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FINAL

PROJECT EVALUATION REPORT

/

SMALL FARMER CREDIT; PROFITABILITY AND

REPAYMENT

PROJECT NO. 931 - 1174

COOPERATIVE AGREEMENT NUMBERS:

AID/ta - CA-1

and

AID/ta - CA-3

COOPERATING INSTITUTIONS:

OKLAHOMA STATE UNIVERSITY

AND

COLORADO STATE UNIVERSITY

January, 1982

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Annexes - A, B, and C attached.

ABBREVIATIONS

ACB	- Agricultural Credit Bank
AID/W	- Agency For International Development/Washington
BNF	- Banco Nacional de Fomento
C/A	- Cooperative Agreement
CC	- Cooperating Contractors
CSU	- Colorado State University
D.R.	- Dominican Republic
LIC	- Low Income Country
MM	- Man Months
SFCFR	- Small Farmer Credit: Profitability and Repayment
USAID	- United States Agency For International Development.

EXECUTIVE SUMMARY

This "Small Farmer Credit; Profitability and Repayment" project demonstrated that methodologies can be developed for micro-level use in generating accurate and reliable statistical data for operational use by lending institutions in LICs. Additional time was required to assure that the data collection systems are integrated into the operations and supported by the participating institutions.

In the main, this was an applied-research project which manifested several weaknesses, such as.,

- a) inadequate pre-project preparation on the part of AID/w design team, which resulted in difficulty to locate a host country for the CSU project, consequently prolonging the life of the contract, and adding to its cost.
- b) failure to design a uniform reporting format, requiring the CCs to provide quantifiable benchmark data for review and comparison to initially established targets and time frames.
- c) generous line item flexibility in administration of the project budget reflected inadequate initial planning in budget preparation.
- d) a need for application of cost-effective techniques in the management of the project itself.

The CCs have in our opinion produced satisfactory outputs in farm data collection and analysis methodologies, to comply with the purpose described in their scope of work. Although such methodologies are not entirely new, this project has been instrumental in systematizing and identifying them with greater clarity. These methodologies are:

- i) Small Farm Record-Keeping System,
- ii) Enterprise Budget System, and
- iii) Client Classification Program.

These methodologies have been thoroughly explained and documented by the CCs, and can be applied with certain degrees of adaptation to the operations of lending institutions in LICs, and appear to have built-in cost effective

features and characteristics.

Output Number 2 in the Scope of Work which called for "application and utilization of such methodologies in credit institutions in two selected developing countries" was applied in the operations of the two host institutions (ACB in the D.R. and ENF in Honduras), but due to external factors, and the additional time which would have been required for firm institutionalization of the methodologies, this output was not satisfactorily realized.

The "dissemination of the results to other credit institutions and developing countries", the third and last of the agreed upon outputs in the scope of work, was not fully realized due to both time and budget constraints.

This Evaluating Team considers that the personnel component of the Project was "top-heavy" with On-Campus Professionals whose contribution could have been extremely valuable, but difficult to discern.

The goal of the project was to increase small farmers' incomes through more efficient and effective utilization of farm credit, and to improve loan repayment capabilities, however at project conclusion there had been no reported realization of reduced delinquency rates in loan portfolios or increases in small farmer incomes in either of the host country experiments. Factual data to support the realization of this goal would have required more time, but it would appear that the methodologies designed should produce these results.

The purpose of the project as stated in the Cooperative Agreements was to "develop methodologies which AID Missions and LICs can use to carry out budget analysis and cost-effective data collection for small farm credit programs" and "to improve credit policy programs and repayment". In reality, it is our opinion that the first part of the purpose has been partially achieved, and more time would have been required for full realization of the entire purpose.

The prospects for exporting the package of methodologies developed in and by itself to lending institutions in LICs does not appear favorable within the

context of cost-effectiveness. The possibility of including either in whole or in part the methodology developed by this project, as an ingredient of a larger more comprehensive package tailored to strengthen managerial capability in lending institutions in LICs, appears to be the most promising and cost-effective manner in which to introduce and apply it.

These methodologies should prove beneficial in the long run to small farmers' credit programs and should provide cost-effective techniques for the lending operations of institutions in LICs.

A. PROJECT REFERENCE

1. Project Title : Small Farmer Credit, Profitability and Repayment.
2. Project Number : 931-1134
3. Cooperative Agreement Numbers : AID/ta - CA-1 (CSU)
AID/ta - CA-3 (CSU)
4. Cooperating Institutions : Oklahoma State University
Colorado State University
5. Principal Investigators : Dr. Loren Parks (OSU) Honduras
Dr. Dan Badger (OSU)

Dr. Tom Dickey (CSU) Dom. Republic
Dr. Ronald Tinnermeier (OSU) and
Project Coordinator.
6. AID/W Project Managers : Anne Ferguson (7/76 - 9/77)
Erhardt Ruprecht (9/77 - 9/78)
Karen Wiese (9/78 - 6/80)
Ralph Hanson (7/80 - 10/81)

B. PURPOSE OF THE PROJECT

The purpose of the project was two-fold: first, to develop and apply methodologies which credit institutions in LICs can use to carry out whole farm and enterprise analysis for small farm credit programs; and second, to improve credit policy, programs and repayment.

The outputs to be achieved in order to reach the purpose of the project were stated as follows:

1. Methodology for Budget Analysis;
2. Development of cost-effective methods of collecting data;
3. Increased knowledge of factors affecting small farmers' ability and willingness to repay credit;

4. Analysis of impact of potential changes in credit program design and improved policies related to small farmers' credit;
5. Train local professionals available for budget and credit analysis.

The life of the project was originally planned from September 1st, 1977 through August 31, 1980, but it was extended for one year to September 30th, 1981.

The initial funding was \$750,000 which was later increased by \$40,000

The CCs argued that the project was too ambitious in relation to the life of the project and the resources allocated. Therefore, the Cooperative Agreement concentrated on the first aspect of the project purpose and on three outputs. These outputs were:

1. Farm level data collection and analysis;
2. Application and utilization of such methodologies in credit institutions in two selected developing countries, and
3. Dissemination of the results to other credit institutions and developing countries.

An additional purpose was held by one of the CCs—not specifically written into the agreement—which was to establish a long term institutional relationship between the selected developing country credit institution and the University, particularly with their Department of Economics.

Based on this reduced Scope of Work for the CCs, this evaluation concentrates on determining the results achieved.

C. EVALUATION METHODOLOGY

The evaluation was conducted by a team consisting of two members. One Agricultural Economist from the Latin American Bureau of AID/Washington, and one outside consultant specializing in Small Farmers Credit and Institutional Development.

The methodology consisted of a review of all project documents, project papers, cooperative agreements, memoranda of basic understanding, project evaluation summaries (FES's), project management committee reviews, monthly reports, trip reports, input and output analysis, scrutiny of project purpose, scope of work and guidelines, inquiry into problems, and assessment of the general performance of the CCs.

An ^{0.}evaluation workshop was held from December 8th to the 10th, 1981 at CSU in Fort Collins, Colorado, and the following people were present at this workshop:

Dr. Ronald Tinnermeier	- Project Coordinator (CSU/CSU)
Dr. Thomas Dickey	- Chief of Party, (CSU/Dominican Republic)
Dr. Loren Parks	- Chief of Party, (CSU/Honduras)
Dr. Dick Suttor	- Division Chief, S&T/ACR/EPP/AID/W.
Mr. Ralph Hanson	- Project Manager, Economics & Planning Division, AID/W.
Dr. Robert Castro	- Agricultural Economist, LAC-ER-RD/AID/W.
Mr. J.D. Longwell	- Research Assistant, (CSU/Dominican Republic)
Mr. Percy Avran	- Consultant, Small Farm Credit Specialist.

