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SUBJECT: Synopsis of the Fourth Visit which Wade Gregory has made to Ecuador

TO: Quentin West, ERS
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The attached report provides a careful analysis of some of the problems which the Land Sale Guarantee Loan Program and the Agricultural Development and Diversification Loan Programs continue to encounter. Wade Gregory brings the valid point that small farmers under this program are forced to bear the full potential costs in case things do not work out. He suggests that the program should agree to bear some percentage of the risk in cases such as this.

This report also brings forward some valuable suggestions on how the two programs could work together for their mutual benefit.

Gregory does not plan any more visits on this project unless specifically requested by the Mission.



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REPORT OF THE FOURTH VISIT - FEBRUARY 1973
TO REVIEW
THE LAND SALE GUARANTEE LOAN PROGRAM
and the
AGRICULTURAL DEVELOPMENT AND DIVERSIFICATION LOAN PROGRAM
by
Wade F. Gregory ^{1/}

^{1/} The author, an agricultural economist with the Economic Research Service, U.S. Department of Agriculture, was on TDY with USAID Mission in Guavaquil from February 11 to February 21, 1973.

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The purpose of this trip was primarily to work for a week or two with the person responsible for preparing plans for the Land Sale Guarantee Loan Program. Unfortunately, shortly before my arrival there was a series of personnel shifts that affected the program in varying degrees. The most drastic was the resignation of the Director of the Land Sale Guarantee Loan Program. In addition, a new Minister of Production was appointed and shortly thereafter, the Ministry of Production was divided into two ministries: the Ministry of Agriculture and Livestock and the Ministry of Industry and Foreign Trade. The Central Bank also was reorganized and in the shift the Trust Fund got a new head and a somewhat different alignment relative to its line of authority and manner of operation. Changes such as these are to be expected and should not interfere unduly with continued successful project developments.

In my case, however, they assumed an exaggerated importance, particularly in the case of the Land Sale Guarantee Loan Program. My first week followed the resignation of the Director of that program and therefore, coincided with the indefiniteness associated with a temporary acting director who could do more than execute routine aspects of the program. In the long run, a temporary slow down during one week is of little importance; in the context of a two week assignment, it looms rather large. As in other visits, however, even though I would have liked to have accomplished more, I feel that I was able to accomplish something worthwhile. I continue to have much optimism and enthusiasm for the success of the program and the contribution it can make to increasing rice production and improving the lot of the members of the cooperatives participating in the program.

Since I spent about equal time with both programs, I will begin the report with comments that should have some relevance to both programs.

1. While the staffs of both programs are physically located in the same office, there appears to be little communication and exchange of ideas between them. This is unfortunate, for I think the opportunity exists for each program and the staff members of both programs -- from the Directors to the field staffs -- to benefit from a greater exchange and discussion of problems, procedures, and operations of each of the programs than now take place. This need not (and probably should not) be on a formal basis, rather an informal exchange of ideas and discussion of work plans and operations should be encouraged.

2. Consideration should be given to jointly carrying out certain operations or functions. Several possibilities that readily come to mind are listed for consideration; they are not listed as something that should be done without considering the pro's and con's of such joint action.

a) Several times I have suggested that benefits could be had from determining the total quantities of inputs (fertilizer, seeds, pesticides, fumigation, etc.) that program borrowers will use and negotiate prices for a bulk purchase. The same could be done for product sales. It would seem that even greater advantages could be obtained if inputs purchases and product sales were negotiated jointly for both programs.

b) While each program has somewhat different formal, contractual arrangements with the participating Financial Institutions, there probably is sufficient similarity to consider developing and using common forms and practices such as the loan application and system of authorizing disbursements. Other practices may also be noted that could serve both programs equally well.

c) Publicity - to a considerable extent both programs have the common goal of improving the economic well-being of small farmers, yet farmers do not have equal access to both programs. The Land Sale Guarantee Program serves only rice production cooperatives and the Agricultural Development and Diversification Program (ADDP) deals only with small and medium sized producers of oilseeds and cocoa. Both programs may be much more readily understood if publicity brochures included information on both programs.

d) Administration - It may be possible to achieve not only increased economy but also improved services by having one set of administrative personnel, such as project accountant, secretarial staff, legal services, garage and motor repair services, etc. While the potential benefits may be great, however, there is also the possibility of greater confusion, mix-ups, and delays, that might result in higher costs; therefore, this proposal merits very careful consideration before being implemented.

