inputs used, costs, returns, etc.
- (4) Assure that the record system is closely followed and kept up-to-date on all of the cooperatives receiving any kind of assistance under the program.
- (5) Tighten-up administration of the program:
 - a. To the extent that inter-organizational relationships permit, name one person as having the ultimate and final responsibility and authority for all aspects of the program.

- b. Assign specific responsibilities with comparable authority for everyone involved in the program, from individual technicians up through to the highest authority. While responsibilities are programmed in the PERT system, little attention appears to have been given to following it.
- (6) Have a one week training course on farm planning and farm management principles directly applied to one or several of the cooperatives. (See attachment for details of the course).

SUGGESTED TRAINING COURSE

Purpose: To provide some understanding of farm planning and farm management procedures and principles to enable cooperative managers and/or program technicians to prepare more useful farm plans and to supervise farm operations in such manner as to achieve greater efficiency in resource use.

Procedure: Participants will be provided copies of current records and farm plans for one or more cooperatives. The course will be directed toward analyzing and discussing the principles, procedures and objectives of farm planning and farm management by examining these actual farm plans and records. Different methods of determining (measuring) costs and benefits will also be presented and discussed along with techniques for evaluating alternative courses of action and in selecting the most desirable course of action from among the possible alternatives.

Participants: Cooperative managers and program technicians.

Duration: Approximately one week.

Prerequisite for Course: It is essential that copies of the farm plans and records of farm operations be sent to the instructor of the course as soon as possible but no later than four weeks prior to the course. These records should be for as many cooperatives as possible but at the very least must include plans and records for the one or more cooperatives that will be the principal focal point of the course.

Participants should also receive copies of these farm plans and records prior to the course and should become completely familiar with the information contained in these plans and records. In this way, the very first sessions can be directed toward an analysis of these plans rather than spending time in becoming acquainted with the data.