At the workshop the CCs indicated orally that the outputs may not have been fully institutionalized due to the time constraint, and other factors as outlined in Section G, pp. 20 - 22 (External Factors) of this report. Due to this, the Evaluating Team chose not to visit the host countries to verify the progress attained in the specific outputs of the project. It was decided to contact by telephone various people at the host country agency level and obtain viewpoints or corroborate data instead.

This evaluation review attempted to determine if the initial projection of three years was a realistic time frame, and if the project outputs were satisfactory and reproducible in other Low Income Countries (LICs) in their Small Farmer Credit Programs.

The documents which were made available for the evaluation review are listed in Annex B attached to this report.

0/ The agenda for the Evaluation Workshop is attached as Annex A.

D. PROJECT INPUTS

1. Individual Cooperative Agreements signed between AID/W and the CCs spelled out project budgets as outlined below:

	AID/W Re-imbusement	University's Contributions	Total
Cooperative Agreement AID/ta-CA-1 Oklahoma State University	\$ 323,590	\$ 8,160	\$ 331,750
Cooperative Agreement AID/ta-CA-3 Colorado State University	<u>\$ 400,329</u>	<u>\$ 16,400</u>	<u>\$ 416,729</u>
Totals	<u>\$ 723,919</u>	<u>\$ 24,560</u>	<u>\$ 748,479</u>

Both Universities had complete line item flexibility in adjusting the costs, provided the grand totals were not exceeded. ^{4/}CSU was confronted with an unforeseen expense item of \$10,000 insurance cost for Overseas Workmen's Compensation, and when added to other increases in salaries and fringe benefits resulted in an over expenditure of \$20,441 in this item when compared to budget.

^{5/}CSU overshot it's budgeted salary line item by 10% in year IV as a result of a slightly different mix of staff on campus, as well as between campus and overseas. It is difficult to understand without a full accounting, why this mix of staff might not have been arranged in terms more favorable to the budget. CSU calculated it's year IV budget to absorb the total amount of \$400,329 contributed by AID/W. It is not for this evaluating team to determine whether the expenditures made in relation to budget are justified, but it does raise the question, especially when the expenditures are so heavy in the final year of the contract as compared to former years. The total four year CSU project budget included an additional \$16,400 indirect cost contributed by the University.

^{4/}Annual Report, September 1980 (Table 2) CSU

^{5/}Final Administrative Report 1981, (Table 1) by CSU

Without additional ^{2/} explanation as to the manner in which the On Campus Professional time was utilized, it can only be deduced that both CCs might have created savings in the budget to allow for implementation of Output No. 3 in the scope of work, which called for dissemination of the methodologies and results to other LICs. The over expenditure on salaries and fringe benefits for the Professionals for both CCs can also be attributed to the high time ratio of On Campus Professionals to the Field Professionals.

The two research-assistants were graduate students, one from each of the co-operating universities, who performed their assignments as part of their degree work and were compensated. It is felt that the M/Ms time allotted for their work was somewhat generous, and their in-country stay might have been used in assisting to institutionalize the methodologies developed. These positions were not foreseen in the initial planning stage, and this added cost for research on Item No. 1 in the scope of work (Section B, page 7) took away from the full realization of Items 2 and 3.

3. With minor exceptions, the evaluators are of the opinion that the specialties and professional status of the personnel provided by the CCs met or exceeded the requirements dictated by the Cooperative Agreements. The hiring of the three students from the Instituto Superior de Agricultura (ISA) in the Dominican Republic for field data collection, while not creating a major distortion in the budget, did however add to the cost, and relieved the Banco Agricola from providing the counter part support as was stipulated in the agreement.

E. PROJECT OUTPUTS

This credit project was designed to develop methodologies which credit institutions in LICs could use to carry out analyses to improve small farmer credit policies, programs and loan repayment.

^{2/} Refer to page 14 of the Final Administrative Report (CSU) for partial clarification.

This credit project was in the main an "Applied-Research Project" designed to test certain hypotheses regarding small farmer credit. Specifically, three hypotheses were to be put to the test:

- a) that much of the data collected by the credit institutions was not essential in determining the eligibility of an applicant for a loan;
- b) that improved data can be collected from farmer-borrowers if they are involved in the planning phases of the credit operations in their area, and if they can perceive direct personal benefits from the data collected, and
- c) to determine the extent by which the first two hypotheses would make lending to small farmers more cost-effective for the lending institution.

The Project output can be divided into three major areas:

1. Literature Review and Dissemination Activities,
2. New or Improved Methodologies, and
3. Unplanned Outputs.

The final reports of the CCs do not specifically relate the degree in which the major outputs outlined above fulfill the test of the hypotheses. From the reports and in our opinion we feel the following has been accomplished.

1. Literature Review and Dissemination

An Annotated Bibliography on Small Farm Data Collection and Analysis was prepared by CSU. This bibliography builds upon materials accumulated by the authors (Tinnermeier & Longwell) both during the project and previous to its funding. The listings in the bibliography provide considerable insights on methods and problems of collecting farm-level data in LICs, however from the Authors' viewpoint little information was found on the advantages, disadvantages, and problems associated with farm record keeping, one of the areas for which an output was sought by this project.

The CCs were unable due to budget and time constraints to disseminate project results to other LICs. In our judgement the dissemination output fell short

of it's mark. The CCs interpreted the output of dissemination of methodologies as synonym of publications and towards this end produced at least 12 Occasional Papers. From this angle, it can be said that dissemination was over-emphasized. If however, dissemination is defined as a process that not only implies written reports but action oriented to reach the intended beneficiary, then this activity was only partially accomplished.

Project outputs were disseminated in the host countries and 1,000 copies of the Farm Record-Keeping Books were distributed in Honduras, and an extensive distribution of the Enterprise Budget was made in the D.R. It would have been desirable to have held a seminar in Washington, D.C., at the conclusion of the project, and in each of the USAID Missions in the cooperating countries-with the participation of the CCs and the staff from the host institutions that were involved in the project-at which a full accounting of the project outputs might have been disseminated. Both the Honduras Work Plan (CSU) dated 4-27-78 and the D.R. Plan of Work dated 10-25-79 were approved by AID/W and called for dissemination of information within the host countries and other LICs.

2. New or Improved Methodologies

Under this heading the research carried out by the CCs produced three methodologies which together with the forms and procedure guidelines full satisfy the Farm Level Data Collection and Analysis called for as a major output in the Scope of Work. These methodologies are:

1. The Enterprise Budget System,
2. The Farm-Record Keeping System, and
3. The Client Classification Proposal.

Judging from the oral presentations made at the Evaluation Workshop, and considering the external factors which occurred during and since the project termination, this evaluation team did not deem it necessary to visit the host countries, to investigate the degree of institutionalization of the methodologies.

We are of the opinion that the methodologies developed are applicable with degrees of adaptation in lending institutions in LICs. We judge that it would be difficult to institutionalize cost-effective methodologies in an institution whose characteristics are not profit or cost reduction oriented. The cost effectiveness and application of the methodologies developed by this project have not been fully tested due to the time factor. A brief description of each of the methodologies follows:

1). ^{8/} The Enterprise Budget System

Enterprise Budgets play an important role in institutions that finance agricultural production. Both the lender and the borrower need an estimate of production costs and returns to justify planned activity and financial transaction. The lending institution uses a standard budget for each variety of crop which is then compared to the farmer's estimated budget. In this manner a judgement can be made as to whether the farmer's production techniques, costs and returns are reasonable compared to a standard. In Honduras, the experiment revealed that the credit agents can save time (up to 70%) when filling in loan applications by using the pre-determined standard cost figures in the Enterprise Budgets. A system was developed to compile the standard budget figures, which are deemed to be cost-effective if properly institutionalized.

ii). The Farm-Record Keeping System

In order to determine the profitability of each crop and livestock enterprise on the farm, and to arrive at figures that were statistically accurate for use in the Enterprise Budget System, it was necessary to design and introduce an appropriate farm record keeping system. The book was designed to exclude all references to income taxes, and was based on

^{8/} See Annex C attached to this report for further analysis of the Enterprise Budget System.

assumption that a local paraprofessional or credit agent from the lending institution would visit the farmers on a regular basis to make the required book entries. Use of a paraprofessional was considered necessary to ensure that the farmers' activities were entered on a regular basis, and also assist those farmers who were illiterate. The introduction of farm record keeping and its importance to the farmer will take considerable effort on the part of the lending institutions to make it effective. The lending institution has the leverage to gain farmer response because it can make it a procedural requirement for loan approval.

iii). The Client Classification Program

The Client Classification Program appears to be a valuable and cost-effective output from this project. The objective of this program is to reduce a Bank's time in processing loans for farmer clients with a good loan repayment record. A basic problem that existed in the lending institutions was that all clients were treated the same regardless of the loan size or repayment record. In the absence of any formal methodology for allocating scarce officer's time, this was aggravating for the farmer who would have to wait for loan approvals and disbursements oftentimes to the detriment of his production enterprise. The Client Classification Scheme in practice actually gives the farmer-borrower a credit rating which enables him to secure his credit requirements with a minimum of red tape.

