

UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

EL SALVADOR

PROJECT PAPER

AGRARIAN REFORM SECTOR SUPPORT
(Amendment)

Project Number: 519-0265
Loan Number: 519-T-032
Loan Number: 519-T-032A
Loan Number: 519-T-632B

AID/LAC/P-293 & P-134

UNCLASSIFIED

PROJECT DATA SHEET

A A = Add
 C = Change
 D = Delete

Amendment Number 1 CODE 3

RY/ENTITY EL SALVADOR

5. PROJECT NUMBER
519-0265

U/OFFICE
LAC

5. PROJECT TITLE (maximum 40 characters)
Agrarian Reform Sector Support

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
1 2 3 1 8 7

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 8 6 B. Quarter 3 C. Final FY 8 7

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY <u>83</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(100)	(500)	(1,500)	(10,723)	(1,534)	(12,257)
(Loan)	(1,540)	(6,160)	(7,700)	(1,540)	(36,960)	(38,500)
Other U.S.						
1.						
2.						
Host Country		8,100	8,100		29,091	29,091
Other Donor(s)						
TOTALS	2,540	14,760	17,300	12,263	67,585	79,848

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) AIRDN	230	055	055	7,200	30,000	5,057	8,500	12,257	38,500
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

200 290

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BR COOP ECITY PART TNG
 B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To complete the consolidation of the agrarian reform process and create conditions necessary to integrate the beneficiaries into the broader agrarian economy.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
1 2 8 7

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 45 page PP Amendment)

This Amendment will focus project resources on the completion of land titling for agrarian reform beneficiaries; concentrate project support on only the essential services for the consolidation of the agrarian; and lay the foundation for the advancement of private sector agricultural activities involving the reform sector.

17. APPROVED BY

Signature B. Schout
 Title USAID DIRECTOR

Date Signed MM DD YY
10 17 11 8 16

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY
10 18 11 8 16

PROJECT PAPER AMENDMENT
AGRARIAN REFORM SECTOR SUPPORT
519-0265

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GLOSSARY

ACOPAI	-	Asociación de Cooperativas de Producción Agropecuaria Integrada Cooperative Associations for Integral Agricultural Production
ASI	-	Asociación Salvadoreña de Industriales (Salvadoran Industrialists' Association)
BCR	-	Banco Central de Reserva (Central Reserve Bank)
BFA	-	Banco de Fomento Agropecuario (Agricultural Development Bank)
CDG	-	Centro de Desarrollo Ganadero (Center for Livestock Development)
CENCAP	-	Centro de Capacitación Agropecuaria (Center for Agricultural Training)
CENREN	-	Centro de Recursos Naturales (Center for Natural Resources)
CENTA	-	Centro Nacional de Tecnología Agropecuaria (National Center for Agricultural Technology)
DGCD	-	Dirección General de Contribuciones Directas (National Direct Tax Office)
DIECRA	-	Desarrollo Integral de Empresas de la Reforma Agraria (Integrated Development of Agrarian Reform Enterprises)
ENA	-	Escuela Nacional de Agricultura (National School of Agriculture)
FINATA	-	Financiera Nacional de Tierras Agrícolas (National Finance Office for Phase III Agrarian Reform Lands)
IGN	-	Instituto Geográfico Nacional (National Geographic Institute)
ISIC	-	Instituto Salvadoreño de Investigaciones del Café (Salvadoran Institute for Coffee Research)
ISTA	-	Instituto Salvadoreño de Transformación Agraria (Salvadoran Institute for Agrarian Transformation)

- MAG - Ministerio de Agricultura y Ganadería
(Ministry of Agriculture and Livestock)
- OOPROY - Oficina Coordinadora de Proyectos MAG-AID
(Coordinating Office of MAG-AID Projects)
- OSPA - Oficina Sectorial de Planificación Agropecuaria
(Agricultural Sector Planning Office)
- PERA - Planificación y Evaluación de la Reforma Agraria
(Planning and Evaluation of the Agrarian Reform)
- REDO - Rural Enterprise Development Office
(Oficina de Desarrollo de Empresas Rurales)
- RPRH - Registro de la Propiedad Raíz e Hipoteca
(Land Registry Office)
- UCS - Unión Comunal Salvadoreña
(Salvadoran Communal Union)

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY,
SAN SALVADOR, EL SALVADOR, C. A.

PROJECT AUTHORIZATION
(Amendment No. 2)

Name of Country: El Salvador
Name of Project: Agrarian Reform Sector Support
Number of Project: 519-0265
Number of Loan: 519-T-032
519-T-032 (A)
519-T-032 (B)

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Agrarian Reform Sector Support Project for El Salvador ("The Project"), authorized on May 23, 1983 (hereinafter "Authorization"), is hereby amended as follows:

- a) The amount of grant funds is increased by \$5.057 million, bringing the Life of Project grant funding amount to \$12.257 million.
- b) The amount of loan funds is increased by \$9.5 million, bringing the Life of Project loan funding amount to \$38.5 million.
- c) The Project Assistance Completion Date (PACD) for the land titling and support services components of the project is extended by 12 months from December 31, 1986 to December 31, 1987.
- d) The PACD from the Rural Enterprises component is extended by 19 months for December 31, 1986 to July 31, 1988.
- e) The requirement of a 25% contribution of total project costs by a PVO (FUSADES) per State 209045 is hereby waived.

2. Condition Precedent to Disbursement

Prior to any disbursement of funds under this Amendment, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower/Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., evidence that this Agreement Amendment has been duly ratified and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.

3. Except as expressly amended or modified hereby, the Authorization remains in full force and effect.

B. Solent
Robin L. Gómez
Director, USAID/El Salvador

7/18/86
Date

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4349B

EXECUTIVE SUMMARY

The Agrarian Reform Sector Support (519-0265) Project was designed and authorized in FY 83 to support implementation of the agrarian reform in El Salvador. Its original purpose was to increase the efficiency and effectiveness of the agrarian reform by accelerating the land transfer process, improving the ability of the GOES to provide essential resources and services to reform beneficiaries, increasing managerial capacity of cooperatives and encouraging expanded private sector investment in agro-business enterprises directly related to the reform.

The project was authorized in May, 1983 with a PACD of December 31, 1986 and Life of Project funding of \$30 million in loan and an original \$4.9 million in grant which was later increased to \$7.2 million. All funds have been obligated.

In order to concentrate project activities on titling, the most essential reform services and to lay a groundwork for a broader USAID agricultural effort in FY 88, the project is being amended to: (1) extend the PACD to December 31, 1987 (except for a discrete private sector component with a separate PACD of July 31, 1988), and (2) increase loan funding by \$8.5 million and grant funding by \$5.057 million. State 159095 provides the authority for USAID/El Salvador review and authorization of this amendment.

The project goal of expanding rural employment, raising income and providing secure tenant rights remains unchanged. The revised project purpose is to complete the consolidation of the agrarian reform process and create conditions necessary to integrate the beneficiaries into the broader agrarian economy. This will be accomplished by the (1) completion of Phase I and Phase III titling, (2) adoption by GOES of a classification system for Phase I cooperatives based on their potential for "self-management", and (3) increased access to productive resources and essential services for reform beneficiaries.

The revised project purpose implies a more narrow focus on project activities (i.e. titling, essential services and promoting private sector agricultural investment). This will result in a reduction or cessation of project support to several current project implementing agencies which are not directly supporting these most essential project activities. Conversely, those entities most directly supporting such activities will receive even more intensive support during the project extension. The groundwork for greater private sector participation in the agrarian reform will be greatly expanded by promoting agricultural feasibility studies and the promotion of new enterprises.

The Project Development Team was composed of the following USAID/El Salvador staff members:

Dr. Ken Ellis, Rural Development Officer
John Cloutier, Office of Projects
Clem Weber, Deputy Rural Development Officer
Dr. Mike Wise, Project Manager

The following consultants or AID/W staff performed the technical analysis of the project:

Steve Wingert, LAC/DR
Barry Lennon, Credit Cooperative Specialist
Dr. Dave Fledderjohn, Cooperative Specialist

The project was reviewed by the following USAID/El Salvador officers:

Robin Gómez, Director
Bastiaan Schouten, Deputy Director
Ronald Witherell, Associate Mission Director for Operations
Donald Boyd, Chief, Office of Projects
John Davison, Controller
Dr. Andy Anderson, Economist
Dr. Roberto León de Vivero, Program Officer

A) Summary of Original Project

1. Economic/Political Environment

The distribution of land in El Salvador has historically been directly related to wealth, income and, for some groups, even survival. It has been a cause of social and political unrest for nearly a century. The 1932 uprising which was violently suppressed by the government (La Matanza), led to some very modest attempts at land reform such as voluntary sales of unwanted land to the government. By the end of the 1970s land distribution in El Salvador was so unequal that six families owned more land than 133,000 farm families. With the highest ratio of landless families to total population in Latin America, the land tenure problem became recognized as one of the most unfair in the world. The redistribution of land and other factors of agricultural production leading to increases in income and other benefits is the primary focus of El Salvador's Agrarian Reform Program.

In March, 1980 the Government of El Salvador (GOES), faced with a strong guerrilla insurgency, initiated the agrarian reform process through a series of decrees which have changed social, economic and land ownership patterns throughout the country. The goals of the reform include: a more equitable income distribution; increased employment; and increased agricultural output. The reform had an immediate political impact in that it addressed social injustices which were being exploited by leftist guerrillas. Attainment of longer term goals will require time for polarized groups to adjust to the change and require further assistance to the new landowners (cooperative members and small landholders) who were suddenly thrust into positions requiring varying degrees of management capability and external resources.

The agrarian reform consists of three Phases, two of which are actively being implemented. Phase I involved the expropriation of landholdings in excess

of 500 hectares. This has resulted in the formation of 317 cooperatives controlling 470 expropriated properties. Property affected by the decree included all livestock, machinery and equipment permanently located on the expropriated land. Land belonging to existing agricultural cooperatives and peasant organizations was not affected. The total land area involved in Phase I is about 220,000 hectares, approximately 15 percent of all farm land.

Phase III allowed farmers who had access to land on May 6, 1980 to apply for titles on up to seven hectares of the land they rented or sharecropped. The former renters involved in Phase III, known as 207 beneficiaries after the decree which authorized this Phase of the reform were granted provisional titles. Phase III frees eligible beneficiaries from further rent payment to their former landlords. Eventually the tenant will receive a definitive title to the land which meets the criteria for acceptance by the Land Registry Unit of the Ministry of Justice. The number of Phase III beneficiaries is expected to total approximately 45,000 farm families.

Phase II of the agrarian reform involves possible lands in excess of 245 hectares. Owners were given until the end of 1986 to sell landholdings greater than 245 hectares. According to the constitution, unsold Phase II land will be expropriated after the necessary implementing legislation is passed by the National Assembly. Threat of expropriations of these lands has led to a significant amount being sold. In addition, about 13,000 hectares of potential Phase II properties have been claimed by Phase III beneficiaries under Decree 207. It is estimated that approximately 389 landholdings would be affected by Phase II. The GOES is publicly committed to enacting Phase II.

2. Project Components and Expected Outputs

The purpose of the Agrarian Reform Sector Support Project (519-0265) is to increase the efficiency and effectiveness of the agrarian reform program by accelerating the land transfer process, improving the ability of the GOES to provide resources and services to agrarian reform beneficiaries while increasing the managerial capacity of agrarian reform cooperatives, and expanding private sector investment in those enterprises directly related to the agrarian reform. The project has provided financial and technical assistance to the GOES since its authorization in September, 1983. The project's three components are land transfer, support services for reform beneficiaries and rural enterprise development.

The land transfer component involves providing titles to Phase I Cooperatives and Phase III beneficiaries. In Phase I, approximately 389 properties were to be acquired by ISTA (later increased to 470) and 315 cooperative titles (later increased to 317) were to be adjudicated. Expected outputs for Phase III included the initial granting of 75,000 provisional titles (since reduced to about 65,000 and 45,000 definitive titles.) The titling process for Phase III is handled by FINATA, with definitive titles eventually registered by the Land Registry Office in the Ministry of Justice.

The support services component of the project includes: the training of managers and accountants (originally estimated at 280 of each); the development and transfer of technology through extension services (CENIA) and training agencies (CENCAP, ENA). These outputs were to be measured by the development of regional committees (4), local committees (59), agents trained (140), non-traditional crop packets (40,000) and solidarity groups organized (3,500); and improvements in training and communications by CENCAP and ENA. This last output includes training agents (140), training campesino leaders (10,000), and developing radio programs (700), television programs (50), pamphlets (80), new professors (6) and new courses (3).

The third project component, rural enterprise development was to be through the Salvadoran Industrialists Association (ASI), and include the establishment of the Rural Enterprise Development Office (REDO), the conducting of feasibility studies (5) and the establishment of new enterprises (3).

3. Summary of Implementing Agencies

This section provides a summary description of those agencies involved in agrarian reform services, directly or indirectly, which receive project funding.

1. ISTA

ISTA is the Phase I agrarian reform implementing authority. In fulfilling the goals of the agrarian reform ISTA has four major roles: (1) land acquisition, (2) temporary co-management until cooperatives become organized and capable of self-management, (3) land adjudication and (4) coordination of inputs and technical assistance provided by other government organizations.

