PN-ABT-953
ISN# 93017

Technical Evaluation
Planta Hortifruticola Ambato C.A.
(PLANHOFA)

March 25, 1993

INDEX

APPRAISAL AND VALUATION OF PLANHOFA

The following assessment of the privatization potential of PLANHOFA was conducted in Quito and Ambato, Ecuador between March 8 and 13, 1993 by Gaston G. Kohn under sub-contract by Price Waterhouse International Consulting Services for the Ministerio de Agricultura y Ganaderia of the Republic of Ecuador.

I. BACKGROUND

Planta Hortifruticola Ambato C.A. (PLANHOFA) is an Ecuadorian corporation created to implement a technical cooperation agreement between the Government of Italy (GOI) and the Government of Ecuador (GOE). Under this agreement, the GOI donated equipment and technical assistance to install a fresh fruit and vegetable packing and processing plant in Ambato, Ecuador to serve as a model for the commercialization of perishable food products in Tungurahua (priority area) and other provinces.

The plant was built in 1989 and 1990 and started shake-down operations under the supervision of an Italian technical assistance team in 1991. In order to implement the purpose for which the plant was established, the Italian technical team promoted the organization of various associations of small and medium farmers in the region which in turn formed an umbrella organization under the name of Union Provincial de Asociaciones de Pequenos y Medianos Agricultores de Tungurahua (UNAPEMAT).

The agreement between the GOI and the GOE called for the GOI to contribute 7,589,864,000 Italian Liras (US$) in the form of equipment (It.L 4,050,500,000 = US$) and technical assistance (It.L 3,539,364,000 = US$). The GOE, in turn, committed to provide 136 million Sucres (US$) in countervailing funds for land, building and local expenses. The GOI engaged an Italian consulting firm, AGROTEC S.p.A. to furnish technical assistance for the project over a period of four years. Responsibility for implementing the GOE's commitment was assigned to the Ministry of Agriculture and Animal Husbandry (MAG). The town of Ambato (Municipio) contributed land and some cash in exchange for shares in PLANHOFA. Additional funds were provided by the farmers' umbrella organization UNAPEMAT.

The current distribution of capital of PLANHOFA is approximately

MAG	64 %
Municipio	15 %
UNAPEMAT	21 %

Lack of working capital and appropriate management inhibited successful start-up of commercial operations and may result in failure of the project. Under these circumstances, the GOE is interested in turning over operation of the plant to private enterprise. Price Waterhouse International Privatization Group of Washington was engaged by the GOE to study this possibility.

II. CONCLUSIONS

The PLANHOFA facility is not a "White Elephant" destined to die because of lack of farm input supply, as we had been led to believe prior to our visit. If properly managed, it could be a viable plant meeting the needs of a fertile agricultural region as well as those of existing food distribution channels. This would be particularly true if some complementary equipment were to be added.

The purpose of privatizing PLANHOFA may be questioned. The company is not a State Owned Enterprise (SOE) with a surplus of unproductive public employees. It is a Compania Anonima Mixta i.e. corporation with participation of private capital contributed by UNAPEMAT. It has only 20 permanent employees, which is a plus for privatization as there would be no opposition from that source. On the other hand, the farmers who constitute a significant political force, feel that the GOI donation was given to them and not to MAG. Among them, a militant group is adamantly opposed to privatization.

In order to avoid a potential political confrontation, it may be best to proceed as follows:

not acceptable.

1. Transfer title of the donated equipment to UNAPEMAT and convert MAG's cash investment in PLANHOFA to long term debt to be assumed by UNAPEMAT. With that, MAG removes itself from the situation.

