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RURAL EQUITABLE ECONOMIC GROWTH ACTIVITY

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BARRIERS TO COMPETITION AFFECTING SMALL FARMERS IN EL SALVADOR

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SECTION I
INTRODUCTION

A Background

In 1989 El Salvador embarked on a macroeconomic stabilization and adjustment program The economy responded with near 6% percent GDP growth rates, but growth was not evenly distributed throughout the sectors Agricultural GDP grew at only 2 5%, a rate insufficient to raise incomes or employment in rural areas or contribute to overall growth

There are theories to explain agriculture's anemic performance The hysteresis phenomenon of agriculture holds that for structural reasons during cycles of both expansion and recession, the agricultural sector will both grow and contract more slowly than the rest of the economy However, there are reasons to believe that agriculture's poor performance is more than just the sector's response to economic cycles

Agriculture has demonstrated negative average growth rates over a twenty year period (1975-95) Its contribution to GDP is only two-thirds what it was in 1975, and it is the poorest performing sector of the post-war economy (1989-97) Average annual agricultural value added (1978-93) is negative (- 99% / year), productivity indices are essentially flat, and area cultivated is declining, reflecting the lack of an agricultural frontier and aggravating the fact that land degradation affects 31% of fields farmed

Approximately 50% of the country's 5 8 million residents live in rural areas and 32% of these are farmers, almost exclusively small and poor by any standard Average farm size is 4 4 *manzanas* and 87% of farms are less than 2 *manzanas* The average annual wage of farmers in rural areas is $680, about half the annual wage of their urban counterparts, and about $100 higher than the average wage for all rural residents Real agricultural salaries are only 50% of their 1980 levels, and 50% of farm income derives from subsistence cropping The poorest one-third of farmers earns less than $100 in average annual income Moreover, they live in areas that generally lack both basic public services (health, education, etc) and public or private infrastructure that effectively links them to the surrounding world (roads, electricity, telephones, etc)

One source of agriculture's problems is certainly the result of a strong anti-agriculture bias in the implementation of El Salvador's macroeconomic policies Macroeconomic stability is essential to promote investment, and it forces all sectors to become competitive or to disappear, but in every economy some sectors are more prepared than others to adapt to changes El Salvador's rural-based agricultural sector is less prepared to adapt to changing conditions and adopt advances than the country's urban-based industrial and service sectors Is there a policy basis to the agricultural sector's seeming inability to adapt, adopt and compete effectively?

Most agricultural producers suffer from the discriminatory bias in El Salvador's macroeconomic policy, but small producers suffer most Largely isolated, frequently illiterate, and always undercapitalized, their efforts to produce and market traditional products face world class competition Asian rice, New Zealand milk, US corn, South African sugar, etc Pressures of market integration and globalization redefine the rules of competition, and there are few public or private institutions effectively assisting them to transition to new crops, new methods, or even out of agriculture

Where agriculture is changing in El Salvador, larger producers are adapting and adopting to changing conditions more quickly than smaller ones Larger producers access civil and governmental institutions such as commercial banks, contracts, producer organizations, and technical assistance providers more frequently and at lower costs than small producers Without access to these supporting institutions, transaction costs are higher for smaller producers than for larger ones, thus reducing their competitiveness Are there policy based barriers that impede small farmer access to supporting institutions?

Agricultural sector policy reforms are taking place, but for the most part they are driven by the macroeconomic agenda In an effort to stabilize the economy by reducing the fiscal deficit and fighting inflation, the role and size of public agricultural institutions has changed dramatically The provision of services in support of agricultural has switched from public to private institutions The effect has been to move the state away from "productive" activities (buying, storing, and selling agricultural products, providing credit, setting guarantee prices, etc) and toward normative activities that regulate the market or provide only those services that the free market fails to deliver As this shift has occurred, have private sector entities risen to the challenge in an equitable and efficient manner?

The efficiency of institutions and services formerly provided by the state was unquestionably low The question remains, to what extent have private institutions developed that adequately address the production, finance, input supply, and marketing needs of small farmers?

Is there a bias in the current agricultural setting against small producers and, if so, how could policies and institutions be reoriented to serve them? This **rapid appraisal** seeks to answer these questions It seeks to determine the existence of systematic, structural biases in agricultural sector policies that disproportionately impact small producers

B Objective of the Study

The objective of this activity is to conduct a **rapid appraisal** to determine the existence of systematic policy based or institutional barriers to competition that disproportionately increase the transaction costs of small farmers by restraining entry, restricting opportunity, raising costs, or diminishing farm income

SECTION II
METHODOLOGY

This study is based on the rapid appraisal methods discussed in the USAID/CDIE TIPS publication, "Conducting Key Informant Interviews" It emphasizes information obtained by listening to and consulting with the customers, partners and other stakeholders of USAID/El Salvador's Economic Growth Strategic Objective Team and the Chemonics-implemented CRECER Project