During the Phase I expropriations, ISTA officials notified (either in person or by public notice) the owners identified as holding land in excess of 500 hectares that their land was to be acquired. ISTA officials took physical possession of these properties with the support of the Armed Forces and expropriated those over 500 hectares. The former owner has the right to continue to own 100-150 hectares.

For those properties acquired by ISTA, a title was prepared, and the property was transferred to ISTA. ISTA holds title to the properties until the titles are transferred to the eligible beneficiary cooperatives and communal associations.

ISTA is also responsible for supervising the care, management and productivity of properties acquired by the GOES in earlier reforms and through voluntary sales. For purposes of credit and technical assistance delivery (as well as some statistical reporting), the GOES often refers to a consolidated reform sector which includes the Phase I reform sector and the 112 properties acquired before Decree 153 was implemented (sometimes referred to as Decree 842 properties).

ISTA handles not only the procedures of expropriation, compensation and title transfer, but also co-management of the cooperatives, social development of cooperative members, housing, private enterprise development, farm planning and technical and credit assistance. An ISTA employee, called a "co-gestor" (co-administrator) is assigned to most cooperatives and in addition to some management responsibilities, has veto power over any decision made by cooperative members.

2. FINATA

In the spring of 1980, less than two months after the biggest haciendas were expropriated, the government announced an additional agrarian reform program whereby tenant farmers and sharecroppers would be allowed to claim ownership to the lands they were actually farming at the time. The land being rented was generally around four acres of, for the most part, marginal crop land. The campesinos who filed claims were to make annual payments to the government for a period of up to 30 years.

This program was announced in Decree 207, which turned out to be controversial both inside and outside of the government. There was an eight-month legal controversy about just how the program should be defined and carried out, and how the regulations should be written. There were fears that many "widows and orphans" and others of limited financial resources would be hurt by the program. There were also thousands of landless peasants who saw Decree 207 as a chance to become small land owners without the insecurity of finding plots to rent and plant corn for their family every spring.

In December of 1980, the government published the long-awaited regulations under Decree 207. The original idea was that this program would be run by ISTA, but it already had responsibility for 300 new cooperatives, so a new organization was created. This was FINATA, a national financial institution for the transfer of agricultural land. In contrast to ISTA, it was defined as a land transfer agency with no specific responsibilities to its beneficiaries beyond providing them with a clear title and a credit plan to pay for their plot.

FINATA presently has 504 permanent and 300 temporary employees in 14 field offices throughout the country. Until June 1984, FINATA employees concentrated on locating potential beneficiaries, explaining the filing procedures and taking initial applications. Since the expiration of the filing period, FINATA has been reassigning personnel and resources to concentrate on completing the titling procedures.

As the implementing agency, FINATA is charged with: (1) promoting Phase III, (2) preparing renter claim application forms, (3) issuing provisional titles, (4) obtaining the affected land from the owner, (5) determining and paying former owner compensation, (6) verifying titles and preparing new deeds, and (7) establishing the amount of the former renter's agrarian debt and payment.

It is important to note that unlike Phase I which was initiated by GOES expropriation, no action takes place under Phase III until the renter initiates the claims procedure. This design feature, in an environment of threat and violence, seriously impairs the "self implementing" aspect of Phase III originally envisioned. The preparation of application documents, carried out in the FINATA field offices, begins a multi-step procedure which leads to issuance of a definitive property title to the Phase III beneficiaries. The first four steps of the procedure, conducted at the FINATA field office, lead to the issuance of a provisional title. The provisional title assures the former renter of the right to cultivate the land and reap full benefit of the harvest. The provisional title also provides the former renter with easier access to the BFA for production credit financing. A total of 62,160 applications have been filed. (A definitive title is one which has then been developed such that it meets all criteria for registration by the Land Registry Unit of the Ministry of Justice.)

While a large majority of FINATA beneficiaries are individuals, some 3,500 are organized into about 72 cooperatives. The law establishing FINATA permitted cooperatives formed by campesino organizations to be included, and most of the co-ops have members who belong to the Salvadoran Communal Union (UCS) or the Cooperative Associations for Integral Agricultural Production (ACOPAI.) About ten have been formed without any sponsoring organization. According to FINATA, 27 are production co-ops organized as collective employers. There are 36 co-ops in which members work as individuals but the co-op arranges services for members. Nine co-ops are a mixture of both production and service types.

During 1981-1983 FINATA paid very little attention to the provision of services to beneficiaries, but this changed in 1984, and current policy is to make some limited efforts to coordinate appropriate services from other governmental and international organizations.

3. MAG Agencies

The key Ministry of Agriculture (MAG) agencies involved in the project and a brief description of their supportive roles follow:

- a. CENTA -- The National Center for Agricultural Technology (CENTA) embraces several functions such as agricultural research, seed production and certification, the function most directly affecting Agrarian Reform beneficiaries and institutions is that of agricultural extension. Through agencies scattered throughout the country, its agents are expected to reach both Phase III small farmers (finateros) as well as cooperatives (under ISTA sponsorship). There are instances where special events and outreach activities have been planned and conducted in conjunction with ISTA or under FINATA sponsorship.

CENTA is responsible for research and extension activities related to all crops except coffee. It is divided into three functional divisions: research, extension and seed technology. The research and extension efforts supported by the project focus upon needs arising out of the agrarian reform:

- The need for Phase III beneficiaries to change from a pattern of shifting cultivation to more intensive farming of permanent parcels;
- The need to diversify crops, make permanent improvements and participate in community development efforts; and
- The need for farmers to organize themselves into commodity associations, water-users groups, credit societies and other organizations to facilitate dealing with land reform agencies, banks and other public and private institutions involved in rural development.

b. CENCAP -- The National Training Center (CENCAP) was established in 1975, and is charged with providing short courses and in-service training for the rural population and technicians and professionals working in the agricultural sector. Among its functions are:

- The organization of seminars, courses, workshops, and other events to meet these needs;
- Provision of training program guidelines for the entire agricultural sector;
- Collaboration with vocational and professional schools, and providing them with information obtained through CENCAP research, training, and evaluation efforts;
- Assisting MAG entities in agricultural training and communication efforts; and
- Coordinating MAG participant training outside El Salvador.

This organization has carried out a number of activities --seminars, courses, workshops, etc. -- directly for personnel of ISPA and/or FINATA (such as training for promoters and co-administrators) as well as for beneficiaries, particularly for the members of the reform cooperatives.

c. CENREN -- The Center for Natural Resources (CENREN) provides technical assistance in soil conservation and forest area management not only to Agrarian Reform beneficiaries but to other individuals and groups as well.

d. ISIC -- The Salvadoran Institute for Coffee Research (ISIC) works with Agrarian Reform beneficiaries in that many are coffee producers. It has a mandate to provide integrated technical assistance to the reform sector on a priority basis. It conducts campaigns of information on the identification and treatment of major coffee pests and plagues. It also performs research designed to provide guidance to coffee producers to improve El Salvador's coffee output.

- e. ODER -- The Rural Enterprise Development Office (ODER) is a program which is in the early stages of implementation. One of its roles is to promote and facilitate investments in marketing projects in the reform sector. It also has been assigned the tasks of seeking out and sponsoring investment projects aimed at diversifying production, encouraging the development of agro-industries, improving the marketing infrastructure and opening up new markets.
- f. CDG -- The Center for Livestock Development (CDG) is in essence the CENFA for livestock producers -- it is responsible for developing and disseminating new production technology and pest and disease control information. It, too, is expected to give priority to the reform sector.
- g. Departamento de Asociaciones Agropecuarias -- This department of MAG is responsible for analyzing applications of cooperatives and cooperative federations for legal status and conferring such status on them if it finds that they meet the legal requirements.
- h. PERA -- The Planning and Evaluation of the Agrarian Reform (PERA) is considered a project of OSPA (the MAG Planning Office) and is referred to as such. It is responsible for conducting a series of ongoing studies and evaluations of various aspects of the Agrarian Reform, including the annual evaluation of the reform. It has studied specific problems faced by both ISTA and FINATA and has made recommendations which all too often have not been accepted or put into practice.
- i. ENA -- The School of Agriculture (ENA) was established in 1956, for the purpose of providing vocational resident training for agricultural technicians. The school was established with U.S. assistance and patterned after the Zamorano school in Honduras. The curriculum of the ENA consists of a 3 year program of 9 cycles of 15 weeks each, with a total of 160 credit hours of classwork. Classroom instruction takes place during a portion of the day and practical "hands-on" work occupies the remainder of the day. Because of the vocational nature of the program, the school must operate a substantial farm and food processing complex. The school has various production units, such as poultry, swine, dairy, etc., on which the students work. The demand for graduates from the ENA has generally been quite strong. Most of the agricultural extension agents as well as many private sector technicians were trained at ENA.

The above agencies and departments of MAG (which are the main ones dealing directly with some aspects of the Agrarian Reform) are supposed to actively support the Agrarian Reform and particularly its principal institutions, ISTA and FINATA, as well as the cooperatives and other beneficiaries. Both explicitly and implicitly they have been instructed to coordinate their activities with ISTA and FINATA. In practice, the coordination that takes place is limited and frequently of an ad-hoc nature.

Also involved in the project are the Salvadoran Foundation for Economic and Social Development (FUSADES) and the Agricultural Diversification Program (DIVAGRO). FUSADES is a non-profit private foundation established in April, 1983 and committed to furthering private sector activities in consultation and cooperation with the government. It's members include business leaders from various sectors of the economy. FUSADES is involved in several A.I.D. projects and is seen as one of the most viable mechanisms for promoting private sector activity. DIVAGRO, a part of FUSADES, is a private sector entity promoting agricultural development. (See pages 31-33 for a more detailed description of these entities).

B. Project Status/Outputs to Date

The LOP outputs on the charts below are intermediate steps which will lead to the attainment of the outputs of this project paper amendment.

- Completion of titling.
- Phase I management and administrative systems designed and operational.
- Phase I cooperatives linked to adequate and appropriate technical support services.
- Phase III beneficiaries provided with increased access to technical services.

During the extension of this project, the assistance described in this amendment will result in the following indicators for the above outputs:

- Phase I: 317 titles granted.
- Phase III: 45,000 titles granted.
- 450 Directors trained.
- 250 Accountants trained.
- 150 cooperatives with the PAU accounting system in place.
- 200 cooperatives indicating services are adequate.
- Half of all Finateros listening to radio messages regularly or receiving extensionist visits regularly.

The following summarizes planned and actual Project outputs as of 3/31/86 and shows the amended LOP amounts as reflected in this project paper amendment:

Outputs	Original LOP	Amended LOP	Actual Outputs 3/31/86
<u>I. Land Transfer</u>			
<u>A. FINMVA (Phase III):</u>			
- No. of provisional titles issued	79,142	62,160	62,160
- No. of properties compensated	5,000	5,000	1,736
- No. of definitive titles issued a)	45,000	45,000	12,548
- No. of titles registered in the Land Registry Office (RPRH)	40,000	10,000	5,648
<u>2. ISTA (Phase I):</u>			
- No. of properties compensated	469	469	332
- No. of definitive titles issued by ISTA to productive units	315	317 b)	145

a) Definitive titles are those which meet the criteria of the RPRH for registration.

b) Number of productive units (coops) expected to be formed. Some coops receive title to more than one property consolidated under one document.

Note: Original LOP amounts are from the original project paper.
Amended LOP amounts are revised outputs to be adopted with the authorization of this project paper amendment.

Outputs	Original IOP	Amended IOP	Actual Outputs 3/31/85
<u>II. Support Services for the Agrarian Reform</u>			
A. ISTA:			
- No. of cooperative managers presently employed	280	250	117
- No. of cooperative accountants presently employed	280	250	118
- No. of cooperatives with Uniform Admin. System (PAU)	314	200	113
B. CENFA:			
- No. of Solidarity groups organized	3,500	3,500	2,877
- Plants and seeds produced for distribution:			
- Basic grains seeds (qq.)	8,000	8,000	1,798
- Fruits/vegetable seeds (lbs.)	11,100	11,100	3,102
- Assorted plants (no.)	600,000	600,000	547,123
- Demonstration areas/field trials	600	1,141	904
C. CENCAP:			
- No. of training events	2,511	1,694	1,199
- No. of technicians trained in-country (short term)	13,296	10,000	4,744
- No. of campesinos trained in-country (short term)	30,000	50,000	46,265
- No. of radio programs	700	150	76
- No. of television programs	50	100	58
- No. of different pamphlets and other educational materials	80	150	108
D. ENA:			
- No. of students enrolled	1,120	1,120	964
- No. of class hours given	2,940	2,958	2,469
E. OSPA:			
- No. of persons trained abroad:			
- Technicians (short term)	90	90	85
- Campesinos (short term)	40	40	25

Outputs	Original LOP	Amended LOP	Actual Output 3/31/86
F. PERA:			
- Annual evaluations of the agrarian reform	6	6	5
- No. of special studies based on field surveys	25	25	15
III. Rural Enterprise Development			
A. MAG-ODER:			
- New entity established	1	1	0
B. FUSADES-ADP			
- No. of feasibility studies financed	4	13	9
- Data Bank established	1	1	0

The land transfer is behind schedule with Phase One cooperatives having 145 definitive titles issued out of 317, and Phase Three beneficiaries having 12,548 definitive titles. The key problems are the lack of funds to compensate former owners, difficulties clearing liens against the properties, and an obsolete property registration system. A.I.D. is supporting efforts to get funds for compensation, to reform GDES legislation regarding the liens, and to shift to a modern folio real land registration system and is optimistic about the prospects to solve these problems in time to complete land titling transfer by the end of CY 1987, the proposed PACD in this project extension.