The applied research carried out by this project and the development of these methodologies focusses primarily on gathering operational data for credit institutions (micro-level), in contrast to other titled research performed in other world regions which focussed on collecting farm-level data for policy analysis or descriptive studies.

The project demonstrated that accurate and statistically reliable Enterprise Budgets and Farm Records can be produced in a LIC. Additional time and support is needed to assure that the data collection systems are fully integrated and supported by the participating institutions. The project establishes the fact that credit delivery systems to small farmers should have cost-effective orientation, rates of interest competitive with other capital markets in the LIC, and the whole farm enterprise be made profitable. The Farm Record-Keeping System and the Enterprise Budget proved to be valuable tools for use in established groups of farmers, such as Cooperative Farms and Irrigation Associations.

We are satisfied that both CCs attempted to institutionalize the methodologies and were successful to a degree. External factors impeded their efforts, and the extent to which the methodologies developed are being utilized in the host institutions is not determined.

3. Training

A further valuable output of this project was the training conducted by both CCs. Judging from the reports, training designs, materials and the number of participants in attendance at the various workshops and training seminars, a good effort was made to illustrate the use of the methodologies and their importance for effective operating results. Effort was made to train counterparts as teachers and instructors especially in Honduras. The D.R. training program was not as well supported by the host institution leaving some doubt as to its full impact.

4. Unplanned Outputs

The re-design of the Agricultural Credit Bank Policy Manual, although not directly related to the scope of work, was another output in the D.R.

Other unplanned benefits being derived from this project is the dissemination of information being carried out by the Universities and the Professionals involved in the project. These are benefits of no further cost to AID. Specifically, the Project Coordinator participated and delivered papers at the Second International Conference on Rural Finance in Calgary, Canada. Materials produced by the project were used in the USDA sponsored summer training course held at CSU. Small farm data collection and analysis is a major topic of a course entitled "Effective Livestock and Crop Management on Small Farms" offered to students from LICs. During 1981 two CSU graduate students used data produced by this Credit Project for their degree research.

Drs. Tinnermeier and Dickey are in contact with the World Bank and IDB for additional funding to support further credit data analysis, and the prospects are promising.

Dr. Loren Parks is currently teaching a course entitled "Analysis of Farming Systems" to graduate students at U.C. Davis College in California. Two of the students wrote term papers on agricultural credit and made use of four of the CSU reports. He has made use of materials from the Honduras project to teach "International Agricultural Development - Micro" to 27 students at an under-graduate class during the fall quarter at the U.C. Davis College, and has also appeared on a 30 minute program on KXTV in Sacramento "Focus on Farming" discussing the topic of Foreign Technical Assistance in Agriculture. He is also in the process of preparing two articles for submission to appropriate journals on foreign technical assistance.

Judging from the monthly reports of the Field Professionals, it would appear that they spent a large amount of time consulting with other agencies in the host countries and assisting them to plan targets which were not directly associated with the scope of work in this project. This kind of activity may have been of value to the agencies concerned and was another side benefit which the project provided.

F. PROJECT MANAGEMENT AND REPORTING

Each of the two Universities signed separate Cooperative Agreements with AID/Washington. Colorado State University had the responsibility of overall project coordination. The personnel of the CCs developed good communications, high mutual respect and a smooth working relationship in their programming, consultation and implementation of activities.

Initial planning for the project to accomplish its purpose appears to have been satisfactory and detailed. In ^{9/}Honduras for example, the Work Plan specified five major work areas and a calendar which described these activities and the time frame for implementation was prepared.

The Field and Administrative Reports are narratively more than adequate in terms of describing the work activity and the problems encountered, but do not reflect quantitative achievements measured against the logical framework: scope of work and time frames.

Unfortunately, this was due to lack of a properly designed reporting format, which would have caused the reported data to be assembled on a systematic and uniform basis for more effective review and appraisal (by periods) of the progress and constraints faced by the CCs.

This weakness in the reporting structure should have been detected and questioned at an early stage by the AID/W Project Manager and the Project Coordinator and remedial action taken.

Several changes in the work plans took place at the host country level, which de-emphasized planned outputs and added other targets to the initial work plan. ^{10/}These extra activities were decided upon by the Chiefs of Party within their respective countries, with only general justification of the manner in which the output related to the main purpose.

9/ Administrative Report No. 1 - October 1978, pages 23 to 29.

10/ Monthly Report No. 10 (pages 2 and 3) 8/ 1978.

The position of the Project Manager in AID/W during the term of this project was filled by four different people. This lack of continuity in the monitoring process by a single individual is certain to have been a factor in the follow-through and accountability process.

The Project Management Committee (PMC) met on three occasions on an annual basis during the implementation period of three years. AID/W Project Managers were in attendance. The agenda consisted of review of project activities, budget analysis and adjustments, problems, and future plans and activities. The minutes of these meetings summarize the general discussions, but there was no in-depth quantitative analysis of the project recorded in the minutes.

It would have been desirable to have had the CCs hold a meeting between themselves at the termination of the project, to evaluate the results and to arrive at summary conclusions and recommendations of a specific nature on a joint basis.

G. EXTERNAL AND OTHER FACTORS

The CCs were faced with certain external factors which impinged on their ability to produce the desired results in terms of their original scope of work. Some of these factors were:

- 1.) Initially the CSU had difficulty in locating a host country. The Philippines which had indicated an interest reneged on its commitment. Then Nicaragua agreed, but due to internal political turmoil which occurred concurrently with the readiness to launch the project, again forced the project to be abandoned. A year following the signing of the Cooperative Agreement, CSU was able to locate the project in the Dominican Republic. AID/W recognized the difficulty and concurred with an extension of time (no budget changes) to enable CSU to undertake and complete its task. This series of events added to cost and produced constraints for CSU.

2.) Shortly after CSU located it's technician in the Dominican Republic, hurricane "David" indentified as one of the worst of this century crossed the Island, destroying physical infrastructure and virtually all of agriculture in it's path. The ACB was called upon by the Government to mobilize it's resources and assist in the rehabilitation program. This caused ACB(host institution) to utilize staff assigned to the project in this emergency measure. This situation coupled to power failures and other inconveniences created sizeable delays in program implementation.

3.) Time lost by contract personnel in obtaining custom clearances, finding housing and settling in, was far greater than anticipated because USAID's were not supposed to render assistance and host country agencies were lax in their effort to assist.

4.) The Agricultural Credit Bank (ACB) in the D.R. experienced three changes in the office of it's Chief Administrator during the tenure of this project. This situation did not help in maintaining the project at the desired priority level and was a constraint factor in the process of institutionalization of the methodologies.