Rapid appraisal techniques were used in the study to get information from a wide variety of sources at low cost using open-ended, key informant interviews The resulting information is qualitative, coming from persons involved in many aspects of El Salvador's agricultural sector Many of the informants have experienced barriers to entry and increased transaction costs Frankly, some of the informants increase of barriers to entry and increased transaction costs faced by others Most informants spoke on grounds of anonymity

Individual and group interviews with 101 persons were conducted over a six month period Whenever possible, interviews were conducted at the informants' places of work or business Persons interviewed included members or representatives of

- Local and international NGO's providing small farmer assistance
- GOES ministries, offices and autonomous agencies
- Private sector agricultural businesses and other entities
- Official foreign assistance missions with agricultural activities
- Banks and other financial intermediaries
- Agricultural cooperatives and other producer organizations
- Individual farmers, large and small, themselves

Interviews were loosely structured and relied on a list of issues to be probed, including general issues affecting small farmer competitiveness and specific issues based on the informants' expertise or activity The interviewer, an agricultural economist familiar with Salvadoran agriculture, then sifted the information obtained to develop the study's findings

A list of the study's key informants is included in Annex B

SECTION III
FINDINGS

The results of the interviews and analysis have been divided into two major sections, General Findings and Specific Findings The former developed over the course of the study and reflects broad impressions the author gained while conducting the key informant interviews The section on Specific Findings aggregates opinions that were widely (or strongly) held by key informants

A General Findings

A1 A general anti-agricultural bias exists in the El Salvador's macroeconomic policy framework that affects all producers and processors

Agriculture is the economy's leading producer of "tradables", and as such it is the sector most exposed to changes in macroeconomic policies The sector is particularly affected by policies in three areas exchange rates, trade and commercial policies, and fiscal policies

The <u>exchange rate</u> is appreciating steadily, and as a result, in 1997 agricultural producers received an average of 37% fewer *colones* for each dollar's worth of goods sold into international markets than they did in 1992, and 70% fewer than they did in 1983 The real prices paid to agricultural producers between 1991 and 1995 decreased by 44% for corn, 41% for sorghum, 33% for milk and meat, 69% for rice and 20% for beans At the same time prices of imported goods competing with domestic production were reduced by similar amounts due to exchange rate appreciation

The level of remittances into the country complicates the exchange rate issue The exchange rate is largely in equilibrium but at an appreciated level Solutions to El Salvador's exchange rate's appreciation are complex and have been examined by many economists in recent years Complications and complexity do not, however, diminish the negative impacts that appreciating *colon* value has on rate-sensitive sectors like agriculture While a nominal depreciation is not likely the best solution, more moderate steps to reduce appreciation's impacts on agriculture, or to compensate the sector for its impacts, have been proposed So far, the GOES has not implemented them

<u>Commercial policies</u> also affect the sector's profitability In 1994, suddenly and without adequate analysis, the Salvadoran government broke with the Central American common agricultural trade and tariff policies that had been negotiated with its neighbors during the previous five years The GOES lowered most agricultural tariffs, increasing the range of tariff dispersion, creating uncertainty among its regional trading partners, and a crisis that domestic producers are ill-equipped to face Triangulation of agricultural products within the region increased, mini-trade wars between neighbors disrupted commercial trade, and incentives for contraband and other illegal trade in agricultural products increased

With its small, open economy El Salvador quickly imports the effects of world market price distortions Worldwide levels of subsidies and non-tariff barriers have not decreased markedly as a result of GATT, and Salvadoran producers are exposed to distorted prices for many of their primary products and competition from subsidized producers in highly developed countries With the

GOES's emphasis on job creation through stimulating *maquila* and light manufacturing, there was little sympathy in the government for compensatory actions or payments in support of the agricultural sector

The implementation of discriminatory fiscal policies likewise harms the agricultural sector on both income and expenditure sides Agricultural producers are excluded from value added tax credits on the inputs they purchase, and producers of traditional export crops like coffee and sugar are excluded from "drawback" payments of 6% given to exporters of non-traditional crops They qualify for few of the investment incentives that are open to other sectors The major fiscal relief offered to the sector has been a series of ill-conceived and politically motivated debt forgiveness plans that were opposed by many agricultural organizations The result has been to make to make the sector less credit-worthy and less competitive

Perhaps most damaging to the agricultural sector has been the lack of effective expenditures for public services and infrastructure that could increase producer competitiveness This begins with inequities in financing of public services such as education, health, rural electrification and the construction of rural water and sanitation systems Many rural roads have deteriorated -- rather than improved -- since the end of the war in 1992 In 1998 the cost of constructing five urban overpasses exceeds the entire budget for rural road construction and maintenance

The rural/urban locus of public expenditures is seemingly unrelated to either the number, or the relative income, of citizens to be served, and current fiscal expenditure policies and priorities exacerbate the problem For example, teachers assigned to rural areas, which are generally underserved in education opportunities, receive lower salaries than those assigned to urban areas, creating a perverse set of incentives Of the many government investment and development programs, none focus on decentralizing investment into rural areas