About 25 per cent of El Salvador's arable land has been transferred to formerly landless peasants, directly benefiting 570,000 persons, or over 25 per cent of the rural population and 12 per cent of El Salvador's total population. In terms of the political reasons for which it was undertaken, agrarian reform in El Salvador has been a success. In economic terms the impact of the reform has been mixed. Total production from the Phase I reform sector is below pre-reform levels, due to reduced area in crops, but this is also true in the non-reform sector. Credit experience has not been favorable with most of these cooperatives and management capability is generally considered seriously inadequate. Only an estimated 70 of the 307 Phase I cooperatives are considered moderately successful, although even these cooperatives may be decapitalizing their farms in order to remain current on production credit loans. As is analyzed throughout this paper, many of the problems of the Phase I cooperatives are believed to be structural, i.e., failure to establish in the cooperative the proper incentives for success, including self-initiative and self-reliance by the cooperative members.

For the Phase III beneficiaries the impact of the reform has been more positive. Although for the 1984/5 crop year only 23 per cent of the beneficiaries received technical assistance, and only 22 per cent received loans from banks, the following progress occurred between 1982/3 and 1984/5: (note that these figures represent successful recovery from the depressed conditions of the violent early days of the reform, not necessarily major new progress, although recovery is itself a major accomplishment given lack of support services):

- beneficiary land holdings have increased by 18.3 per cent through rental, purchase, inheritance, or other means and fixed assets have increased by 200 per cent, indicating both existence of profits to reinvest and incentives to expand production, resulting from land security.

- basic grain production increased by over 200 per cent and is now equal to one quarter of the national production.

- production of other crops increased from 5 per cent to 28 per cent of total beneficiary production, demonstrating diversification of production. Value of these crops per hectare is 250 per cent of that for basic grains.

- use of hired labor increased 400 per cent.

- erosion constraint infrastructure was constructed by 20 per cent of the beneficiaries.

The program for placing professional management in 230 cooperatives (PRODEA) has resulted in 117 cooperatives with managers and 118 with accountants. The cooperatives without managers and accountants generally are the weaker cooperatives with the greatest need to become financially viable. The stronger cooperatives have not yet been emancipated from co-management by ISTA.

CENTA is providing impressive coverage for extension services to beneficiaries but the unfulfilled demand is substantially greater. 140 extension positions have been filled (out of a life of project target of 140) and 2,877 borrower groups were formed (compared to the IOP target of 2,200). Approximately 1/3 to 2/3 of the initial LOP targets for improved seeds and fruits have been achieved in the first two years of the project. Proposed regional committees and local committees have not yet been created but are planned for 1986.

CENCAP has trained 46,265 campesino leaders (vs the IOP target of 30,000) and the courses appear to be highly regarded. Demand is substantially higher. Training for 140 extensionists of CENFA has not yet taken place and the radio, television, and pamphlet programs are far behind schedule.

ENA (the agricultural school) has added six new professors as planned and five new courses.

The program to stimulate new private sector enterprises has finally led to creation of a new unit in the Ministry of Agriculture (MAG) and the initiation of studies.

C. Rationale for the Amendment

The Salvadoran agrarian reform is a massive reorientation of the social and economic relationship of rural society undertaken in the midst of an active civil war and economic recession. Although some of the principal strategies which governed the reform had been developed by Salvadoran politicians long before the upheaval, implementation was carried out in an ad hoc manner dictated by the social chaos and economic stress of the period. The Salvadoran agrarian reform, like all such measures, was fundamentally political, and the effort to consolidate the reform and use it as a vehicle to improve production and employment remains a fundamental political commitment of the Government of El Salvador.

The reform has been plagued by many problems, both external to the reform and internal. The most obvious is the civil war, which has greatly hampered efforts to consolidate the reform. Forty-eight large reform sector farms in the midst of the war zone are totally abandoned or in extremely weak financial condition. Sugar cane fields are frequently burned and crop spraying planes working on cotton farms have been shot down. Cooperative managers and elected leaders have been assassinated and kidnapped. In addition, the generalized impact of the war in the Salvadoran economy, although far worse in some zones than others, limits investment in critical agro-industrial support services.

The reform process has been further complicated by the frequent shifts in political leadership as El Salvador has sought to consolidate its return to democracy. Since 1980 there have been numerous changes in key GOES offices with concomitant shifts in policies affecting the reform. While support for the reform has generally been constant, different ministers and heads of critical reform institutions have pursued varying, and at times conflicting, objectives.

A third major constraint faced by the reform has been the stagnant markets for traditional export crops, which were the economic base of the pre-reform haciendas. International prices for coffee, cotton, and sugar have been depressed since 1980, except for the recent improvement in

coffee. The impact of the low prices is manifested in unprofitable operations and inability to meet credit obligations on some of the reform farms, just as non-reform agricultural operations have been similarly affected.

The Agrarian Reform Support Project was undertaken when the status of the reform was precarious and required a quick response. As was noted in the original Project Paper (p. 17): "Many agrarian reform coops and Decree 207 beneficiaries are at a point where they cannot afford to wait for a long-term solution. If quick action is not taken, there is a real risk of many Phase I coops sinking hopelessly into debt and a number of Decree 207 beneficiaries being forced to abandon their parcels because they cannot make them profitable enough to continue." The 0265 project was designed to consolidate the reform through issuance of legal titles to beneficiaries and to finance support services essential to assist the beneficiaries through the critical early stages of the reform.

The farm laborers who took over the large, profitable haciendas under Phase I, converting them into cooperatives, had no experience in farm management and in fact were mostly illiterate. During the past fifteen years, most A.I.D.-supported cooperative development activities in Latin American countries have been intensive efforts to develop four to six pilot regional service cooperatives per country over a period of several years. Compared with this, the overnight creation of 317 complex agri-business cooperatives, led and often managed by untrained farmers, was an awesome task. To do so in the midst of a civil war and rapidly shifting political leadership, and during a period of general economic recession, was a truly formidable undertaking.

In addition to the external constraints, there are a number of internal problems resulting from the structure of the Phase I cooperatives. These include:

1. The cooperative members' first priorities are steady employment and access to a small parcel of land to plant basic grains for home consumption. Many are basically farm laborers who consider the cooperative as their employer.
2. Many cooperatives are in effect run by elected leaders with little or no knowledge of competitive agri-business. Good managers are difficult to recruit and may not be accepted by the cooperatives' leaders. There has been no comprehensive training program for managers.
3. The GOES assumed a co-management role which was critical to the initial survival of the Phase I cooperatives. Some officials, however, would like to continue this role indefinitely, which would maintain state control and impede development of private initiative. In some cooperatives, the co-management policy has already become counterproductive.

4. None of the cooperatives has a capital base nor is likely to have one in the near future. Agriculture is a high-risk business and does not lend itself to highly-leveraged financing, as has been recently demonstrated in the rural United States. Even the wages of cooperative members are financed with borrowed resources.
5. The legal status of many cooperatives remains undefined, as does the status of their agrarian debt.
6. Many cooperatives have too few members to effectively farm all of their land resources. Yet, they are reluctant to share their assets with others by incorporating new members.
7. Finally, although some members adapt to the communal structure of their cooperatives, in other cases this structure fails to provide adequate incentives for worker productivity or results in abandonment by more active members.

The structure which was adopted for the Phase I cooperatives was perhaps rational and justifiable amidst the chaos and violence of the early reform. It involves, however, constraining features which inhibit operation of the cooperatives as efficient agribusinesses. State control over the cooperatives is excessive with all of its negative connotations, including lack of farmer initiative in adjusting to market conditions, bureaucratic interference with efforts to streamline operations, need to obtain approval of GOES officials even for emergency repair part procurement, etc. See the Policy Considerations Section of this paper for a discussion of these issues.

The Phase III beneficiaries face other constraints caused by the change in their agricultural status resulting from the reform. Traditionally, many of these farmers employed shifting slash and burn technology, allowing land to recover fertility by lying fallow. With land ownership, these producers risked rapid loss of their productive base if they continued to rely on such prior technologies.

Except for titling, the assistance required by Phase III farmers is less urgent than that required by Phase I cooperatives, and efforts under the amendment to this project will focus most heavily on improving the policy environment and operating conditions of the cooperatives. However, some assistance will also be provided to improve the administration of extension service assistance to Phase III, particularly use of mass media, and to begin the consolidation of service cooperatives serving Phase III beneficiaries. These efforts will be directed at laying the groundwork for agricultural follow-on projects assisting both reform and traditional sectors, such as a planned FY 88 agribusiness project which will strengthen private sector agricultural development activities.

The proposed twelve-month extension of the 0265 project is required to complete the complicated titling process and to begin to shift GOES focus toward a long-term solution of reform sector problems. The underlying strategy is to consolidate the successful and near-successful cooperatives, lay the basis for restructuring the unsuccessful cooperatives, and help the agrarian reform beneficiaries to more fully participate in the agricultural sector. Failure to provide for this extension would leave the majority of the Phase III reform beneficiaries without finalized titles and would drastically reduce the provision of essential support services to the reform sector. During the extended life of the project, provision of support services will either be institutionalized in the private sector or shifted over to financing from GOES resources.

Resolution of the problems facing the Salvadoran agrarian reform beneficiaries is not a short-term task. During the extended life of this project, efforts will be directed toward the internal problems of the cooperatives, as part of the effort to help them overcome the initial trauma of the reform. In the future, both the GOES and USAID/ES will broaden their attention to include non-reform producers, most of whom are as poor as reform beneficiaries and confront similar problems. Reform beneficiaries will not be abandoned, but the justification for exclusive attention has been weakened. The problems that they face, after the initial dislocations of the reform have been overcome, are common to all small producers. While some reform cooperatives may still be suffering severe problems, a limit needs to be placed on the period of intensive, subsidized efforts to resolve those problems.

Development of the agrarian reform beneficiaries after the PACD of the project will be supported through projects designed to improve the efficiency of the entire agricultural sector which will implicitly continue to promote the consolidation of the reform, including: development of management capabilities in reform and non-reform cooperatives and agro-industries, expansion of agricultural technology adaptation and dissemination (both to reform and non-reform sectors), and improvement of the efficiency of financial markets.

In order to implement this strategy, the scope of the 0265 project will be reduced. The formidable size of the task of consolidating the reform and the limited resources available necessitate the elimination of project support to activities not essential to achieving objectives. Also, by reducing the number of implementing institutions, both the GOES and USAID/ES will be able to better focus on problem resolution. The principal activities to be carried out during the extended life of the project are: Completion of titling, support for cooperative management improvement and leader training, technology transfer, promotion of agricultural private enterprise studies and support activities, and policy dialogue to encourage redirection of future cooperative development activities.

In addition to the discrete project activities, USAID/ES will also continue to support adoption by the GOES of a series of policy measures necessary to implement this strategy. These policies will facilitate the legal consolidation of the reform, create incentives for greater production through return of cooperative profit to the members, allow cooperative members greater control over their affairs, shift the Phase I cooperatives away from dependency on the GOES, set a time limit for GOES subsidies to the cooperatives, and define the conditions under which a cooperative will be restructured.

II. Description of Project Amendment

A. Goal and Purpose

The original goal of the Agrarian Reform Support Project was to expand rural employment, raise incomes, and provide secure tenure rights for agrarian reform beneficiaries. This will continue to be the goal for the amended project.

The original purpose of the project was to increase the efficiency and effectiveness of the agrarian reform program by accelerating the land transfer process, improving the ability of the GOES to provide resources and services to reform beneficiaries while increasing the managerial capacity of agrarian reform cooperatives, and expanding private sector investment in enterprises directly related to the agrarian reform.

In order to concentrate project activities during the extension on titling, essential reform services and laying the groundwork for a broader agricultural effort in FY 88, the following purpose statement will be adopted for the amended project: Complete the consolidation of the agrarian reform process and create the conditions necessary to integrate the agrarian reform beneficiaries into the broader agrarian economy.

This purpose will be attained through the following actions:

1. Substantially complete the titling process during the extended LOP to solidify the legal status of the beneficiaries.
2. Link the successful Phase I agrarian reform cooperatives with private sector sources of continuing support services, and improve the efficiency of service delivery by public sector entities until the private sector linkages can be established and institutionalized.
3. Promote adoption by the GOES of policies and legal framework to assure elimination of public subsidies to unsuccessful reform cooperatives after a reasonable period, permitting the restructuring of these entities.
4. Test alternative service delivery strategies for supporting Decree 207 beneficiaries and similar small farmers.
5. Support private sector efforts to develop non-traditional export activities which may be adopted by the reform beneficiaries.

B. Project Components

1. Titling

The design of Project 0265 emphasizes the importance of providing agrarian reform beneficiaries with secure titles to land affected by both Phases I and III of the Salvadoran agrarian reform. The amendment to Project 0265 continues this emphasis, recognizing the progress made to date, with major support focused on activities to complete the titling process.

Titling is a pre-requisite to consolidation of the reform and integration of the reform sector into the general agricultural economy. The emphasis on titling continues because:

- a. Secure titles legitimize current usufructory rights, irreversibly transferring land and protecting beneficiaries against counterreform.
- b. Secure titles are necessary conditions to owner investment in productive capital, management and technology.
- c. Secure titles are inextricably linked to other consolidation issues such as beneficiary rights and obligations, member "carrying capacities" on Phase I farms, inheritance, credit worthiness, alternative tenure models for the cooperatives, etc.
- d. Secure titles are a basis for the national development goals of economic growth, social participation and political democracy.