3. Both programs place a high priority on keeping farm records, but I have the feeling that there is insufficient appreciation or knowledge of how to use farm records. Part of my assignment was to train some or all of the staff in the use and purpose of farm records. While progress has been made in this regard, there is still much to be done. In the meantime, I think the process of learning can be improved and speeded-up by a continuing interchange between the staffs of the two programs on their respective use,

successes and difficulties with farm plans. The following section contains some comments on the form and use of farm plans. A general observation is that farm plans and records appear to be used mechanically and treated as if they were fixed and frozen rather than as a flexible tool.

4. The development and maintenance of a good system of farm records is usually included as an essential part of a credit system for small farmers. However, it may be useful to question how essential farm records are for successful operation of small farmer credit programs, for it is quite likely that the number of credit programs now operating without maintaining a system of farm records exceeds those for which records of borrowers' farm operations are kept. While farm records can provide much useful information, such information becomes available only after a trained person summarizes and analyzes the records. Most credit agencies neither have such a trained person on their staff nor do they attempt to summarize or use whatever farm data are kept. Fortunately, both programs are attempting to train some or all of their staff in this regard. Record keeping is not a very useful practice unless the records are summarized and used. Therefore, while I strongly endorse the idea of credit agencies developing and maintaining a system of farm records, the form and completeness of the record system used should be a function of the use that can and will be made of the records after they are taken, rather than determined by no more specific goals and objectives than that such and such information would be nice to have and may be useful.

If the kind and amount of farm data to be kept is to be a function of the use that will be made of the data, then the types of records should be determined jointly by the farm supervisors (to reflect the kind and amount of information they feel can be recorded and that will be of interest and use to them and the farm borrowers) and by the central staff personnel (to reflect their need for and interest in various kinds of data). If this procedure were followed, it is quite likely that the farm record system would be quite simple at the start of the program and would not call for a great amount of information. As use was made of the information contained in the farm records, however, the desirability of modifying and expanding the kind and amount of data kept would probably become apparent. For example, it is quite likely that some information originally thought to have some use would turn out to be of no use to anyone and should therefore be dropped from the system; while on the other hand, the need for data not previously anticipated would be identified and provisions should be made for expanding the record system to collect new types of data. Under this process, the farm record system should gradually become a fairly complete and highly useful system.

Applying this line of reasoning to the farm plans and record system for the Land Sale Guarantee Loan Program suggests that these plans and records are much too complex for the program at this time, for aside from serving as the basis for the loan application little other use is now being made of the farm plans and records. One reason for this may be their complexity and the lack of comprehension among project personnel on how to use them. I fear that the ADDP may also be developing a set of plans that will be more complex and call for more information than the staff will use.

My plea is not to forgo collecting useful information, but rather to keep the forms and process simple; and as the need for more information is recognized, the record system should then expand to fill this need.

5. I have cautioned both programs about being too optimistic relative to yield and income levels expected from farm operations. Even though actual performance of borrowers in the Land Sale Guarantee Loan Program has improved over what it was before entering the program, actual performance has not reached the level stated in the plans. So far, this lower than planned for performance has not caused any problems, for the margin of profitability or the difference between costs and returns was large enough to meet loan repayment costs even with lower than planned for levels of output.

I have not calculated the percent by which borrowers failed to reach planned profit levels in the Land Sale Loan Program, but from my brief contacts with the ADDP I feel fairly sure that if the proposed tentative ability to repay loans for oilseed crops and cocoa based on existing costs and returns estimates were to fall short by the same percentage as has occurred in the Land Sale Guarantee Program that repayment ability in the ADDP would be very questionable. I want to emphasize that I am not making this as a statement of fact, but rather as a word of caution of some types of calculations that should be made and how one program can benefit from the experience of the other.

6. As a further word of caution against the tendency of showing how profitable farming can be on the basis of "paper plans" I want to include some ideas I have presented elsewhere on this matter.

Loan programs, such as these two, are developed to provide financing for the purchase of inputs required to adopt "improved technology" which is supposed to increase output and, in turn, income by more than the increased cost of the additional inputs. The new, higher, profitability then is a function of the extent to which the "improved" technology results in higher yields and the corresponding change in costs and returns over the traditional methods. Since these programs

are for small to medium sized farmers, it means that the "improved" technology must be successful when used under conditions facing small to medium sized farmers. This means that the entire bundle of practices associated with the "improved" technology must be identified and their use in the production process described so that the correct procedure can be followed in a step-by-step manner. To determine the increased profitability of the "improved" technology, it must also be possible to calculate costs and returns from the improved system and compare them with the costs and returns from traditional methods.

In many cases, small farmers would prefer to continue their traditional way of life which is fairly safe and sure even if standards of living are at fairly low levels. Because of society's interest in growth and development, however, programs are developed that encourage those in the traditional sector to modify their existing practices or to adopt new ones in order to increase output and productivity. Those using traditional methods are encouraged to adopt improved practices because of the beneficial impact (probable but by no means sure) they will have on the adopter, but more importantly, because of the more certain beneficial impact they will have in the aggregate. In this case, society stands to gain more than the individual, but the individual bears the greatest portion of the risk.