5.) Both the ACB in the D.R. and the FNF in Honduras as small farmer lending agencies find themselves under enormous pressure from their respective governments to satisfy the demands of their political constituencies. Coupled to this is the added impact on loan portfolio administration and fund disbursements the International lending agencies bring to bear on them. These pressures bring about premature or hastily arrived at policy decisions and actions, and makes sound institutional administration difficult.

6.) Bank liquidity problems, computer break-downs and frequent changes in personnel reduce greatly any effort to institutionalize methodologies and slowed down the pace of in-country work. This lack of capability by the host institutions to provide efficient counterpart resources, especially in the D.R., was a definite constraint factor.

7.) The institutionalization process in Honduras was jeopardized by the fact that within a couple of months of the termination of CSU's work, there took place a complete change in the BNF's personnel from the President on down. The BNF operation came to a standstill by orders of the Government. The bank was reorganized, the name changed to Banco Nacional de Desarrollo (FINADESA), and new officers took over. The extent to which the CSU/CSU concepts and methodologies are being utilized under the new management has not been determined.

8.) A factor which impeded the CC's institutionalization performance was the low level of managerial capability at all levels of decision making, analysis and administration within the host institutions. This weakness requires strengthening if these institutions are to become self-reliant vehicles for credit delivery and savings mobilization for small farmers in these countries.

9.) Lack of profit or cost-effective orientation in the institutions lowers staff performance, productivity and morale. This was evidenced by the lack of interest on the part of the ACB personnel to attend and participate in the training courses in the D.R. and by the extremely high level of union activity in Honduras.

10.) The low level of literacy and in cases illiteracy, as well as an understanding of the need and function of maintaining a Record System on the small farm by the small farmer, was indeed a factor and will continue to be a constraint for full and accurate data collection for the institutions involved.

H. BENEFICIARIES OF THE PROJECT

In our opinion, the principal beneficiaries of this project were CSU/CSU and AID. This research project brought into focus and identified improved methodologies for data collection at the farm level for OPERATIONAL use by lending institutions in LICs, which if rigorously applied can accrue cost-

cutting benefits and improved productivity.

The Universities have produced and added a wealth of data to their libraries on the SFCPR program which is openly available for use by others. Their experience in working with and applying the methodologies and techniques in the two host countries brought into focus these areas for consideration:

- a) that lending systems in no two countries are exactly alike;
- b) be prepared to face problems and constraints not encountered in developed countries, and
- c) recognize that more time is required for the institutionalization and dissemination process.

AID has benefitted from the exercise in the sense that recognition must be given to:

- a) the fact that Small Farmer Credit Programs are essential and costly to implement;
- b) that there must be genuine political will on the part of the host government to authorize and demand cost-effective operations from government financed lending institutions; and
- c) that International Lending Agencies (World Bank, Inter-American Development Bank, AID, etc.,) should seek such commitments from Governments of LICs before the approval and disbursement of loans

We are of the opinion, that the host institutions in this case received the lesser benefit from the project, because of the frequent changes in their administration. Policy directives or lack of such directives, may have curtailed in great measure the trained employees from implementing the methodologies and guidelines produced and recommended by this project.

The project however, has increased the knowledge base on data gathering and small farm record keeping and should benefit all agencies and professionals involved in small farmer credit, with the end result that the small farmers in LICs should in the long run be the main beneficiaries.

I. LESSONS LEARNED

The following suggestions and remarks appear to be lessons to be learned from this project:

1. This was a Research Project and research is often difficult to measure, unless the goals are spelled out in specific measurable terms. We believe that future undertakings of this nature should establish quantifiable targets for each goal in the scope of work. Periodic reports by contractors would then show progress achieved measured against the targets and time frames established. Changes in goals would be undertaken under joint approval by all parties to the contract. Narrative reports on performance would be reduced in size and confined primarily to an explanation of the variables.

2. We are of the opinion that future AID projects of this nature should have one main contractor, who might then sub-contract for specific skills and knowledge to other Universities. We believe that an intensive effort was made by the Project Coordinator to maintain a high relationship level between the two CCs with the result that no intra-contractor problems erupted, but the time devoted to discussing different scenarios, problems and options, together with the visits made to host countries by Professionals from each of the Universities, if measured, would prove costlier than if each project would have been implemented under totally separate and unrelated contracts.

3. In attempting to institutionalize new or improved cost-effective methodologies in small farmer credit agencies in LICs, the solvency goal of the respective lending agency should first be analyzed. This is important for two reasons:
 - a) it is difficult to institutionalize cost-effective measures in an institution whose characteristics are not profit or cost oriented, and
 - b) an insolvent development bank cannot truly be a development bank other than in name.

4. The CSU/Honduras experience confirms the theory.....

11/

that "passive" peasants' resistance to change could be overcome if they become involved in making group decisions.....

This theory was confirmed by the CSU/H in discovering that the Enterprise Budget and Farm Record-Keeping Systems were more readily received and utilized by the Cooperative Farm and Irrigation Groups, than by the small individual farmer who operates in isolation from a cohesive economic and social activity. This would point to the need to organize the small farmers into cooperatives or other like groups.

J. RECOMMENDATIONS

1. This Evaluating Team concludes that the three main methodologies produced by this project, namely, i) Small Farmer Record-Keeping System, ii) Enterprise Budgets, and iii) the Client Classification Program are useful and cost-effective operational tools for generating statistically valid, micro-level data, to be used by lending institutions in LICs for their small farmer credit programs. We conclude further that to attempt to market this package of methodologies or any portion of it, in and by itself, would not prove to be cost-effective unless the lending institution in a LIC is profit or cost-reduction oriented to begin with.

Therefore, it is recommended that this package of methodologies be marketed as an ingredient of a larger more comprehensive package, designed to strengthen managerial capability, improve productivity, and enhance the overall operations of a lending institution in a LIC.

2. The experience derived from this project suggests that in applied-research experiments, the activity should be confined to a small geogra-

11/ Referred to on page 53 of the PAR for this project.

phic area at first. This enables the investigating team to iron out wrinkles, to analyze results, and to decide with a greater degree of firmness, the approach to take for application of the methodologies on a regional or national level.

3. To enable USAID Missions and lending institutions in LICs-as well as other interested agencies and professionals involved in small farmer credit programs-to become informed, assess the value, and decide upon the use of the methodologies produced by this project, it is recommended that AID/W engage one of the Cooperating Contractors to design and package a summary manual. Such a manual would describe the methodologies, outline the steps and procedures for their implementation, and point out the potential cost-effective benefits to be derived from their use.

To assure wide distribution and positive end-use results, this manual must be translated into other principal languages.

SMALL FARM PROFITABILITY AND REPAYMENT PROJECT REVIEW

Colorado State University
December 7-11, 1981

TENTATIVE AGENDA

- December 7
Monday p.m. -Arrival of Roberto Castro (AID) and Percy Avram (consultant)--
University Motor Inn (across from campus)
- December 8
Tuesday -Review of project documents by Castro and Avram
-Arrival in p.m. of Ralph Hanson and Dick Sutter (AID),
Loren Parks (OSU resident professional in Honduras--
no longer with OSU), and Thomas Dickey (CSU resident
professional in Dominican Republic--no longer with CSU)
All staying at University Motor Inn.
- December 9
Wednesday 8:30 a.m., Room C-307 Clark Building
-Overview of credit project background
-Discussion of project objectives
-Project operation and management
 Cooperative agreements
 University and country coordination
-Noon--Lunch, Rambouillet Room, Student Center
- 1:30 p.m., C-307 Clark Building
-Overview of enterprise budget systems
 Past budget use in banks
 Perceived need for improvement
 Operational system
 Budget specification
 Results
-Questions and Discussion
7:30 p.m., informal social at Tinnermeier's
- December 10
Thursday 8:30 a.m.
-Overview of farm records
 Rationale
 Record books used
 Operating procedures
 Results
-Discussion on farm records
-Discussion of other project activities
 bank policies
 training
-Noon, Lunch at Village Inn--So. College
1:30 p.m.
-Open session: Subjects and focus at discretion of review team
- December 11
Friday -Departure of review team and other visitors