Local currencies are now being programmed to provide funds for compensation, and in December 1985 ISTA was reorganized to concentrate its resources on titling. These two actions make it reasonable to assume that ISTA will essentially complete titling of the Phase I cooperatives by the end of 1986 in accordance with its 1986 Action Plan. Any cooperatives which are not titled by the end of 1986 will be the responsibility of ISTA without project assistance. With the exception of the computer center, needed to track and evaluate Phase I performance, ISTA will receive no continued support under the proposed project extension. Its support will come from the GOES contribution.

FINATA's problems in titling stem from four major sources:

1. FINATA Strategy — June, 1984 was the final month for submitting applications under Decree 207, the Phase III implementing legislation. In order to extend the benefits of the reform to

as many qualified persons as possible before the deadline, FINATA concentrated its resources on accepting applications and completing the initial steps to titling, protecting the claims of applicants. This emphasis overloaded the "front end" of the system and systematically ignored the final output, registered titles or at least definitive titles which meet the criteria for acceptance by the Land Registry Unit.

2. Land Registry -- Since its inception, the agrarian reform has been burdened by El Salvador's antiquated land registry system which requires 22 days to register a single title, and parcels which were previously mortgaged could not be registered at all. This burden has fallen most heavily on FINATA which has about 62,000 separate applications which must eventually clear the Land Registry.
3. Physical Tasks -- FINATA is faced with an enormous physical task of locating, identifying and processing paperwork for about 62,000 small, dispersed parcels located in often inaccessible or hostile areas. The effort involved in this task, and the resource requirements for it, were difficult to imagine when the project was designed.
4. FINATA Management -- FINATA's management, initially strong and well focused, fell victim to internecine bickering and political and personal favoritism which diluted its effectiveness. These problems were compounded by the need to internally reallocate resources and responsibilities as FINATA shifted emphasis from the initial to the middle/final titling steps.

The project extension includes strong support for FINATA (\$4.0 million for FINATA operations) given progress on resolving the above problems and focusing FINATA's efforts on titling. The reallocation of FINATA resources toward completing definitive titles is being completed, and in February 1985 the Legislative Assembly passed a new Land Registry Law, the "Folio Real", which will decrease the time needed to register definitive titles. A bill has been presented which will allow the registration of mortgaged properties, and a recent presidential announcement indicates that such registration will be initiated even before the law is passed. Strong project monitoring will direct FINATA's attention from internal concerns to concern over the activity's output, i.e., definitive titles which adhere to the RPRH criteria for registration.

The tasks facing FINATA are formidable, but their completion will be made easier by the progress noted above. The project extension will assist FINATA in accelerating and completing the remaining Phase III titling tasks. Titles not registered by the end of the project extension period (12/31/87) will be the responsibility of FINATA without project assistance.

2. Services to the Phase I and Phase III beneficiaries

Presently the Phase I and Phase III beneficiaries are provided technical and financial support through the national banking system, the two government agrarian reform institutions (ISTA and FINATA), the Ministry of Agriculture, and a myriad of autonomous and semi-autonomous institutions and private entities. The goal of maintaining agricultural productivity levels has been largely achieved, and the focus is now being placed upon increasing productivity and obtaining a greater rationalization of resources through coordination of the ongoing efforts. Attaining these goals will require modifications in the provision of technical, financial and organizational assistance to the reform beneficiaries through a combination of public and private sector institutional vehicles. See Annex C for a discussion of the methodology of the technical assistance.

(a) INSTITUTIONAL CONSOLIDATION OF PHASE I COOPS. Phase I cooperatives which are at or near self-management (auto-gestion) will be encouraged to contract with local private sector firms offering technical assistance on a broad spectrum of agricultural and agribusiness problems. Recent experience by the BFA to initiate this program demonstrated that there are approximately 230 of these firms willing to provide needed services to the cooperatives.

The methodology linking the cooperatives with technical assistance firms is similar to A.I.D.'s technical assistance contracting procedures. The first step is to identify the coop's needs and present them in a request for proposals. The proposals are reviewed by a team from the bank and the cooperative, and the best proposal is then selected. The firm is contracted by the cooperative and the bank lends money to pay for the services. Fourteen cooperatives participated in the first round of bidding, and six technical assistance firms were selected to provide services. Obviously some firms are serving more than one coop. Increased credit availability from A.I.D.'s complementary Agrarian Reform Financing Project (519-0307) will help some cooperatives to finance this assistance.

In general, cooperatives are plagued by problems in management and administration and have difficulty in procuring productive resources (e.g., credit, inputs, technology, etc.). In addition, they are burdened by an agrarian debt (obligation to pay for the land), which for many has yet to be quantified, and by other large financial obligations (on which interest has been accruing and has been capitalized) since the first several years of the reform process. The financial position of these cooperatives varies considerably, and even if the previously mentioned agrarian debt is not considered, only a few organizations are current in their financial obligations and can be considered on the road to consolidation. Of these, however, it is unclear how many may be doing so while effectively

decapitalizing their farms through a lack of maintenance and/or reinvestment. The remaining cooperatives are in varying degrees of financial disarray and institutional development, even those cooperatives that are meeting their obligations. In summary, the establishment of a link between the relatively successful Phase I cooperatives and private sector sources of technical assistance (both agronomic and managerial) is a goal. GOES technical assistance funded by USAID to coops should concentrate on those cooperatives below the "A" level on the "auto-gestion" scale described below.

Ongoing government programs have been attempting to introduce professional management systems into the Phase I cooperatives since their inception, and a majority of the cooperatives have shared management arrangements with personnel assigned by the Salvadoran Institute for Agrarian Transformation (ISTA). These co-managers ("co-gestores") were assigned to ensure that production levels were maintained and that the resources provided were not misused or depleted by the cooperative membership. In addition to their co-management responsibilities, these personnel are also expected to assist the cooperatives with all facets of their institutional and business development, including the preparation of production and investment plans, the purchase and control of agricultural inputs and machinery, and the management of the day-to-day operations. As a result of recommendations reached during the 1985 National Seminar on Agrarian Reform, which unified public and private sector policy guidance, this co-management system will be phased-out and the cooperatives will be permitted to operate independently, once they have reached an as yet undefined level of self-management (auto-gestion) and stability in internal organization.

Although this ISTA-sponsored co-management activity was well-intentioned, many of the personnel assigned to the cooperatives were at best semi-skilled. They received little training in the management of complex agricultural enterprises, their presence was often resented by the cooperatives (who viewed them as outsiders imposed on them by the Government), and their role has diminished in many organizations.

In mid-1983, a second ISTA-sponsored management assistance effort was introduced into the Phase I cooperatives. The Enterprise Development and Administration Program (PRODEA) permitted the cooperatives to hire professional managers and accountants and was designed to introduce businesslike practices in the enterprises to ensure their economic and social development. The Uniform Administration Program (PAU) was designed to backstop these personnel by introducing a model, standardized accounting system capable of generating the statistical and financial information necessary for the planning and control of the cooperatives. The original goal of the PRODEA program was to place 200 managers and 200 accountants within a like number of Phase I cooperatives by the end of 1984.

ISTA reports indicate that in October, 1985, a total of 131 managers and accountants had participated in the programs, however 39 of the managers and 16 accountants had resigned their positions since initial placement. In early 1986, PERA completed an evaluation of 25 Phase I cooperatives participating in these programs and in general, the evaluation concludes that the PAU/PRODEA activities have not had the impact expected. Specifically, the evaluation concludes that:

There is a continual rotation of managers among the cooperatives; the most stable are cases in which managers had a prior relationship with the cooperatives and an intimate knowledge of the farmers' operations;

There is a direct relationship between the presence of the manager in a cooperative and the implementation of the standardized accounting system (PAU). This system has resulted in better quality statistical and financial information;

The number and variety of social benefits provided to cooperative members is directly related to the presence of the manager, and

There is no apparent relationship between the PRODEA/PAU activities and such economic indicators as utilization of land, productivity, diversification and credit use.

A series of studies of the Phase I cooperatives has identified the fact that the beneficiaries do not view themselves as owners, but rather they continue to see themselves as laborers. Their immediate concern is to obtain permanent employment at the highest salary possible and with as many additional benefits as can be obtained. Presently members of these Phase I cooperatives do not receive income increases as a result of increases in production and profitability and it is only through increases in hours worked that they earn more. This is due to the present system of obligatory retention of operating surpluses for the purpose of retiring the agrarian debt and the lack of a profit sharing system.

The PERA evaluation postulates that the problems encountered by the management program are directly linked to cooperative member misunderstandings of their role as co-owners of the enterprise. In those cases where the managers understand cooperative operations and attempt to create the controls necessary to increase profitability, they are resisted by the cooperative members who desire salary increases and more benefits. This resistance often results in either the manager's isolation and eventual resignation, or in his acceptance of the membership demands, regardless of the negative impact upon the profitability and productivity of the enterprise. Finally, many of the managers assigned by ISTA simply lack the management skills necessary to operate the cooperatives as businesses. The PERA evaluation recommends that a mechanism be created to provide incentives to the cooperative members which are linked to increases in productivity and profitability.

In response to the high priority being placed upon a consolidation of the agrarian reform by the government, a series of actions have been taken to rationalize resource use and to refocus the programs of the institutions involved. As a result of this refocusing, the Ministry of Agriculture (MAG) assumes a major role in the consolidation effort. The Ministry has decentralized its operations and has placed the responsibility for coordinating all field activities at the level of the new Regional Offices. There are four of these Regional Offices in the country which will prepare integrated

development plans for each of the cooperatives in their operational zones; coordinate technical assistance and training programs with CENPA, CENCAP and FINATA; and obtain specialized technical assistance from private organizations where necessary. In a further refocusing, the GOES has recently reorganized ISTA in order to intensify ISTA's efforts upon the completion of the titling of the Phase I cooperatives. The ISTA support functions of management training, production planning, monitoring and evaluation have been transferred to a recently created Rural Development Directorate of the Ministry of Agriculture (MAG). This Directorate will be sub-divided into four units: Promotion & Organization, Employment Generation & Production, Rural Enterprise Development, and Rural Social Development. It will be charged with designing and implementing a coherent and unified cooperative development strategy which will stress self-management, increased profitability of investment, and increases in production, productivity and crop diversification efforts within the cooperatives. It will also coordinate the efforts of the semi-autonomous and autonomous public sector institutions involved in this consolidation effort.

The Phase I consolidation efforts to be provided support by the Agrarian Reform Support Project (519-0265) during the project extension include:

(1) Classification of Cooperatives and Assistance Priorities: In order to ensure the most rational use of Project resources, the Phase I cooperatives will be classified by the MAG multi-disciplinary teams according to the degree to which they are socially organized, consolidated as cooperative business enterprises, and capable of managing their own affairs. An appropriate classification system was designed under an AID-financed contract with the Cooperative League of the U.S.A. (CLUSA). Four classification levels will be used in this system:

Class I A Class I cooperative has a management system and team in place and is operating with all necessary controls (i.e., inventory, procurement, maintenance, accounting, etc.). It plans its own farming operations, possesses a rational utilization of resources, produces and markets its production, is current in its financial obligations and is either profitable or shows promise of becoming so in the near future. In addition, it has access to technical assistance which it utilizes appropriately; it holds regular membership meetings and its Directors are elected democratically; and, it conducts regular training programs for the membership.

Class II A Class II cooperative manifests most of the indicators of a Class I organization, however it is weak or deficient in one or more of the following: management systems and/or personnel, farm management ability, profitability, use of technical assistance or failure to meet financial obligations.

Class III A Class III cooperative is deficient in all of the indicators used to classify a Class II institution, and, it is not functioning in a democratic manner and no training is provided to the membership.

Class IV A Class IV organization is deficient in all of the previously mentioned areas, and it may have been abandoned; it cannot secure credit; it lacks farm management and production has fallen noticeably; and it has disintegrated socially.

The Agricultural Development Bank (BFA) and many of the commercial banks utilize different ranking systems for the purpose of determining credit eligibility. The MAG ranking system goes beyond the credit management area and is designed to determine a cooperative's organizational status, farm operation, self-management skills and long-term viability.

The MAG multi-disciplinary teams will utilize the ranking system to rationalize resource use as follows:

Assistance to Class I organizations will be designed to accelerate their self-management and organizational growth and to lessen their dependence upon the government. The MAG teams will arrange for private sources of technical assistance and financing, and will assume a role of monitoring and evaluating the consolidation of these cooperatives.

The Class II and Class III cooperatives will be distributed among the MAG multi-disciplinary teams and will be introduced into the PAU/PRODEA management program.

Class IV organizations will assume a low priority for MAG assistance and little support will be provided until a nucleus of Class II and Class III cooperatives have attained the degree of self-management and organizational development that characterizes the Class I institutions. The GOES will be encouraged to adopt a formal policy for restructuring Class IV cooperatives. The adoption of this classification system will be a condition in the USAID/GOES Balance of Payments Agreement.

