SMALL FARMER SYSTEMS II

(Project No. 492-0334)

Gerald C. Wheelock (Team Leader)

Lydia Martinez

Cesar M. Mercado

Severino B. Vergara

BEST AVAILABLE COPY

April, 1984

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

TABLE OF CONTENTS

Page

FOREWORD.....i

GLOSSARY.....iii

EXECUTIVE SUMMARY.....1

SPECIFIC RECOMMENDATIONS.....8

BACKGROUND OF KAISA EVALUATION.....21
Objectives.....22
Conceptual Framework.....23

SUMMARY FINDINGS AND CONCLUSIONS.....24
A. Institutional Development.....24
1. Capacity of the KAISAs to assume greater levels of self-management and self-reliance and to mobilize resources independently of FSDC.....24
1.1. Self-management and enterprise development equity.....25
1.2. Self-management and institutional development equity.....30
2. Type, quality, and usefulness of financial, technical and managerial services provided by KAISAs to the member-ISA and whether these enable ISA members to better manage resources and obtain inputs.....31
2.1. KAISA financial assistance to ISA.....32
2.2. KAISA technical and management assistance to ISA.....33
2.3. Specialization training for IOs to upgrade ISA services.....36
3. ISA-member involvement in KAISA planning and management.....39
4. Effectiveness of KAISA institutional and extension services to ISAs in comparison to other existing government organizations.....42
5. Future of KAISA and ISA partnership.....46
6. Future relationship of KAISA and FSDC.....47

equity.....25
B. Enterprise Development.....50
1. FSDC's role and responsibilities.....50
1.1. Provision of technical assistance to KAISA enterprise.....52
1.2. KAISA enterprise monitoring.....53

2. Suitability and efficiency of KAISA enterprises in selected regions in comparison to existing private sector operations.....56
3. Quality of input and output and employment level and wages.....56
4. Quality and accuracy of the FS.....58
4.1 Marketing aspect.....59
4.2 Technical aspects.....60
4.3 Management aspects.....60
4.4 Financial aspects.....61
5. Project management and operations practices.....62
5.1 Pre-project operations.....62
5.2. Initial project operations.....63
5.3. Management of enterprise funds.....63
5.4. Operations planning.....65
5.5. Operating policies.....66
5.6. Operational and financial status.....70
6. Effectiveness of management and operations practices.....76
7. Future of KAISA enterprises.....78
C. Related Observations.....79
1. Distinctive features of the KAISA.....79
2. PMIS and FSDC image: Report to USAID.....80
3. Classification scheme for ISA and KAISA.....83
4. Inactive ISA.....84
5. Career path for GMs, IOs and FIOs.....85
6. FSDC reorganization.....86

ANNEXES
I. Relevant Charts and Tables.....87
II. Persons Interviewed and KAISAs Visited.....92
III. KAISA Profile.....98

FOREWORD

This report was prepared as a midpoint evaluation of Small Farmer Systems II. As outlined in the objectives of the evaluation (Page), the evaluation focused on institutional development of provincial federations of Irrigators Service Associations (KAISA) establishment and operation of KAISA enterprises, and institutionalization of the KAISA extension service system.

The evaluation team visited seven KAISA, their parent organization - FSDC central offices (CO) in Manila and four area offices (AO), and USAID offices during the period October 24 - December 7. Fourteen days were spent in the field with KAISA management and ISA farmers. See Annex II for a detailed itinerary. The members of this team were:

Gerald C. Wheelock, Team Leader
Rural Sociologist and Agricultural Economist
Alabama A&M University

Lydia Martinez
Agribusiness Specialist
USAID/ORAD

Cesar M. Mercado
Professor of Communication
Institute of Mass Communication
University of the Philippines

Severino B. Vergara
Agribusiness Specialist and Agricultural Economist
University of the Philippines at Los Banos

The team wishes to thank the staff of the Farm Systems Development Corporation (FSDC) and the staff and members of the KAISA visited without whose support and generosity this effort would not have been possible. Their willingness to engage in detailed investigation and discussion of each issue raised by the team indicated the great

Foreword (Continued)

intensity of their interest and dedication toward creating self-reliant and self-managed KAISA federations for the purpose of enhancing member access to GOP agencies, agricultural credit and inputs, improved farming and irrigation systems, and more viable markets. The team is also appreciative of the support supplied by Mr. Venido Atienza and Mrs. Sylvia Engracia of FSDC and Mr. Carlton Terry of the Office of Capital Development and USAID Staffer, Mrs. Ellie Lucas.

GLOSSARY

AMC	Area Marketing Cooperative, federations of Samahang Nayons under the Bureau of Cooperatives Development, Ministry of Agriculture
BAI	Bureau of Animal Industry, Ministry of Agriculture
Barangay	Village, Barrio
BCOD	Burea of Cooperative Development, Ministry of Agriculture
BOD	Board of Directors
BPI	Burea of Plant Industry, Ministry of Agriculture
Cavan	Measure, equal to 39 kilograms palay at 14% moisture or 50 kilograms milled rice
CDLF	Cooperative Development Loan Fund for AMCs under BCOD
CMP	Cooperative Marketing Project for AMC = under BCOD
CRB	Cooperative Rural Bank
FIO	Farmer Institutional Officer
FSDC	Farm Systems Development Corporation
FSDC AO	FSDC Area Office; there are six area offices, each usually covering two regions
FSDC CO	FSDC Central Office
FSDC EDD	FSDC Enterprise Development Department
ICP	Institutional Credit Package
IO	Institutional Officer
IP	Innovation Package
ISA	Integrated Service Association; formerly, Irrigators Service Association; means "one" in Tagalog
KAISA	Federation of ISAs at provincial level
Kaisahan	Division of an ISA, usually receiving water in rotation. The head of a Kaisahan is a member of the Board of an ISA

Glossary (Continued)

LBP	Land Bank of the Philippines
MA	Philippine Ministry of Agriculture
Masagana 99, M-99	Government program to provide farm credit and raise yields to 99 cavans per hectare
NEA	National Electrification Administration
NFA	National Food Authority
NIA	National Irrigation Administration
NMPC	National Media Production Center
OMA	Office of Media Affairs
Palay	Unhusked rice
PCIC	Philippine Crop Insurance Corp.
PICDEC	Pilot Integrated Community Development Center
Samahang Nayon	Pre-cooperative, membership in which is required under agrarian reform

1 Peso = 7 cents official, 5 cents floating exchange rate

EXECUTIVE SUMMARY

The general purpose of this evaluation is to assess the status of institutional and enterprise development of the KAISA focusing specifically on the KAISA's capacity to assume greater levels of self-management and self-reliance and to provide needed services to member-ISAs. The evaluation also analyzed the development and management of KAISA enterprises including their operational and financial performance and the projection of the KAISA's future from the viewpoints of the KAISA personnel and members, FSDC officials and local leaders. A total of seven KAISAs, 24 ISAs and 4 FSDC Area Officers (AOs) covering these KAISAs were included in the study.

I-A. Institutional Development Summary

The evaluation findings indicate that the capacity of the KAISA to assume greater levels of self-reliance and self-management has not yet been realized. This is due to a number of interrelated factors including lack of KAISA credit worthiness and board member control due to extremely low levels of KAISA equity; inadequate involvement by KAISA Board of Directors (BOD) in policy making and planning; the soft-sell approach adopted by FSDC towards the institutional development loan (IDL) to the KAISAs resulting in disincentives to generating higher shares of equity; the KAISA's ineffectiveness in providing institutional and extension services that member-ISAs perceive as better than those provided by existing private enterprises or government organizations; and the generally poor operational and financial performance of KAISA

enterprises due to lack of ISA support in terms of providing raw materials and purchasing finished products.

I-B. Equity Build-Up

The accumulation of significant KAISA equity for both institutional and enterprise development is essential for the development of KAISAs' capacity for self-management and self-reliance. The low level and slow build-up of KAISA equity suggests that the benefits from KAISA institutional and extension services and enterprises have not yet been perceived by the ISA farmers to be significantly better than those already available elsewhere. FSDC and the KAISA on their part have apparently also not attached much importance to equity build-up. Data on equity build-up is not readily available and equity build-up programs are absent in all KAISAs. Such a program would be a centerpiece in any development plans established by each KAISA membership.

I-C. BOD Involvement in KAISA Planning and Policy Making

In general, KAISA BOD involvement in KAISA planning and policy-making is limited. This is partly due to the low levels of KAISA equity and hence managerial control that the BOD exerts over the KAISA enterprise. Lack of appropriate management training for BOD personnel has also been a factor inhibiting BOD involvement in enterprise decision-making. As a result, the complementary aspects of KAISA capital and KAISA organizational capacity to achieve economies-of-scale have not been generally recognized by KAISA BOD.

Within the sample of KAISAs studied, two (2) enterprise models have been identified, each associated with different levels of BOD participation (organizational-intensive and capital intensive). Those KAISA enterprises under the first model have greater consultation between the member-ISAs and KAISA management and generally greater BOD involvement in KAISA activities than those under the second model.

In the second model, there is a tendency for the undertrained KAISA BOD to be overwhelmed by the capital investment and, in awe, they leave the development of strategies to the KAISA manager, the KAISA operations supervisor, and the FSDC action officer. Intra-ISA and intra-KAISA strategies were observed to be emphasized in the first model while extra-KAISA marketing strategies seeking large volume customers and suppliers were favored in the second model. In both cases, there is a tendency to underestimate the important complimentary aspects of the other model.

I-D. Institutional Development Loans

The evaluation team found that the institutional development loans (IDLs) are granted on excessively liberal terms. IDLs granted to KAISAs by the FSDC cover the salaries of KAISA personnel and general operating expenses. These loans carry very low interest rates and have no amortization schedule. The evaluation team believes that the very liberal terms on which IDLs are granted serve as a disincentive to equity build-up. In addition, extremely favorable IDL terms may in fact adversely affect KAISA management's attitude toward repaying the enterprise development loan (EDL) in that similar repayment terms may be expected though on paper, the loan terms are much stiffer for the EDL.

I-E. KAISA Assistance to Member ISAs

KAISAs are expected to provide financial, technical and management assistance to the member ISAs. Financial services may be in the form of direct loans and/or in arranging linkages with credit institutions. To date, 3 of the 7 KAISAs studied have assisted their ISA members in securing production credit from institutional credit services

KAISA institutional and extension services to member-ISAs are provided primarily through the KAISA Institutional Officers (IOs). Various training programs on ISA organization, farm management and technical agriculture are conducted by these IOs. ISA members are generally satisfied with the training services provided to them by the IOs. However, several training programs have not achieved their anticipated targets: group buying and selling, farm record-keeping, farm planning and budgeting, azolla production and multiple cropping have not yet been adopted by a majority of farmers. While there are numerous factors contributing to non-adoption of technological packages, most important is the lack of training and experience on the part of the IOs to match ISA needs with the most beneficial technology as well as the inadequacy of technical information and communication support.

II-A. Enterprise Development Summary

The evaluation findings also indicate that all KAISA enterprises suffer from serious operational and financial problems. These problems are the result of the following interrelated factors:

1. The FSDC Central Office (CO) Enterprise Development Department (EDD) staff lack the skills and experience in project preparation and analysis, enterprise planning and management, monitoring and evaluation.

2. The suitability of enterprises in the provinces/ regions where the KAISAs are located have not been adequately examined. Most conspicuously lacking were realistic marketing feasibility studies. Studies undertaken by FSDC grossly overestimated both raw material supply for ISA members and the markets for their finished products.

3. The KAISAs have realized much lower volumes of business than those projected in the Feasibility Studies.

4. Poor management and low pricing strategies have resulted in lower than expected profit margins.

II-B. Financial Status

Most KAISA enterprises have had a generally poor financial performance. Most enterprises suffered mostly net losses for most periods. Data constraints do not permit precise estimation of the actual rates of return on investments in the enterprises. However, based on the data on net income realized (loss) and the project costs in the Feasibility Studies, it is clear that even the best performing enterprise (Davao Feedmill) has an estimated annual rate of return on investment which is much less than that projected in the Feasibility Studies.

II-C. Feasibility Studies

The projections in the Feasibility Studies were based on overly optimistic assumptions regarding markets demand and technical requirements. The expected supply of raw materials from member-ISAs as well as the demand for enterprise outputs were generally overestimated. In addition, the marketing practices of competitors were not examined.

It is difficult to assess the technical soundness of the project in terms of project capacity and location because of deficiencies in market

analysis. Ex-post analyses indicate, however, that FSDC did a credible job on construction aspects of the project.

The financial analysis of the project should be improved including provision for physical and price contingency allowances. Furthermore, working capital requirements should be adjusted upwards since operations are projected to increase over the project period.

Financial analysis should include the analysis of projected cash-flows before financing. The results from this type of analysis will serve as a basis for shaping the credit terms including any interest rate subsidies that may be needed.

II-D. Project Management and Operating Practices

FSDC CO and AO EDD personnel have demonstrated their capability in project implementation starting from project loan releases to start-up operations. There were problems, however, in some areas such as in the control of enterprise funds by the AO which in turn caused some delays for purchases made in the KAISA enterprise. Also, AO technical assistance to KAISA enterprise has been primarily on the installation and implementation of accounting systems and procedures and less on enterprise planning and management.

There was a lack of adequate involvement of KAISA BODs in enterprise planning. The consensus among the GMs is that for lack of necessary training the BODs do not have much to contribute.

Some important lessons can be drawn from a comparison of the performance of the KAISA enterprise with that of their competitors in the private sector. However, due to limited time allotted for the

evaluation, this comparison was not done. Also, the KAISAs are still relatively young to be compared fairly with other existing enterprises.

Likewise, due to limited time, the evaluation of the suitability of KAISA enterprises in their respective regions was not undertaken. Much more data than are contained in the enterprise feasibility studies would be needed by the team to conduct this kind of evaluation.

SPECIFIC RECOMMENDATIONS

To improve the KAISA's capacity for self-management and self-reliance, the following recommendations should simultaneously be considered:

1. FSDC and KAISA management should promote KAISA equity growth.

2. KAISA services to member-ISAs should be improved.

3. Active involvement of KAISA BOD and member-ISAs in the planning and management of KAISA organization and enterprises should be promoted.

4. Funding of new enterprises should be predicated on improving the organizational and managerial capabilities of the FSDC CO and AO.

5. FSDC's Project Management Information System (PMIS) should be improved.

In line with KAISA equity build-up, the following is recommended:

1.1 FSDC should adopt a more forthright approach to loan management by enforcing more explicit loan terms. Deffered IDL repayment schedules could be used to induce KAISA institutional development equity build-up.

1.2 KAISA enterprise projects should be based on member-ISA's needs and priorities. Organizational-intensive linkages enterprises at the ISA-level should be given more emphasis.

Before a capital intensive KAISA enterprise approach, e.g. an integrated rice processing facility, can be expected to realize its potential, substantial organizational activity within and between member-ISAs is necessary. Initially, to be competitive with other private sector enterprises, KAISA must be attentive to ISA members production credit needs. Correspondingly, the KAISA-ISA partnership must synchronize new technology trials, production input deliveries and

marketing to best match KAISA transportation, processing and market requirements with member-ISAs respective production schedules. If these intra-KAISA organizational activities remain under-developed, capital investments in integrated facilities cannot reach their full potential.

While capital is required to achieve economies-of-scale, it need not be KAISA capital, at least at first. KAISAs may start by organizing selected member-ISAs to offer their consolidated business to the most competitive bidder available in the private sector. After thus learning to make efficient use of their own KAISA and the private sector, the KAISA BOD may find it realistic (less overwhelming) and feasible, by virtue of their accrued equity and experience, to more fully integrate rice processing within the KAISA. FSDC enterprise feasibility studies should not find any intergrated processing facility to be a feasible investment until it is equally certain that the KAISA BOD and member ISAs can be trained and organized to the above described state of readiness.

1.3 KAISA should establish policies regarding the accumulation and deposition of stock and patronage dividends.

Should all profits be retained and invested in new services during the first five years, thus building the profit base of the KAISA or should some percentage of the profits be paid in the form of patronage dividends. In making this decision, the KAISA-BOD should be involved in KAISA development planning.

1.4 FSDC should promote KAISA equity mobilization by initiating specific strategies that will increase and stabilize ISA farmers' productivity and incomes including:

a. Vigorous pursuance of FSDC program for improving the efficiency of operating ISA irrigation systems and rehabilitating non-operating but still potentially viable systems.

b. Assist KAISA in establishing linkages with credit institutions to ensure and expand access to institutional credit for credit-worthy ISA farmers and to arrange for rehabilitation financing for deserving farmers. Adoption of flexible financing terms (e.g. higher interest rates) and provision of loan guarantees by FSDC will encourage credit institutions to lend to ISA farmers.

c. Increase initiative in placing more KAISAs under Philippine Crop Insurance Corporation (PCIC) network as insurance underwriters and arranging with PCIC for the inclusion in the insurance coverage of irrigation expenses (including amortization of the irrigation systems) of ISA farmers. These KAISAs should then encourage more ISA farmers to avail themselves of PCIC insurance.

d. Develop and implement marketing assistance program for crops (other than rice) and livestock which are being promoted under the farming systems approach.

KAISA's technical and financial services to member-ISAs should be improved.

A. Technical Services

2.1 More IOs/FIOs should be given specialization training in technical agriculture including applied research and demonstration techniques. More effective ISA level experimentation to test and/or demonstrate potentially profitable and recommended innovations should be a popular service.