SMALL FARMER CREDIT REPAYMENT AND PROFITABILITY PROJECT

List of Documents made available for the Evaluation Project:

1. Project Authorization and Request For Allotment of Funds and Amendment(AID).
2. Project Evaluation Summaries- Nos. 1,2 and 3.(AID)
3. Project Agreement ATD and the Banco Nacional de Fomento/GOH.
4. Cooperative Agreement No. AID/ta-CA-1 with CSU, Project No. 931-1134-01.
5. Cooperative Agreement No. AID/ta-CA-3 with CSU, Project No. 931-1134-01.
6. Basic Memorandum of Agreement between CSU and CSU.
7. Memorandum of Understanding between RNF/Honduras and Cooperating Universities.
8. Memorandum of Understanding between ACE/Dom. Rep. and Cooperating Universities.
9. Revised Work Plan for Honduras Project(11/6/78) CSU.
10. Honduras Project Work Plan(April 27,1978)CSU.
11. Plan of Work For The Dominican Republic (10/25/79) CSU.
12. Field Reports - Dr. Thomas M. Dickey (CSU/Dominican Republic).
13. Field Reports - Dr. Loren T. Parks (CSU/Honduras).
14. Planes de Inversion para Granos Basicos En Honduras,1980.
15. Managing Small Farmer Credit/Honduras (CSU).
16. Records For Small Farms/Honduras (CSU).
17. Small Farmer Credit Project in Honduras (CSU).
18. Annual Review(Year 2)Small Farmer Credit Project/Honduras dated 7/29/79 (CSU) .
19. Training Programs For Agr.Dev. Bank Personnel/Honduras (CSU).
20. Production Loans to Groups of Farmers in Honduras (CSU).
21. Annual Report 1977-78/Honduras (CSU/CSU).
22. Enterprise Budgets (Parks,Rockenman & Walker,IDS No. 80-1)CSU.
23. Occasional Paper No. 1 (Tinnermeier & Longwell) CSU.
24. Production Costs For Annual Crops,1980 - Paper No. 5 (Dickey) CSU.
25. Developing Farm Enterprise - Paper No.6 (Tinnermeier & Dickey) CSU.
26. Farm Production Data for Credit Programs in IDG's - Paper No. 7 CSU.

List of documents continued.....

27. An Experiment with Farm Record Keeping in the N.R. - Paper No. 8 CSU.
28. Minutes of the Project Committee Meetings:
 - a) Denver Meeting - Sept. 12-13, 1977
 - b) Stillwater, Okla. Meeting Sept 21-23, 1978
 - c) Moscow, Idaho Meeting July 29, 1979.
29. End of Tour Report - Dickey, CSU.
30. Administrative Report No. 1 (9/26/77 to 9/30/78) CSU.
31. Administrative Report No. 2 (10/1/78 to 9/30/79) CSU.
32. Administrative Report No. 3 (10/1/79 to 9/30/80) CSU.
33. Final Administrative Report - December, 1981.

CRITIQUE OF ENTERPRISE BUDGETS

The methodologies applied in each of the CCs were not the same nor essentially new. In fact, modified versions of them have been used by some government institutions in both countries. The orderly fashion of data collection and estimation procedures and the level of disaggregation of the budgets are the main contributions of this SFCRP project.

The methodology applied in the D.R. was more sophisticated than the one tried in Honduras, but it was similar, to some extent, to the methodology that the Planning Division of the Ministry of Natural Resources of Honduras had been using.

The highlights of the methodology applied in the D.R. were differentiation of five levels of technology and five types of soils for each crop and the methodology considered only variable costs for non-perennial crops.^{1/}

In the case of Honduras, two methodologies were applied, one for non-perennial crops and the other for livestock. The first one differentiated three levels of technology (using crop yield as proxy for technology), and emphasized fixed costs. This methodology focused also on farm level prices for both inputs and products. Undoubtedly, this process improved to a great degree the existing budgets in the Development Bank in Honduras, but it would have been desirable that the methodology had proposed a model for forecasting future prices.^{2/}

^{1/} The emphasis in non-perennial crops may be explained from two points of view: first, small farmers in the CCs concentrate in the production of basic grains; second, budgets for perennial crops require a great deal of information.

^{2/} Simultaneously with OSU activities, the Planning Division of the Ministry of Natural Resources was gathering information on enterprise budgets following a somewhat similar methodology to the one applied in the D.R. This office was also using a price forecast model for predicting future crop prices.

The level of detail of both methodologies suggests that their objectives and potential users were different. In the case of the D.R., the methodology seems to be more appropriate for policy analysis if used as a component of a sectoral analysis model (using linear programming as a technique). Its potential for project evaluation is also relevant, but it is not the most appropriate for credit use, much less if small farmers are the target group. The gathering of basic data and computation of the budgets require a level of training beyond the capabilities of the "average" credit agent in LICs. SEA technicians, mainly agronomists with training in economics and some with M.S. degrees in agricultural economics, were key to the development of enterprise budgets. Credit agents participated mostly in the process of collecting basic data.

In Honduras, the collection process and computation of budgets were mostly assigned to credit agents with adequate training. The differentiation of three levels of technology for each crop took into account the level of formal training and experience of the credit agents. The addition of fixed costs to the traditional variable costs used by BNF made the methodology attractive to bank technicians. The methodology proposed for livestock in Honduras did not have the expected impact and acceptance in spite of the somewhat low level of sophistication (static analysis of a one-year period). It appears that with more training credit agents would feel more confident in using the proposed methodology.

The "quality" of the enterprise budgets will be discussed from two points of view: first, their statistical validity; and, second, their practical

usefulness. Statistically, the estimated budgets are not reliable. Each budget was estimated based on five interviews and used average figures. The justification for a sample of five farmers came from the research work done in the D.R. The research assistant in the D.R. analyzed the effect of two approaches and two sample sizes in estimating enterprise budgets. The two approaches were data generated by credit agents vs. data obtained from random samples. The two selected sample sizes were five and thirty for each population (limited to a region). The main conclusions of the study were that enterprise budgets generated by credit agents differed significantly from the ones based on random samples, but there was not a significant difference among budgets estimated from different sample sizes. In other words, there was not an "effect" of sample size in estimating enterprise budgets, and, therefore, a sample of five would give an "acceptable" estimate as a sample of a larger number. This conclusion should be taken with extreme caution for the following reasons: first, the study was restricted to only one crop, rice; second, the sample sizes were taken from the "air," there seeing no valid statistical justification for the two figures. (The priori estimation of the standard deviation of each population necessary for determining the adequate sample size for statistically valid estimates were not done); third, average figures from a sample of five could be mis-leading if the population were not uniformly distributed. (The most frequent value, i.e., the "modal" could give a better estimate than the average value for relatively large population; and, fourth, the supposed "random sample" in most cases became non-random because the credit agents were asked to identify and interview the "best" representative farmers for each crop, type of technology, soil class type, and

other level of detail of the budgets. Based on these considerations, it would have been desirable to replicate the study before generalizing the results for one crop to all crops.

For the practical purpose of a financial institution, the quality of the enterprise budgets may be acceptable. A recent Colloquium on Rural Finance concluded, among other things, that credit is "fungible"; therefore, efforts directed toward supervising or controlling the use of credit for specific crops or activities is not always desirable nor successful. In spite of any police action a lending institution may take, it is likely that credit will be channeled to its best alternative rather than its targeted use if this last happens to be less profitable. Given this premise, the enterprise budgets might be useful for estimating the demand for credit, but for attempts to measure farmers' loan repayment capacity may not be essential. If that is so, "accurate" and "reliable" statistical estimates are desirable but not critical. Budgets differentiated by technology and by regions or sub-regions seem desirable, keeping in mind the purpose of these budgets; that is, to be part of the operational plans of financial institutions. The need of random sampling within each population is not evident. Sampling "representative farms" might provide adequate information for financial institutions, especially if the selection of those representative farms are done jointly by credit and extension agents.