(2) Management Assistance and Training: The PAU/PRODEA management assistance program will be refocused, with a new emphasis placed on peasant association participation in the promotion, selection and monitoring of this activity. Managers and accountants will be provided hands-on and classroom training in leadership, accounting, administration, production planning, marketing, and farming operations. Efforts will be undertaken to provide them with a background and an understanding of the goals of the agrarian reform and the complexities of cooperative farming. In addition, the Board members of participating cooperatives will be provided similar classroom training to provide them with a basic understanding of their cooperatives and the relative roles of management and elected leaders. They will also be provided an opportunity to visit other more successful Phase I organizations through a

cooperative interchange program. In addition, the Project will finance several observation visits to other countries (e.g., Peru, Honduras, etc.) for government personnel and cooperative leaders to permit them to obtain firsthand knowledge of the successes and failures of other similar agrarian reform programs.

Managers and accountants will be trained using a modular, in-service methodology which will utilize short courses, case studies and seminars to transfer management skills. These courses will be conducted by a private Salvadoran firm which will have access to short-term technical assistance for curriculum development and the initial training exercises. Follow up in the field will be undertaken by the multi-disciplinary teams of the Ministry of Agriculture (MAG) and the Agricultural Development Bank (BFA). Complementary support will also come through FESACORA'S training activities.

Although the ISTA co-managers will continue their involvement with at least some of the Phase I cooperatives, they will work under the policy guidance of the Regional Director of MAG and will be expected to coordinate closely with the MAG multi-disciplinary teams. A managerial training program similar to that prepared for PRODEA personnel will be introduced for the ISTA co-managers to improve their understanding and commitment to the institutional consolidation process. Once a cooperative has attained the skills needed for self-management (auto-gestion), the ISTA co-managers should be withdrawn. A.I.D. will promote for the adoption of the auto-gestion system and its implicit plan to define when co-operators can leave the cooperatives, through policy dialogue and the macro-economic dialogue.

(3) MAG Multi-disciplinary Teams: In the field, the PRODEA management personnel will receive technical backstopping from the multi-disciplinary teams that have been created by the MAG. The MAG teams are formal groups of 3-5 individuals who possess skills in management & administration, social promotion, farm planning, and agricultural production and diversification. The Ministry has formed 15-20 of these teams to be attached to the four MAG regional offices. Each team will be assigned a specific number of cooperatives and will be evaluated by their success in obtaining increases in agricultural productivity and in furthering the economic development of the cooperatives. Technical assistance will be financed by the Project and provided to the MAG multi-disciplinary teams. For more information on multi-disciplinary team technical assistance and the methodology to be utilized please See Annex C.

(b) AGRONOMIC ASSISTANCE: The experience accumulated during the brief years of the Project has provided valuable indicators for improvements in technology generation and dissemination to agrarian reform beneficiaries. Needs are now more clearly defined, methodologies have been tried, and different institutions from both the private and public sectors have demonstrated their strengths and weaknesses in the field. Overlaps in coverage and duplication of efforts have also contributed to a consensus on the need to rationalize and reorient agronomic technical assistance to the reform sector.

With few exceptions, adequate and appropriate agricultural technology required by beneficiaries at this juncture of the agrarian reform exists in the country. This is particularly true in the case of Phase III farmers, whose technology requirements are relatively basic, most commonly related to establishing a farmstead, producing the essentials for life and a marketable surplus for traditional markets. Phase I cooperative farms present a very different dilemma for technical assistance.

The Phase I organizations vary widely in their agronomic assistance requirements both in levels and content of technical orientation. Farming decisions of a technical nature tend to be concentrated in managers, directors or farmers and are frequently dictated by credit authorities or specialists in the commercial crops of coffee, sugar cane and cotton. The role for traditional public programs of technical assistance is less clear in this situation and further complicated by the fact that several public programs and private institutions have voluntary and contractual arrangements with the cooperatives for providing technical assistance. Currently, the extension service of CENPA estimates that 30% of the Phase I cooperatives are visited by agents.

In terms of comparative advantage or specialized capability, the technical support best provided by CENPA to the Phase I cooperatives lies in the areas of consultation, backstopping on technical issues and as a source for specialized inputs. Examples include:

- Soil analysis and fertilization recommendations;
- Pathology, entomology and pesticide recommendations
- Feed and food analysis, including nutrients, pesticide residuals, mineral content, etc.;
- Genetic materials, including seed production and certification, nursery materials and testing; and,
- Research in diversified crops and farming systems.

Phase III beneficiaries are somewhat unique in that they offer excellent opportunities for well-designed programs of technology transfer. Approximately one-half of the 300,000 beneficiaries live and farm in close proximity. Their needs are similar and unsophisticated. They have been given a positive psychological, as well as economic stimulus and are anxious to establish productive pursuits even though they are poor and largely illiterate. This situation offers an attractive opportunity for the use of mass media techniques in delivery systems for technology dissemination.

These conditions also call for a response from the extension department of CENPA which differs in content from Phase I and the traditional programs it has operated to date. The content of technical assistance should be shifted to the following priorities:

1) Labor intensive farm improvements including: soil and water conservation, reclamation, and soil improvement technologies. Establishment of tree crops for home consumption of fruits and fuel. Basic shelter and farm buildings such as grain bins, livestock pens, latrines, ovens and wells;

2) Basic grains production improvement, concentrating on the use of proven improved varieties, pest control and fertilization;

3) Assistance in farm planning, resource utilization, risk management and orientation to market opportunities;

4) Home improvements directed at women and youth particularly, including simple technologies of livestock production for consumption, food preservation, household enterprises, gardening and family nutrition;

5) Organizational techniques and options, ranging from simple clubs, to groupings for credit, supply and marketing activities, and community services.

No major modifications of the technical capability in CENIA are envisioned in this Project Amendment. However, in order to attend Phase III beneficiaries' needs, considerable modification in technology dissemination and delivery systems is called for. Although efforts have begun in CENIA to expand and improve its capability in the areas of written materials, graphics and oral media, an accelerated program of modern communications development is needed to increase the coverage and cost effectiveness of the Salvadoran extension system. Emphasis will be given to the expanded use of radio in a coordinated fashion with field extension in a manner similar to techniques proven effective in rural development in Central America.

Through improved organization and linkages of MAG agencies, particularly the regionalization of the Ministry, measures will be taken to improve access by Phase I cooperatives to this technical resource. Through the regional authority structure and the presence of integrated MAG offices and services, cooperatives will be in a better position to take advantage of the technical resources of the GOES and to better judge opportunities for complementary or substitution by private sources.

The initial phase of implementation of a modified system of technical assistance will include an intensive review of plans and priorities of the MAG by project staff. Items of critical concern will be:

- Employment of extension staff, including location of agencies and client group coverage;
- Priorities of technical content, according to types of beneficiaries;
- Methodology for dissemination of information;

- Organizational and authority structure (including adaptation to regional system); and
- Measures for supervision, control and determination of results.

(c) CREDIT DELIVERY SYSTEMS: USAID/ES has an ongoing Agrarian Reform Credit Project (519-0263) and is planning a follow-on, 5-year financial assistance effort for the agricultural sector. A brief discussion of the Salvadoran credit delivery system and the experience to date is mentioned here due to the direct link between credit and the institutional development effort being financed by the Agrarian Reform Support Project (519-0265).

There are six principal types of formal market credit institutions operating in rural areas of El Salvador: (1) the Agricultural Development Bank (BFA), (2) nine mixed-ownership commercial banks, (3) the Mortgage Bank, (4) the Federation of Credit Unions (FEDECACES) and its affiliated credit unions, (5) the Federation of Rural Credit Funds (FEDECREDITO), and (6) the National Coffee Institute (INCAFE). The BFA is the most important lender to the agricultural sector, however since March, 1980, when the nation's commercial banks and savings and loan institutions were nationalized, these banks have assumed an increasing role in the provision of agricultural lending. This was accomplished by assigning the cooperatives to the commercial banks, the Mortgage Bank, INCAFE, and the Agricultural Development Bank (BFA). Each institution was expected to work with the assigned cooperatives with respect to production credit.

Over time, cooperative financing has tended to concentrate within a smaller number of institutions and the number of cooperatives served has also declined. There has been a tendency for both the BFA and the commercial banks to increase the relative importance of this financing within their portfolios and they have both tended to finance an increasing number of cooperatives. However, while the Mortgage Bank has remained active, it has decreased the number of cooperatives served, and INCAFE and FEDECREDITO have virtually eliminated their participation in cooperative financing activities. This reduction is due to the location of cooperatives in zones of conflict; abandonment of some organizations by members; outstanding delinquent accounts, which reduces eligibility for new loans; and, to the fact that some cooperatives are not sufficiently organized to be considered as subjects of credit.

Currently, the BFA is financing 141 Phase I cooperatives and numerous Phase III beneficiaries through a combination of individual lending, solidarity groups, and 107 small, service cooperatives. The commercial banks are financing approximately 128 Phase I cooperatives, and they also provide credit to Phase III beneficiaries, with a preference for individual loans.

The RFA, with support under the Agrarian Reform Credit Project (519-0263), is in the process of launching a private sector technical assistance program for Phase I cooperatives. This program will focus on those cooperatives which are closest to financial solvency (Class II and III). It will link these cooperatives to private sector technical assistance firms and provide subsidized financing for the contracting of this technical support. The Bank personnel will assist these cooperatives in identifying investment opportunities and technical assistance sources. However, once financing has been provided and technical assistance arranged, their role will be reduced to monitoring and supervision. The contracted, private technical assistance will provide operational support to these relatively solvent Phase I organizations.

The commercial banks are assisted in their agrarian reform lending through a Credit Agent program of the Central Reserve Bank (BCR) which is also financed under the Agrarian Reform Credit Project (519-0263). The current program includes a small coordinating unit in the BCR and approximately 20 credit agents who have been assigned to the commercial banks proportionally to the number of cooperatives financed by each. These agents provide financial management guidance to cooperatives and conduct follow-up visits after loans are granted. They have facilitated an increase in the resources provided by the commercial banks to the Phase I cooperatives, increasing opportunities for greater employment, income generation and profitability.

The present extension of the Agrarian Reform Support Project (519-0265) will promote a consolidation of the agrarian reform process and will strengthen the credit delivery systems by improving the management of the farm cooperatives and by strengthening the institutions that serve the small farmers and cooperative landholders benefited by the reform.

3. Agribusiness Support Services:

The original project paper contemplated the creation of a Rural Enterprise Development Office (ODER) within the Ministry of Agriculture. The purpose of the office was to promote and facilitate private sector investment which directly or indirectly assisted agrarian reform beneficiaries. ODER was to serve as an interface between the agrarian reform sector which controlled considerable agricultural land and labor and the private agricultural sector which enjoyed a comparative advantage in management and applied technology. The office was to identify mutually beneficial projects, administer a fund for pre-feasibility studies and promote joint enterprises.

Mostly due to GOES delays, the creation of that office within MAG was postponed until mid-1985; and since its creation the office of ODER has been subsumed within the rural development directorate (DDR), a new, and as yet unproven, MAG entity which will incorporate much more than merely investment promotion into its activities. Within DDR, the ODER office will develop the cooperatives' basic business skills and help prepare them for a level of independence from the GOES. The concept of ODER's functions as originally envisioned has been moved to the private sector as described below.

The original functions of ODER, modified somewhat to meet growing public and private sector agri-business development needs, were vested in the Diversified Agriculture Program (DIVAGRO) of the Salvadoran Foundation for Economic and Social Development (FUSADES), a private sector, non-profit organization active in several development projects. The idea of a public sector institution (ODER) trying to promote development was thus exchanged for the idea of a private sector entity (DIVAGRO) promoting development. DIVAGRO would have some activities specifically focused on the agrarian reform beneficiaries, and none of its activities would exclude them.

The goal of FUSADES's DIVAGRO program is to increase rural employment and export earnings by strengthening the agricultural sector's efforts to develop, through more efficient resource use, diversified agricultural export crops and import substitution.

In March, 1985, before project funding was available (DIVAGRO received non-project funding through FUSADES), DIVAGRO began operations, contracting a Program Manager and a Secretary, an Executive Commission was named in June. In August, when project funds (programmed at \$1 M for two years) became available, DIVAGRO hired a Program Secretary and a Technical Assistance Manager to promote diversification.

DIVAGRO ACHIEVEMENTS IN 1985

In addition to organizing itself and becoming an operational unit within FUSADES, DIVAGRO has made substantive programmatic achievements:

- a) Export Development/Import Substitution Study -- Before project funds became available, DIVAGRO contracted Fundación Chile to conduct an analysis of five export crops with immediate foreign exchange earning potential and five crops which if produced locally would substitute for 80% of current fruit and vegetable imports. This study was the original DIVAGRO diagnosis and served to spawn other activities.
- b) Association Formed -- With support from project 0265 and other support through FUSADES, DIVAGRO formed an Association for Promoting Non-Traditional Agricultural Exports (ASPENT). ASPENT, using information developed in DIVAGRO's export development/import substitution study, began organizing and promoting export activities. Through a technical assistance contract with Fundación Chile, signed and managed by DIVAGRO, ASPENT now provides subsidized technical assistance, on a per acre cost sharing basis, to members producing melons for export to the United States.

The technical assistance arrived in October, 1985 about a month later than optimal for fall planting, but it was made immediately available to producers prepared to utilize it. Over 1,100 acres of melons were seeded under the program and between January and March 1986, 120,000 boxes of melons and 7,000,000 pounds of watermelons were shipped. These produced 65,000 person days of employment and over \$2 M in foreign exchange.