2.2 FSDC should initiate and/or coordinate with relevant companies or government agencies, agricultural universities and colleges, and research institutions the production and dissemination of recommended technical information and inputs. All IOs should have access to publications including BPI Bulletins and back issues of Greenfields and Philippine Recommends.

2.3 FSDC communication-support facilities should be improved and expanded, and used efficiently and effectively. Less expensive A-V equipment such as overhead-slide projectors should be acquired. To enhance their utility, newsletters and A-V equipment should be used to document otherwise less visible technical information.

New irrigation structures and rice mills are highly visible demonstrations of FSDC effectiveness, and they can be used to stimulate

KAISA participation and equity contribution campaigns. However, less visible but perhaps more vital to FSDC effectiveness is the propagation of proven strategies that link KAISA equity build-up programs with the provision of successful KAISA technical and financial services. Newsletters and A-V aids highlighting KAISA case study examples of proven strategies should be used repeatedly with KAISA and ISA membership meetings as well as in awareness promotions with local officials, rural bankers, and other potential KAISA collaborators.

2.4 FSDC AO and KAISA should establish a monitoring and evaluation system to assess the effectiveness of KAISA services. The level of awareness and the extent of adoption of recommended innovations and practices should be monitored and attendant problems should be identified.

2.5 KAISA provision of marketing assistance services together with production support-services should be emphasized.

While the members of individual ISA, wedded as they are by common irrigation and production schedules, have learned to exploit the economies of buying and marketing as a unit, the KAISAs have not. If the potentially larger economies-of-scale available to the KAISA are to be exploited, KAISAs must find ways to efficiently consolidate member-ISAs information, production and marketing needs. IO specialization and training is probably most critical to KAISA accomplishment of these recommendations.

B. Financial Services

2.6 Initiatives in improving farmers' access to institutional credit should be intensified. Production-credit-marketing tie-up arrangements should be vigorously pursued.

Because of the reluctance of credit institutions to lend to the small farmers, USAID and FSDC should look into the feasibility of

providing production loans to ISA farmers through their KAISAs. Two alternative schemes can be adopted: (a) Direct loans to KAISAs, and (b) Loans to KAISAs through a financial institution.

Both schemes should first be implemented on a pilot-basis. Under both schemes, the objectives are to provide adequate and timely credit to the farmers through a system that they will perceive as reliable and stable. This could mean deviating from the usual terms and conditions of small farm loans in terms of interest rates, manner of loan releases, manner of repayment, etc. Some KAISAs, such as Laguna KAISA, are composed of member-ISAs with diversified farm operations. In these ISA, cash flows are sufficiently even throughout the year that seasonal rice production credit needs do not lead to severe "credit squeezes". However, in most KAISA, cash flows are not as even; timely and stable production credit is in short supply. In these KASIAs development of innovative financing schemes could make KAISAs most competitive. Currently, farmer members express frustration over time lost in the loan application process. An innovative KAISA scheme would redirect those frustrated efforts toward increasing farm productivity through timely provision of farm loans and production inputs.

Pilot testing of innovative KAISA production financing schemes should include the following strategies: ISA member prepayment of KAISA equity contributions as a precondition to loan eligibility; crop insurance to cover production costs including ISA irrigation fees and the next KAISA equity contribution; guaranteed timely loan processing and production input deliveries; ISA member marketing pledges to KAISA; and sufficient ISA participation and inter-ISA sequencing of production to allow optimum use of KAISA transportation, processing and marketing facilities.

At present, lacking capital of their own, most KAISA could start by organizing several ISA level group loans collateralized by farm production and insured against natural disaster. To be competitive, KAISAs would aim to provide a more convenient loan application process and a more timely loan release for credit worthy members. Because of the economic advantage of these services, a higher interest rate or service charge, separate or built into the cost of production inputs provided by the KAISA would be acceptable. In addition to the improved services, the important difference would be that the KAISA-BOD would be actively involved in setting interest rates, fees, and input prices.

Finally, the KAISA should provide a credit rehabilitation service for ISA members not presently eligible for production loans. For services rendered in rescheduling and collecting old production loan debts, the KAISA may be able to arrange a fee from the bank or agency to which the ISA members are indebted.

To promote the active involvement of BOD and member-ISAs in KAISA planning and management, in addition to improvement in KAISA equity build-up and KAISA services, the following is recommended:

3.1 KAISA BODs should be trained on KAISA organization and enterprise planning and management.

3.2 BODs should see to it that the issues and problems related to the organization and enterprises of the KAISA are discussed at the ISA-level.

3.3 Bottom-up planning should be applied in developing KAISA plans and programs.

3.4 KAISA GMs must be made to realize that the KAISAs are owned and controlled by the member-ISAs despite the member-ISAs low equity position in the organization and enterprises.

Improving the managerial capabilities in existing enterprises and FSDC personnel through advanced training on recruitment is needed.

4.1 FSDC should first focus its attention on improving the viability of existing capital-intensive integrated enterprises and expanding successful organizational-intensive linkage enterprises.

The integrated KAISA enterprises with new excess processing and transportation capacities have created an immediate need for much larger raw material, production input, and finished product markets than were readily organized within the KAISA. Crash measures to boost volume, primarily undercutting the competition's finished product prices, over compensating on quality of finished products, or bidding up the price of raw material products, have had severe effects upon profit margins. Meanwhile, only a few already well organized ISAs with large volumes of market surpluses or production input requirements are benefiting directly from the KAISA marketing strategies. Institutional development activities that encourage longer-term committment to the KAISAs, such as institutional production credit, crop insurance programs, inter- and intra-ISA scheduling of deliveries and pickups, and KAISA-BOD training are necessarily neglected while the KAISA manager, the operations supervisor, and FSDC AO action officers focus on the immediate needs for volume supplies and larger finished product customers.

This is not the time to cut back on institutional development activity, but a time to focus it with more management inputs upon the provision of services that both increase member-ISA productivity and enhance member-ISA patronage. This would require continued funding of institutional development activities, particularly those directed at developing KAISA-ISA marketing and other economic linkages and simultaneous undertaking of an intensive management development program (MDP) at all levels.

4.2 Funding for new enterprises should be contingent on

adequate institutional capabilities of the KAISAs and improved organizational and management capability of the FSDC CO and AO. An indication of the latter is the improvement of the viability of existing enterprises. ISA-level enterprises should be promoted. Priority should be given to those projects with strong backward and forward linkages with existing KAISA enterprises.

Basic to promoting ISA-level enterprises is the development of secure and stable credit or cash flows to finance production and marketing. The evaluation team observed that the ISAs most successful in organized buying and selling were, first of all, the most financially secure or stable.

Alternative promotion strategies include a renewed screening of less active or inactive ISAs to identify a few in which conditions have improved the probabilities of success.

4.3 The focus of the Management Development Plan (MDP) should be on developing competencies and skills in agricultural economics and agribusiness project development and management.

The KAISA Development Department (KDD), formerly the EDD, should improve its capacity to identify projects based on macro considerations, i.e., systems analysis of the industry structure, conduct, performance in appraising, monitoring and evaluating projects.

The CO-EDD has so far performed remarkably well in project implementation but there is a need to shift the major responsibility in this area to the AO. CO KDD should now focus its attention on project identification, appraisal, monitoring and evaluation.

At the AO and KAISA levels, vigorous training on project preparation and analysis, and enterprise planning and management should be implemented. In particular, market analysis and development techniques should be emphasized.

At the KAISA level, the MDP should also include the BODs. In particular, BOD Treasurers and Auditors should be trained on their functions to minimize if not totally avoid the present practice of designating special disbursing officers and auditors from the KAISA enterprise staff.

As far as CO-level MDP is concerned, FSDC should give more emphasis to recruitment than on the training of existing staff. The latter strategy will require a longer time frame that does not seem feasible if the SFS II Project is to be fully impleimented soon. It may be feasible only if the two (2) rural enterprise consultants called for in the technical assistance component of the Project will be deployed immediately.

FSDC should institutionalize within the KDD the capability to conduct its own MDP instead of the current practice of focusing almost exclusively on the contracting of management development training. Without recruiting highly trained professionals, based on the evaluation of the experience and training of the existing KDD staff, this objective can only be attained in the long-run.

The implementation of an objective personnel performance evaluation and rewards system should be an integral part of the MDP. At this point, the evaluation believes such a system does not seem apparent. This is perhaps due to the tremendous spirit of brotherhood and comraderie pervading the whole FSDC organization. Because of this, it may be "painful" for a superior to give a low performance rating to his/her subordinates with the consequences that "shoulder tapping" constitutes the usual expression of a superior's reaction to his/her subordinates' lack of performance. However, the superior's inability to

conduct an objective performance evaluation can also be reflective of his/her lack of credibility among the subordinates.

5.1. FSDC's Project Management Information System (PMIS) should be improved.

It is surprising that while some enterprises have already operated for more than one (1) year, a complete individual enterprise project account has yet to be developed by the CO KDD. Also, adjustments of enterprise financial statements for income tax purposes still have to be done at the CO KDD. Since most of the project information is with the AOs it would perhaps be better if individual financial statement adjustments should be delegated to AO. The fact that the mere estimation of cost of goods sold has sometimes been a problem in some KAISAs is not a sufficient reason for these activities to remain at the CO. If AO accounting capability needs strengthening, FSDC should provide the necessary assistance to bring their capability to a level that would enable the AO to conduct these activities.

It should be noted that the absence of a complete project account is also a problem with respect to other projects, e.g. irrigation system-related projects. Diesel engines, gasifiers or a combination of diesel engine and gasifier have been installed in several formerly electric-driven systems but updated project accounts for these systems have yet to be developed. Without accurate cost and relevant engineering data on what was installed and what was replaced, as one KAISA GM remarked, it is impossible to assess the comparative efficiencies of the alternative systems.

A PMIS system should be developed that will address the above problems and in addition, enable the FSDC to:

a. Establish indicators of KAISA capacity to undertake enterprise.

b. Indicate the relative suitability of alternative enterprise development models vis-a-vis various levels of KAISA readiness.

c. Adequately assess the operational and financial performance of the enterprises and make timely recommendations to solve identified problems.

d. Identify market opportunities.

Other Recommendations:

6.1 FSDC should require KAISAs applying for enterprise loans to specify schemes for generating the required KAISA equity. Once the project is approved, the required KAISA equity should be in place before the initial loan release to start project construction is made.

6.2 To improve the performance of existing projects the following recommendations are suggested:

a. The KAISA management should give priority to the development of intra-KAISA and inter-KAISA marketing linkages. ISAs must be developed as adequate and stable suppliers of raw materials and as markets for enterprise outputs.

As discussed in 2.6, 2.7 and 4.1 above, convenient, stable and adequate KAISA production credit services are essential to both increased ISA productivity and stable ISA patronage of the KAISA. Additionally, other production and marketing services must be continually updated. Inter-KAISA and intra-KAISA market linkages should be simultaneously developed.

Since the intra-ISA production and marketing schedules are highly synchronized by a common irrigation and planting schedule, the KAISA should encourage sequenced inter-ISA irrigation and planting schedules. This strategy would allow the KAISA to provide more uniform transportation, drying, milling, and marketing services to more ISAs.

b. The KAISA management should be allowed to use their idle funds during off-seasons to finance the credit requirements of the ISA farmers.

c. With respect to management and control of enterprise funds, the policy of not requiring sales remittances

to the AO should be extended to the rice mill projects during peak months of palay buying operations.

d. If the above (c) is not feasible for all KAISA, the potential problem of payment delay should be communicated to the ISA farmers. Proper communication of the FSDC policy can effectively prevent adverse reactions should ISA farmers be asked to wait for payment after delivery of crop.

e. If possible, objective performance criteria for granting independence in the management of enterprise funds should be developed by the FSDC. This will prevent uncalled for reactions from enterprise managers not yet enjoying this privilege. Also, this will serve as a motivation for other managers to improve the performance of their enterprises.

f. All KAISA-enterprise project expenses should be charged against the project. KAISA personnel now drawing salaries from IDL but serving in the project should have their salaries charged against the project. This move will put pressure on the enterprise personnel to contribute their best to the maximization of the profit of their enterprise upon which they now depend for their salaries. (Incidentally, FSDC has already acted in this direction by requiring all KAISAs to fully reflect the salaries of enterprise personnel in the annual enterprise development plan starting next year. This policy has been implemented very recently).

g. For ISA farmers to understand the drying problem, the KAISA management should communicate with them about the inadequate drying capacities. This communication process can generate useful ideas and strategies to help alleviate, if not entirely solve, the problem. For starters, even during the rainy season when the sun shines for only a few hours, farmers should be encouraged to use traditional solar drying techniques on absorbant surfaces such as bare soil or straw mats before delivering to the KAISA. At the very least, this communication can avoid the potential problem of the farmers being alineated from the enterprise if the management fails to accommodate their wet palay deliveries.

h. In operations planning, the KAISA GM and enterprise supervisor should always consult the BOD or at least the key or most active members thereof in the formulation of planning goals and objec-

tives and the necessary strategies to accomplish them. This will promote the development of BOD's commitment to and involvement in the succesful implementation of the operations plan and improve the policy-making perspective of the BOD.

i. FSDC AO should assign competent action officers to assist KAISA management in developing and implementing market development strategies.

j. The feed quality control problem should be given immediate attention by the FSDC. It should see to it that adequate training on quality control equipment (moisture meter, microscope and possibly, other equipment) is provided to the feed mill operations supervisor and appropriate staff. Also, FSDC should continue to explore ways of expediting the conduct of quality control tests by the BAI and the release of test results to the feed mills.

k. FSDC should be able to respond immediately to technical problems that may adversely affect feed quality. A specific example is the problem in the molasses calibration assembly and the hammermill sieve that has long been identified in one feedmill but has yet to be completely solved.

BACKGROUND OF KAISA EVALUATION

The KAISA (Kalipunan ng mga ISA) is the umbrella organization of federation of ISAs (Integrated Services Associations) at the provincial level. As conceived by FSDC, the KAISA shall be a vehicle through which the various ISAs can be developed into self-managed and self-reliant rural organizations.

The goal of the KAISA is to enhance the institutional and financial viability of the ISAs. To achieve its goal, the KAISA is registered as a non-stock, non-profit, private organization, capable of entering into contracts and acquiring financial assistance in the form of grants, loans and contributions.

The functions of the KAISA are: (1) To serve as clearing house and medium for identifying issues, problems and needs of ISA members; (2) to undertake administrative and training activities; (3) to undertake institution-building activities; (4) to undertake income-generating activities; and (5) to act as facilitator for the ISAs in seeking technical and financial assistance from other government and private agencies.

Organization of the KAISA started in late 1980. At this writing, there are already about 65 KAISAs all over the country. Of this number, 28 are already engaged in certain enterprises. Six of these KAISAs with integrated rice processing enterprises received some financial support from the USAID.

To find out whether the KAISAs with enterprises are capable of operating and managing their enterprises, the FSDC and the USAID conducted a mid-term performance assessment of selected KAISAs.

Objectives

The general objective of this evaluation is to assess the state of institutional development and enterprise development of KAISAs and the operational and financial performance of the enterprises they are undertaking as well as the role, responsibilities and results of FSDC's involvement in the development and management of these enterprises.

Specifically, the evaluation was conducted to determine:

A. Institutional Development

1. The capacity of the KAISA to assume greater level of self-management and self-reliance and to mobilize resources independently of FSDC.

2. The type and quality of service provided by KAISAs to the member-ISAs and whether these services enable ISA members to better manage their resources and obtain the necessary technology, technical services, credit and physical inputs they need.

3. The degree of involvement of ISA members in the planning and management of KAISA organizations and enterprises.

4. The effectiveness of the KAISA to provide institutional and extension services to ISAs (i.e. financial assistance, training programs, communication support and other inputs in comparison to other existing government organizations.

5. The current and future relationship that ISAs and KAISAs have with FSDC.

6. The future of KAISA and ISA partnership as viewed by FSDC officials, local leaders, local GOP technical personnel, and ISA/KAISA members.

B. Enterprise Development

1. The role, responsibilities, and results of FSDC's involvement in development and management of KAISA enterprises.

2. Suitability and efficiencies of KAISA enterprises in selected regions in comparison to existing private sector operations.

3. Quality of input and output and employment levels and wages of KAISA enterprises as compared with those in the private sector.

4. Quality of feasibility studies undertaken for KAISA enterprises.

5. Project management and operations practices.

6. Operational and financial status of enterprises.

7. Effectiveness of management and operation practices.

8. Future of KAISA enterprises as viewed by FSDC officials, local leaders, KAISA members and employees.

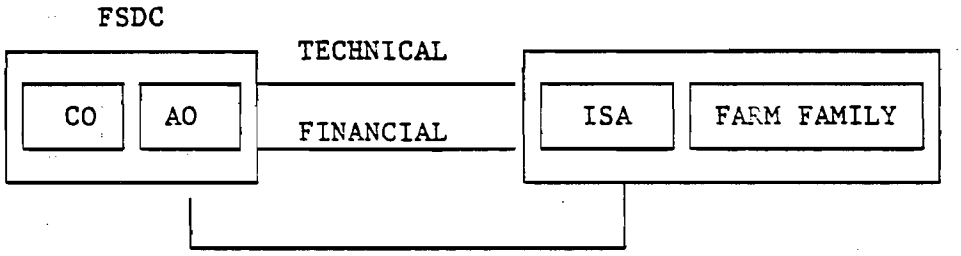
Conceptual Framwork

The federation of the community-based ISAs into provincial-level KAISAs is the second of the three stages envisioned by FSDC to develop small farmers into self-managed and self-reliant organization. The first stage is the organization of the small farmers into ISAs. The third stage is the organization of the different KAISAs into a national confederation of KAISAs.