In LICs with shortages of highly qualified human capital and limited resources for research, the concept of "second best" applies; that is, the use of methodologies and approaches that are readily accessible to technicians who will be using them, rather than sophisticated methodologies which may provide statistically acceptable "estimators" but require a high level of training for their use.

April 16, 1982

Dr. Ronald L. Tinnermeier
Department of Economics
Colorado State University
Fort Collins, Colorado 80523

Dear Ron:

Thank you for your response to the final evaluation report of the "Small Farmer Credit: Profitability and Repayment" project. Your points are well taken. As you may recall I argued at the evaluation workshop that the cooperative agreements were the binding documents, not the project paper, as you presented in the second point of your letter. We are in complete agreement on this point. As you stated, several of your points were relatively minor but I feel all were presented fairly and deserve mentioning in the documentation of this project. Your comments will be attached to the PES.

We are interested in the writing of a summary manual as recommended in the evaluation report. Once I hold discussions with the Rural Development Office I will let you know what develops.

If I can be of any further help to you let me know.

Sincerely,

Ralph R. Hanson

Ralph R. Hanson
Economic Policy and Planning Division
Office of Agriculture
Bureau for Science and Technology

cc: Dr. Dan Badger



Department of Economics

Colorado State University
Fort Collins, Colorado
80523

April 2, 1982

Mr. Ralph Hanson
ST/AGR/EPP
Agency for International Development
Washington, D. C. 20523

Dear Ralph:

I delayed in responding to the Credit Project evaluation report until Tom and Loren has a chance to read it. My comments will include their observations as well.

Generally, the evaluation was a fair and relatively balanced assessment of the project. I know evaluating a project without visiting the countries and institutions in question is a difficult task. However, we do have a number of comments--some relatively minor, while others are more substantive. The comments follow the order of the report and are listed for brevity:

1. A goal to increase small farmers' incomes and to reduce delinquency is a long-term development objective. To expect a two-year project (in country), which is testing some collection methodologies, to increase incomes and reduce delinquency is unrealistic. (Page 4) Obviously, we all use different definitions of goals, purposes and objectives
2. (Page 6-7) The Coop Agreements specified that project objectives and outputs (scope of work) were to be agreed upon by the Cooperating Contractors (CC) and the host institution, with the local USAID mission concurrence. Illustrative objectives and outputs found in AID's internal Project Paper and other earlier documents should not serve as a basis for evaluation. There seems to be some confusion on this. The binding document for the CC was the Cooperative Agreements as amended and the in-country plans of work.
3. The initial funding for the CC was \$787,793 as specified in the two Cooperative Agreements. Colorado State University's level dropped to \$400,329 in Amendment 1 (primarily due to a shift from the Philippines to Central America). The \$40,000 increase indicated on page 7 must have been internal to AID before the Cooperative Agreements. (My final figures agree with those on page 9.)
4. (Page 10) The evaluators suggest full line-item flexibility was a weakness but did not demonstrate how should flexibility diminished achievement of project objectives. Do they suggest less flexibility in project resource allocation will improve the prospects of achieving project objectives?
5. (Page 11) These figures are wrong as are the supporting statements. The 25.5 m/m for CSU field professionals is only for Dickey. Longwell's work in the Dominican Republic makes up most of the 25 m/m listed under



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Mr. Ralph Hanson
Page 2
April 2, 1982

"non-professional and support staff." Thus the total field professional time was about 37.5 m/m rather than 25.5 m/m. In terms of m/m, the statement that "CSU did more work on campus than in the field" is just not true.

6. (Page 12) The question of the appropriate level of on-campus support associated with overseas projects is a historical one. AID feels the levels usually are too high and the universities feel AID wants to cover only the marginal but not the fixed costs associated with international development work. We obviously need to continue the discussion of this important question.

Kurt Rockeman was not a graduate assistant while in Honduras. The returns (output) per project dollar invested in both Rockeman and Longwell were very high and were of direct benefit for reaching project objectives.

The use of ISA students in the DR has nothing to do with the Bank's non-compliance in providing a counterpart. In fact, the Bank provided six employees full-time for three weeks for that same data collection effort. The minimal payment to involve ISA students was to: (a) provide further training on farm-level data collection, and (b) help establish a link between an operational agency (the Bank) and an academic/research institution.

7. (Page 13) The three hypotheses listed came out of the M. S. research work of Longwell. They were used to guide his work but were never part of the objectives of the Cooperative Agreements or the respective in-country plans of work. To completely test those hypotheses would have implied greatly modified plans of work.
8. (Pages 17 and 22) We do not agree with the evaluators' statement that there was a lack of interest in training on the part of Bank employees in the DR. The training in the DR was restricted entirely to the methodology for collecting data and this restricted the participants to those helping with that effort. In fact, participation of the Bank credit agents was superior to that of SEA employees.
9. The effective institutionalization of the methodologies tested by the project and use of the budgets in the credit delivery system was considered to be extremely limited by the lack of consistency in the Bank's enforcement of "official" policies and rules. The absence of a functional Credit Policies Manual is the principal cause of that inconsistency. If we are to be criticized for not completely institutionalizing some data collection and analysis methodologies, then we should not also be criticized for working on Bank policies and rules affecting field operations which allow and encourage such institutionalization. Besides, in the DR most of the work on the Policy Manual was performed by three Bank employees working for a three-month period. Little direct project time was involved.

Mr. Ralph Hanson
Page 3
April 2, 1982

10. (Annex C and Executive Summary) The evaluators seem to consider that only one budget methodology, one record book methodology, and one client classification system were produced. We feel the most significant output of the project was the testing of alternative budget and farm records methodologies and evaluating the conditions under which specific approaches might be used. The budget methodology in the DR might have been more "sophisticated" in the data collection phase but the Honduran approach was more "sophisticated" in that it included fixed costs. Neither approach is "new" but testing to see if they can be used operationally in a developing country is relatively new.

Over the life of the project we have continually heard that the MNR in Honduras was producing similar types of enterprise budgets. We have yet to see proof that: (a) the MNR had a consistent methodology (other than a form to be filled out), (b) that their budget results would be reproducible, (c) that the budgets represented different technology levels, and (d) that they were suitable for use in the Bank. We feel the project did significantly add to what was already being done on budgeting in both countries.

We agree with the suggestion that a model for forecasting future prices would have been desirable, however, estimating farmgate prices will take years and would have greatly shifted the focus of the project.

The discussion on the question of statistical validity is a little confusing. On the one hand, we seem to be criticized for developing methodologies which might not be cost effective, then we seem to be criticized for not obtaining statistically valid sample sizes. That would indeed be expensive! Given the operational deficiencies of most ag development banks in LICs, we submit that our approach of generating a few, high-quality estimates at relatively low cost is most appropriate. Statistical validity does have more relevancy when data are collected for policy analysis. The collection of data for use by credit agents and credit institutions, at least in the short run, has more limited objectives.

The previous points are made to clarify certain misconceptions (from our point of view) and errors in the evaluation document. The length and number of comments should not be interpreted to imply that we are upset by the evaluation. Again, let me emphasize that we feel the evaluation was reasonably fair and balanced, given the materials and time available to the evaluators.

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Mr. Ralph Hanson
Page 4
April 2, 1982

Finally, we would be interested in further discussion of the writing of a summary manual for wider distribution, as recommended on page 26, if AID is so inclined.