2. Review with the farmers the three options they will have with respect to PLANHOFA and promote the last option mentioned below:

(a) Raise capital by selling PLANHOFA shares to individual farmers and then operate the facility with a hired manager. The chances for success are not considered very high

(b) Sell UNAPEMAT's shares of PLANHOFA to a private entrepreneur and either distribute the proceeds of the sale to the farmers or use them to provide some services to them. This option may not be acceptable to the farmers as they would lose ownership of the plant

(c) Lease the facility to a private entrepreneur and apply the lease income to either paying off the MAG dept, making improvements in the plant and thereby raising rental income, or providing services to the farmers. This is the preferrred option because the farmers retain ownership in the facility and could take it over again if not satisfied with the results achieved by a private operator. A private entrepreneur would minimize his investment risk in a highly politicized environment while still exposing some of his own capital in plant improvements, thereby providing some assurance of his seriousness

An alternate scheme would be for title of the donated equipment to be transferred to PLANHOFA thereby increasing the net worth of the company. This may possibly satisfy the farmers' claim to the equipment, while MAG would still retain control through its 64% ownership in the company. The facility could then be leased to private enterprise without requiring the farmers' approval.

The most likely to succeed private operator of the facility (as either owner or lessor) would be a national of Ecuador rather than a foreigner, preferably someone with good local connections in Ambato.

There are a number of private investors who have already expressed an interest in PLANHOFA. Some, such as Ricardo Wright, V.P. of Supermaxi, the largest supermarket chain in Ecuador would accept nothing less than 100% ownership. Others, such as Juan Jose Vilaseca, President of FADESA in Guayaquil and Harry Klein, President of Pronaca in Quito would organize a group of capitalists who may be satisfied with acquiring a controlling interest in the company. Other potential buyers are MiComisariato, the second largest supermarket chain and presently the biggest customer of PLANHOFA, and Nestle, which is a large producer of fruit drinks in Ecuador.

III. RECOMMENDATIONS

1. Prior to undertaking any serious efforts to privatize PLANHOFA, it will be necessary to clarify the ownership rights of the equipment donated by the GOI and to clean up all legal loose ends. This should include the transfer and registration of the land contributed by the Municipio.

2. Have a legal audit made by an independent counsel not related to any of the present shareholders of PLANHOFA. An opinion dated December 22, 1992 by Dr. Alberto Moscoso Serrano, legal counsel of PLANHOFA may be biased. Obtain a legal opinion as to who has title to what assets and what restrictions may apply to the sale or transfer of assets to new owners. Review all contracts and commitments to determine liabilities and contingent liabilities.

3. Conduct a complete financial audit of PLANHOFA and, possibly also, of UNAPEMAT if the latter's claim of having carried some of the former's start-up expenses is to be considered seriously. Should a complete audit by a well recognized independent auditing firm be deemed to be too expensive, have such qualified firm, at least as a first step, recast the existing financial information into a customary format conforming with generally accepted accounting principles.

4. Identify all equipment and other tangible assets with permanently attached inventory tags and prepare a list of such items with date of acquisition and original costs.

5. Assemble originals or first copies of originals of all legal, financial and technical documentation and reports in one central location.

6. Obtain at least two independent appraisals from qualified professionals to determine the present commercial value of land and building.

7. Have AGROTEC's 1987 feasibility study (Volume 4) updated to serve as a model for the economic valuation and determination of the "Net Present Value" of PLANHOFA.

8. Determine a sales price range for PLANHOFA as will be outlined in Section V.6.

9. In the event that the PLANHOFA plant is leased to a private operator, a lease based on a flat annual fee or a percentage of the payments made to farmers for their products may be established. The latter is subject to easier verification than would be a percentage of sales. An initial grace period to allow for accelerated amortization of any fixed assets invested in plant improvements by a lessor may be a needed incentive to attract a private entrepreneur.

10. To insure an adequate supply of farm input, in terms of quantity and quality, PLANHOFA should institute a "satellite farming system" such as that described in an Appendix to this report.