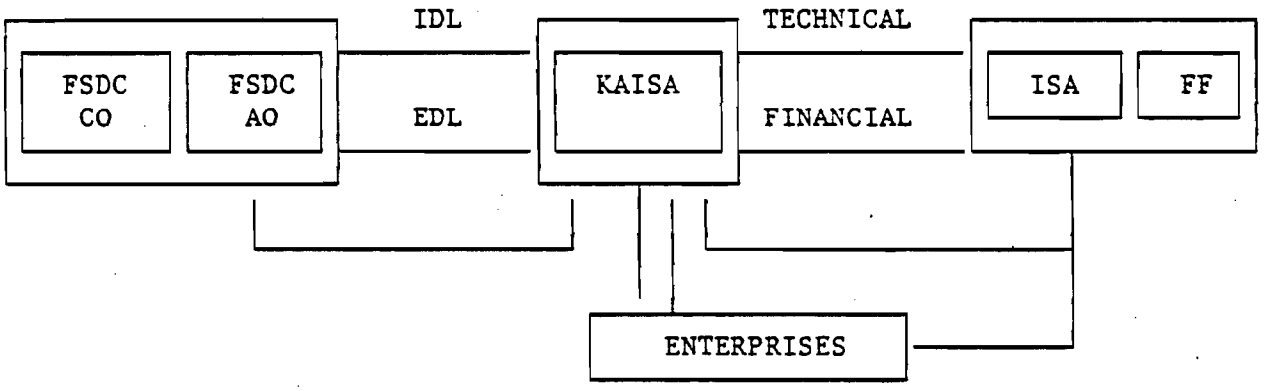
In stage 1, FSDC provided direct institutional and enterprise development support to ISAs. On the other hand, in stage 2, the KAISA is expected to assume the role of the FSDC. To perform this role, FSDC provides the KAISA institutional development and enterprise development loans. At the same time, virtually all the staff of the FSDC at the provincial level was moved to the KAISA. These include the Project Manager, the administrative staff of the KAISA and the technical staff such as the Institutional Officers (IOs) and the KAISA Communication and Training Officer (KCTO).

The institutional development loan (IDL) is used to finance the training of the KAISA Officers, General Managers and other KAISA staff.

STAGE I MODEL



STAGE II MODEL



FARMERS ASSOCIATION STAGES OF DEVELOPMENT

The loan is also used to defray expenses for the operation of the organization and other expenses incurred by the IOs in providing services to the various ISAs. This loan will finance only part of the budget requirements. The remaining balance is expected to come from the KAISA or member-ISAs as its equity contribution.

The enterprise development loan (EDL) is used to provide initial capital for income-generating projects. This is a major strategy designed to achieve the second objective - to provide additional income to the ISAs and the KAISA. Moreover, the profits gained from the project can be used by the KAISA to repay the institutional loan and the enterprise loan. In the long run, the profits generated from these projects may gradually replace the loan provided by the FSDC.

As envisioned, the KAISA enterprise must be selected and planned according to the pre-harvest or post-harvest needs of the member-ISAs. The KAISA may therefore engage in supply of production inputs (such as fertilizer, insecticide and/or weedicide to farmers) or operate post harvest facilities (such as rice mill or feed mill).

SUMMARY FINDINGS AND CONCLUSIONS

A. Institutional Development

1. Capacity of the KAISAs to assume greater levels of self-management and self-reliance and to mobilize resources independently of FSDC.

With the extremely low level of KAISA equity generated directly from ISA-members, the KAISA BODs' inadequate involvement in KAISA policy making and planning, the soft-sell approach adopted by FSDC towards the institutional development loan, the KAISA services yet to be perceived by ISA members as significantly better than those provided privately or

y existing government organizations, and the generally poor operational and financial performance of KAISA enterprises due to lack of ISA support, the capacity of the KAISAs to assume greater levels of self-management and self-reliance and to mobilize resources independently of FSDC can only be a long-term reality. The FSDC and the KAISA management have to adopt better policy attitudes, reexamine their priorities, improve their organizational and management capabilities, and achieve significant progress in the aforesaid interrelated problem areas before the KAISAs can assume this desired capacity.

There is evidence, however, that indicates this capacity may be better realized at the ISA level than at the KAISA level. Also, KAISA which are building KAISA-ISA partnership in identifying and undertaking enterprises are more likely to achieve the capacity than are those KAISA that focus resources narrowly on the capital-intensive integrated enterprises that have received more emphasis from the FSDC.

1.1. Self-management and enterprise development equity

The challenge to the KAISA management is to develop and implement policies that support the expansion of these ISA-linkage projects by securing better prices and improving access to institutional credit through economies-of-scale, superior bargaining skills and quality management than is obtainable by ISAs alone. If these KAISA services to ISAs are to grow and compete in the market, equity must be generated for these purposes and it must be retained at the KAISA as working capital segregated from all FSDC loan amortization payments. Generally, KAISA equity build-up policies are not as well developed for KAISA growth as they are for ISA growth.

For example, surplus irrigation fees collected at each harvest and retained by the ISA were observed to be used in capitalizing ISA level organized buying of inputs for the next crop (Laguna and Benguet). However, some of the same surpluses turned over to the KAISAs tended to be used to make advanced payments on FSDC loans. This clearly suggests that farmer members have more policy control at the ISA level. They recognize that it is in their immediate interest to retain equity as working capital that they estimate to be worth up to 30% or more per annum than to make advanced payments on loans that are only costing the KAISA 6 to 12%. If farmer members were certain that equity payments were to be retained as working capital and that services would be increased accordingly, it is likely that KAISA equity could be accumulated much faster.

In San Pablo, Laguna, the ISAs have been successful in undertaking self-financed organized buying (fertilizer) and selling (members' palay) activities. They were paying significantly lower prices for their fertilizer and receiving better palay prices than the other ISAs and it seems they would continue in these activities regardless of whether or not their KAISA would go into larger scale organized input buying or improve their selling operations. It should be noted, however, that most if not all farmer-members of the San Pablo ISAs are self-financed and their market surpluses are unencumbered.

In Zambales, small KAISA and ISA profits were being obtained from palay trading margins and the purchase of fuel in bulk and in advance of price increases. ISA palay supplies were reported to the KAISA. KAISA management then negotiated prices and dispatched buyers to individual ISA to pickup their purchases. Equity was being accumulated to be

invested in one of several small enterprises being studied by the KAISA management in close consultation with ISA officers and farmers including their family members. The purchase of a privately-owned fish sauce enterprise whose operation was stopped due to lack of operating capital was being studied. Due to extraordinary consumption of fish sauce in the area, this enterprise looked particularly promising because the KAISA had plans to market the entire production within the member-ISAs at reasonable prices. Other enterprises such are purchase of a local rice mill were also under consideration.

At the Benguet KAISA, BOD president, Vice-President and GM have linked with Subic Bay Naval Base procurement offices and established themselves for the monthly bid process. Based on their vegetable trading experience and knowledge of ISA member production capacity, they are bidding on 1000 kilogram lots of selected vegetables for daily delivery. They have already established markets on the fringes of Metro Manila as far south as San Pedro, Laguna. Their trading activities started with trading of inputs and staple household supplies, so their trucks are usually loaded to and from Manila.

While farmer-members provide leadership in the trading activities of both Benguet and Zambales KAISAs, they do have FSDC resources in addition to the IDL loan. Benguet has a relatively small EDL for trucking and trading capital and Zambales has near full time services of one of the best FSDC Area Officer in the country. In both of these provinces, the KAISA has also generated ISA level production loans from PNB (Zambles) and KKK (Benguet). Other production credit initiatives from the KAISA were either financed from the KAISA trading capital during the off-season (Capiz and Benguet) or Institutional Credit

Packages with the Rural Bank M-99 programs (Pangasinan). The effort in Zambales KAISA to reestablish the credit rating of its members with old loan defaults is indicative of the KAISA dedication to instilling the value of self-reliance. Members are devising plans to renegotiate outstanding balances and repay them slowly. As their credit rating improves they hope to borrow from the bank for renewed production activities.

While several ISA level activities in each KAISA were generating income for the ISA and its members, as indicated in the above example, it appeared that modest KAISA equity build-up was most directly linked to member participation in the Zambales and Benguet KAISAs. It was also noted that these two were more frequently successful in linking with provincial governments for equity contributions and the use of government facilities.

Meanwhile, other KAISAs visited were heavily committed to operationalizing their capital intensive rice processing or feedmill projects. These projects will absorb the KAISA equity for several years to come, if successful at all. KAISA equity for these EDL projects is in two forms - land for the facility and KAISA trading capital. The land was either donated by a landowner-politician or purchased by the KAISA, mostly through fund-raising projects supported generously by local government officials. In contrast, equity build-up for the KAISA trading capital has typically been in the form of P50 and P100 contribution by individual ISA members. In some projects, KAISA employees have also contributed to this equity. No promise of stock or patronage dividend is given, nor have appropriate KAISA policies been

established, but in discussion with farmers it is expected if profitability is realized.

Data on equity build-up is hard to find. FSDC CO has not systematically promoted and monitored either ID or ED equity build-up. Davao del Sur KAISA is the only KAISA observed to have approached the required equity on time followed by Pangasinan. Other KAISA claim to be close to the required KAISA equity before release of FSDC equity, but all of them have arranged FSDC trading loan releases, regardless.

Board-members appeared to be less directly involved in policy making and planning in these capital intensive KAISA than they were in the organizational intensive KAISAs of Benguet or Zambales. In Laguna, KAISA BOD members were quite vocal about their lack of participation while in Capiz they appeared very trusting, but uninvolved in BOD policy making. General Managers of the capital intensive KAISAs appeared to identify with FSDC more than their KAISA employers. This may only change if and when KAISAs have a significant equity in the enterprises, and trading and operating capital accounts come under the control of the KAISA BOD. In the meantime, management capacities of the KAISA may languish as highly qualified managerial staff gauge their career paths according to FSDC signals rather than KAISA BOD signals. Self-management and self-reliance of KAISA may become more apparent when the BOD become more concerned about their lack of control in staffing and finance and start to reflect their concerns in positive BOD policies. For example, to the extent that KAISA BOD recognize their low equity position as the source of their weakness and implement policies designed to increase their equity position more rapidly, then it will be

BEST AVAILABLE COPY

BEST AVAILABLE COPY

possible to gauge capacity for stronger self-management and self-reliance.

1.2. Self-management and institutional development equity

KAISA BOD are generally well trained and experienced in strategies for managing and amortizing ISA irrigation facilities. This training and experience can perhaps be transferred to most KAISA BOD that have assumed substantial Enterprise Development Loans (EDLs). The KAISA BOD, however, have no prior experience in assuming responsibility for annual Institutional Development Loans (IDLs) to pay for services of Institutional Officers. Instead of the strong self-reliant approach emphasized by FSDC and KAISA staff in the Financial Management, Irrigation Management, and other ISA-level management training programs, a soft-sell approach is used, e.g. 2% loans with 5 to 7 years deferred payments and 20-year repayment schedules with open-ended promisory notes (terms of loan and due dates are not explicitly stated) and no amortization schedules based on future profits of a yet to be developed enterprise. The lack of explicit terms communicates a message uncharacteristic of FSDC philosophy and merit. It further suggests that the purposes and potentials of IDLs are not well understood.

KAISA development plans, as the new KAISA Development Plan Handbook suggests, should include plans to develop services that more than justify the IDL loans. While the IDL is necessary to support the development work on new services, the actual provision of new services should be self supporting based on user fees, commissions, or equity contributions. To the extent the KAISA can provide timely deliveries of packages of agricultural inputs (including credit where needed) and

reliable produce markets, both at competative prices, their enterprise will be patronized. To the extent the KAISA can do this at a profit (including retained dividends) they will be able to grow and prosper along with their ISA members.

Ideally, each KAISA would establish an ID equity fund that would at least match the net present value of each years deferred IDL liability. Depending upon the discount rate used, this would be a significant sum. It should be clear that the purpose of the equity fund would be to make ID investments that would be used to retire the IDLs as they come due. KAISA BOD and membership should then better understand the IDL concept and participate more actively in the IDL investment planning process.

If KAISA Development Plans show how IDLs can be used to foster a stream of efficient and profitable services for now and in the future, the IDL loans should be maintained at maximum levels (no more than 10% reduction per year) prescribed in the SFS II PP. If, however, such a KAISA Development Plan has not been developed and some successful implementation is not underway within the first two years, the concept of an IDL has probably failed. In these cases, careful evaluation of KAISA management and redirection of the IDL loan is needed. Either retraining of KAISA management or recruitment of appropriately trained and experienced managers will probabily be necessary. While most KAISA GMs envision and articulate high potential, none of the KAISAs visited showed the team a concrete development plan that would provide for a sustained institutional development program hand-in-hand with enterprise development.

2. Type, quality, and usefulness of financial, technical and managerial services provided by KAISAs to the member-ISA

and whether these services enable ISA members to better manage resources and obtain inputs.

2.1. KAISA financial assistance to ISA

As mentioned earlier, the KAISA is expected to provide financial, technical, and management assistance to the member ISAs. Financial assistance can be provided through direct KAISA loans to ISAs or by facilitating and arranging linkages with credit institutions. FSDC can lend to the KAISA which the latter in turn can lend to its member-ISAS. Due to financial constraint and the risks involved, this has not been done except in some instances involving the EDL as in the case of Benguet KAISA where the enterprise trading capital was allowed to be used to finance the production credit requirements of some ISA-farmers and in Zambales where the ISA enterprise loan for threshers was first coursed through the KAISA. There is a consensus among the GMs interviewed that they should be allowed to use their idle trading capital as production loans to member-ISAs. In the absence of this funding source, the KAISA can only provide direct financial assistance to its ISAs through profits generated from the enterprises; but this is only possible in the long-run when these enterprises hopefully become financially viable.

Only three (3) (Zambales, Benguet, Capiz) of the seven KAISAs studied indicated having assisted a few of their ISAs to secure production credit for their members from institutional credit sources such as the PNB/Rural Bank M-99 programs and the KKK. The Zambales KAISA had been particularly active in this regard although their initiatives only involved a few ISA farmers. This is primarily due to the reluctance of PNB and rural banks to lend to the small farmers

because of the massive loan repayment problem these credit institutions suffered in the past.

In sum, production loans from idle trading capital, properly insured against natural disaster and strategically placed with conveniently located member-ISAs, could be used to foster stable raw material supplies for integrated processing facilities. More remote ISAs could be assisted through other institutional credit facilities.

2.2. KAISA technical and management assistance to ISA

As regards technical and management assistance, the KAISAs provide these services to their member-ISAs through the IOs. The KAISA IOs were conducting serveral types of training, e.g. Pre-Organizational Training, Farm Family Approach (FFA) Farm Institution Officer (FIO) Training, Leadership Training, Innovative Packages (IP) Training, BOD Training, Audit and Inventory Committee Training, Irrigation Management Training, Finance and Budget Committee Training, and Financial Management Training (e.g. on simple recording/record-keeping and farm plan and budget).

Technical training on agricultural production (i.e. training on azolla production, azolla-rice-fish culture, multiple cropping) was also being conducted. However, only a few IOs are degree-holders in agriculture or underwent short-course training in agriculture.

ISA-members interviewed were generally satisfied with the training services provided in the areas of irrigation management, farm family approach where multiple cropping was emphasized, and ISA-financial management. A number of ISAs visited in the South have experimental azolla projects and several farmers have significantly increased their

income through multiple cropping. In fact, one ISA in Capiz, at one time, could not have paid its irrigation amortization were it not for the non-rice incomes of the ISA-farmers. All ISAs were found to be maintaining financial records.

While training activities conducted by IOs are meticulously counted, the level of absorption and extent of adoption of the knowledge innovations and practices discussed in the various trainings have not been closely monitored and evaluated by the KAISA. Whether a one-shot training is already adequate cannot be established. Non-training adoption-related factors can not be identified.

Farm record-keeping, famer planning and budgeting were not popular among farmers and a majority of them have yet to adopt azolla and multiple cropping technologies. Also, most ISAs' audit and finance and budget committees have yet to perform their respective functions. Very few of the ISAs visited have shown their ISA plans to the evaluation team. In all plans observed, the need to mobilize equity from farmer-members to support part of the estimated budget for identified projects has not been indicated. ISA officers simply hoped that the FSDC or the KAISA would be able to finance part or all of their plans.

Few of the ISAs visited have adopted the innovative packages (organized buying, organized selling, institutional credit projects, seed multiplication project, and others) designed to enable ISA-farmers obtain higher prices for their outputs, lower prices for their inputs and better credit access. Adoption of a unified ISA institutional credit program or adequate ISA self-financing of production appeared to be a prerequisite to adoption of the other innovation packages. Once the finances were organized, ISA leverage in buying and selling became

feasible. Awareness of the complimentarity of the packages seemed to be lacking in the training program.