Sincerely,

Dr. R. L. Tinnermeier
Professor of Economics

RLT:njb

cc: Dickey
Parks
Osborn



Oklahoma State University

DEPARTMENT OF AGRICULTURAL ECONOMICS

7
STILLWATER, OKLAHOMA 74078
AGRICULTURAL HALL, ROOM 308
(405) 624-6157, 6154, 6081, 6086

March 31, 1982

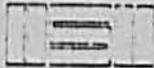
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U.S. Agency for International Development
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I have reviewed notes of late 1976 and early 1977 meetings that we had with Bill Merrill and Anne Ferguson on the major thrust of the project and the need to incorporate a strong on-campus component into the project. The major concern was that no one professional located in country could be competent in all aspects of the small farm credit project, and would need considerable backstopping from knowledgeable faculty on campus through provision of published material and through periodic visits to Honduras by teams of professionals competent in these areas. That this type of investment in on-campus back-stopping in the project was necessary, was clearly evident in conversations by Jim Osborn, Odell Walker and me with Anne Ferguson, Erhardt Rupprecht, Bill Merrill and Virginia Perrelli, all who worked with us in preparing the staffing needs and in developing the budget. Many of the early trip reports by me which are in your files also reflect the consensus or agreement by AID/Washington and AID/Honduras personnel of the importance of on-campus professionals.

Loren Parks was a young professional in 1977-78, competent in Spanish and with experience living in India and Chile. He was the best candidate we had on our faculty to be the field professional in Honduras. It was the considerable input by Kurt Rockeman, who had completed his M.S. Degree in farm management under Odell Walker before going to Honduras, and the considerable input by six OSU on-campus professionals who contributed greatly to the successful completion of the objectives listed in the Scope of Work and the Memorandum of Understanding between OSU and the Banco Nacional de Fomento in Honduras.



8

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Unfortunately, only the on-campus professionals grasped how much that they and Kurt Rockeman contributed to the project. It is obvious that the importance of these people was not reported to your evaluation team on December 8-10, 1981 in Fort Collins. In view of the significant input into the Honduras project by on-campus professionals, it should have been very important to your final evaluation efforts to have had OSU faculty representation at that December 8-10, 1981 meeting. It is significant to indicate that Loren Parks resigned from the OSU faculty two months after his return from Honduras, and has had no contact with our faculty since that time. Certainly he was not the appropriate person to represent OSU in the final evaluation meeting. Our specific comments on the final evaluation report follow.

Page 4 (Executive Summary). (Par 3). The criticism is invalid: "personnel component of the Project was "top-heavy" with on-campus professionals whose contributions could have been extremely valuable, but difficult to discern" Ron Tinnermeier, Loren Parks, and/or you could have emphasized why we wanted on-campus professionals involved, as I have spelled out above. It is also pertinent that AID/Washington personnel (Bill Merrill, and later, John Day) felt the involvement of on-campus professionals would provide a cadre or nucleus of interested and experienced University Agricultural Economists to work on future AID projects in developing countries.

Bottom page 4 and top page 5 (Executive Summary). The project was initially funded for three years, with the full expectation that we were working on a five year project. Certainly, had we been able to continue the project for two additional years, we could have institutionalized repayment packages of recommendations, as well as sponsored workshops in Latin America and elsewhere to disseminate methodology we developed and implemented in BNF in Honduras. These follow-up workshops to involve AID and Bank personnel of other countries were discussed at length by us and AID/Washington project managers (Ferguson, Rupprecht and Hanson) but never were implemented due to lack of financing.

Page 6. My title was OSU Project Coordinator. Ron Tinnermeier is from CSU, not OSU.

Page 7. (Par. on life of the project) The OSU part of the project was completed and all reports prepared by August 31, 1980. We did not receive an extension and we did not receive any of the \$40,000 increase in budget mentioned in the next paragraph.

Page 8. (List of people at evaluation workshop). Loren Parks did not carry the title of Chief of Party (OSU/Honduras). He was our Field Staff or In-Country Professional. We had no Chief of Party.

Page 10. (second par. and No. 2-Table) In developing the budget with Virginia Perelli, AID Contractor, we were given line item flexibility to shift funds. It also should be pointed out that when the initial budget was developed, OSU was required by state law to compute only \$35 per day for international travel. Conversely OSU used the GTR published rates, which were much higher. Virginia told us that when OSU regulations increased the per diem to higher rates, and/or were amended to allow use of GTR rates, that she would amend the budget to increase the travel part. Also, after the project was implemented the federal government initiated the requirement of Overseas Worker's Compensation (OWC) insurance which was not covered in the budget. Virginia told us that the budget could be amended later to include this required cost item also. Unfortunately, due to budget constraints and Virginia's untimely death, OSU was not compensated for the \$10,000 for OWC, nor for the authorized GTR per diem rates. We also absorbed Loren Parks' salary for two months after his return to the U.S., while he was on vacation and working on the final reports on the project. In the table of inputs on the bottom of page 10, it should be noted that we absorbed that additional salary cost. In essence, OSU spent more than the \$323,590 we were reimbursed by AID. So the budget was not fudged to just accidentally balance. Also in the Table on bottom of page 10, the initial budgeted M/Ms for non professionals and support staff is an "equivalency figure" of 30 on the basis that 5 M/ms of nonprofessionals and support staff salary equal 1 fulltime professional salary. This was calculated by me in consultation with Virginia Perelli. So 30 M/ms should be changed to 6 M/ms professional equivalent, a footnote should indicate the conversion factor, or else the adjusted budget M/ms and Actual M/ms should reflect 30 also. Somewhere along the line, the equivalency factor was lost. In addition, Kurt Rockeman worked in Honduras for 20 months, which were converted to 10 months on an "equivalency" of salary of full time professionals on the basis of 2 for 1. In reality, Kurt's time in Honduras should be credited at 20 man months as he was a full-time professional in the country (not working on thesis research).

Page 11 (last par.). This criticism about top heavy on-campus professional service in the case of OSU is not justified. See my earlier comments in this letter and also the letter I wrote to Karen Wiese on September 27, 1979.

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Also, the addition of Kurt Rockeman to the Honduras component significantly increased the net contributions of the OSU project and was a net increase in in-country professional input into the project that was not originally committed by OSU. Ron Tinnermaier and Loren Parks could have eliminated the continuing criticism of the consultants in the report by a few well placed comments on the significant input by on-campus professionals.

No mention is made anywhere in the report that OSU on-campus faculty assisted in the early development of the OSU project efforts (Odell Walker in the Phillipines, me in Nicaragua, and Mike Hardin, Dean Schreiner and Odell Walker in the Dominican Republic). Also no mention is made anywhere that Dean Schreiner and Odell Walker traveled to Washington and presented a seminar at your and Rollo Ehrich's invitation, where the benefits of the Honduras project on farm records and budgets were presented and related to how our knowledge base could be transferred to other developing countries in Africa and elsewhere. It is significant that Karen Wiese requested and took the Honduras reports, farm record books and other OSU developed materials to Egypt.

Page 12 (second par.). Kurt Rockeman was a research associate, not a research assistant. Kurt completed all his MS requirements, including his thesis, under Odell Walker's supervision at OSU before leaving for Honduras in November 1978. He did not perform his assignment as part of his degree work and thus, was not subsidized by the AID budget for thesis research as the report implies. Kurt was an integral and valuable part of the team, trained and thoroughly briefed by OSU on-campus professionals (Walker, Mapp, Hardin, Williams and myself) on what had to be done by him in Honduras and how to go about it. There was not added cost to the AID-OSU budget for MS research, and funds were not diverted from items 2 and 3 in the scope of work.

Pages 13 and 14 (Literature Review and Dissemination). Failure by AID to extend the project for years 4 and 5 resulted in possibly inadequate dissemination of the methodologies developed. However, we have done everything we can at OSU to disseminate the methodologies through filling requests for the reports, through phone conversations, and through incorporation of many of the materials developed in Honduras into our courses on farm records, farm management and agricultural finance. We also have presented papers and seminars at professional association meetings (AAEA, SAEA, WAEA) and at other Universities, as well as to personnel in AID/Washington, where we have disseminated results of the research methodologies developed and other experiences in Honduras.