IV. PROBLEMS

1. Beneficiary of the Donation

There are three key documents reflecting the agreement between the GOI and the GOE. These are:

- Convenio de Cooperacion Economica y Tecnica (6/27/78)
- Acuerdo Complementario ((8/18/86)
- Acuerdo de Ejecucion Tecnica (7/5/88)

While there seems to be little doubt that the project was designed to benefit the small and medium farmers in Tungurahua and perhaps adjoining provinces, there is a question as to where the ownership of the donated equipment lies. UNAPEMAT claims that the GOI donated the equipment to the small and medium farmers and that PLANHOFA should assume title to it. MAG, on the other hand, argues that the equipment was donated to the GOE to be utilized for the benefit of the small and medium farmers.

2. Legal Structure and Capitalization

PLANHOFA was incorporated on June 6, 1988 by resolution 885.1 No 055 of the Intendencia de Companias de Ambato. It is a "Compania Anonima" and, as such, subject to the laws governing corporations. Furthermore, it is a "Compania Mixta" due to the fact that both private and government funds are invested and it benefits, therefore, from the provisions of the law for companias mixtas.

The company's initial capital was S/.106,000,000 distributed as follows:

Shareholders	Subscribed Capital (S/.)	Paid-in Capital (S/.)
MAG	54,000,000	13,500,000
Municipio	52,000,000	52,000,000
	106,000,000	65,500,000

One of the "Documentos Habilitantes" included in the notarized copy of the "Escritura de Constitucion" (Articles of Constitution) is a Presidential Decree authorizing the GOE's capital investment in PLANHOFA. It specifies that S/.13,500,000 be in cash and S/.40,500,000 in the form of assets comprised of some of the equipment donated by the GOI. However, since there has been no transfer of title of any of the equipment, we must assume that MAG's entire contribution to date was in cash.

The Municipio's initial contribution consisted of 25,000 sq.mts. of land appraised for S/. 52,000,000 by two engineers: Diego Stacey Zavala, Section Chief of Catastros y Estadistica, and William Salazar Mera, Section Chief of Archivo Catastral. This appraisal may be found among the Documentos Habilitantes included with the copy of the Escritura de Constitucion provided to us by Dr. Jose Aguirre N., Director General de Asesoria Juridica del MAG.

We do not know if the organizations to which the two appraisers belong are part of the Municipio and therefore, we are not certain if these were truly independent appraisals. The land itself is subject to litigation inasmuch as it was expropriated by the Municipio from the Mercado Mayorista de Ambato. Other documents (PLANHOFA's 1991 Financial Statement by C.P.A. Patricio Ponce Sevilla - Pg.9) indicated that the land was expropriated from the Federacion Deportiva de Tungurahua. In any event, the land has not as yet been properly registered in the name of PLANHOFA.

A capital increase and modification of PLANHOFA's bylaws took place on February 25 (or 27), 1991 as detailed below:

Shareholders	Previous Capital (S/.)	Capital Increase (S/.)	Paid-in Capital (S/.)	Total Capital (S/.)
MAG	54,000,000	210,200,000	210,200,000	264,200,000
Municipio	52,000,000	18 000,000	18,000,000	70,000,000
	106,000,000	228,200,000	228,200,000	234,200,000

There were subsequent capital increases (details unavailable at the time of our visit) with the last one taking place on July 20, 1992. The current distribution of capital is as follows:

Shareholders	Subscribed Capital (S/.)	Paid-in Capital (S/.)	Participation (%)
MAG	298,200,000	298,200,000	63.7
Municipio	70,000,000	70,000,000	14.9
UNAPEMAT	100,000,000	60,000,000	21.4
	468,200,000	428,200,000	100.0

Several questions arise from a limited review of incomplete documents. First, there is an error in the notarized copy of the Presidential Decree authorizing MAG's investment in PLANHOFA. The total authorization of S/.548,000,000 is probably a typographical error as the detailed break-down figures add up to only S/.54,000,000. Second, is MAG entitled to receiving PLANHOFA shares for its contribution of equipment donated by the GOI as is stipulated in the Presidential Decree? Third, was the land appraised at a realistic commercial value? Fourth, are the Municipio's shares encumbered because the land transfer has not been completed and can the transfer take place as long as there is pending litigation? Fifth, should UNAPEMAT receive additional shares for carrying some of PLANHOFA's start-up expenses as will be seen later?