Gasifier technology has already been introduced in a few ISA experiencing excessive electric or fuel costs, but the KAISAs have yet to establish a monitoring and evaluation system (MES) that would allow assessment of the effectiveness of the gasifier including its effect upon engine life and maintenance cost. Part of the problem is the absence of needed data from FSDC CO/AO such as the exact costs of and relevant engineering data on equipments replaced and installed. Incidentally, the lack of appropriate MES is also true for azolla projects. Specialized MES for each project type should be standardized for all KAISA and IOs assigned to each project should do internships to master the appropriate MES.

The young agriculture-trained IOs are expected to provide extension services to the ISA-farmers in their respective areas of specialization and act as liaisons/facilitators between the ISAs and agricultural resource institutions (government agencies - BPI, NFAC, BAI, etc., universities and colleges, and other research institutions) in areas outside their specialization. In general, ISA farmers interviewed have a satisfactory evaluation of the services being extended by these young IOs. However, these farmers are generally reluctant to indicate whether their services are worth paying for. In Zambales KAISA, the IOs are conducting centralized training programs for members using quality resource persons. ISA farmers and wives in this KAISA have agreed to pay matriculation fees and other training expenses.

Practically, if IO services are to be compensated by ISA members, charges must be packaged into the price of marketable commodities such

as specialized training workshops, irrigation fees, crop insurance, organized buying of inputs and selling of produce, and interests rates for institutional credit programs.

2.3. Specialization training for IOs to upgrade ISA services

The FSDC AO and the KAISA management recognized the problem of having a limited number of agriculture-trained IOs and the fact that most of these IOs still need additional training for them to be able to provide better extension services. Additional training has already been planned for these IOs as well as the non-agriculture trained IOs. Also, more farmer institutional officers (FIOs) will be selected for training on technical agriculture to expand the coverage of KAISA extension services.

Design of this training program must take into account a more basic problem of accessing adequate technical information on agricultural production other than rice and corn. While MA properly gives priority to rice and corn production for national needs, FSDC CO has not fully realized that technical information on crop diversification and livestock is very important to optimum utilization of irrigation during the dry season and to cash flows, savings and credit programs at KAISA level. On the other hand, FSDC AOs and KAISA staff have not communicated their need to the CO nor have they sought technical support from the CO. The KAISAs are expected by CO to conduct their own applied adoption diffusion research on crop diversification and initiate their own linkages with sources of technical information. Zambales, Benguet, Pangasinan and Capiz KAISA all have IOs working with ISA on crop diversification schemes to match identified local markets. In Laguna, ISA

members are doing it on their own. Capiz ISAs with pump irrigation systems and good water control combined with relatively more abundant labor, are including azola technology in their diversification schemes. In Pangasinan and Zambales, crops that require less irrigation water and labor are being matched to ISA labor resources and local markets. In all cases, depending upon the success of these innovations, the IO's and KAISA credibility is at stake. But given the very limited KAISA capability for applied research and the countrywide nature of the information availability problem, the evaluation team believes that FSDC CO action on this problem is necessary.

The evaluation team feels that these activities should be given a higher priority by FSDC. For KAISA with development plans including higher rice yields and crop diversification during the dry season; FSDC CO should be able to arrange a very useful internship program to train IOs. This training should be provided by farming systems specialists who have experience in adapting broadly recommended practices (BPI and others) to local conditions. For example, skill in using pH kits is often necessary to adapt fertilizer (N,P,K) and trace element (Zn, Su, Cu) recommendations to the local soils. For profitable yield increases, paddy soils with pH of 6.8 or less should be treated with 5 kgs of ZnSu per hectare. More basic soils (above pH 6.8) will respond even more to 10 kgs of ZnSu and 20 kgs of gypsum.

In addition to critical diagnostic techniques, the training should include observation of experiment station research upon which the recommended practices are based. This would usually be in the form of research reports rather than live experiments. Next the IOs should be trained to pretest any recommended variety or practice that is not

already being used by 30% to 40% of their respective ISA membership. Since the controlled and replicated experiments have already been done on the experiment station, a simple small trial with and without, or only with the practice would be sufficient. Once the IO is confident that the practice will be profitable in his or her ISA, a few nonusers should be recruited to pretest on their farms. Again a simple small trial would be sufficient for the farmer to decide if it will be profitable. This same strategy could be used to reproduce seed of new recommended varieties for each KAISA. In effect the ISA members would be pretesting new varieties and at the same time multiplying the seed stock.

Idealy, farming systems specialists could be found at each local College of Agriculture. Through their own research and student theses, they should have knowledge of local soils and adaptability of recommendations. They should be retained on an annual basis by FSDC IDL loan funds to extend these skills to IOs and they should be evaluated annually in terms of the skills and success demonstrated by the IOs. An FSDC CO farming systems specialists is needed to design and coordinate this activity.

For adoption on a broader scale within each ISA, the IO must make certain that the input required by the practice is available in sufficient quantity well in advance of planting. For example, Zambales KAISA reported Zink Sulfate (ZnSu) supplies to be insufficient. Once recommendations are locally adapted and tested, the KAISA should make certain the necessary inputs are available. In the case of ZnSu, the KAISA through FSDC CO could contrast supplies from Chem Phil. Likewise

the KAISA-FSDC CO connection could access early release of new varieties.

The type and quality of services that the KAISAs can provide their member-ISAs depends significantly on the number of IOs and FIOs with specialized training relevant to ISA defined needs. Original IO coverage was designed to be one IO for every two ISAs. As IOs are being pulled back from the ISAs into subject matter and enterprise specialization, FIOs are to be trained to replace them at the ISA level. Now, KAISAs are typically divided into districts with one IO supervisor and four IOs in each district. Each IO is supposed to cover four ISAs with an FIO programmed for each ISA. In practice, however, an IO has only one or two FIO per four ISAs at a time. With additional budget cuts expected, the IO:ISA ratio can be expected to decline even more. However, if IOs/FIOs can significantly improve their efficiency in establishing and managing linkages with colleges of agriculture, with the government extension service system, and with the private sector, KAISA services to ISAs could and should improve.

In sum, design of the specialization training program so that it will institutionalize a continuous flow of improve technical information to and from ISA is vital to the success of each KAISA-ISA partnership.

3. <u>ISA-member involvement in KAISA planning and management</u>

ISA member involvement in the planning and management of KAISA organization and enterprises is primarily through the General Assembly Meeting and the KAISA BOD monthly or bi-monthly meeting. ISA representatives (usually ISA presidents) attended these activities. ISA

involvement in the KAISA is also done through informal communication with the IOs and FIOs.

Formal KAISA development plans are still very much of a GM activity, especially in KAISA with EDLs for integrated rice processing or feedmills. KAISA Development Plan Manuals printed by the FSDC in February 1983 are supposed to be in use at the KAISA level. While this manual was not mentioned at any KAISA, it cannot be concluded that they were not available at the KAISAs. The team was not aware of the guidelines existance and did not ask about it. Development plans were discussed at all KAISAs, but no written presentation of such plans as suggested in the guidelines were presented. Examples of these plans are the Three-Year Development Plan (1983-1985) of Buri ISA, Davao del Sur and the Davao del Sur Projects for Economic Sector (1983-85). Both plans explicitly indicated the FSDC funding support requirements, but no mention was made of potential non-FSDC financing or KAISA equity building programs involving the membership.

Evidence of ISA member participation sought by the team included documented feedback from ISAs through the ISA presidents to the KAISA BOD supporting (or amending) the KAISA plans. In Laguna, as discussed above, the team was informed that only recently KAISA BOD and ISA members began to believe that the KAISA rice mill was their property. Equity plans and collections were just getting enacted. For the 1982 General Assembly in Misamis Occidental, several ISA presidents were backed with ISA resolutions to collect equity for rice trading capital, but the equity contributions were only 50% collected at the time of this evaluation.

The slow equity build-up for these KAISA enterprises suggests that ISA members do not feel that the integrated rice processing project is sufficiently responsive to their interest. This was observed even in the Misamis ricemill which appeared to have the best prospects for profitability of the three rice processing facilities visited. In the KAISAs with integrated enterprises, BODs were more involved in ISA level production activities than in KAISA management or planning. In Misamis, the KAISA President was elected after his success in turning a floundering ISA into a model ISA by organizing the irrigation management system to effectively provide water to more ISA members. Through the KAISA BOD, they are trying to transfer this experience to other problem ISAs.

Only in the Capiz KAISA have member-ISAs started to plan and synchronize palay collection schemes to match KAISA facilities. The Capiz IO and FIO networks are particularly organized for this purpose. However, it appears that the KAISA management is attempting to forge a marketing link by bidding up the price offered to ISAs for their produce rather than by fostering ISA loyality through provision of competitive services. While higher prices are beneficial to members, an unprofitable KAISA enterprise cannot continue to provide such benefits for very long.

Other KAISAs were observed to use a more institution-intensive approach where the KAISA depends largely on linkage with the member-ISAs and other institutions to develop their enterprises. The Benguet and Zambales KAISAs follow this institution-linkage approach. First, the EDL of these KAISA were applied to smaller linkage enterprises (threshing machines, trucking, trading posts, institutional credit, and

BOD involvement in KAISA enterprises policy, implementation, and management). The greater involvement of KAISA BOD and ISA members at this stage appears to be associated with more appreciated KAISA services and more efficient enterprise operations. While these two institutional linkage type KAISA are still too young to determine their relative efficiencies, the BOD of both are making plans to pay off their loans plus retain earnings to cover the depreciation on their equity investments. At least these two KAISA BOD have conceived a plan to accumulate equity. While the equity accumulation scheme may be built into the ammortization schedules of the other larger integrated KAISA enterprises, the plan is not a creation of the KAISA BOD and it may not benefit from the wills of their respective KAISA BOD. These two types of KAISA strategies can learn from one another.

4. Effectiveness of KAISA institutional and extension services to ISAs in comparison to other existing government organizations.

Among government organizations operating at the provincial level which are concerned with organizing of and delivering institutional and extension service to farmer associations, the provincial MA is the closest counterpart of the KAISA. At the national level, the Bureau of Cooperative Development (BCOD) is a staff bureau under the Ministry of Agriculture and BCOD's programs are being implemented by the MA's line organizations at the regions, by the regional MA and at the province, but the provincial MA. Being part of the overall program of the MA, farmer associations (Samahang Nayons, SNs), the counterpart of ISAs and farmer cooperatives (AMCs which are the federations of SNs), the counterpart of KAISA, have built-in access

to the more established and institutionalized extension service system of the provincial MA. Institutional development services are also provided the SNs and AMCs through the cooperative development division at the provincial MA office and Municipal Development Officer at the municipal level. Within the AMC itself a unit is supposed to undertake institutional development activities (e.g. conduct of various training programs) for the SNs in essentially the same way as that of the KAISA IOs.

Some AMCs have a financial arm through the Cooperative Rural Bank (CRB). Also, since it is the MA which is the one administering various special financing programs for the small farmers, conceptually at least, the AMC/s SNs have a better access to institutions' credit than KAISAs/ISAs. Moreover, the BCOD itself is presently administering a direct financial assistance program under the Cooperative Marketing Project (CMP) and the Cooperative Development Loan Fund (CDLF) for AMCs and other types of cooperatives.

The MA's cooperative development concept follows essentially the same concept as that of FSDC. Massive institutional development training programs were undertaken (pre-organization training, membership education training, management training) to prepare the SNs for capital-intensive agribusiness enterprises. Capital build-up program was also emphasized to include forced-savings program. A program monitoring and evaluation system was also established to monitor SN development status and determine SNs' readiness to graduate to higher level cooperatives (AMCs and CRBs). SNs' accumulated capital were used to capitalize the AMCs/CRBs which are designed to provide them with marketing and financial services. These AMCs/CRBs were supposed to be

managed by highly trained and experienced professionals whose salaries are subsidized by the BCOD.

As in the KAISAs, AMC enterprises (mostly ricemills) are also experiencing operational and financial problems. Lack of SN-AMC linkages has also been a major problems. SNs' development was much below program expectation. There are now more inactive than active SNs and BCOD's resources are now focused on the active ones. While SNs were previously not allowed to use their accumulated capital to finance SN-level economic activities (e.g. organized buying and selling), they are presently allowed to do so and they can be given direct financial assistance under the SNDP.

Given the problems of both AMC/SN and KAISA/ISA, it is extremely difficult to judge their relative effectiveness. An objective comparison is extremely difficult because of certain differences in approach, resources and target beneficiaries. What can only be concluded is that both have not been effective. What is important is to analyze the underlying problems and draw lessons from each other's experiences.

At this point in time, as far as the provision of extension service and financial assistance is concerned, despite apparent resource advantage of the BCOD's AMC/SNs, whether AMC will have better comparative performance is still an empirical question. In this evaluation, only active ISA members were interviewed. Inactive members as well as non-KAISA members may or may not perceive more adequate alternatives. In fact, several ISA members expressed the opinion that the availability of several alternative marketing strategies was important in that they provide competition and points of comparison

against which the KAISA-ISA performance can be judged. On the part of the FSDC, however, it can perhaps find some satisfaction in the knowledge that a former AMC president now with the KAISA indicated that small farmer development can be realized better under the KAISA. It will be interesting to find out, however, whether some KAISA presidents are thinking the opposite. The answer will revolve around the relative success of the two organizations in mobilizing the savings capacities and production bases of their members through the extension of beneficial and profitable services. The KAISA-ISA may be best designed to encourage savings through a voluntary mode, while the AMC-SN model is designed for forced savings. Logically, the KAISA-ISA visited appear to be better suited to the voluntary mode. Historically these communities now composing ISA were generally more remote or independent with smaller irrigation systems and more diversified farming systems than AMC-SN communities which tend to be found in larger irrigation systems. Concurrently, ISA farmers may have more diverse, if smaller scale experience in the market. The KAISA offers most ISA members relatively new opportunities to benefit from economies-of-scale. Before the KAISA can be successful in the voluntary mode, ISA farmers will have to visualize these economies-of-scale and that they can be converted into both increased member benefits and KAISA growth. Then and only then can they be expected to commit their energy and experiences to the KAISA concept.

If FSDC can help evoke ISA-KAISA initiatives, the next higher level organizations, similar to those already provided by the forced AMC-SN model, may also be realized through farmer organizational initiatives (volunteerism), rather than through strictly governmental initiatives.

More experience or a different philosophy might have been totally incompatible with the "construction first" imperative. In fact, given the push for construction, a much larger share of the department could have been assigned to the AOs to assist KAISAs in institutional development. This would be even more consistent with FSDC's resource development philosophy. Instead of a 30% CO-70% AO personnel ratio perhaps a 15%-85% ratio would be more strategic use of resources. This could have been implemented in the form of an enterprise implementation team at the AO-KAISA levels.

In any event, on paper, several KAISA have extensive capital facilities and new resources to manage, but in fact FSDC has by far the major investment in these resources. Considerable work must be done to achieve efficiencies in institutional development to make these KAISAs self-reliant and self-managed organizations.

1.1. Provision of technical assistance to KAISA enterprise

The CO EDD had provided several forms of technical assistance to KAISA enterprises, some of which are the following:

1. Prepared equipment specifications and facilitated equipment delivery and test runs;

2. Facilitated accomplishment of all requirements for licensing, registrations, insurance and other business regulations;

3. Designed and refined operating systems and procedures for enterprise management;

4. Assisted in the preparation of training design and conduct of training for enterprise staff;

5. Fielded CO-based action officers to complement AO action officers and assisted KAISAs in enterprise management;

6. Monitored prices of feed ingredients and other inputs

pages 46 to 51 are MISSING

and assisted AO/KAISA in the procurement of some of their ingredients/supplies requirements;

7. Coordinated with the BAI regarding feed ingredients and feed sample analysis.

In general, AO-EDD and KAISA management staff had raised no complaints concerning the above CO-EDD assistance. In some areas, however, the evaluation team perceived some weaknesses particularly in terms of the adequacy of training provided to the enterprise staff, the undue emphasis on operating system and procedures, and the apparent inadequate attention given to development of markets especially the intra-KAISA markets. This problem can be traced primarily to poor FS preparation (as noted in the sections below) and the inexperience of the EDD staff at both the CO and AO levels. They have recognized this problem, however, and have already started devising strategies to solve it.

Further discussion of the roles and results of FSDC Co and AO involvement in enterprise development are presented in the sections below.

1.2. KAISA enterprise monitoring

The CO-EDD monitors loan releases for construction of enterprise facilities and purchase of equipment, construction progress, and the delivery-installation-testing of purchased equipment. It also monitors the identification and training of KAISA enterprise personnel and is supposed to monitor also the KAISA monthly equity collection. The basic project management information system (PMIS) document being used by CO EDD in this regard is the Monthly Pre-Operation Progress Report prepared by the AO EDD in cooperation with the KAISA GM.

At the operations stage, CO EDD monitors and assesses enterprise activities through the Monthly Assessment Reports and the Quarterly Operations Plan. The assessment reports are used to provide monthly data as a check against the operations plan. The release of working capital is supposed to be monitored by the CO also but operationally, it was primarily the AO which actively undertook it. It was because the release of working capital is made at the AO level.

FSDC has built a substantial data base composed of Area Office enumerations of ISA and KAISA level activities. Monthly updates of training, farm family approach, agency linkages, innovation packages (institutional credit, organized buying, organized selling, production innovations, cultural practices, etc.) irrigation system construction and rehabilitation reports, irrigation system operational reports, and others are in the CO monitoring office. Most of these data if analyzed systematically can be very useful to the CO EDD in terms of evaluating the institutional readiness of the KAISAs to undertake enterprises as well as in assessing the relative suitability of alternative enterprise development models.