Because only producers who already had credit and had begun field operations could utilize the technical assistance, no agrarian reform cooperatives received direct technical assistance during the first year. However, beneficiaries are receiving indirect assistance because: (1) beneficiaries are employed for field work by participating private farmers, (2) some fields receiving technical assistance are rented from or adjacent to reform cooperatives and the advice is being copied by beneficiaries, and (3) the creation of marketing channels by the private sector has important "spillover" benefits for reform producers. DIVAGRO executives have developed a strategy to involve the cooperatives in the 1986 season and have met with GOES technicians to select specific cooperatives for sponsored assistance.

ASPENT has hired four local counterparts to the Fundación Chile technical assistance agents, thus developing local capabilities and assuring technological continuity.

c) Technical Studies -- For the ten crops identified in the original export development/import substitution diagnosis, DIVAGRO contracted for additional studies on: (A) harvest and post-harvest handling, (B) technical and economic considerations of processing and (C) domestic and export marketing. These studies were or will be completed by April, 1986.

d) Feasibility Studies -- FUSADES assists local and foreign enterprise development by subsidizing feasibility studies for particular projects within the purview of export development and import substitution. Among the studies conducted during 1985 have been: (A) a marketing study on production and sale of starch made from Yucca, (B) a study to determine the technical feasibility of Soybean production to substitute for annual \$30 Million imports of Soybean meal, (C) a joint study for local cattlemen and a U.S. dairy to determine the economic feasibility of a regional embryo transplant facility, and (D) a shrimp culture feasibility analysis.

e) Technical Assistance -- DIVAGRO also offers limited financial support for development projects which need short term technical assistance. Two projects, one for a local diversified agriculture firm gaining sales experience in the local market and one for shrimp culture, received technical assistance through DIVAGRO during 1985.

f) Other -- DIVAGRO has served as the focal point for private sector, export development/import substitution activities. The office has received numerous visitors and inquiries. Provided tours, attended meetings (in El Salvador and abroad), sponsored conferences and produced publications promoting Salvadoran diversified agriculture.

DIVAGRO'S 1986 AND 1987 GOALS

DIVAGRO's principal goals from now until the PACD for this project component (July 31, 1988) are:

a) Consolidation of DIVAGRO and building the capacity to serve the reform beneficiaries--during 1986 DIVAGRO will consolidate and strengthen its own capacity to serve export agriculture and the reform by contracting a technician to develop informational publications, compile an export information data bank and make an inventory of agrarian reform resources.

This DIVAGRO technician will establish a data bank containing, among other things, an inventory of Phase I cooperative resources. This inventory will be available to investors who need productive resources (land, labor) to marry with capital, technology and management. Selected cooperatives will be sponsored by DIVAGRO in the ASPENT technical assistance program. Cooperatives will be chosen as sites for DIVAGRO demonstration plots and variety trials, both planned activities for 1986 and 1987, and beneficiaries will be target audiences of field days, seminars, forthcoming publications, etc.

b) Information Dissemination -- DIVAGRO plans two major activities related to the dissemination of information. One is a series of seminars publicly presenting the results of the original DIVAGRO export development/import substitution study as well as the subsequent harvest, post-harvest, processing and marketing studies. These seminars will be open to the public and invitations will be sent to the appropriate GOES entities and Phase I cooperatives.

Additionally, DIVAGRO plans to begin publishing a technical bulletin which will cover "lessons learned" from the experiences of the technical assistance agents and include articles on export markets, reform sector resource inventories, production opportunities, etc. Much of the information for the bulletin will be gleaned from the data bank to be established in activity "a" above.

c) Technical Assistance and Feasibility Studies -- DIVAGRO will continue to provide technical assistance to melon growers and expand the technical assistance service to include producers of cucurbits and other fruits and vegetables as well, both through ASPENT and possibly directly through contracts with private providers. On an annual basis through 1988, DIVAGRO will program technical assistance to producers of cucurbits for export during January-April, fruits and vegetables for local consumption from May-August, and fruits and vegetables for export from September-December. This calendar of activities will keep the technicians utilized year-round.

DIVAGRO, working independently and in conjunction with the Water Management Project (No. 0303), will promote the establishment of processing plants for agricultural export or import substitution. In order to promote plant investment, DIVAGRO will maintain its fund to subsidize feasibility studies for projects which meet its employment and foreign exchange earning objectives. Projects may be proposed by private or reform sector entities.

d) Diversification -- FUSADES will fund a development diagnosis along the lines of its initial export development/import substitution study, but the new diagnosis will expand study into the areas of: (A) spices, herbs and colorings, (B) flowers, (C) ornamentals, and (D) plants for industrial uses. The study will identify short and long run opportunities to produce, process and market crops within these categories.

e) Aquaculture -- There is growing interest and private sector activity in aquaculture within El Salvador and many of the reform cooperatives have (or plan to construct) the necessary physical facilities. However, much of the development energy is being diverted by disputes and confusion over which technologies are appropriate within the Salvadoran context. DIVAGRO will fund a development diagnosis concentrated on the appropriate technology question.

f) Demonstrations and Variety Trials -- It remains true that the best way to transfer technology is through demonstration, a point reinforced by the 1985 experience in giving technical assistance to melon growers. Toward this end, DIVAGRO will establish a rotating fund to cover 75% of production, post harvest management and transport costs for selected agriculturalists who participate in several small ventures using new technologies. The purpose of the fund is to permit normally conservative agriculturalists involved in production, processing and/or transportation to experiment with new technologies without risking their already precarious livelihoods.

Variety trials aimed at identifying existing crop varieties suitable for production in El Salvador will be initiated by DIVAGRO in conjunction with cooperating farmers in developing both the demonstration ventures and the variety trials.

g) Export Marketing Support -- Utilizing resources of FUSADES's PRIDEX office (Export development), DIVAGRO will expand its activities to include export marketing support. This support will include locating qualified U.S. companies and personnel to conduct studies, etc., locating and developing markets for products grown, processed or shipped under DIVAGRO sponsored program and providing market information through the export market data bank and information system.

h) Training Fund -- This activity would provide funding and logistical support to agriculturalists involved in export/import substitution production, processing and/or transportation. This would include participation in fairs, conferences, training seminars and demonstrations emphasizing technologies for export development/import substitution.

i) Quality Control -- Quality control is consistently identified as the key to successful export marketing of agricultural products. Under this activity, DIVAGRO would contract for technical assistance to develop a proposal for establishing a system of quality control for Salvadoran agricultural exports. The proposal would address not only grades and standards issues, but issues of brands and name recognition.

Since DIVAGRO's activities are a bridge to a planned FY 88 USAID agribusiness project, it's PACD needs to be July 31, 1988 in order to provide overlap with the new effort.

C. Planning, Evaluation and Project Administration

1. Planning and Evaluation

There are two entities which have performed critical roles in the planning and evaluation of the reform. The more essential of these is the Planning and Evaluation Unit of the Agrarian Reform (PERA), which is a sub-unit of the MAG Office of Agricultural Sector Planning (OSPA). PERA has conducted in-depth analyses of such issues as the agrarian debt, cabida (member rights and maximization of coop member/land ratio), evaluation of the PRODEA/PAU programs, etc. It also has prepared annual evaluations of the agrarian reform which compile statistical reports from all of the participating agencies and provides insights into the implications of the data. Finally, PERA prepares policy papers for submission to the GOES policy board for the agrarian reform, CARA, on critical issues affecting the reform. PERA's performance has been exceptionally good. Its reports are thorough, objective and concisely presented. PERA technicians have demonstrated independence of thought and a high degree of professional integrity. PERA reports are the primary source of information for AID reporting on the reform, both in El Salvador and Washington.

During the extended period of the project, PERA will continue its normal evaluative function. In addition, special evaluative/policy studies will include: development of a policy for restructuring those cooperatives which are not successful; mechanisms for unifying the incentive structures affecting cooperative managers and leaders in order to improve performance in keeping with national goals; analysis of implications for Phases I and III cooperatives of cooperative development experiences in Perú and Honduras; and definition of GOES audit responsibilities for agrarian reform cooperatives etc.

The second planning entity which has played an important role in the Project is the MAG's office of Agricultural Sectoral Planning itself. OSPA is responsible for developing sector-wide policies which affect the reform. In addition, OSPA coordinates participant training assistance for the sector.

Given the need to focus AID loan-financed activities on those areas related to the agrarian reform, during the period covered by the extension of the 0265 project, no additional support is anticipated for OSPA with loan resources. Local currencies may still be made available through SETETE, however, subject to future GOES and USAID/ES review. Of particular interest is continued OSPA support for participant training and provision of assistance to OSPA efforts to focus actions by other GOES agencies (housing, education, health) on reform beneficiaries.

2. Computer Centers

A second activity which will be supported during the extension is the computer centers for OSPA, FINATA and ISTA. These Centers are the principal source of

statistical information on the status and progress of the reform and as such the Centers have performed an essential service. Support will be continued during the extension to assure institutional consolidation of the centers and the availability of important data.

3. Coordinating Office of MAG-AID Projects

OCOPROY is responsible for coordinating all budgeting and disbursement procedures for the Project. Although the reduction of activities and implementing institutions will simplify somewhat OCOPROY's task, its services are still essential.

III. Implementation Arrangements

A. GOES Implementing Institutions

1. Ministry of Agriculture and Livestock (MAG): The overall responsibility and authority for project implementation rests with the Minister of Agriculture and Livestock, and within the Ministry it has been delegated to the Vice-Minister for Rural Development. Administrative arrangements are managed by the Coordinating Office of MAG-AID Projects (OCOPROY).

The role of the MAG in overall project coordination was formalized after initial implementation had been delayed by several GOES institutions. The Ministry has performed a very positive role due to MAG leadership and the Minister's political strength. For example, the reorganization of the Salvadoran Agrarian Transformation Institute (ISTA) in 1985 which removed all activities not directly related to land acquisition and adjudication, was a major achievement greatly facilitated by MAG support.

OCOPROY provides valuable administrative support to AID project implementation. The role and capabilities of OCOPROY as described in the original project paper remain valid.

The Office of Rural Enterprise Development (ODER) of MAG is responsible for executing the Enterprise Development and Administration Project (PRODEA) and the Uniform Administration Program (PAU), as well as the MAG multi-disciplinary support teams. ODER was created on October 9, 1985, and assumed responsibility for PRODEA and PAU when these were transferred to MAG during the reorganization of ISTA. Implementation of PRODEA and PAU was delayed due to the institutional weakness of ISTA, and while the transfer of functions to MAG is still not complete, the Ministry has shown considerable support for these activities and has begun implementation.

Support will also be provided to the MAG Computer Center which is the principal source of statistics concerning status and progress of the agrarian reform, as well as the agricultural sector in general. Considerable expenditures have been made to equip this Center and continued assistance during the extended project will allow its consolidation.

The Agrarian Reform Planning and Evaluation Unit (PERA), has proven to be effective at analyzing and documenting the agrarian

reform. Within the Office of Agricultural Sector Planning of the MAG, PERA is specifically charged with planning and evaluating the agrarian reform. To date a series of documents have been produced by this unit which have been useful in orienting the reform and confronting policy issues. In addition to PERA, minor funding may be provided to the Office of Agricultural Sector Planning to support coordination of participant training activities within the sector. Support will also be provided primarily with local currency resources to support OSPA and Rural Development Directorate efforts to assist rural social development by encouraging other GOES agencies (health, education, housing) to focus on assisting agrarian reform beneficiaries.

2. National Finance Office for Phase III Agrarian Reform Lands (FINATA): As described previously, FINATA is responsible for adjudicating all land acquired under Decree 207 of the agrarian reform. FINATA has not effectively carried out its responsibility to provide legal titles to the beneficiaries of Phase III, partly due to conflicting priorities in attempting to provide a series of other support services. The GOES and USAID/ES recently agreed to a series of measures which will focus FINATA on the titling priority and reduce or eliminate conflicting responsibilities. Based on these measures the Mission is confident that FINATA can complete its tasks by the PACD of the amended project. The GOES must clearly and formally state that completion of FINATA titling by 12/31/87 is a top priority. Some minor support will also be provided through FINATA to the national land registry, to assure prompt registry of FINATA titles.
3. Salvadoran Agrarian Transformation Institute (ISTA): The role of ISTA in the amended project will be greatly reduced since the key project activity related to ISTA, titling of Phase I cooperatives, is to be completed by December, 1986. The remaining support for ISTA, as described above, will be continued assistance for its Computer Center.
4. National Center for Agricultural Technology (CENTA): Support for CENTA with project funds under the revised project, as described above, will be limited to the provision of technical assistance for the improvement of extension planning and execution, including the use of mass media. It is anticipated that local currency resources will be provided to CENTA after PACD for a transition period in order to phase the support of this essential government service over to GOES financing.
5. Salvadoran Development Foundation (FUSADES): The Agricultural Diversification Commission (DIVAGRO) of FUSADES began operations during 1985 to promote diversification of Salvadoran agricultural exports and to support domestic production of

principal agricultural imports. Although DIVAGRO's activities are too new to allow an in-depth evaluation, the necessary structure has been developed to achieve objectives and initial activities are very promising. Continued support to DIVAGRO is needed under the Project 0265 extension in order to expand this private sector intensive component which will be a bridge to a future agribusiness project.

