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UNITED STATES DEPARTMENT OF AGRICULTURE

ECONOMIC RESEARCH SERVICE

WASHINGTON, D.C. 20250

Foreign Development and Trade Division

November 30, 1971

SUBJECT: Observation on the Land Sale Guarantee Loan Program in Ecuador

TO: Philip M. Faucett
Richard L. Winters
Neil C. Fine
Luis G. Stelzner
John A. Sanbrailo

Enclosed is a copy of my report on the Land Sale Guarantee Loan Program. The contents follow fairly closely the various oral reports and discussions I had prior to my departure. I trust that the observations and comments in the report are sufficiently detailed and straight-forward enough to be fully understood. However, if additional information is desired on any aspect, I shall be happy to try to supply it.

Also, to insure that no one misinterprets the tone of the report, it may be appropriate to point out that my assignment was to identify deficiencies and weaknesses in the programs and to recommend ways to correct them. Therefore, the report is addressed to the weak spots and corrective measures rather than to the strong points of the program. However, this does not mean that I have an unfavorable impression of the program--quite the contrary! I think it is a good program and has a tremendous potential for improving land tenure patterns and levels of living of low income farm workers.

I want to express my appreciation to each of you for the excellent support and assistance you and your staff gave me. Not only did this enable me to accomplish my mission in a short period of time, but it also afforded me the opportunity to form warm friendships with my Equadorian colleagues who cooperated with me in this work. I hope you will express to each of them my thanks and appreciation for their assistance.

WADE F. GREGORY
Assistant to the Director
Foreign Development and Trade Division

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November 30, 1971

SUJETO: Observaciones sobre el Programa "Promoción de Empresas Agrícolas"

ESTIMADOS SEÑORES: Juan Casals
Alfonso Alivés
Felipe Orellana
Augusto Bueno

Remito adjunta una copia del informe mio sobre el Programa de Promoción de Empresas Agrícolas. Las observaciones y los comentarios son mas o menos los que yo hice en discusiones con Ud. antes de mi salida. Espero que estos comentarios sean bastante detallados y que ellos sean bien entendidos. Si esto no es el caso, con mucho gusto trataré de mandar cualquier tipo de información adicional que sea necesaria.

También, para asegurar que nadie interpreta mal el entendido del informe, quiero señalar que me encargaron de comentar sobre los aspectos mas débiles del programa y sugerir maneras de corregirlos. Por lo tanto, el informe esta dedicado a estos aspectos en vez de poner de relieve aspectos positivos del programa. Sin embargo, esto no quiere decir que yo no tengo una impresión buena del programa -- al contrario! Creo que esto es un programa muy bueno y que tiene una potencial tremenda para cambiar la forma de tenencia de la tierra y mejorar el nivel de vida de los campesinos.

Les agradezco mucho a todos y a cada uno de Uds. por su excelente apoyo y ayuda. Esto no solamente me hizo capaz de cumplir el trabajo en un corto tiempo pero también me permitió la oportunidad de encontrar amigos ecuatorianos y formar amistades muy cordiales. Espero que Uds. les darán a ellos mi gratitud y gracias por su cooperación.

Attentamente.

WADE F. GREGORY

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THE LAND SALE GUARANTEE LOAN PROGRAM

Guayas Basin, Ecuador

Comments and Observations

by

Wade F. Gregory ^{1/}

On 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 cooperates 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.

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. FENACoopARR 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. FENACoopARR 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 FENACoopARR 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 FENACoopARR were to be responsible for selling large quantities of products. In the case of rice, for example, it may be possible for FENACoopARR to persuade some buyers to purchase on the basis of a direct

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

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

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 a 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.

However, what I found 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.

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).

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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.