In general conceptual terms, FSDC has appropriate objectives for its project management information system (PMIS), but experience in developing such a system is admittedly lacking. It has planned to redesign the system, consistent with FSDC reorganization, through workshops in December and early in 1984 with the objective of providing each department heads in Central Office with at least the minimum information needed by each. Information needed will be based on information requirements for decision models used by each office. In most cases, the respective decision models are currently being developed

in line with the recent reorganization of FSDC.

The office of KAISA Development now merges the former activities of KAISA EDD-CO plus the KAISA level institutional development functions. There are now separate departments which serve KAISA Development and ISA Development, both are inclusive of institutional development and enterprise development at the respective levels. The marketing staff of FSDC has also joined the KAISA Development Department. Decisions effected by this new department will include readiness of KAISAs to assume EDLs. As an initial activity of the new KAISA Development Department, institutional development indicators should be established to rank KAISA stages of development and establish thresholds of readiness for enterprise development. Also, a clear idea of the relative advantages of when and where the two KAISA enterprise models, capital-intensive integrated processing or organizational-intensive market linkage activities, are most appropriate should be articulated. To date, this has not been done. At the moment, while FSDC CO provides general direction, the central conception is that each KAISA has its own personality and the directions they take is highly dependent upon the personality of their leadership and that the KAISAs must make it largely on their own. This may be true, but the PMIS should cover for the possibility that underlying forces can be identified that facilitate or constrain the chances of success of the linkage model or the integrated model in a given enterprise. This will require systematic analysis of several selected indicators from the PMIS.

2. Suitability and efficiency of KAISA enterprises in selected regions in comparison to existing private sector operations

While these issues were included as one of the items in the terms of reference, this team said during the pre-survey meeting that it would not be able to answer the issues adequately due to limited time allotted for the evaluation. Also the KAISAs are still relatively young to be compared fairly with other existing enterprises.

Much more data than are contained in the FS document would be needed by the team to be able to evaluate the suitability of the enterprises in their respective regions. The team would have to conduct its own feasibility studies on the enterprises in question to assess their suitability.

However, if the team would base their judgement on the available FS, none of the projects would be found suitable.

The estimated internal rates of return (IRR) of the projects range from 15% to 25% but when these IRRs are adjusted for the market rates of interest (21% to 25% on secured medium and long-term loan) prevailing in 1981 (during which the FS was prepared) the highest adjusted IRR comes to less than 10% only. This level of IRR which is yet to be adjusted for risk would definitely not be acceptable. For one the interest rates on long-term deposites already averaged more than 15% during the period. It should be noted that the estimated IRRs were already based on very optimistic assumptions on the expected revenues of the projects.

3. Quality of input and output and employment levels and wages

Likewise, this aspect of the study could be discussed only within the limits of the available data. The team supplemented the field data with the members' personal experience, observations and

impressions.

There is no apparent difference in the quality of palay output from the KAISA rice mills compared with those from their private counterparts. The same is true with the KAISA vegetable trading project.

As to quality of output, however, the KAISA rice mills definitely has better milling recovery (more than 66%) relative to private rice mills. This advantage might be due to the relative newness of the KAISA rice mills over the existing private rice mills. Likewise, the quality of milled rice finally made available to the market by the KAISAs can be expected to be better than their private rivals. It is usually the practice among some private rice mills to mix low-grade and higher-grade rice that a typical rice buyer could hardly detect. This unfair trade practice is also observed in weights.

The difference in the quality of feed inputs was observed between independent feedmillers and their counterpart KAISAs. However, some quality difference can perhaps be expected between the KAISAs and the large feedmill integrators. The latter usually has an advantage over the former. The integrator usually have much better technical experience as well as larger financial resources. Their more established "public relations" help them gain more access to NFA-controlled inputs such as yellow corn and soymeal. Unlike what happened to some KAISA feedmills, these integrators would not settle for weevil-infested corn of NFA. Also, these large integrators have been producing part of their yellow corn requirements.

Low quality feeds can be expected to be less probable in the large feedmill integrators than in KAISA feedmills. However, even the largest

4.1. Marketing aspect

The most important portion of the project FS, the marketing aspects, had not been given adequate attention. For instance, in the case of rice mill projects, the supply of palay was simply based on the marketable surplus estimated at 60% of the total KAISA production. This estimate is assumed constant across all rice mill projects. Not taken into consideration was the surplus portion already committed to the farmers' creditors (private middlemen, traders and rice millers). The marketing practices of competitors were also not well studied. The extent and nature of competition had not been analyzed.

Likewise, the vegetable trading project was not thoroughly examined. While the KAISA management fully recognized the dominant hold of existing middlemen and traders on the vegetable farmers, this was not considered in the FS. The FS was also very deficient on the demand side of the market. The FS simply estimated the aggregate demand for the province or ISA-municipalities. But the strategies and their cost implications for breaking through and penetrating the market were not specified. This explains why cost item for market promotion and development does not appear in any of the FS.

The General Managers interviewed were of the consensus that the sales assumptions of the FS were too optimistic. For this reason, all of them adjusted significantly downward their sale forecasts in their operations plans (OPLAN) during the actual operation of the projects. Despite this however, none of the projects had accomplished the OPLAN targets.

PREVIOUS PAGE MISSING

4.2 Technical aspects

Due to deficiencies in the marketing analysis aspects of the FS, it is difficult to assess the technical soundness of the project, particularly the project capacity and project location.

As far as the engineering aspects of the project is concerned, the FSDC, which is solely responsible for this part of the FS, has done its job creditably. Still minor technical problems were either observed by the team or brought to its attention by KAISA officers and staff. These included inadequate ventilation resulting in dust explosion, lack of partition walls in the rice mill building, inadequate solar drying space, change in the specification of the mechanical driers, and poor performance of installed driers, and road level basement of the rice mill and others.

Some KAISA Board members felt that while they have very limited technical knowledge, they should have been consulted on some minor technical matters such as the capacity and location of solar driers.

4.3. Management aspects

The analysis of the management aspects of the FS was also limited. The study stopped at mere specification of the project organizational structure and enumeration of the various personnel required including their respective functions.

Since the success of the projects would depend significantly on the effectiveness of the KAISA and the ISA organizations as a whole, the FS should have included institutional linkages with ISAs, credit institutions and other government agencies in the area (NFA, BAI, BPI, etc). Specific strategies in establishing linkages with other

institutions that may be needed should be specified and their costs implications fully considered.

Moreover, since the project management structure is actually designed to be filled-up by qualified people from the existing KAISA organizational staff, there is a need to examine the ability of these people to administer the project and to identify what specific management trainings they may have. The overall effectiveness of the KAISA organization in undertaking other activities that may be directly or indirectly supportive of the project (e.g., promotion and development of project-related ISA-level enterprises), need to be examined.

Likewise, the experience and the effectiveness of KAISA organization in undertaking economic activities for the ISA prior to the project such as organized buying and selling should be indicated.

4.4. Financial aspects

The project account formats and the mechanics of the financial analysis were generally adequate except for some minor considerations that need to be included to improve the analysis. These are the following:

a. Provision of allowance for physical and price contingency in the construction component of the project.

b. Increase in the working capital since operations are projected to increase over the project period.

c. Working capital balance should be considered as a cash-inflow at the end of the project period.

d. Inventory, account receivables and accounts/trade payables should be realistically reflected in the project balance sheet.

e. Sensitivity analysis should be conducted to analyze how possible delays in project implementation,

increase in costs of input reduction in output prices, milling recovery, etc. will affect the project.

f. It should be better if the project cash-flows are analyzed on a before- and after-financing basis.

The results of the project analysis before financing will serve as a basis for shaping the credit terms (e.g. grace period, loan maturities) and for determining the amount of subsidies that may be needed to ensure the viability of the project.

There is one important aspect, however, that was neglected in the FS and that is the consideration of the required equity from the KAISA. Inspite of FSDC policy, most of the KAISA's studies do not comply with the equity requirements. The study should have indicated the ability of the KAISA to generate the equity for the project. Fund generating schemes and implementing timetable were not specified.

5. Project management and operations practices

5.1. Pre-project operations

The FSDC personnel had performed remarkably well in this particular phase of project development. The projects visited experienced no problems in this regard, except for one KAISA were the management had to request for the replacement of the engineer assigned for construction supervision. Construction progress was well on schedule and construction costs for all projects were never beyond the projected amounts based on the FS. Project fund disbursements had not been a problem and purchased equipment and accessories were never questioned as to their quality and prices.

5.2. Initial project operations

Except for one KAISA, the expected FSDC assistance in the initial operations of the project was very much apparent. In this particular KAISA, which happens to have the worst performance, the action officer assigned to the project was said to be hardly available. Project visits on the average were only once a month and services concentrated primarily on coaching the KAISA bookkeeper in implementing suggested accounting systems and procedures. In all other KAISAs, AO action officers had spent from three (3) to six (6) months with the enterprises on a part-time to a almost full-time basis. Assistance in the implementation of accounting systems and procedures as well as the operations planning and assessments were provided.

As far as accounting systems and procedures are concerned, minor complaints have been raised by the KAISA management. These revolved around the adaptability of some of the accounting forms and vouchers prescribed, particularly in transactions involving the small farmers who are completely unfamiliar with such things as sales invoice, purchase order forms, etc. The action officers have shown sympathetic attitude towards the situation and have accordingly approved certain modifications in the forms without necessarily sacrificing the element of control.

5.3. Management of enterprise funds

FSDC-AO plays a central role in the management of enterprise funds. Control of funds is in the hands of the AO Manager and his Assistant Manager who are the signing officers in the release of funds needed for the operations of the enterprise.

The AO controls the release of operating capital loan and the FSDC equity in the trading capital based on the FS. Release of these funds to the KAISA enterprise is staggered and based on the budget requests submitted by the KAISA management to the AO and with respect to the trading capital, also on the KAISA's compliance with the required equity on trading capital. Two bank accounts are being maintained for the enterprise: a current account which is controlled by the KAISA management and a savings account maintained and controlled by the AO.

The current account is used for the operating and trading fund requirements of the enterprise. Replenishment and addition of funds to the account is effected by transferring funds from the savings account by the AO based on the requests of the KAISA General Manager. As a rule, all enterprise sales and collections should be remitted to the AO and deposited in the savings account.

Currently, except for the Davao KAISA, all KAISAs studied are still making remittances to the AO. However, in the case of Benguet, during peak seasons the AO Manager allows the KAISA Manager not to make remittances anymore in order not to disrupt trading operations. During these periods, however, more frequent audit of the KAISA is being conducted by the AO.

In practice, most KAISAs revealed that occasionally, they do not make regular remittances to the AO. This usually happens to avoid payment delays and delays in purchases. It was reported by the General Manager of a rice mill that he had once been put in a bad light before the ISA farmers because of more than one (1) week delay in the payment of purchased palay. In the case of a feed mill, there were several

delays in the purchase of required raw materials because of the delays in the release of funds requested from the AO.

In the case of the Davao KAISA, the AO has already granted complete financial autonomy to the KAISA management, the latter no longer being required to make remittances to the AO. According to the head of the Enterprise Development Department in the AO, this is due to the management maturity and good overall performance of the Davao enterprise. However, he added that the personality and character of the General Manager is a significant factor also.

The evaluation team appreciates the need for FSDC control in the management of enterprise funds. However, the benefit from control must be weighed against the cost of probably payment delays and inability to make timely and profitable purchases.

In some cases, these problems can be avoided through better production, planning and inventory management. However, in the case of the rice mills, this strategy is not relevant particularly in palay buying operations. Payment delays and inability to purchase delivered palay of ISA farmers due to delays in the release of requested funds can have very adverse impact on the performance of the project.

5.4. Operations planning

Only the KAISA General Manager and the enterprise operations supervisor, mostly with assistance from the AO Action Officer, are involved in the formulation of operations plans for each enterprise. There was a general consensus among the General Managers (GMs) interviewed that due to lack of necessary training, the members of the Board may not be of effective assistance in this regard. All the GMs

claimed, however, that the Board is nevertheless being consulted on the operations plans when they are presented during the Board meetings. Based on the reading of the minutes of the Board meetings, however, this claim was not substantiated.

The evaluation team believes that while the BOD members, in general, may not possess the necessary planning skills, some of them have a wealth of experience and insights in some areas relevant to operations planning that can be tapped to develop an effective and responsive operations plan for the improvement of enterprise performance. This is true most particularly in the formulation of effective strategies for mobilizing wide participation and developing necessary linkages with the ISAs in undertaking activities directly and indirectly supportive of the enterprise. In fact, most operations plans reviewed by the team were lacking in the statement of this kind of strategies.

5.5. Operating policies

A reverse of the minutes of the Board meetings revealed that except for one (1) KAISA, the Board of Directors (BOD) of all KAISAs have been active in their policy-making function. In general, however, these policies have been concerned more with controlling expenses and less with improving enterprise markets and income. This is due to the lack of involvement of the BOD in enterprise operations planning and the absence of direct participation in the financial management and control of enterprise operations. The KAISA Treasurers and Auditors were not able to perform their respective functions due to lack of either the necessary training or time for the organization, or both. The BOD

simply designated somebody from the KAISA management staff to assume the functions of the Treasurer and Auditor.

In one KAISA, there were no clear-cut policies and this has somehow strained the relationship between the BOD and the General Manager. According to the GM, it was only very recently, that the BOD started to formulate policies. The GM, also said that only very recently that the BOD really felt that the enterprise really belongs to the KAISA. However, he did not elaborate why it was so. On the part of the BOD, however, there was the apparent feeling that the General Manager has been managing the project almost independently of the Board, even sidestepping the latter on decisions that they believed they should have been consulted.

All the KAISA rice mills studied have the same policy of given an incentive of ₱0.01 kilo of palay purchased from the ISA farmers to the farmers' ISAs. However, this incentive is not given in cash to the ISAs but is credited to the ISAs' equity in the KAISA enterprises. Whether this amount has actually been credited was not established by the team because the needed data could not be made available to them during the survey.

In the case of feedmills, the KAISA provides sales commission to their sales employees as well as to the IOs involved in sales. Sales commissions on plant sales are also provided and these are shared equally among all the employees of the feedmills. In Davao, the commission is fixed at ₱2.00 per bag. In Pangasinan, no commission is given on sales of less than 200 bags per month per person. For sales exceeding 200 bags but not more than 250 bags, the commission is ₱1.00 per bag and it is reduced by 10 centavos per bag for every additional 50

bags sold. In the purchase of raw materials from the ISA farmers made through the ISAs, a minimal incentive is also being paid in cash to the ISAs.

The decision on pricing is primarily made by the KAISA GM and the Operations Supervisor, except in the case of the Laguna KAISA where the Board is also involved in setting prices. In Pangasinan, in the initial operations of the feedmill, pricing was based on standard costs provided by FSDC.

Except in Pangasinan, no price preference is currently being given by the KAISAs to ISA farmers. In their early operations, milling fee discounts were given by the Capiz and Laguna KAISA to ISA farmers at 50 centavos per cavan of palay for Capiz and 10 centavos per kilo of milled rice for Laguna. However, they are presently charging the going rates set by the Association of Rice Mills in which they are now members. In the case of Pangasinan feedmill, ISA farmers are given a price discount of ₱2.00 per bag.

On sale of feeds, free delivery service is provided within a given radius beyond which the delivery charge may vary depending on distance and volume purchased. The sales representatives and/or the IOs assist the management in scheduling deliveries to economize on costs.

For rice mills, there was no price differential on palay purchased, whether they are delivered to the mill or picked-up by the mill truck. However, depending on the volume delivered, ISA farmers are reimbursed for their costs of delivery. Majority of the palay purchased are delivered. Except for Capiz and Misamis, which have large institutional buyers, majority of the milled rice is sold and picked-up at the mill.

Delivery charge on rice varies depending on distance and volume involved.

In Laguna and Capiz, sales of milled rice are generally on a cash basis. In Misamis, a large portion of sales had been on a 50 percent cash: 50 percent credit particularly with respect to its large institutional buyer.

There is a general FSDC sales policy of 80 percent cash and 20 percent credit mentioned in the Procedures Manual which is supposed to be observed by the KAISA management. However, this policy is considered ineffective by the Managers. Some managers criticized the Procedures Manual to be too general to apply to all enterprises regardless of type. These managers suggested that FSDC should come up with a separate Procedures Manual for each type of enterprise.

On feeds, the cash price is 5 percent lower than the price on credit. Credit term is generally on a 15-day basis although a longer term (up to a maximum of 30 days) is extended depending on volume. The managers noted that many competitors have been extending 45 days credit and even 60 days in some instances. One feedmill has been experiencing 60-120 days collection period on its credit sales.

Except in Laguna, all KAISAs have been utilizing the IOs/FIOs in price monitoring for both palay and rice. All KAISAs, however, have been using their IOs in monitoring production of ISA-farmers.

In Laguna, there was no price monitoring system for both palay and rice. The operations supervisor mentioned that they simply asked the traders who came to buy rice, retailers and other millers in the area whenever they have occasions to go out of the office. The need for a

price canvasser had long been recognized but nobody has yet been designated.