6. Center for Agricultural Training (CENCAP): No additional Project funds are budgeted during the extension to support CENCAP, although local currency support will be provided so that CENCAP can continue to provide basic training to beneficiaries of the reform in such areas as rights and obligations of cooperative membership.
7. National School of Agriculture (ENA): As in the case of CENCAP, no resources are budgeted under the extension to support ENA. Local currency resources may be made available through SITEFE for ENA, however, to support ENA training of agronomists to work in the agrarian reform.

B. USAID/ES Implementation Responsibilities:

Implementation responsibility for Project 0265 has been assigned to the Office Rural Development (RDO) with support services from other USAID/ES staff offices. RDO has assigned overall responsibility for project management to the Deputy Office Chief, while responsibility for specific project components has been divided between two other USAID employees with support from one US personal services contractor and 12 FNDH and local personal service contractors. Except for a reduction in the number of contractors, no significant modification of implementation responsibilities is anticipated during the project extension.

Technical assistance under the 0265 project was provided primarily through an institutional contract with Servicios Técnicos del Caribe. Technical assistance during the remainder of the project will be provided in this manner and by personal services contracts.

C. Summary of the Key Project Events

<u>Event</u>	<u>Date</u>
Project Amendment authorized	o/a June 25, 1986
Project Agreement Amendment signed	o/a June 30, 1986
Multidisciplinary teams	
Initiate Field Work	Ongoing
Long-Term Technical Assistance extended	June 30, 1986
RDD (1 person)	
CENTA (1 person)	
PERA (1 person)	
RPRH (1 person)	
New Long-Term Technical Assistance for	
DIVAGRO contracted (1 person)	September 30, 1986
DIVAGRO Seminars begin	September 30, 1986
Computer installed at ISTA/MAG	November 30, 1986
Radio Programs for Phase III begins	September 30, 1986
ISTA completes titling of	
Phase I coops	December 31, 1986
Project Loan resources terminate to	
ENA, CENCAP, CENTA, ISTA	December 31, 1986
FINATA completes Phase III titling	December 31, 1987
Project Evaluation	January, 1988

IV. Financial Summary

FINANCIAL PLAN
519-0265 PP AMENDMENT
(\$US 000's)

<u>ENTITY</u>	<u>ACTIVITY</u>	<u>GRANT</u>	<u>FX</u>	<u>LC</u>	<u>LOAN (all LC)</u>
					4,000
FINATA	Operations				600
Land Registry	Operations Technical Assistance	160	160		
Rural Dev. Directorate	Multi-Disciplinary Teams TA to cooperatives Cooperative training	510 200	510 100	100	1,900
ODER	PRODEA/PAU operations				1,100
CENTA	Ag. Extension T.A.	390	390		
PERA	Long-Term TA Short-Term TA Operations	540 50	540 50		300
OSPA	Operations				35
OCOPROY	Operations				135
ISTA/MAG	Computer centers (TA) Operations	150	150		430
DIVAGRO	TA, Training and operations	2,837	2,403	434	
EVALUATION AND AID ADMIN.	Evaluation/AID ADMIN	220	220		
TOTAL		<u>5,057</u>	<u>4,523</u>	<u>534</u>	<u>8,500</u>

GOES Contribution
(PL-480)
(¢ 000's)

<u>Institution</u>	<u>1986</u>	<u>1987</u>
FINATA	6,500.0	6,000.0
IGN	0.0	0.0
RPRH	0.0	0.0
DGCD	0.0	0.0
ISTA	5,450.7	3,000.0
CENIA	4,139.5	4,000.0
CENCAP	4,690.2	4,000.0
ENA	530.4	0.0
OSPA-Director's Office	586.4	0.0
OCOPROY	406.0	50.0
PERA	904.6	900.0
CENTRO DE COMPUTO	342.3	300.0
OSPA-CAPACITACION	0.0	0.0
ODER/DGDR	<u>61.5</u>	<u>2,000.0</u>
TOTAL	¢23,611.6	20,250.0
Total in Dollars (\$1.00=¢ 5)	\$4,722.0	\$4,050

Project Disbursement Schedule
(US \$000's)

<u>Funding Mode</u>	<u>FY 86 *</u>	<u>FY 87</u>	<u>TOTAL</u>
Grant:			
DIVAGRO	1,526	1,311	2,837
RPRH	160		160
RDD	500	210	710
CENIA	264	126	390
PERA	400	190	590
ISTA/MAG	150		150
EVALUATION & ADMIN.		220	220
TOTAL	<u>3,000</u>	<u>2,057</u>	<u>5,057</u>
Loan:			
FINATA		4,000	4,000
Land Registry		600	600
Rural Dev. Directorate		1,900	1,900
ODER		1,100	1,100
PERA		300	300
OCOPROY		135	135
ISTA/MAG		430	430
OSPA		<u>35</u>	<u>35</u>
TOTAL		<u>8,500</u>	<u>8,500</u>

* The FY 86 obligation is \$3.0 million grant. All remaining funds will be obligated in FY 87.

V. Policy Considerations

1) Agrarian Debt: In May, 1986 President Duarte formally announced the GOES plan to restructure the agrarian debt. This act marked the culmination of several years of active policy dialogue between USAID/ES and the GOES and brought the agrarian reform much closer to its final consolidation.

The various terms of the restructuring are the product of several USAID-funded studies conducted over the past two years. The final package was put together by an inter-ministerial working group which included the Ministry of Agriculture, Ministry of Planning, Central Reserve Bank, ISTA, FINATA and the Agriculture Development Bank.

The restructuring took the following form:

- A) Interest rates were lowered from 9.5 percent to six percent per annum, retroactive.
- B) Amortization of the cooperatives debt was extended to a maximum of fifty years depending on the financial situation and production potential of the cooperatives. Previously, 25 years was the maximum.
- C) The grace period was extended to a maximum of five years from assignation of title depending on the financial situation of each cooperative.
- D) Interest on the ISTA-BFA portfolio (emergency credit) has been forgiven retroactive to February, 1982 (when ISTA acquired the portfolio.) Further, the cooperatives are not required to make payments on the principal of the ISTA-BFA debt until they are current with their land debt payments.
- E) The restricted accounts of the cooperatives will be handled differently. Funds in the accounts will be assigned in this order:
 - 1. Payment of production credit;
 - 2. Thirty percent of the balance for basic needs of the cooperative.
 - 3. Seventy percent of the balance for servicing the land debt.
- F) Cooperatives abandoned due to violence will be reassigned to new cooperatives. The period during which the cooperative was abandoned will not be counted when establishing the repayment period and the unpaid debts of the abandoned cooperatives will be assumed by the state.

ISTA has begun the task of reviewing the financial situation of each of the 317 cooperatives in order to make the required restructuring of the debt. USAID expects that nearly all of the cooperatives will be given the maximum time (50 years) and grace period allowed in the new regulations.

Phase III beneficiaries also will benefit from the new restructuring. The interest rate on their debt will be reduced to six percent retroactive as with Phase I but the change requires modification of Decree 207 which must be done by the National Assembly. The modifying language has been prepared and forwarded to the President who will then present it to the National Assembly.

The restructuring of the agrarian debt is a major step toward economic viability of the Phase I cooperatives.

2) "Auto-gestion (Self-management): The Agrarian Reform Law provides for initial "co-gestion" (co-management) between the GOES, represented by ISTA, and the Phase I cooperatives. This measure was important during the early stages of the reform when the prior farm management was withdrawn with the departure of the former owners, and it was impossible to recruit and train new management overnight. The Decrees enacting the reform clearly state that co-management was to remain only until the cooperative leaders could be trained and a new management team was in-place. The creation of the PAU/PRODEA management program was a first step towards the creation of this management team, however, some ISTA officials have envisioned a prolonged presence of the "co-gestors" as being necessary. Recent agreements between some Phase I cooperatives and ISTA actually require that the "co-gestors" remain in-place for a twenty-five year period, which correlates with the length of mortgages.

The 1985 National Seminar on Agrarian Reform and the policy directives of the Agrarian Reform Advisory Council (CARA) recommended a consolidation of the PAU/PRODEA programs in order to accelerate the self-management abilities of the Phase I cooperatives and to gradually eliminate the ISTA co-management. There has been no official definition, however, of the stage that a cooperative must reach to be considered eligible for self-management, nor has a maximum time limit been determined for the presence of the co-managers in these organizations. Presently the co-management system results in considerable inefficiencies. Procurement of essential repair parts can be delayed due to the need to obtain the approval of an absent co-manager, occasionally resulting in considerable losses. Disagreements between cooperative managers and the ISTA co-manager can result in friction and delays. Finally, direct participation of the State in the management of private cooperatives has traditionally resulted in inefficiencies and potential interference by partisan political ideologies.

The Ministry of Agriculture and Livestock supports active efforts to introduce self-management into the cooperatives. Under the extended project, assistance will be provided to the Planning and Evaluation Unit of the Agrarian Reform (PERA), attached to the Sectoral Planning Office of the Ministry, to develop formal policy determinations and to define procedures and timetables for an elimination of "co-gestion".

3) Cooperative Restructuring: Finally, during the extension of the project, assistance will also be provided to PERA to develop a policy defining the point at which a cooperative should be considered to have failed, and what procedures should be followed by the GOES in that event. In many LAC countries, efforts to resuscitate failed cooperatives have continued long after such organizations have lost potential for recovery. Failure of a small group of cooperatives is not synonymous with failure of the agrarian reform, but excessive dedication of time and resources in attempting to revive them may seriously detract from efforts to make the other cooperatives successful. Also, if a failed cooperative continues to receive assistance, other cooperatives will have less incentive to take difficult decisions to ensure their survival.

As mentioned earlier, project funds will finance observation and orientation trips by GOES and cooperative leaders to other Latin American countries to examine a variety of experiences with development of cooperative enterprises similar to those of Phase I, as well as alternative models such as service cooperatives. It is believed that this exposure, combined with policy dialogue, will help orient the development of a coherent strategy and policy, particularly with respect to restructuring those cooperatives which face the most difficulties in becoming productive entities.

AGRARIAN REFORM SECTOR SUPPORT (519-0265)
REVISED LOG FRAME

ANNEX A

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
<u>GOAL:</u> To expand rural employment, raise income and provide secure tenure rights.	Increase in rural incomes. Increase in rural employment. Increase in the agricultural sector's contribution to the GDP.	Surveys and special studies Employment and Income Data Ministry of Agricultural production data.	A sufficient degree of political stability is achieved. No increase in conflict.
<u>PURPOSE:</u> Complete the consolidation of agrarian reform process and create conditions necessary to integrate the beneficiaries into the broader agrarian economy.	<u>EOPS</u> 1) Completion of Phase I and Phase III Titling 2) Classification of Phase I Coops completed and appropriate GOES policies applied 3) Increased access to productive resources and essential services for reform beneficiaries.	1) FINATA/ISTA records 2) MAG and bank records 3) Surveys/Evaluations (PERA or other)	1) At PACD non Project funding source will be sufficient to continue essential services to reform sector. 2) GOES adopts and applies workable policies regarding agrarian debt, beneficiary rights, auto-gestion, coop restructuring.
<u>OUTPUTS:</u> 1) Titling completed 2) Phase I management & administrative systems designed and operational 3) Phase I cooperatives linked to adequate and appropriate technical support services 4) Phase III beneficiaries provided with increased access to technical services	1) Phase I: 317 Titles granted Phase III: 45,000 Titles granted 2) Directors trained: 450 Managers trained: 250 Accountants trained: 250 PAU accounting system in place: 150 coops 3) Coops indicating services are adequate: 200 4) Half of FINATEROS listening to radio messages regularly or receiving extensionist (public or private) visits regularly.	1) ISTA/FINATA records 2) Coop records/PAU 3) Coop surveys 4) Beneficiary survey	1) Definitive Phase III Titles produced by FINATA adhere to all land registry requirements. 2) GOES committed to complete titling on schedule. 3) MAG regionalization completed and institutional responsibilities clarified.
<u>INPUTS:</u> <u>AID</u> Loan - Support to ISTA/FINATA/MAG Grant - Technical Assistance	<u>GOES</u> PL-480	AID documentation	1) AID makes funding available (Loan and Grant) 2) Pro Ag signed 3) Continued availability of local currency

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ANNEX B

AGRARIAN REFORM SECTOR SUPPORT
A.I.D. PROJECT No. 519-0265
 ACTUAL AND PLANNED EXPENDITURES
 (LOAN-000 DOLLARS)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>TOTAL</u>
1. FINATA-Institutional Support	3,893.0	4,522.6	3,709.4	4,000.0	16,125.0
2. IGN/FINATA	703.5	136.1	141.6	0.0	981.2
3. RPKH/FINATA	278.1	538.8	580.4	600.0	1,997.3
4. DGCD/FINATA	1.6	2.0	1.6	0.0	5.2
5. ISTA	860.6	1,106.8	1,023.9	50.0	3,041.3
6. CENTA-MAG	1,380.1	1,227.8	2,881.3	0.0	5,489.2
7. CENCAP-MAG	656.9	417.3	567.2	0.0	1,641.4
8. ENA	185.9	206.7	584.4	0.0	977.0
9. OSPA Director's Office and Policy Planning	42.6	53.6	39.4	35.0	170.6
10. OCOPROY	39.6	35.8	54.1	135.0	264.5
11. PERA	87.3	151.6	112.0	300.0	650.9
12. MAG Data Processing Center	42.0	30.6	101.9	180.0	354.5
13. OSPA-Outside Training	115.1	250.0	270.0	200.0	835.1
14. REDO/DGDR	0.0	43.4	2,923.4	3,000.0	5,966.8
	<u>8,286.3</u>	<u>8,723.1</u>	<u>12,990.6</u>	<u>8,500.0</u>	<u>38,500.0</u>
	=====	=====	=====	=====	=====

FINATA

PROGRAMMED FUNDS BY GENERAL CLASS

(A.I.D. PROJECT No. 519-0265)

<u>GENERAL CLASS</u>	<u>1986</u>	<u>1987</u>
OB Personal Services	14,000,000	12,500,000
1 Non-Personal Services	2,999,600	3,125,000
2 Materials and Supplies	3,748,600	3,987,500
3 Machinery and Equipment	1,317,950	75,000
6 Current Transfers	<u>2,400,000</u>	<u>4,800,000</u>
Total	24,466,150	24,487,500 *

- * Of this amount \$4.0 million will be funded from the loan portion of the Project. The final FINATA budgeting needs for 1987 may be less than 24,487,500 colones but is expected to be over 20 million colones (the equivalent of the \$4.0 million programmed).