3. Financial Statements

There are financial statements for 1991 and 1992 for both PLANHOFA and UNAPEMAT. Some are audited by an independent C.P.A. and others are not. The reason UNAPEMAT is being mentioned here is that they have carried some of the start-up costs and these funds have not been capitalized as yet in PLANHOFA. According to a statement given to us, UNAPEMAT spent about 163.6 million sucres between 1987 and 1991. To what extent these expenses may be justified as a capital contribution is unknown at present. Some probably are.

At present there is no clear separation of functions and operations between PLANHOFA and UNAPEMAT. The latter is occupying office space on PLANHOFA's premises and utilizing their plant facilities. PLANHOFA has attempted to charge a service fee amounting to S/.21,000,000 in 1991 which UNAPEMAT refuses to pay. This figure appears on PLANHOFA's balance sheet even though it is probably uncollectable. There are no reserves for such a contingency.

Inasmuch as the Italian equipment, including some imported building materials, has not been transferred as yet to the books of PLANHOFA, its depreciation is not included in PLANHOFA's financials.

4. Inventory of Tangible Assets

There is no inventory list of equipment and other tangible assets, nor are there any identifying inventory tags attached to them. A limited description of the equipment may be found in a plant survey dated December 3, 1992 by some unidentified individual somehow associated with the Campbell Soup Company.

Receiving documents issued by MAG, based on packing lists of imported equipment, show the following c.i.f. values:

Shipment	Arrival Date	It.Liras	US$	Sucres
1	3/6/89	461,130,000	336,662	157,325,[illegible]
2	7/4/89	908,347 495	626,760	315,216,164
3	10/13/89	1,952,605,733	1,366,824	786,470 535
4	3/9/90	146,971,483	102,878*	74,973,035
5	8/9/90	246,898,860	218,742	176 819,772
6	1/19/91	18,097,516	16,031*	14,054,630
Sub-total		3,734,101,087	2,667,397	1.524,853 581
Vehicles	10/13/89	224,440,950	162,034	62,026.237
TOTAL		3,958 542,037	2,829,931	1,586,909,818

* Exchange rate to be verified

In addition, some furniture valued at S/.2,548,000 (US$ was received on 9/26/90. This furniture was purchased with GOI funds and had been used by the AGROTEC team.

5. Files and Documents

There is no central location for filing all legal, financial and technical documents pertaining to the project. Some files were found in various MAG departments in Quito, others at MAG in Ambato, others at PLANHOFA and still others seem to be missing. Many were copies of copies and were illegible. It is essential that the originals or legible first copies of the originals be assembled in one central location. These should include:

- All agreements between the GOE and the GOI, decrees, supporting documents, etc.
- All other legal agreements, contracts, commitments
- Articles of Constitution, bylaws, minutes of shareholders and board meetings of both PLANHOFA and UNAPEMAT
- All documents related to the expropriation, appraisal, transfer and registration of the land contributed by the Municipio
- All details of capital increases, and capital and assets contributions
- All volumes of the market study
- All volumes of the feasibility study conducted by AGROTEC
- All reports and other technical documentation, operating manuals and procedures, and recommendations left behind by AGROTEC

6. Management

PLANHOFA has had at least four general managers since its formation. While they were well intentioned individuals, they were apparently not well qualified business executives. Their professional credentials were in the fields of agronomy, veterinary medicine, law, public service, etc. The procedures followed were designed to satisfy the bureaucratic needs of MAG rather than customary business practices. Furthermore, responsibility for the successful implementation of the project seemed to be diffused among different organizations.

7. Working Capital

PLANHOFA has no working capital and consequently can not operate the plant at full capacity, nor efficiently. Inasmuch as it does not have title to the equipment donated by the GOI and the land on which the plant is located has not been registered in its name, it can not obtain bank loans.