None of the KAISA rice mills had used the services of professional middlemen/agents in their buying and selling operations. However, one KAISA indicated a plan to do so.

5.6. Operational and financial status

Except for Davao (for most months), Pangasinan (for the months of June and October 1983) and Capiz (for the period from April to August, 1983), the KAISA enterprise projects would all exhibit a net loss (after interest and depreciation) for all periods if the salaries of all personnel employed in the project would be fully reflected in the income statement (the salaries of all regular employees in the projects are being charged against the IDL and are excluded from the income statement).

In general, the poor financial performance of the projects(refer to Annex 3) was primarily due to extremely low volume relative to those projected in the FS. Low profit margins were also a contributing factor.

The Davao feedmill has the best financial performance based on net income. In terms of other financial indicators, e.g. return on assets, return on equity, etc., the comparative financial performance of the enterprises cannot be analyzed due to inadequate data. The final statement of project account is yet to be prepared for each enterprise, hence, the absence of enterprise balance sheets.

Detailed analysis of actual financial performance vis-a-vis those projected in the feasibility studies was not undertaken as it was deemed

to be a futile exercise by the team not only because of data problem but also due to defects in the feasibility studies themselves. It can be concluded, however, that for all enterprises, actual performance had been way below feasibility study projections.

A number of factors, singly or in combination, have contributed to the low volumes of business of the enterprises. They are: low production due to drought problem, low level of trading capital, low profit margin, lack of adequate and stable markets, poor quality output, and drying problem.

In general, the lack of adequate and stable markets is the most serious and pressing problem confronting all KAISA enterprises. This is more serious for those enterprises with both supply (input) and demand (output) market problems.

All the enterprises suffered the problem of not being able to effectively develop market linkages with the ISAs as conceived in the FS. On the supply side, as noted earlier, the estimates of potentially mobilizable marketable surplus of rice, vegetables and some raw materials for feeds from the ISAs were defectively arrived at by failing to consider portions which are already committed to the farmers' creditors.

Actual operations results indicate that the Benguet KAISA is 98% dependent on its ISAs while Capiz and Laguna are 100% dependent. However, the linkage is very insignificant considering the low volume of transactions involved. The Misamis rice mill may be less than 50% dependent upon its ISA, depending upon the success of its current operations plan to buy palay in Zamboanga del Sur and on returns from Illigan City rice delivery trips. As regard the feedmills, the Davao

KAISA depends on other KAISAs in Cotabato more than on its own ISAs. It is almost 100% dependent on the former with respect to supply of corn and rice bran. Davao ISAs have been supplying part of the ipil-ipil requirement of the feedmill. In the case of Pangasinan feedmill, there has been minimal dependence on local ISAs except for palay.

As indicated on the FS, the ISA were the primary target of the feedmills. However, this was not given adequate analysis during the FS preparation nor during project operations. In the case of Pangasinan feedmill, for instance, it was only after three months of operations that a market survey of ISA farmers was initiated to determine feed demand and prices and to establish a basis for the feedmill's pricing policies.

In general, the role of institutional credit in developing the markets has been recognized by all the general managers interviewed. Credit is seen as a necessary tool to "free" the marketable surplus of rice and vegetable farmers and to finance the poultry and livestock enterprises of the farmers to generate demand for the feedmills. All the managers suggested the use of enterprise trading capital when available to finance the credit requirements of the farmers. There is the problem of very limited capital, however.

In the case of Davao, sales volume during the last quarter was more than 80% of the targeted volume based on the FS, but the low profit margin on sales had prevented the enterprise from realizing a modest return on investment. However, if the successful penetration of the market can be sustained in the long-run, there exists a significant opportunity for the enterprise to improve its profitability. This is because, on the average, the price of mixed feeds of the enterprise is

₱ 20.00 per bag lower than its least expensive competitor despite the fact that the quality of its feeds has generally exceeded the nutrient standards set by the BAI.

In addition to low prices, Davao's market success can be traced to effective development of its market outlets. The enterprise currently has ten (10) established market outlets owned and operated privately by KAISA officers and staff and/or their relatives. One outlet is owned exclusively by the enterprise staff. Twenty-five (25) of them contributed ₱5,000 each in equity capital and established the outlet.

In contrast, in Pangasinan, they just recently opened one outlet in San Carlos City but it is being operated only 2 times a week during market days. The Capiz rice mill has several institutional buyers and has been operating two (2) wholesale/retail outlets of their own. Misamis has one large institutional buyer, the Iligan Cement Corporation, but Laguna has no institutional buyer and has not even considered a plan to establish its own outlet.

The Benguet KAISA had not established any wholesale/retail vegetable outlet yet, not even a small one in Benguet because the manager thought there is already very stiff competition there. Most of its transactions had been with the Chinese traders in Manila. The management plans to develop markets outside of Metro Manila and intends to develop trading linkage with the Fish Cooperative in Binan, Laguna. They had tried to link up with KADIWA Centers before but complained of poor payment system. It takes more than 2 weeks to clear KADIWA checks according to them. Recently, KAISA management has made initial inquiry into the bid process at Subic Bay.

The task of developing markets had been particularly difficulty for KAISA feedmillers in Luzon, such as the one in Pangasinan. It had to compete with much bigger and well entrenched poultry integrators as well as smaller privately managed feedmills in the area. Pangasinan's problem is not only in the product market but also in the input supply market. In the KAISA feedmills in the South, such as the one in Davao, the problem is primarily on the product market.

The integrators' control over the supply of hybrid chicks has made penetrating the commercial mixed feeds market extremely difficult for the KAISA management. Some integrator-feed dealers sell hybrid chicks to independent growers on condition that the latter would buy their feed requirements from the former. Also, many of the independent growers prefer to buy the popular brands of mixed feeds that the integrators produce unless substantial price difference exists in favor of the relatively unknown brands. This is one reason why the Davao KAISA had to set their prices much lower.

Aside from the above problems, the KAISA feedmill also has to contend with the problem of quality control for their mixed feeds. Since they lack the needed equipment to test the quality of inputs and outputs, the KAISA feedmills have to rely on the BAI to do the testing for them to determine whether their outputs are within acceptable standards. However, for the Pangasinan KAISA, test results are usually so late that on several occasions they have already mixed and sold many bags of feeds, only to find out later that these feeds had not met the standard requirements. (To get around this technical problem, it appears that the Davao KAISA has decided as a matter of strategy to mix feeds with quality consistently higher than the standard required. But

the cost implications of this strategy should be studied). It had been advised twice to reformulate its feeds during the last six months. Much earlier, barely two months from the start of operation, it had to stop operations temporarily because of the adverse impact its feeds had on the poultry of its biggest client (more than 50% of its previous sales). Fortunately, the client-victim happened to be another KAISA in Illocos Sur. Otherwise this sad event may have had serious implications on the sale of all KAISA feeds nationwide.

There have been and there are still several technical problems in the operations of the Pangasinan feedmill. These include the lack of needed skills in the proper use of moisture meter and microscope for quality control purposes, problems regarding molasses calibration assembly and the sieve in the hammermill, incurring problems on control of weevils, poor-quality yellow corn purchased from NFA, and rice bran with high fiber content.

Low profit margins during peak harvest months, due to narrow spread between the price of palay and the price of milled rice especially during the rainy seasons when drying costs were particularly high, have contributed to the low volume of palay purchases of rice mill projects. There was a period when palay buying had to be stopped in the Laguna rice mill due to extremely low margins barely sufficient to cover the variable costs.

Drying problems appear to have seriously undermined the operations of one KAISA rice mill. Because of limited mechanical drying capacity, the GM of this rice mill had to refuse to accept wet palay delivered by one farmer-member and this had caused misunderstanding between the GM

and the BOD as the latter thought it had effectively discouraged other farmer-members from selling to the KAISA. Prompted by this incident, the BOD put a ceiling on wet palay delivery per farmer-member per seasons. The objective is to provide equitable access to the mechanical driers.

6. Effectiveness of management and operations practices

The pre-operations management practices of FSDC CO and AO have been found to be generally effective by the evaluation team. There were no cost-overruns on all projects, project activities were well on schedule and delays in project fund disbursements were not experienced. No complaints have been raised with respect to the price and quality of purchased equipment.

However, some minor problems have been discovered with respect to construction designs and changes introduced in the equipment specifications on which the KAISA management have been neither consulted nor informed about. But generally, those problems can be solved without seriously impairing the current operations of these projects. Immediate solutions of these problems will, however, contribute to the improvement of the project performance. Likewise, the lessons learned from these problems will provide useful guidelines in designing, developing and implementing future enterprise projects.

FSDC CO/AO management practices with respect to provision of technical supervisory assistance in the initial operations and management of the projects need some strengthening and redirection. The practice of assigning AO action officers to supervise the initial

operations of the projects has not been uniform. More attention has been provided to more developed KAISAs located in more developed FSDC regions. The emphasis of the action officers' assistance has been more on accounting systems and procedures and less on the nitty-gritty of the enterprise operations. Technical assistance in operations planning and assessments were most evident but the emphasis again had been more on form rather than on substance. The deviations of actual from planned results have received more attention than the identification of fundamental causal problems and the formulation of well conceived, broadly participatory action plans and strategies to solve them.

The foregoing can be traced basically to poor project planning and development that has its roots in poor preparation of the project FS. Had all the relevant aspects of FS preparation and analysis (extensively discussed above) been adequately considered, there would have been less problems in the initial project operations. Problem areas would have been identified earlier and alternative plans and strategies for solving them would have been developed.

The FSDC CO and AO involvement in initial project operations and management can perhaps be made more effective if competent action officers can be mobilized and made to concentrate on basic operations and management problems of the enterprises. The major cause of these problems is the lack of adequate and stable markets in both the supply and the demand side. These action officers should be able to effectively assist the KAISA management in developing and implementing effective market development strategies and should focus on the development of intra-KAISA and inter-KAISA market linkages.

At the KAISA level, it is difficult for the team to come up with conclusions on the effectiveness of management and operations practices employed. There are definitely many problems in this regard as previously indicated and these have been the subject of several recommendations suggested by the team. In general, however, it can be concluded that the KAISA Board and management of the enterprises studied have an adequate understanding of the problems constraining the operations of the enterprise and have somehow responded with plans, policies and strategies to solve them, but their effectiveness has been limited by the lack of depth of understanding and consideration of all the interrelated variables bearing on the basic marketing problems. And nothing short of a systems analysis approach to solving this problem would suffice. Of course, lack of management training and limited financial resources are also a problem at the KAISA level.

7. Future of KAISA enterprises

Despite the poor operational and financial performance of the KAISA enterprises, there is a consensus among FSDC officials, local leaders and KAISA employees that eventually these enterprises will survive. There is a general feeling, however, that their survival is contingent on the continued provision of subsidized loans for the operations of these enterprises.

Among KAISA members, however, while in general there was an optimistic feeling about the future of the enterprises, not a few members interviewed expressed indifference about it. "It will be good if they finally make decent profits," " do you think they will succeed?"

or "we just hope we can receive some dividends on our stock later" are samples of the answers given by these KAISA members when asked about the prospects of their enterprises.

As to the evaluation team's own assessment of their prospects, it can only answer with a recommendation that said types of enterprises not be considered for funding in the future unless they are backed-up by thorough and sound feasibility studies.

C. Related Observations

1. Distinctive features of the KAISA

Those who are aware of the different rural development concepts and models being tested in the Philippines could not possibly help but feel impressed and excited over FSDC's concept of the KAISA. Of course it is too early to make a firm judgment at this stage about the future of this concept. But if only for trying to operationalize and risking to test the concept at the field level in almost all the provinces, the FSDC is certainly one agency to watch.

The KAISA has at least three distinctive features which make it a radical departure from other rural development concepts tried in the Phillipines.

First, it is perhaps the first attempt of a government agency in the Philippines to test in a massive scale the idea that farmer organizations should pay the salary of the field workers. The KAISA shoulders the salary of the extension workers known as Institutional Officers (IOs) through the institutional development loan (IDA) provided by the FSDC. Evenutally, the KAISA will pay the salary of the extension

workers and other personnel through its profits in the enterprises that it undertakes.

Second, the KAISA has a relatively strong business-orientation, as opposed to the common welfare-orientation, being followed by virtually all local government agencies operating in the Philippines. FSDC feels that by being financially stable, the KAISA will eventually become self-managed and consequently self-reliant.

Third, the KAISA's enterprise is initially financed by a loan which is coming directly from FSDC. As mentioned earlier, FSDC is mandated to give loans to farmer associations which it has organized. Most of the government agencies in the Philippines do not have control over relatively big loans. Farmer associations are usually asked to borrow loans from rural banks and some commercial banks. Access to adequate credit lines by an implementing agency of rural development projects has been shown to have considerable influence on its growth if not success. In an inter-country study on small farmer development initiated by FAO in Bangladesh, Philippines and Nepal, where the control of funds was in the hands of the lead agency, the Agricultural Development Bank of Nepal, the Small Farmer Development Project soon became a national program. In the two other countries, where the loan was controlled by separate banks, the project remains a small special project.

2. PMIS and FSDC image: Reports to USAID

The project paper (PP) indicates that several monthly progress reports would be made from FSDC to AID including institutional development activities completed for ISAs and KAISAs; irrigation development activities by area and by types of systems; ISA management

schemes implemented; KAISA enterprise established; and loans to ISAs and KAISAs (IDL & EDL). Also, the annual report was to include status of completion of prior and present year activities, program targets for the succeeding year and the year's summary for all activities listed above for montly reporting.

As an initial check on this part of the PP implementation plan, Annual Reports for 1981 and 1982 were reviewed. In general, most enterprises were reported but in a cumulative form. No comparisons with the previous years status was made except for comparative balance sheets and statements of income and expenses (1981 Annual Report Only). Detailed footnotes in the 1981 report were also quite helpful. A breakdown of Federation Loans with IDLs and EDLs was provided. Neither these nor other comparisons were provided in the 1982 Annual Report. Only cumulative data were presented. This omission is particularly critical to the image of FSDC as a well-managed and competent organization. Such an organization would document its successes and its mistakes, even in slow years, and then demonstrate that it is learning from its experience by prescribing key program targets for the coming year. Such a presentation would instill confidence in FSDC by funding agencies including the GOP. A development corporation such as the FSDC must know the developmental status of its projects and it must devise strategies to strengthen weak links. It must also learn from its successes. If weaker links cannot be identified, then corrective action cannot be expected.

Funding agencies must look beyond the annual report; but a good annual report facilitates the funding process. The evaluation team requested from FSDC or USAID but did not find monthly reports indicated

in the Project Paper (PP). In the absence of the farming systems and agribusiness specialists prescribed by the PP and funded in the grant for 1982 and 1983, the reporting process has been handled informally by the OCD project manager.

The reports have focused on the six KAISA rice processing facilities funded in part by USAID. In particular, institutional development data was lacking for these projects in USAID. In the absence of monthly reports at USAID as detailed in the PP, the team requested FSDC to supply some of these specific items on Monday, November 21 (Annex 1, Chart 1). Not only would this information help validate the field data, but it would demonstrate FSDC's effectiveness in retrieving data from its database.

Of the items requested, the IDL data (contracted amount and releases for 1980-1984 Budget) were provided two days later (Nov. 23) for all areas requested (Annex I, Tables 1 and 2). However, staffing figures and breakdown of IDL releases for personal services were not readily available at CO. Also, EDL data from FSDC releases to the six KAISAs receiving AID related enterprise loans were received on Nov. 23, 1983. Only operating and trading loan amounts and FSDC trading equity amounts were provided (Annex I, Table 3).

As a counterpart requirement to FSDC equity contributions, KAISA equity contribution for trading capital are reported monthly by radio to the KAISA EDD. However, these reports were not available to the team five days after the request (11/25/83). Also, no rice market data or operationalization data for the ISA irrigation systems were readily summarized by 11/25/83. This data is available at FSDC CO, but it would take more time to summarize.

The evaluation team, as well as FSDC CO, recognizes that poor utilization of this data base is a serious organizational problem. The FSDC CO receives the prescribed data on a regular basis, at least from the AOs visited (I, IV and VI). Furthermore, these AOs appear to be using the data effectively in programming within their respective area. What appears to be lacking is the experience and training among FSDC CO staff in the various departments to envision the importance of effective data utilization. Demonstration of FSDC CO competence in project evaluation is important to the kind of image projected by FSDC to outside funding agencies as well as to support FSDC AO and KAISA development.

The delay of over two years in recruiting the USAID technical assistance for farming systems and for agribusiness enterprises is a serious delay in regard to the reporting system.

3. Classification scheme for ISA and KAISA

FSDC staff at the area level and the national level have started talking about ways of classifying ISAs according to the performance of the association and the enterprise. At this writing, there are varied terms which are being used. In one area, FSDC staff talk about classifying ISAs into (1) developed, (2) developing, (3) hopeful, and (4) hopeless. In another area, there is an attempt to classify ISAs into: (1) mature, (2) threshold and (3) crawling. These attempts at classifying ISAs should be formalized and a study group should be organized to systematize and standardize the categories so that there will only be one measuring instrument for classifying ISAs nationwide. This method can help a lot in allocating FSDCs resources

and in determining ISAs which are already self-managed and self-reliant. The same instrument, perhaps with minor modifications, can be used for determining the stage of development of KAISAs.