Furthermore, it seems to me that in many cases small farmers are encouraged to adopt technology, or forced to adopt it as a precondition for participation in loan programs, but the administrators of these programs have such little faith in the probable success of the technology that the adopter must bear all of the risks. This, I suggest, should be changed.

Credit programs that require the adoption of new (improved) technology as a precondition for participation in the program should bear some or all of the risk of failure associated with the use of the new technology. In the case of credit programs for small farmers, credit is often granted only on the condition that part or all of the credit be used to purchase specified inputs and that the traditional, fairly safe, method of production be replaced by improved technology that has the potential for much higher levels of output. This potential may or may not be realized due to factors within the control, or completely beyond the control of the farm borrower. However, when the credit agency feels sure enough of the probability of the success of the new technology to insist on its adoption, all risks connected with the adoption and use of the new technology will have been fully borne by the borrower. My suggestion is that this be changed and that any worsening in the financial position of the borrower, related to the use of the new technology, be borne at least in part, if not in full, by the credit agency. This needs to be qualified, of course, to except those cases due to negligence on the part of the borrower. It would

include those cases where yields did not increase enough to pay for the cost of applying the new technology either due to weather hazards, adverse price changes, or simply lack of response to the new technology for no apparent reason. Under such a program of shared risks, it is my feeling that credit agencies would be less prone to recommend the adoption of various practices without more proof than they now have of the profitability of that practice under the conditions in which small farmers must operate.

7. Prior to my departure on previous visits a tentative target date was set for my return. This time it was decided that the status of work on both projects was such that it was difficult to estimate a tentative return date and therefore, that it would be preferable not to set a date. Instead, whenever the need arises, either or both program Directors are to transmit a request to AID for additional assistance. I emphasized the continued personal interest I have in both programs as well as the continuing relationship between AID and the U. S. Department of Agriculture whereby USDA stands ready to provide specialized agricultural expertise whenever requested. Therefore, additional USDA assistance is available to either or both programs. These services will be made available at such time that either or both programs make a specific request to AID. A lead time of five to eight weeks is suggested.

Land Sale Guaranty Loan Program

1. Existing plans for the nine cooperatives were to be reviewed and revised to more nearly reflect actual conditions. It was recognized that the standard plan now being used was not very well suited for those six cooperatives whose members work their own individual plots. Therefore, the original plan will be modified for these six cooperatives. A less complicated plan will better fit the needs of these six cooperatives. A version of this simplified means was worked out with Ramón Mesa.

2. As a way of learning the process of planning, Carlos Lozano was to work with Ramón Meza to revise the plans for the nine cooperatives now in the program. This should provide sufficient opportunity to learn how to deal with variations that exist from cooperative to cooperative. Carlos Lozano would then become responsible for preparing plans for the new cooperatives that enter the program. In the future, plans are to be modified to the extent necessary and desirable to fit the needs of each particular cooperative.

3. While the plans will be prepared in final form by Carlos Lozano, he will need close collaboration from the field staff. Likewise, the plan will not be as useful as it should be unless the field staff understands the meaning and purpose for each sub-part of the plan.

4. Farm records are to be kept current. This will be the responsibility of Ramón Mesa, but again the close cooperation and understanding of the field staff is needed.
5. Special efforts were to be made to obtain records on San Felixe for at least the past two crops so that complete records of production practices, costs and returns would be available for analysis and use in future planning.
6. Steps were to be taken to have copies of all important and useful records and documents available in the Guayaquil office for use by program personnel.
7. Program leaders need to review farm plans and records with the field staff at frequent intervals for the purpose of guiding their work and also as a training device to help them acquire additional skills in farm management techniques and analysis.

Agricultural Development and Diversification Program

1. Even though the final form of the plans will be different in this program from those used by the Land Sale Guarantee Loan Program, it should be useful to discuss problems, procedures, uses, etc., of preparing farm plans with personnel from the other Program.
2. Attention needs to be given to the kind of farm records that will be kept and how the data will be obtained.
3. Because of the quite narrow profit margin that will likely prevail for most of the plans, it would be advisable to anticipate partial failure and consider what steps will be taken in case income is insufficient to meet scheduled debt payments.
4. In the case of cacao, it was agreed that price data would be plotted as far back to 1960 as possible. This would provide some basis for projecting cacao prices into the future.
5. It would appear imperative that the field staff have vehicles to enable them to visit their clients quickly and efficiently.