Mention should be made of this in the evaluation report. The criticism in the last sentence of this section on page 14 is not correct with respect to OSU. We did disseminate the information on Honduras through workshops with BNF employees from all over the country, as well as with Ministry of Agriculture employees in Honduras. Dean Schreiner, Odell Walker and Mike Hardin carried the Honduras results to FAO/Rome, to Egypt, Kenya, and Tanzania, and reported on these efforts in a seminar presented to your group in AID/Washington.

Page 17 (Unplanned Outputs). OSU recruited and trained three BNF (BANADESA) employees at the MS level in Agricultural Economics. These are Leila Nasralla, Marco Agüero, and Reynerio Barahona. Reynerio is still at OSU. Marco is back in the Bank. We also recruited and trained an employee of the Ministry of Natural Resources in Honduras, Hernan Madrid, as a direct consequence of the Small Farmer Credit Project in Honduras.

Page 30 (Critique of Enterprise Budgets). Mention should be made that CSU personnel in the Dominican Republic were able to benefit from the farm records, books, budgets and other materials we developed in Honduras. We feel that the methodology developed in Honduras to generate budgets was much better than the procedure used by the Planning Division of the Ministry of Natural Resources in Honduras. If you will review my Honduras Trip Report for November 13-19, 1977, on page 7, you will note that Erhardt Rupprecht, Ron Tinnermeier and I visited with Roberto Castro when he was employed by MNR. He had little or no confidence in the MNR budgets at that time and in essence told us we would have to develop our own system and collect our own data for budgets. This we did!

Enclosed is a listing of the reports we published at OSU in connection with the "Small Farm Credit Project." Again, we appreciate your efforts on helping us set the record straight as to our participation in the Honduras Project.

Sincerely yours,

Dan Badger

Daniel D. Badger
OSU Project Coordinator

DDB:mds
Enclosures
cc: Dr. Ron Tinnermeier

OSU PUBLICATIONS ON SMALL FARMER CREDIT PROJECT
IN HONDURAS, 1977-1980

Parks, Loren, Kurt Rockeman, and Odell Walker. Enterprise Budgets: A Multiple Use Data Base of Agricultural Banks in Developing Countries. IDS 80-1. Stillwater: Oklahoma State University, Department of Agricultural Economics. August, 1980.

Parks, Loren and Daniel Badger. Training Programs for Agricultural Development Bank Personnel: The Honduras Experience. IDS 80-2. Stillwater: Oklahoma State University, Department of Agricultural Economics. August 1980.

Parks, Loren, Kurt Rockeman, Joseph Williams and Mike Hardin. Records for Small Farms in Honduras: A Development and Critique. IDS 80-5. Stillwater: Oklahoma State University, Department of Agricultural Economics. August, 1980.

Parks, Loren and Harry Mapp, Jr. Managing Small Farmer Credit Programs: A Case Study in Honduras. IDS 80-4. Stillwater: Oklahoma State University, Department of Agricultural Economics, August, 1980.

Parks, Loren and Ron Tinnermeier. Production Loans to Groups of Farmers: Experiments in Honduras. IDS 80-5. Stillwater: Oklahoma State University, Department of Agricultural Economics. August, 1980.

Williams, Joseph, Mike Hardin and Loren Parks. Enterprise Budgets for Grains in Honduras: 1980 (in Spanish). IDS 80-6. Stillwater: Oklahoma State University, Department of Agricultural Economics. August, 1980.

Badger, Daniel. Semi-Annual Report, Small Farmer Credit Project in Honduras. Stillwater: Oklahoma State University, Department of Agricultural Economics. October 1, 1977-March 31, 1978.

Badger, Daniel. Annual Report, Small Farmer Credit Project in Honduras. Stillwater: Oklahoma State University, Department of Agricultural Economics. October 1, 1977-September 30, 1978.

Badger, Daniel. Semi-Annual Report, Small Farmer Credit Project in Honduras. Stillwater: Oklahoma State University, Department of Agricultural Economics. October 1, 1978-March 31, 1979.

Badger, Daniel. Annual Report, Small Farmer Credit Project in Honduras. Stillwater: Oklahoma State University, Department of Agricultural Economics. October 1, 1978-September 30, 1979.

Badger, Daniel. Semi-Annual Report, Small Farmer Credit Project in Honduras. Stillwater: Oklahoma State University, Department of Agricultural Economics. October 1, 1979-March 31, 1980.

Badger, Daniel. Final Annual Report, Small Farmer Credit Project in Honduras. Stillwater: Oklahoma State University, Department of Agricultural Economics. October 1, 1979-September 30, 1980.

Williams, Joseph, Mike Hardin and Loren Parks. Libra de Contabilidad para Empresas Agropecuarias. (in Spanish). Stillwater: Oklahoma State University, Department of Agricultural Economics. May, 1979.

Williams, Joseph, Mike Hardin and Loren Parks. Farm Records Book. (in English). Stillwater: Oklahoma State University, Department of Agricultural Economics. (editions published in 1978, 1979, and 1980.)

April 15, 1982

BEST AVAILABLE DOCUMENT

Dr. Dan Badger
Department of Agricultural Economics
Oklahoma State University
Stillwater, Oklahoma 74078

Dear Dan:

Thank you for your response to the final evaluation report of the "Small Farmer Credit: Profitability and Repayment" project. Your letter will be included in the PES documentation package as will this follow up letter. I was surprised to read some of your comments. I am not writing to defend the evaluation document since there are a few points I also disagree with which have been pointed out in the PES. I am writing to correct some of the inaccurate statements in your letter. First of all it is important to point out that Oklahoma State University was informed of and invited to the evaluation workshop but declined to attend. This decision not to attend the evaluation workshop was made solely by O.S.U. In the following paragraphs I will briefly correct the misstatements of your letter of March 31, 1982.

In paragraph three page two of your letter there is the following sentence, "These follow-up workshops to involve A.I.D. and Bank personnel of other countries were discussed at length by us and AID/Washington project managers (Ferguson, Rupprecht and Hanson) but never were implemented due to lack of financing." This statement is simply not true. I did not officially become project manager until after the O.S.U. component of the project had officially terminated (9/30/80). Nor did I ever participate in such discussions prior to this time. It is possible that Karen Viese may have been involved in these discussions but there is nothing in the file to document this.

On the same page, paragraph five, a reference is made to O.S.U. completing the project and all their reports by August 31, 1980. This statement is also false. During the annual review held in Stillwater, Oklahoma (September 10 - 12, 1982) O.S.U. gave Viese and Hanson the four documents that had been completed up to that time (O.S.U. final documents numbers 1, 2, 3, and 6). The other two documents, number 4 ("Managing Small Farmer Credit Programs - A Case Study in Honduras") and number 5 ("Production Loans to Groups of Farmer Experiments in Honduras") were not received by AID/Washington until November 14, 1980. This information is all documented in the official project file.

The first full paragraph on page four of your letter refers to an invitation that Rulo Ehrlich and I supposedly made to Dean Schriner and Glenn Walker for a seminar presentation in Washington. I was not involved

in any invitation that may have gone out. No one on our staff remembers any such seminar occurring. As you know Belle Ehrlich is now in Mali so I was unable to verify this invitation with him. The project files also fail to substantiate this claim. I can say flatly that I was not involved in any such seminar and there seems to be a lack of evidence of one ever taking place.

Several other points of your letter are true but so minor and insignificant that they hardly merit discussion, i.e., Ron Tinnermeier being from C.S.U. not O.S.U. This example is obviously a typo since Ron's affiliation with C.S.U. is referred to throughout the rest of the document. I don't feel typographical errors require a critique.

I appreciate your input and willingness to review the Castro and Avram evaluation report.

Sincerely,

Ralph R. Hanson

Ralph R. Hanson

Economic Policy and Planning Division

Office of Agriculture

Bureau for Science and Technology

cc: Ron Tinnermeier

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