4. Inactive ISA

KAISA staff may already be over extended attending to the active KAISA. However, the presence of many inactive ISAs, e.g. 38 of 84 in Pangasinan, begs for an explanation. If only a few could be identified as good prospects for rehabilitation it would be worthwhile. Most of the inactive ISAs are those who feasibility study did not result, for various technical reasons, in an irrigation facility loan or those ISAs with PIP systems that stopped operating due to excessive fuel costs and/or technical engineering problems. Some CIPs have been inactive also.

The evaluation team observed that KAISA management had not done sufficient analysis to understand all inactive ISAs. Most PIP ISAs have continued to operate and amortize their systems despite high fuel costs. The experience of these active ISAs if properly monitored can serve as a basis for determining whether the underlying problems of inactive ISAs are either managerial/organizational or technical. Among the ISAs visited, successful diesel irrigation pump systems appeared to depend upon older men who had retired back to their village with mechanics credentials and experience. ISAs may also have recently gained a mechanic by windfall while others may be encouraged to recruit a native son-mechanic to "retire" back home. Other inactive ISAs may simply have had leadership problems that are now or could now be resolved.

In other instances where local fuel costs were to blame for

inactivity, the KAISA should look again at the economics of bulk purchases of fuel.

Finally, if the opportunity costs of labor were to blame for inactivity, KAISAs should intensify their search for higher return crops or technologies that enhance the returns to existing crops. These and other critical linkages can usually be identified on an ISA by ISA basis.

If financially feasible means of activating these systems cannot be found, then perhaps other feasible development support projects may be identified. The FSDC and KAISA have already invested in the organization of these ISAs and since their investment is already a sunk cost, other feasible projects can perhaps be easily identified.

5. Career path for GMs, IOs and FIOs

The career path in an organization is important in retaining experienced and high performing staff. It is significant to note that the IOs and the GMs interviewed are very well aware of their career path within the KAISA and the FSDC. They feel that FSCDs management treats the FSDC and the KAISA personnel on equal footing. The IOs in the KAISA are equivalent to project assistants in the FSDC. An IO can be promoted to occupy the position of a GM in the KAISA or a Project Officer, a Training Officer, or a Financial Analysi in the FSDC. The GM can also be promoted to join the FSDC Area Office. The potential positions open to him is that of a selection head or an Area Coordinator. In fact there are already a number of cases within the present set up of the FSDC and the KAISA where IOs were elevated to GMs in the KAISAs; and GMs were raised to section head or Area Coordinator in the FSDC. FSDC

management encourages filling up vacant positions by qualified people within the organization. This system should be extended down to the Farmer Institutional Officer (FIO) level. Some of the FIOs in Capiz are college students who are potential IOs after graduation.

6. FSDC reorganization

The establishment of the KAISAs at the provincial level created new demands at the FSDC and the ISA levels. But greater demand is felt at the FSDC side. In response to this demand, FSDC has to reorganize. One of the most significant changes in the FSDC structure which is a direct response to the creation of the KAISA is the organization of the KAISA Development Department. Under the new set-up, which takes effect only this month (November 1983), the institutional development and the enterprise development are merged in the same department. Before the reorganization, the institutional development belonged to one department and the enterprise development fell under another department. This new development within the FSDC structure is very significant considering the symbiotic relationship between institutional development and enterprise development.

ANNEX I
Relevant Charts and Tables

Chart 1. Data requested for six AID supported KAISA and totals by Area.

Institutional Development Loan

Year		Contract	Releases	% Salaries	No. of Staff
	1980				
	1981				
	1983				
Proposed Budget	1984				

Irrigation Loans to ISAs

Type	No.	Amount	Design Area	Operational Area	Irrigated Area	Farmer Beneficiaries	Amortization
PIP							
CIP	1						
CIP	2						
CIP	3						

Enterprise Development Loan As Of October 31
Assessment Reports

		Authorization	Realized
FSDC Total	Loan Proceeds		
	Loan for Operating		
	Loan for Training		
EDL Equity	- FSDC		
	- KAISA		

Latest Prices

KAISA Buying Price	Cavan Palay (39 kg dry)	- ₱	Date
KAISA			
Wholesale	Cavan Rice (50 kg)	- ₱	Date
Selling Price	Cavan Rice (50 kg)	- ₱	Date

Table 1: KAISA III for 6 KAISAa Integrated Rice Processing EDLs

	Isabela	Nueva Ecija	Laguna	Antique	S. Cotabato	Misamic Occ.	Total
1980							
	63,375	34, 305	20,349	6,970	37,237	42,020	205,478
As Approved by the Board	229,576	132,771	36,731	139,216	117,136	92,935	748,365
As Released	164,000	98,465	16,381	132,245	79,878	51,914	542,886
1981							
	184,473	19,047	- 0 -	- 0 -	- 0 -	68,927	272,447
As Approved by the Board	797,632	488,886	118,727	484,555	403,171	332,132	2,625,103
As Released	613,158	469,838	118,927	484,555	403,171	263,204	2,352,655
1982							
	188,563	236,631	- 0 -	35,661	85,656	153,212	699,745
As Approved by the Board	714,800	542,200	121,800	461,800	410,800	436,400	2,687,700
As Released	526,236	305,548	121,800	426,138	325,043	283,187	1,987,954
1983							
	171.664	169,393	58,657	87,138	58,361	87,720	633,135
As Approved by the Board	713,790	525,885	156,353	400,000	363,007	349,795	2,508,830
As Released (As of Dec. 1983)	542,123	356.491	97,695	32,861	404,443	262,074	1,875,694

Table 2: KAISA IDL by Area and Total

	I	II	III	IV	V	VI	Total
1980							
Variance	960,344	822,541	51,902	1,087,102	516,894	308,483	3,747,269
As Approved by the Board	2,140,015	1,236,356	620,913	1,855,708	1,436,109	905,397	8,194,498
As Released	1,179,670	413,814	569,010	768,605	919,214	596,613	4,447,728
1981							
Variance	659,833	1,065,864	290,651	457,521	179,463	445,665	2,183,866
As Approved by the Board	6,848,500	4,024,968	2,398,612	6,503,771	4,971,470	3,234,760	27,982,081
As Released	6,188,666	2,959,103	2,108,050	6,961,292	4,792,006	2,789,094	25,798,214
1982							
Variance	2,118,773	1,033,955	79,212	331,506	1,165,551	537,351	5,268,351
As Approved by the Board	7,009,200	4,415,300	2,552,000	6,568,700	5,150,500	3,555,700	29,251,400
As Released	4,890,426	3,379,344	2,472,787	6,237,193	3,984,948	3,018,348	23,983,048
1983							
Variance	531,948	1,309,778	326,788	1,719,779	236,242	387,414	4,511,951
As Approved by the Board	5,141,400	3,740,230	2,169,630	5,461,500	4,377,930	2,709,380	23,600,070
As Released	4,609,451	2,430,451	1,842,841	3,741,720	4,141,587	2,321,965	19,088,118
1984							
As Proposed	3,015,000	1,833,000	934,000	3,833,000	3,019,000	1,366,000	14,000,000

*Estimated actual for 10 months - 10 = 12

Table 3 - EDL Operating and Trading Loans - FSDC and KAISA Equity

	Isabela		Nueva Ecija		Laguna	
	Approval	Releases	Approval	Releases	Approval	Releases
Operating	305,000		305,000		305,000	52,531
Trading	70,716	145,000	70,716	195,000	70,716	
FSDC Equity	229,642		229,642		229,642	182,468
KAISA Equity	199,642		199,642		199,642	

	Antique		South Cotabato		Misamis Occidental	
	Approval	Releases	Approval	Releases	Approval	Releases
Operating	305,000		305,000	190,000	305,000	53,000
Trading	42,716	387,432	70,716	70,716	70,716	47,358
FSDC Equity	243,642		229,642	82,073	229,642	229,642
KAISA Equity	213,642		199,642		199,642	

ANNEX I

Table 4 - Income and Expenses for FSDC and KAISA: 1980 - 1984

Year	FSDC Income	FSDC Expense	Change[5]	Federation Loan Releases (IDL & EDL)	KAISA[1] IDL	Change[5]	KAISA[2] EDL	FSDC+ IDL	Change[5]
1980	₱29 M	₱40 M	-	₱ 4.8 M	₱ 4.5 M	-	₱0.3 M	₱44.5	-
1981	85 M	39 M	- 2.5%	40.0 M	25.8 M	+ 57%	14.2 M	64.9	+ 46%
1982	29 M	27 M	- 69%	90.0 M	29.0 M	+ 7%	66.0 M	51.0	- 22%
1983[3]		20 M	- 26%		19.0 M	- 21%		39.0	- 24%
1984[4]		16 M	- 20%		14.0 M	- 24%		30.0	- 23%

Source: FSDC Annual Reports - 1981 and 1982 and FSDC CO Finance Department.

1/ FSDC Co Finance Department. The total for KAISA IDL releases in 1980 and 1981 correspond with the IDL total of ₱30.6 M releases reported in the 1981 Annual Report, p. 30.

2/ Imputed Total = (Federation Loan Releases - KAISA IDL)

3/ Estimates

4/ Budgets

5/ FSDC personnel were being transferred to KAISA IDL budget throughout 1981 and some in 1982. As KAISA IDLs are scheduled to be reduced at least 10% per year, personnel are being transferred from IDL budgets to EDL and enterprise development operations budget, starting primarily in 1983. The accelerated reductions in IDL releases for 1983 (21%) and budgeted for 1984 (24%) are in contrast with both the scheduled 10% cut and the declining rate of budget reduction for FSDC in 1984, By design KAISA budgets were to absorb these cutbacks either through increased revenues or expenditure cuts. Assuming increased revenues could cover the scheduled 10% cut total KAISA budget cut for 1984 would be 14%. In reality, KAISA budget cuts will probably be closer to the 24% cut in the IDL.

ANNEX I

Table 5: Net Income (After Interest and Depreciation) of KAISA Enterprise

Period	KAISA Enterprise					
	Misamis Ricemill	Laguna Ricemill	Capiz Ricemill	Davao Feedmill	Pangasinan Feedmill	Benguet Trading Project
	(Pesos)					
May to July 1982				1,887.79[a/]	-	-
August	-	-	-	4,831.15	(11,018.98)	-
Sept.	-	-	-	4,813.62	(10,155.32)	-
Oct.	-	-	-	(1,223.30)	(13,030.13)	-
Nov.	-	-	-	10,078.71[a/]	(7,200.15)	-
Dec.	-	-	-	(7,506.19)	(7,198.88)	-
Jan. 1983	-	-	-	(13,583.37)	(9,123.11)	(4,873.59)
Feb.	-	-	2,736.17	(2,591.74)	(3,776.00)	(1,650.50)
March	-	-		5,151.71	(3,084.42)	(1,071.65)
April	-	(8,549.96)		7,249.05	(3,005.53)	(4,489.10)
May	-	(14,578.69)	53,440.21	12,587.60	2,678.18	2,442.10
June	(2,925.84)	(28,602.38)		14,215.52	11,421.06	616.46
July	(5,445.30)	(14,477.32)	15,511.00	2,466.00	3,516.91	2,073.51
Aug.	(1,156.70)	(4,513.74)	15,033.00	25,723.00	2,647.62	4,940.71
Sept.	(18,781.85)	(14,658.18)	1,009.59	558.00	705.62	4,940.55
Oct.	(9,797.34)	(17,775.55)	-	-	13,056.75	-

a/ Except for Davao, all income figures do not include the salaries of regular employees employed by the enterprise.

ANNEX II
PERSONS INTERVIEWED & KAISAS VISITED

I. PERSONS INTERVIEWED

USAID

John Tennant	-	Chief, Office of Capital Development (OCD)
Keith Brown	-	Deputy Chief, OCD
Carlton Terry	-	Project Officer, Small Farmer System II Project
Ralph Edwards	-	Chief, Office of Rural and Agricultural Development (ORAD)
James Beebee	-	Project Officer, ORAD
Peter Davis	-	Program Office (PO)
Bob Pratt	-	Asia Program Office
Reeshon Feuer	-	Agronomist

Farm Systems Development Corp. (FSDC)

Central Office (CO)

Teodoro C. Rey	-	Administrator
Venido Atienza	-	Director, Planning & Research Dept.
Sylvia Engracia	-	Director, KAISA Enterprise Dept.
Carol Bautista	-	Staff Member, KAISA Enterprise Dept.

Area I Office

Earl Dacanay	-	Manager
Wilfredo Pal-laya	-	EDD Head
Brenda Saquing	-	MSD Head

Rommel Juap - Engineer

Ester - Accountant

Benguet KAISA

Amos Beta-a - General Manager

Pedro Bestre - President BOD

Pedro C. Ahbab - Vice-President, BOD

Canubas - ISA Presioent

Electeo Agricultural representative of Tuba Municipality

Salvador Malang - IO

Tablena - Canubas ISA BOD

Chairman - ISA Irrigation Management Committee

KKK Officer

ISA Members

Pangasinan KAISA

Amado L. Aquino - General Manager & elected Secretary of Corp.

Beatriz P. Bulario - IO/Admin. Assistant

Alicia Sison - IO/FIO Coordinator, BS Ag & MBA

Tito S. Villena - IO/District Manager

Monico Arcangel - IO/District Manager

Herlyn B. Obtinario - IO/District Manager

Aida Gonzales - IO/District Manager

Melecio Milo - KAISA Auditor, BOD & PAO I ISA President

Bartolome Untalan - KAISA President

Two Board Members

Area II Office

Manandro Manuel - Enterprise Development Dept. (EDD) Head

Heidi Rigodon - Area Coordinator

Cynthia Ranada - Area Coordinator

Action Officers

Laguna KAISA

Victor Pablico - KAISA General Manager

Renato Consignado - Operations Supervisor

Thelma de Leon - Administrative Assistant

Elvira Manuba - Institutional Officer (IO)

Facundo de Leon - KAISA President

Isaac dela Cueva - Walang Tanggihan ISA

Adriano Caisip - Balikatan ISA

Filemon Cuenca - FFA Cooperative

Elpidio Maseno - Banadero ISA

Manalo Sanchuangco - Calauan ISA

Bernardo Austria - Bay ISA

Zambales KAISA

Francisco Ednalino - President BOD

Percy Tan, Jr. - Secretary & General Manager

Elena D. Balintas - Admin. Asst./KAISA Treasurer

Melchor Antolin - IO

Jovita Dagasaan Antolin - IO

Evelyn A. Alegado - IO Team Leader & Crop Prod. Specialist

Catol-Dampay - ISA President

Demetrio Ebilane - BOD, Pitatambungan ISA President

Area IV Office

Hannibal Manikan - Area Manager

Nilo Enabe - Head, Enterprise Development Division

Joaquin Tesoro, Jr. - Area Coordinator for Panay Island

Capiz KAISA

Rogel Obordo - KAISA General Manager

Romeo Abella - Operations Supervisor, Rice Enterprise

Ruby Diva - Asst. General Manager

Florencio Gelilong - KAISA BOD Chairman

Leopoldo Bellosillo - President, Cogon Ilawad ISA BOD

Salvador Blanco - President, LIDA ISA BOD

Geronimo Barroa - President, DAGA ISA-KAISA BOD

Editha Burata - IO, District IV, Team I

Soma Borca - IO, District IV, Team I

Dahlia Baguiopo - IO, District IV, Team I

Area V Office

Jose Lumang - Area Manager

Enterprise Division Manager

Rudy Jumar - Asst. Division Manager

Davao KAISA

Violeta Madrea - IO

Carmencita Campanano - IO

Rosario Batak - KAISA President

Alfredo Tumiran - Farmer

Claudio Colet - Farmer

Valeriano Pantinople - Farmer

Margarito Respulo - Farmer

Francisco Jumawan - Farmer

Agapito Pinili - Farmer

Area VI Office

FSDC Acting Director

Jun Reyes - EDD

Ruben Realin - MSD

Ray Lopez - Irrigation Engineer

Estrella Borja - Training & Communications

Boyce Celestino - Engineer

E. Asdillo - Area Accountant

Misamis Occidental KAISA

Alfredo O. Redido - IO

Claudio Japay - President, BOD

Vincente Japay - ISA-BOD Member

Hermen Gilod de la Rosa - ISA-BOD Member

Alejandro Caliao - ISA-BOD Member

Celestina Yapana - ISA-BOD Member

Rufo Macala - ISA-BOD Member

Teresita Gravino - ISA-BOD Member

Lucio Macala - ISA-BOD Member

Vicente Sayun - ISA-BOD Member

Canicapan ISA - MA Officer

Faustino Fateria - President

Mayor of Clarin Municipality

II. KAISAs VISITED

AREA	KAISA NAME	TYPE OF ENTERPRISE	LOCATION
I	Benguet	Vegetable Trading	La Trinidad, Benguet
I	Pangasinan	Feedmill	Calasiao, Pangasinan
II	Laguna	Rice mill	Calauan, Laguna
II	Zambales	Farm mechanization	Candelaria, Zambales
IV	Capiz	Rice mill	Pan-ay, Capiz
V	Davao del Sur	Feedmill	Digos, Davao del Sur
VI	Misamis Occidental	Rice mill	Bonifacio, Misamis Occidental

ANNEX III
KAISA PROFILE

BENGUET KAISA

A. Institutional Development Loan (IDL)

1) Loan Releases/Budget

Year	Authorization	% Change/Yr.	Releases	% of Authorization	Staff
1980	₱ 97,200	-	90,558	7 %	About Constant
1981	473,949	-	444,918	6 %	
1982	510,100	8 %	367,739	28 %	
1983	518,100	1 %	330,000*	36 %	
1984**	340,000	34 %			

---

* Excluces ₱50,000 released for construction of Trading Center.