8. Present Operation

PLANHOFA operates with a permanent staff of 15 employees (including the sales manager's position presently vacant) in operations and 7 individuals in administration. Day laborers are hired as needed.

Due to the lack of working capital, fresh fruit and produce are purchased only to the extent that they can be sorted, packed and shipped to the fresh market the same day. The cold storage chambers are practically empty, being used only to remove the field heat (about 2 hours) and cool down some products received during the mid-day heat. The processing line is basically idle.

Products rejected by PLANHOFA's quality inspector are turned over to UNAPEMAT which then sorts, packs and ships the production to open air markets (ferias libres) for sale. Products accepted by PLANHOFA are weighed and a receipt is issued to the farmer. PLANHOFA pays the particular association to which the farmer belongs in about a week, retaining a 1% fee for itself. The association, in turn, pays the farmer in about three weeks, after also retaining a fee of 1 to 3% . Prices are set three times per week based on the average Feria Libre wholesale price plus 5% .

9. Farmers Organizations

There are some 28 or 30 farmers' associations affiliated with UNAPEMAT. In addition, there are some 10 or 12 associations in formation. Each association represents an affinity group based on geography, type of production or personal relations. Each is comprised of an average of 25 farmers with a total membership of 1,007. The majority own 1 hectar of land or less. Since several family members work on each farm, the total number of individuals covered by UNAPEMAT is estimated to be about 5,000. This figure represents about 40 % of the farmers in the region and includes the most progressive element.

The associations are financed through an initial entry fee plus a commission (1 to 3%) on the production commercialized by the association. The farmers commit to deliver their entire production to their association. The delivery is to increase gradually until reaching 100% in the 5th year. UNAPEMAT is likewise financed through an initiation fee collected from each organization plus income from the commercialization of the products handled by it, and, in the future, distribution of income from PLANHOFA. UNAPEMAT's investment in PLANHOFA was financed through special assessments (cuotas extraordinarias) of the associations, the amount and date of which was not made available.

10. Farm Inputs

MAG reports that in 1990 some 21,000 hectares were cultivated in the province of Tungurahua with 35 different varieties of fruits and vegetables. The principal crops included: potatoes onions, cabbage, lettuce, yellow carrots, corn, peas, tomate de arbol, beets, apples, claudias, pears, peaches, and raspberries. Additional production is available in the neighboring provinces of Cotopaxi, Chimborazo and Bolivar.

While there should be an adequate supply of farm input available to fill the capacity of PLANHOFA, the type, quality, quantity and probably also cost (due to small scale farming) is inadequate for developing a significant export market. It will be necessary, even for the domestic market, to organize farm production on a planned and scheduled basis. This will require some considerable re-orientation and training of farmers to modify their current cultural attitudes and customs. PLANHOFA will not be able to operate efficiently and at capacity as long as it continues to rely solely on the farmers' choice of production and delivery. PLANHOFA is presently supply driven rather than driven by market demand.

V. VALUATION OF PLANHOFA

1. Focus

In order to establish a realistic value for PLANHOFA, it is necessary to determine who the potential private sector buyers may be, how interested they may be in acquiring the existing facility, their risk/reward potential and other alternatives available to them. The current socio-political and economic environment makes this a "buyers" rather than a "sellers" market, i.e. the buyer rather than the seller will set the price. Having said that, it does not mean that PLANHOFA is a "white elephant". It is a suitable plant that, if properly managed and realistically priced, could become a profitable business.

The business potential is too small and the risk reward equation too large to be of interest to a large foreign corporation. On the other hand, a small foreign investor may not offer the necessary guarantees of stability, and financial and technical resources to satisfy the present shareholders. A potential buyer would most likely be an experienced private entrepreneur or group of investors with a handle on the domestic food distribution. He would probably be an Ecuadorian national, possibly with good connections or contacts in Ambato. In fact, a number of domestic businessmen have expressed an interest in acquiring PLANHOFA under appropriate conditions.