PROJECT AMENDMENT 519-0265

TECHNICAL ASSISTANCE BUDGET (GRANT)

1. Cooperative Management and Organization (RDD)

	<u>PM</u>	Est. Cost <u>(\$000)</u>	
LT - Cooperative Development Specialist	18	270.0	
ST - Management Training Organization Curriculum	10	160.0	
Management Training Implementation	5	<u>80.0</u>	510.0*

2. Agricultural Extension (CENTA)

LT - Farm Management Advisor	18	270.0	
ST - Organization and Communication	6	<u>120.0</u>	390.0

3. Agrarian Reform Policy, Planning and Evaluation (PERA)

LT - Advisor to Minister of Agriculture	18	270.0	
LT - Advisor to PERA	18	<u>270.0</u>	540.0
Total Long Term			
ST - Consultants (Computer Center and Special Problems)	20	<u>200.0</u>	200.0

4. Property Registry (RPRH)

2 LT	14	96.0	
2 ST	8	<u>64.0</u>	160.0

5. DIVAGRO

LT - U.S. Marketing Specialist	15	225.0	
ST - Feasibility Studies	40	600.0	
New Project Development	35	550.0	
Quality Control	<u>20</u>	<u>300.0</u>	<u>1,675.0</u>
 TOTAL	 245	 3,475.0	 <u>3,475.0</u>
	===	=====	=====

* Subtotals in this column are keyed to Financial Summary chart on page 42

DIVAGRO Financial Summary (Grant)

<u>Activity</u>	<u>1986</u> <u>(\$000)</u>	<u>1987</u> <u>(\$000)</u>	<u>TOTAL</u> <u>(\$000)</u>
Long Term	74.5	149.0	223.5
Short Term	<u>900.0</u>	<u>550.0</u>	<u>1,450.0</u>
Technical Assistance	974.5	699.0	1,673.5
Training	360.0	360.0	720.0
R & D	166.0	80.0	246.0
Personnel	16.0	66.7	82.7
Materials and Equipment	3.0	4.0	7.0
Other	<u>6.0</u>	<u>102.0</u>	<u>108.0</u>
Budget Support	25.0	172.7	197.7
TOTAL	<u>1,525.5</u>	<u>1,311.7</u>	<u>2,837.2</u>

DETAIL OF ADDITIONAL FUNDS FOR DIVAGRO PROGRAM (GRANT)

YEAR 1986

<u>ACTIVITY</u>	<u>TOTAL COLONES</u> (000's)	<u>TOTAL DOLLARS</u> (000's)
<u>Technical Assistance</u>		
<u>Short-Term</u>		
Diagnosis development	3,000.00	600.00
- Spices, Herbs and colouring	750.00	150.00
- Flowers and ornamentals	750.00	150.00
- Machinery for industrial use	750.00	150.00
- Aquaculture	750.00	150.00
<u>QUALITY CONTROL PROGRAM</u>		
Consulting for preparing proposal	1,000.00	200.00
Advisory of new projects	500.00	100.00
<u>Long-Term</u>		
Technical support and marketing in U.S.A.	372.50	74.50
264 days/man per annum	312.50	62.50
Travels	60.00	12.00
<u>TRAINING</u>		
Funds for training	1,500.00	300.00
- Cucurbitaceous productors	1,000.00	200.00
- Aquacultores	500.00	100.00
Participation in Conventions	300.00	60.00
- P.M.A. 5 persons plus stand.	75.00	15.00
- Food Broker Assoc.	75.00	15.00
- Canada's Inter. Show	75.00	15.00
- Others	75.00	15.00
<u>Demonstrative Plots</u>		
<u>1/ Commercial level</u>	650.00	130.00
- Honey Dew (10 Mz.) Irrigation	100.00	20.00
- Cantaloupe Irrigation (10 Mz.)	100.00	20.00
- Watermelon Irrigation	100.00	20.00
- Cucumber (5 Mz.)	75.00	15.00
- "Pipian" (Small Squash)	100.00	20.00
- Green beans (5 Mz.)	75.00	15.00
- Others	100.00	20.00

<u>ACTIVITY</u>	<u>TOTAL COLONES</u> (000's)	<u>TOTAL DOLLARS</u> (000's)
	<u>180.00</u>	<u>36.00</u>
<u>1/</u> Variety Adaptation	60.00	12.00
Plot coastal zone	60.00	12.00
Plot Intermedia Valley	60.00	12.00
Plot Altitude		
 <u>ADMINISTRATION</u>		
Salaries and Benefits	80.00	16.00
Executive of Investigation	50.00	10.00
Secretary	18.00	3.60
Benefits	12.00	2.40
Furniture and Equipment	15.00	3.00
Renting and Services	<u>30.00</u>	<u>6.00</u>
 TOTAL	 7,627.50	 1,525.50

1/ Of this cost it is estimated that there is a 70% of inputs and soil preparation and 30% of labour.

BUDGET EXPENSES 1987 - DIVAGRO (GRANT)
(000's)

<u>ACTIVITY</u>	<u>TOTAL/ANNUAL COLONES</u>	<u>TOTAL/ANNUAL DOLLARS</u>
<u>1. Technical Assistance</u>		
<u>Short-Term</u>		
Advisory for new projects	<u>2,750.00</u>	<u>550.00</u>
* Area spicery, herbs and colouring	500.00	100.00
* Area Flowers	500.00	100.00
* Area Ornamentals	500.00	100.00
* Industrial machinery	500.00	100.00
* Aquaculture	750.00	150.00
<u>Long-Term</u>		
Technical Support and Marketing	<u>745.00</u>	<u>149.00</u>
<u>Demonstrative Plots</u>		
1/ Variety Adaptation and Commercial Plots	400.00	80.00
* Plot Coastal Zone	100.00	20.00
* Plot Intermedia Valley	100.00	20.00
* Plot Altitude	100.00	20.00
* Other cultivation	100.00	20.00
<u>Training</u>		
Training Fund	<u>1,350.00</u>	<u>270.00</u>
* Cucurbitaceous (2 groups 20 persons each)	600.00	120.00
* Aquaculture (10 persons)	300.00	60.00
* Herbs, Spicery and Colouring (5 persons)	150.00	30.00
* Flowers and Ornamentals (10 persons)	300.00	60.00
Observation	<u>450.00</u>	<u>90.00</u>
Participation in Conventions		

	<u>TOTAL/ANUAL COLONES</u>	<u>TOTAL/ANNUAL DOLLARS</u>
<u>ADMINISTRATION</u>		
2. Salaries and Benefits	333.60	66.72
3. Furniture and Equipment	20.00	4.00
4. Renting and Services	140.00	28.00
5. Per Diem	100.00	20.00
6. Publicity and Issues	200.00	40.00
7. Seminars and Conferences	40.00	8.00
8. Contingencies	<u>30.00</u>	<u>6.00</u>
<u>TOTAL</u>	6,558.60	1,311.72

Technical Assistance Methodology

Technical assistance to Phase I and Phase III beneficiaries in cooperative management, promotion, training and development will continue to be provided under the amendment although by different implementing entities.

The creation of the Vice-Ministry of Rural Development (July 1985), the restructuring of assistance to the Phase I implementing entity, ISTA (October 1985) and the regionalization of the Ministry of Agriculture (January 1986) has resulted in a reassignment of responsibilities for providing technical assistance, a more rational use of project resources upon which the assistance depends, and greater need for coordination among the entities which provide it.

As originally contemplated, assistance to Phase I beneficiaries focused principally on cooperative management (cooperative managers and accountants (PRODEA), the uniform accounting system (PAU) and farm management and to a lesser degree on cooperative promotion, training and development. These activities and their relative importance will continue. Slight modifications, particularly the cooperative managers and accountants program will be undertaken to strengthen the program in areas recommended by PERA (the 0265 entity responsible for evaluating the agrarian reform).

For example, the turnover of managers and accountants seems to be related to insufficient orientation to the ambiance of the reform and training in practical skills of business administration for both professionals and cooperative members.

Nonetheless, the principle upon which this particular type of technical assistance activity is based i.e., professional farm managers identified, evaluated, and employed by the cooperative members themselves based on open competition and an objective evaluation of the relative merits of each candidate, remains sound and will be continue as a tenant of assistance to be provided under the amendment.

Similar adjustments will be made for the uniform accounting system in order to facilitate its acceptance by more cooperatives and insure its more enthusiastic promotion by interested entities such as the banking sector.

Perhaps the most significant change in the technical assistance program is in the manner in which the farm management activity for Phase I will be implemented. In October 1985, when project assistance to ISTA was restructured and focused on land titling and compensation, responsibility for implementing the cooperative management technical assistance activities was vested in the then newly created Directorate of Rural Development of the Vice-Ministry of Rural Development.

In undertaking these responsibilities, the Ministry of Agriculture adopted a new policy of providing technical assistance - to both Phase I and Phase III beneficiaries alike - in an integrated and coordinated manner on regional basis.

While largely untested to date, the policy is based on a "whole farm" approach of providing assistance through teams of technicians, each with a particular specialty, or discipline ("Equipos Multidisciplinarios") which together would be capable of responding to the gamut of problems at hand in a related and integrated manner.

The prior experience upon which the approach is based met with a degree of success when implemented under the farm management activity in ISTA. Responses to production were found to be not entirely dependent on factor inputs but also depended in part on sociological considerations of the members who are principally concerned with maximizing their wage income. However, inadequate logistical support and administrative backstopping hindered its fullest development and was one of the reasons this program of assistance was transferred out of ISTA. Also, specific technical assistance by institutions like CENPA, CENCAP and others did not materialize in a timely fashion. Notwithstanding the problems ISTA encountered, MAG's decision to implement this "whole farm" approach is warranted because MAG intends to delegate to the regions the funding authority and operational autonomy necessary to overcome the logistical and administrative problems, and will exercise its authority rigorously to insure compliance of its line institutions in support of a more rational use of resources devoted to technical assistance.

Operationally, technical assistance supported under the amendment will - at least for Phase I - be guided by hierarchical listing of the cooperatives and be provided on a priority basis by the multidisciplinary teams. While the planned 20 teams will be organizationally a part of the Vice-Ministry's Directorate of Rural Development, under the regionalization, these teams will be assigned to and supervised by MAG's regional managers. (Each of MAG's two Vice-Ministries are assigned two regions though each manager is named by the Minister).

The numerous, scattered and small scale nature of the Phase III beneficiaries does not readily lend itself to the type of classification system developed for Phase I. Technical assistance to Phase III beneficiaries will continue to be provided principally by CENPA and selected private firms as determined by competitive bidding procedures.

To guide assignment of resources in support of the regionalization effort, MAG will use a listing of Phase I cooperatives to be assisted on a priority basis. This hierarchical listing, promoted by A.I.D. in furtherance of the original projects objectives of servicing the most needy cooperatives, identifies those cooperatives where additional assistance promises to have the most impact in advancing self-management.

This listing is based on earlier work by an A.I.D. consultant (see page 25) which classified the cooperative's level of self-management (desarrollo auto-gestionario). At one extreme of the scale it was agreed that the most advanced cooperatives would not be considered priority targets because of ability to obtain assistance elsewhere. At the other extreme, the disorganized, abandoned or problematic cooperatives are beyond the scope of the project to change, because of the political nature of the problem.

The remainder represents that number of cooperatives that will receive attention on a priority basis.

The hierarchical listing stems from the difficulties ISTA encountered in promoting the project's technical assistance program among the most marginal cooperatives. The lack of response by the needy cooperatives led to assistance being provide to those cooperatives who did respond without sufficient regard to their level of development. A check-off of cooperatives requiring assistance was not systematically followed. And this is what the hierarchical listing will facilitate.

In addition to the listing and the specific institutional action plans required under the project, implementation of the technical assistance program under the amendment will also be guided by the Manual for General Organization for the Regions and the Regional Action Plans which condense the role and responsibilities of each of MAG's entities represented in the region and specify the targeted cooperatives to be serviced during the year.

Related assistance directed at facilitating the implementation of this program will be provided by Technoserve (TNS) in the methodology of integral farm management and in administration of technical assistance programs. The experience and degree of success Technoserve has obtained in nine years of providing assistance in rural enterprise development has led to an agreement between TNS and MAG that TNS will train MAG personnel in the successful methodology developed by TNS. Project funds have been programmed for the related costs of providing such assistance.