** Proposed bucget includes ₱50,000 in salaries that as of this date were also included in the EDF budget. Otherwise, personal services and other expenses are proportional with 1983 (72% and 19%, respectively).

2) ISA Projects

Type	No. of ISA	Farmer Members	Design Area	Irrigated Area	Amortization
PIP CIP_1 CIP_2 CIP_3	1 6 1 12	550	792	180 (174 of 320 members in 9 operational ISAs are now self financing production. Before, only 10% did so.)	₱82,000 in 1982 on loan balance of ₱3.0M. Rebate of ₱2,000 aplied to IDL
Farm Mech	1	42			₱80,000 loan ₱7,800 payment + 40,000 equity
Trading Only	20	1,380			
Total	40	1,972			

3. Enterprise Development Loan (EDL):

1) Loan Releases/Budget/Equity

Truck & scales	₱240,000.00
Vegetable Trading Working Capital	80,000.00
Farm Input Trading	92,000.00
Truck Operation	4,500.00
Administrative Expenses	14,000.00
Management Fee (FSDC)	2,000.00
Total	₱440,453.00

Proposed Budget - 1984

I. Projected Revenue:		
1. Enterprise Income	₱187,000.00	
2. Other Income	15,000.00	
Total		₱202,000.00
II. Projected Disbursements:		
1. Salaries & Wages/Benefits	₱ 67,368.00	
2. Trading Supplies & Materials	6,000.00	
3. Travel & Transportation	28,000.00	
4. Repairs & Maintenance	15,500.00	
5. Office Supplies (Non-Trade)	1,300.00	
6. Interest Expenses*	27,595.00	
7. Registration & Insurance	4,000.00	
8. Miscellaneous Expenses	2,100.00	
Total		₱151,863.00
Excess of Receipts Over Disbursements		₱ 50,137.00

---

* This budget assumes a grace period on the payment of principal (total scheduled amortized payment on EDL is ₱112,000/year). As potential trading opportunities are developed in Subic and Metro Manila, amortization payments will be made on scheduled.

3. Vegetable Trading Enterprise Profile

Start of Operation:	March 1982
Major Equipment/Facility:	10 ton truck - one unit
	1.5 ton-truck - one unit
	1.2 ton-fiera - one unit
	KAISA Trading Post

The enterprise development loan was used to finance the purchase of trucks and as trading capital for vegetable and input procurement. Unlike other KAISAS, Benguet has eight enterprise based ISAs (as differentiated from irrigation based). Trading posts have been established in five (5) ISAs to serve as collection points of vegetables. Quite recently, consumer stores have been set-up in some areas serving as unloading points of consumer goods (groceries and rice) sold by the KAISA.

Market price monitoring is presently done using the BAEcon scheme in order to establish some trends to be used in production programming. Due to the strong control by the Chinese traders of the Divisoria market, the KAISA had to explore markets outside Metro Manila particularly: Binan and San Pedro, Laguna; Marikina; Sucat, Paranaque; Farmers Market, Cubao. The limited support of the farmers to the KAISA is primarily due to the indebtedness of the farmers to the traders who provide input loans (estimated to be P33,000/ha.) Only the small farmers are covered by the KAISA enterprise since the big farm lots (30-60 hectares) are leased to Chinese traders.

The KAISA has also started negotiations for the supply of vegetables to Subic Bay (10 tons/delivery, twice a week). Subic's procurement is done by monthly competitive bidding.

Like other KAISA enterpises, the Benguet operation is limited by trading capital.

PANGASINAN KAISA

A. Institutional Development Loan (IDL)

1. Loan Releases/Budget

Year	Authorization	% Change/Yr.	Releases	% of Authorization	Staff
1981	₱924,751	-	₱ 17,238	33%	54
1982	863,600	-7%	743,007	14%	
1983	862,515	-0%	682,000*	40%	39

---

* 1.33 x 9 month releases

2. ISA Projects

Type	No. of ISA	Farmer Members	Design Area	Serviceable Area	Irrigated Area
PIP	21	1,219	1,196		
CIP_1	1	26	20		
CIP_2	2	156	202		
CIP_3	21	4,563	6,716		
SWIP	1	26			
	46	5,990	8,194	60%	30%

After Rehabilitation - - - - - - - - - - - - - - - - 60% 50%

B. Enterprise Development Loan (EDL)

1. Feedmill Enterprise Profile

Start Operation: August, 1982

Major Equipment:
- Hammermill (1 ton/hr capacity) - 1 unit
- Feedmixer (2 tons/hr capacity) - 1 unit
- Micromixer (25 kg/batch) - 1 unit
- Delivery truck (4 tons cap.) - 1 unit
- Molasses tank (6,000 liters cap.) - 1 unit
- Weighing Scale (dial type) (10 kg.) - 1 unit
- Bag closer - 1 unit
- Moisture meter - 1 unit
- Production Capacity (present): 5 tons/day of 8 hours

The feedmill produces 13 different types of feeds (usually 6 for hogs and 7 for poultry from non-ISA members with the exception of rice

bean (which is partly supplied by La Union RICE) and part of the corn requirement (which is sourced from only 3 ISAs). Eventually, the ipil-ipil leaves requirement will be supplied by the tree farm projects in Labrador and Pangasinan. Corn production will be intensified.

The market of the feeds are ISA members (5-6 bags/week/ISA), independent growers (potential demand of 320 metric tons/mo.) and Laguna Lake Development Authority (LLDA) (for duck feeds and other raisers). The marketing strategy is the use of 2 sales representatives each with a quota of 250 bags/mo. So far, these quotas are being met. Plant sales are also made, in which case, cash commission is equally divided among to the plant personnel. In the former case, cash commission is given to the sales representatives. For the period January-October 1983 the KAISA feedmill has 6.5% market share.

Recently, the KAISA concluded negotiation for the lease of store space in San Carlos City to retail feeds. The outlet is open twice a week during market days. Sales to date is 18 bags. There are also plans to open an outlet in Dagupan.

The farmers are getting bigger profit from vegetable production (tomatoes, eggplant, ampalaya) than corn. They are however, willing to plant corn to support the feedmill. The target production of corn is 380 tons in 95 hectares in the whole province. In anticipation of the increased production of corn, arrangements for warehousing in San Carlos City have been made.

Quality control of raw materials and mixed feeds is a problem because analyses are done at the BAI Laboratory Services Division in

Diliman official results are obtained after 20 days.

The KAISA enterprise is envisioned by the FIO to be a ready market for corn and a source of feed for the backyard animal projects.

GUNA KAISA

Institutional Development Loan (IDL)

1. Loan Releases/Budget

Year	Contract	% Change/Year	Released	% Saved
1981	₱118,227		₱118,727	0%
1982	121,800	+3%	121,800	0%
1983	156,353	+28%	97,695	38%

2. ISA Projects

Type	No. of ISAs	Design Area	Service-Area	Irrigated Area	Members	Loan	Amortized
CIP_1	4	341	325	325	323	345,328	30%
CIP_2							
CIP_3	1	995	995	995	360		
Farm Mech	1	520	520	520	223	79,700	13%
	6	1855	1840	1840	906	425,028	40%

ISA Equity Contribution: ₱10,300 of ₱30,000 commitment

ISA Members Equity Contribution: ₱4,400 of ₱102,000 target at ₱104/member

Enterprise Development Loan (EDL)

1. Integrated Rice Processing Enterprise Profile

Date Started : April, 1983

Major Equipment: Rice mill (1.0 TPH) - One (1) unit
Mechanical Dryer (40 cavans/batch) - 4 units
Solar Drying Area (400 sq. m.) - 130 cavans/batch

The operational problems most typical of a starting enterprise are being experienced by the KAISA. The rice milling recovery is on the average 62.6% while the actual capacity of the mechanical dryers is 25 cavans/batch for 12 hours per unit. Because of the low capacity of the mechnical dryers, the KAISA Board of Directors (BOD) has strongly

recommended the expansion of the solar drying area. In addition, during the wet season, a quota system for each farmer's delivery of palay to the rice mill has been adopted (80 cavans maximum). The BOD has also proposed the registration of the KAISA warehouse as a bonded warehouse in order to avail of the quedan financing.

Financing of inputs trading is a priority project of some ISAs visited. Input trading (organized buying) is widely practiced using farmer's resources but the farmers hope that this service can be provided by the KAISA soon. There is hardly any evidence of the implementation of the farm family enterprise development.

The KAISA has started negotiations with a Manila based corporation for the supply of its milled rice requirements of 1,000 cavans per month. To meet this demand, a minimum of 6,000 canvans of palay will be reuuired for one cropping. The Board of Directors believes that the ISAs can supply this requirement provided the drying facilities are improved.

The farmers interviewed at Banadero ISA expressed concern over the unresolved case of pollution of the river, which is the source of irrigation water, by effluent water from the nearby coconut oil processing plant. Said pollution has affected a number of farmers for the last two years.

MBALES KAISA

. Institutional Development Loan (IDL)

1. Loan Releases/Budget

Year	Authorization	% Change/Yr.	Releases	% of Authorization	Staff
1982	₱404,200		235,026	92%	14
1983	286,000		206,000*	29%	11
1984	280,000	31%			

* 1.33 x 9 month releases

2. ISA Projects

Type	No. of ISAs	Design Area	Service-Area	Irrigated Area	Members	Amortization
PIP	7					Paid up for 1982 target and 1/2 of 1983 target
CIP	9					
Total	16	552	2099	60%	40%	No rebates

3. Enterprise Development Loan (EDL)

1. Loan Releases: ₱64,663 for 5 threshers (as of Oct. 30, 1982)
2. Amortization: ₱18,217 as of Oct. 30, 1983 (after one crop)
3. Depreciation is also being collected.
4. Equity contribution: ₱8,184 or 34.7% of commitment by ISAs to be used in capitalizing other enterprises.
5. Enterprise Profile

a. Organized Buying

The organized buying project is on the KAISA level. Inputs, including fertilizer, chemicals and seeds, are purchased by the KAISA. Financing is done through farmer's individual funds or KAISA funds.

b. Farm Mechanization Enterprise

Five units of threshers were purchased through Enterprise Development Loan amounting to ₱74,663.75. These were assigned to 4 ISAs (one ISA having 2 units). The KAISA role in this enterprise is management. As part of this responsibility, the KAISA has the prerogative to reassign the thresher to other ISAs when the operation in a particular ISA is not viable.

The ISAs responsibilities are:

1. provision of equity - from either ISA funds, assemblage fees realized from organized selling of other projects.
2. actual operation - by the ISA Thresher Operation Committee. Scheduling is done by the ISA and regular operating expenses are shouldered by the ISA. In all except one ISA, the thresher operation is managed by the Board of Directors which hires an operator and 3 to 4 helpers for each thresher. The threshing fee is 8-9% of the output. The net income is equally divided between the ISA and the operator. Of the ISA's share, 50% of ₱250.00 (whichever is higher) is paid to the KAISA as service fee in the meantime that the loan is not fully ammortized yet. When the loan is fully ammortized, the service fee paid to the KAISA is 45% or ₱250.00, whichever is higher.

c. Other Projects

The KAISA plans to start a fish sauce processing enterprise utilizing existing equipment owned but are not being used by a couple of farmer members. The raw materials will be purchased from farmer-fishermen in one of the ISAs. The target market are the ISA members, for their families' consumption, and the nearby

community. (The average consumption of fish sauce in the area is 5 gallons per year).

The KAISA has also initiated linkages with the Philippine National Bank for the facilitation of applications for the Masagana 99 production loans in addition to the project to rehabilitate delinquent Masagana 99 borrowers.

A unique feature of the Zambales KAISA is its wholistic approach to rural development. While increased farmer income through enterprise development is of primary concern, family life is also given attention. Thus, there are family life, home economics workshops being undertaken at the request of the women in the ISAs. This is made possible because of the home economics training of the Area Coordinator.

CAPIZ KAISA

Type of Project	No. of Project
I. Lowland Development	
PIP	87
CIP_2	2
CIP_3	12
PRIP	6
Farm Mechanization/Animal	
Thresher	15
Handtractor	34
Sprayer	131
Weeder	23
II. Upland Development	
Tree	1
KKK-Agro-forestry	4
Woodlot	51
Brick making	1
III. Enterprises	
RICE II	1
IV. Special Projects	
PICDEC (Pilot Integrated Community Development) Lowland	1
BLISS	
Gasifiers - a. Ford Fiera	
b. Irrigation set	12

Of all the KAISAs visited, the Capiz KAISA is the most advanced having been in existence for 5 years and having been started as a pilot project.

The farm family approach to enterprise development at the ISA level is extensively implemented. The farmers engage in vegetable crops production with the local markets as outlets. Financing of these farm family enterprises is limited by the KAISA in order to control the production.

The RICE operation is more advanced than others (Misamis and Laguna) with a capable operations supervisor who underwent on-the-job training in a family run rice mill. It's capacity, however, is limited primarily by the

working capital available to the enterprise. It's procurement system of palay, (i.e., schedule of harvest of individual farmers in the ISAs are monitored by the IOs; samples of palay are brought to the KAISA; price negotiation is conducted; palay are collected at collection points and hauled by the KAISA trucks in full loads) is quite efficient.

DAVAO DEL SUR KAISA

A. Enterprise Profile

1. Feedmill

Start of Operation: May, 1982

Release of Operating Capital: Aug., 1982

Production Capacity: 30 tons/mo.

The Davao KAISA is the only one which fully p]aid its equity before the start of operation.

The Board of Directors (BOD) originally proposed a rice mill project but the NFA did not approve it. The BOD then, decided to set-up a feedmill. The campaign for the commitment of the ISAs to supply the raw material requirements of the feedmill has been successfull. Presently, the ipil-ipil leaves, yellow corn shorghum and rice bran requirements of the feedmill are being supplied by the ISAs. The supply from the ISAs is still short of the feedmill's requirements. The good support of the ISA members is partly due to the better prices offered by the KAISA feedmill for corn which is ₱0.10 higher than the buying price of NFA.

The mixed feeds are marketed locally. The KAISA Staff have organized themselves as dealers, for which they are paid ₱2.00 per bag as commission. Eighty per cent of the sales are made through these dealers; 15% to commercial raisers; and 5% to walk-in customers. The KAISA staff opened a feed supply store in the market downtown.

Livestock and Poultry Production Enterprise

In line with the backward and forward linkages concept in enterprise development, the Davao del Sur KAISA has gone also into piggery and poultry projects. There are now 17 heads of large white and 546 layers being raised in the same compound where the feedmill is located. According to the KAISA President, the initial capitalization for the livestock enterprise came direct from the KAISA and not from FSDC loan. The estimated total value of the swine is about ₱10,000. The land where the KAISA enterprises are situated is part of the association's equity which amounted to about ₱15,000.

3. Tree Farm

The different ISAs are now responding positively to the tree farming program because of the demand for more raw materials in the KAISA feedmill. The ISA officers and IOs interviewed are aware of the KAISA's need for raw materials, particularly ipil-ipil.

MISAMIS OCCIDENTAL KAISA

A. Institutional Development Loan (IDL)

1. Loan Release/Budget

Year	Contract	% Change/Year	Released	% Saved	Staff.
1980	₱ 92,955	-	52,296	56	
1981	332,132	-	244,853	26	14
1982	362,400	+9	258,540	29	
1983	248,741	-3	220,000	12	11+7 FIO
1984 Budget	226,000	-9			

There are 20 operation ISAs with design are of 2942 hectares in gravity flow systems. Amortization schedule payments collected by the KAISA are only ₱41,200 per year.

B. Enterprise Development Loan (EDL)

1. Integrated Rice Processing Enterprse Profile

Approved Amount: ₱1,642,136

Actual Releases:

FSDC to KAISA	644,305
CO Release	706,497
Working Capital - FSDC	330,000

Start of Operation: October, 1983 (delay due to late electrification)

Construction and installation completion: May, 1983

Major Equipment : Rice mill (1.0 TPH Capacity) - one unit
Mechanical Dryer (40 cavans/hr./8 hours - 4 units

From June to September, 1983 when the rice mill was not yet operational, the enterprise was involved in palay and rice trading in order to make best use of the truck and staff time who have been

hired. Since October, 1983, the mill has been milling its palay stock, milling for traders and wholesaling to retailers in Oroquieta and to Iligan Cement Corp. There are plans to establish a retail outlet in 1984.

Two of the ISAs visited have ISA level farm mechanization enterprises. The income from farm mechanization enterprise is used to capitalize organized buying of inputs. Inputs are sold to the farmers on credit, payable after harvest. Since a limited number of farmers are serviced, capital build-up for this project is of high priority.

The farmers interviewed in ISAs which are far from the rice mill site indicated their initial objection to the construction of the rice mill in Barangay Bonifacio, Municipality of Liloan. KAISA and ISA Boards however, explained that the ISAs productin volumes were considered. Both Sinacaban and Sumasap ISAs cover a small area, hence the low production capacity.

Like Laguna and Capiz, the Misamis RICE has to compete with the traders yet operate with little working capital, hence they cannot engage in speculative buying.

B. Tree Project

Approved Amount:	₱1,821,466
Actual Releases:	335,642