Considering the foregoing, a realistic valuation of PLANHOFA must focus on the point of view of a private entrepreneur. A serious investor will pay a fair price but not an exhorbitant price based on historical book values or inflated ideas of the seller. A private entrepreneur would have constructed the building of lighter materials, except perhaps for the area of the processing line. The offices could have been made from converted 40 ft. steel shipping containers. Furthermore, he would probably have imported second-hand equipment at a fraction of the cost of the new Italian equipment. In evaluating an acquisition, he would also consider the risk of operating in the Ambato socio-political environment with small scale farmers opposed to privatization.

2. <u>Technical Audit</u>

We have not made, nor are we qualified to make, a complete mechanical audit of the equipment. However, based on a plant survey reported on December 3, 1992 by an unidentified individual connected with Campbell Soup and our own observations, we believe that the equipment is in operating condition and adequate for the purpose for which it was installed.

There are some limitations in the processing line with respect to the sizes of cans and jars that can be filled and closed. There is no possibility of canning low-acid foods such as vegetables or soups because of a lack of autoclaves and probably boiler capacity. The juice evaporator was reported by the plant manager to be lacking in capacity and incapable of achieving the higher concentrations required by export markets. There is no plate freezer which would be required for the production of quick-frozen consumer size packages of fruits and vegetables.

Our best guess is that an additional investment of about US$300,000 would be sufficient to overcome these shortcomings.

3. Land and Building Valuation

The present commercial value of land, plant and office building must be determined by two or three qualified independent professional appraisers.

4. Equipment and Tangible Assets Valuation

It will be necessary that all the equipment and other tangible assets be inventoried and tagged with a permanent identification tag. Each piece so identified should then be listed together with its original cost and date of acquisition as determined by an audit of invoices. Values can then be updated with the inclusion of monetary correction and depreciation in accordance with customary accounting practices in Ecuador.

The cost of installation should likewise be determined through an appropriate audit.

5. Economic Valuation

Economic valuation is a way of establishing the potential value of a business to a new owner. It consists of projecting the earning capacity of a business and determining its value through application of discounted cash flow analysis. A potential buyer would generally be interested in 3 to 5 years history (audited financial statements) and 5 years of P & L and cash flow forecasts factoring in any improvements that he may intend to make.

In the case of PLANHOFA, there is no financial history because the plant has never operated commercially. Furthermore, since the company is not an "ongoing" business, a potential buyer can not be expected to pay a price based on future earnings streams which he himself has to create. Nevertheless, an economic valuation of PLANHOFA would still be a worthwhile exercise in order to provide a yardstick for negotiations between buyer and seller.

In view of the lack of actual operating experience by PLANHOFA, we suggest that an economic valuation be based on the feasibility study conducted by AGROTEC. We specifically refer to AGROTEC's Volume 4, Appendice II: Estudio Economico of December 1987. This study could be updated by some junior accountant of PW-Quito. It could then serve as a model for an economic valuation. The model would call for a phased-in production with full capacity to be achieved in year 3.

6. Sales Price Range of PLANHOFA

Whether PLANHOFA is sold outright or the facility is leased to a private entrepreneur or whether an equity participation by the private sector is achieved through the sale of GOE owned shares the seller must determine the approximate value of what he is selling. The definite sales price or leasing fee, of course, will eventually be established through negotiations or a public auction.

We believe that a fair price range would lie somewhere between the following two values:

Assets Value	% Included
Land (Average of 2 or 3 appraisals)	100
Building (Average of 2 or 3 appraisals)	75
Equipment (Updated book values with monetary correction and net of depreciation)	50
Installation (Same as equipment)	50
Other Tangibles Assets (Same as equipment)	75
Less Liabilities (Actual and contingent)	100
TOTAL	Price 1

Economic Value	
Price determined by NET PRESENT VALUE METHOD (Updated AGROTEC feasibility study)	50
	Price 2

Our rationale for discounting some of the values is the following:

Building (25% discount) -	An entrepreneur would have put up a cheaper building
Equipment (50% discount) -	An entrepreneur would have purchased second-hand equipment
Installation (50% disc.) -	Lower cost due to better efficien- cy under private ownership
Tangibles (25% discount) -	Better purchase prices negotiated by private enterprise
Economic Value (50% disc.)-	Highly theoretical value based on feasibility projections without historic data

APPENDIX

Satellite Farming

The following is a description of a satellite farming operation supplying fresh fruit and vegetables to a packing plant in the Caribbean:

Satellite farming was a major factor in NEWCO's rapid growth. Acca valley, where most of NEWCO's melons are grown, was an impoverished enclave of former sugarcane farms which had been subdivided by the government into small 2 to 5-acre plots and distributed to poor peasants who barely survived on subsistance farming. This situation changed dramatically when NEWCO entered the scene. Starting off in 1981 with 25 or 30 small independent farmers cultivating some 70 acres for NEWCO, the satellite operation has increased to almost 600 individual farmers and 1,500 acres. In 1986, NEWCO contributed nearly $4,000,000 to the economy of the valley. The multiplier effect of this influx of circulating cash is 4 or 5 fold.

Under the satellite farming program, NEWCO enters into a legal and binding contract with each individual small independent farmer to purchase from him at an agreed fixed price the entire production of export quality melons or tomatoes from a specified area of land cultivated by him. The farmer obligates himself to plant the specified area in accordance with the instructions, advice and schedule provided by NEWCO and to deliver the produce when harvested to NEWCO. The company, in turn, obligates itself to provide at cost seeds, fertilizer, pesticides, transportation of produce to packing plant, technical advice and services such as plowing, fertilizing and spraying of chemicals, and cash advances for salaries of hired help. The farmer assumes the agricultural hazards and NEWCO the market and commercial risks.

Farmers sign receipts for any cash advance, material or service provided to them by the company. They are free to refuse acceptance of any service and do the work themselves. Also, they are under no obligation to follow NEWCO's technical advice. But the risk of crop failure because of inadequate agricultural practices is theirs. All services are scheduled by NEWCO to assure an even flow of produce to the packing plant and to the market. Scheduling of the harvest is particularly important since NEWCO wishes to minimize the exposure of picked produce awaiting transportation to the packing plant and cold storage. Generally the production is processed within 2 to 4 hours after picking.

Farmers are encouraged to accompany their production to the packing plant and to observe the sorting and packing. This is to avoid any dispute on the quantity of exportable products delivered by him. A receipt for the sorted export quality product is given to each farmer as soon as his delivery is processed and the final liquidation of his account and payment of the balance due to him is completed within two weeks. The entire operation is controlled by NEWCO on its IBM 34 computer. Products which do not meet export quality are returned to the farmer who disposes of them domestically. To assist the farmers, NEWCO provides facilities at the packing plant where local merchants can buy the non-export quality products directly from the farmers.

Key to NEWCO's success was to establish its credibility with these small entrepreneurs by: (1) signing fixed price contracts prior to planting and assuming the commercial risk, (2) inviting and encouraging the farmers to observe the weighing, grading and packing of their produce to be assured of accurate accounting, and (3) paying farmers in full within 15 days of receiving delivery at the packing plant.

In order to provide technical assistance to the farmers, NEWCO set up four field operation centers where it stores and services its farm equipment. This avoids excessive movement of the equipment. Each center serves about 150 farmers located within a 10-mile radius.

Each center is managed by a supervisor in charge of 4 to 6 agronomists, 3 or 4 assistants, 2 truck drivers, 1 mechanic, 1 crop dusting employee, 1 warehouse attendant and 1 clerk. The agronomists visit the satellite farms daily to provide technical assistance.