There is no functioning agricultural technology generation or transfer system in the country despite years of discussion and the creation of a public/private entity to manage one A $30 million World Bank loan granted in 1992 to strengthen CENTA remains largely undisbursed except for construction of a new building and covering current operating costs and consultant salaries

While these macroeconomic policies affect all agricultural producers, they disproportionately affect small producers Market integration and globalization redefine the rules of competitiveness, and small producers are the least able to understand their impact and adjust to the new realities The void in public provision of technical assistance and other services particularly hurts small farmers who are less able to locate, contract and afford private assistance or services They are undercapitalized and operate precariously close to the edge of sustainability, and while they will likely continue to subsist, it is unlikely that they will prosper

A2 Most key informants are unclear as to what constraints facing small producers derive from policies and what constraints derive from structural problems and common practices In general, informants were unable to articulate any systematic, structural biases in agricultural sector policies that disproportionately impact small producers

Other than the macroeconomic policies described above, it was difficult to find clear examples of policies that negatively impact small producers more than larger ones

When asked about agricultural sector policies that discriminate against small producers, most informants were unable to name any or to give examples In some cases it is the lack of sound policies -- not the existence of unsound ones – that most negatively affects small producers

Instead of naming or describing **policies** that discriminate against small producers, it was more likely that informants would describe **structural problems** facing small producers or constraints imposed by common public or private sector **practices**

Many of the problems and practices described -- while not actual policies -- do impact negatively and significantly on small producer competitiveness Few of these problems and practices have solutions based in policy reform, although policies that increase competition and coerce private and public interests into managing resources more efficiently and attending each customer (or voter) more closely will diminish the barriers brought on by some of the problems and practices identified in the study

The major structural problems and common, "predatory" practices named by informants are presented as specific findings The findings below are not rank ordered Since many findings are interrelated, in some cases the distinctions between them are arbitrary

B Specific Findings

B1 Problems of Size

When asked whether or not small producers were competitive, the overwhelming answer was "no", and when asked if there was a policy basis for their lack of competitiveness, almost all informants said "yes "

Elaborating on these opinions, almost all informants attributed their lack of competitiveness to structural issues related to lack of size, wealth and market power of small producers These responses took many forms (See Box 1)

Each of the 18 small producer informants who identified themselves as stated, in one way or another, that their costs were too high and/or their returns too low Most of them realize that prices of the goods and services they purchase are high because they are too small to buy in quantity They know that purchasing inputs and transporting or marketing their production in larger quantities will bring economies of size and better returns Organizing to set these activities as concrete goals and to accomplish them appears to be out of reach of many of the informants

B2 Problems of Organization

The frequent response of agricultural producers worldwide who face problems of competitiveness due to small size is to organize, act as a group and therefore achieve economies available to larger producers Through organization small producers can identify constraints and accomplish specific goals related to overcoming problems of size, poverty and the lack of power in the market

Box 1
Informant Responses Related to Structural and Commercial Issues

"We can't get the 'fair' price when we sell in the market "
"I can't provide the guarantees required for a loan "
"The cost of *insumos* is too high "
"No one provides credit to small producers "
"It costs too much to transport *insumos* in and products out "
'No one gives technical assistance to small producers "
"We don't know where to sell our production "
Only the coyotes' and bankers make money in agriculture "

-- Small Producers --

Effective organizations have the ability to demand and obtain public and private goods and services for their members By organizing small producers can coordinate production, purchasing, transport or marketing Unfortunately, small producers in El Salvador, by and large, have not been able to organize themselves well, and many of the organizations they have formed serve them poorly Informants are aware of the problem

Key informant responses indicate that many small producers belong to one or more farmer organizations, but it is difficult for most informants to describe any benefits they receive from membership It is also difficult to find small producers who are contributing anything to the organizations to which they belong Many never attend meeting, pay dues, vote for or serve as officers, or contact the organization for assistance Few producers who were interviewed know if their neighbors belong to an organization, and few groups serving small producers have relationships or alliances with other organizations Producers within irrigation districts are the most likely to be attuned to the role and value of organizations in confronting issues of competitiveness

Small producers belong to a wide variety of organizations (See Box 2), and the sheer number of organizations available to small farmers is likely more of a constraint to effective problem solving than an opportunity to overcome problems related to small size or lack of competitiveness The large number, inherent weakness and diversity of purpose among small producer organizations dilutes their effectiveness in representing the needs of their members The sheer number of organizations prevents coordination and concerted action on behalf of small producer constituents

Box 2
Coordinating Organizations Serving
Small Producers in El Salvador

Type	Number
Non-reform production coops	1,334
Reform production coops (Phase I & III)	967
Other cooperatives	54
Federations	29
Confederations	4
'Gremios'	30
Unions and 'centrales'	7

Where effective organizations exist, they frequently do so for reasons unrelated to competitiveness Many of the organizations to which producers belong were formed during the struggle for democracy in El Salvador or in response to polarization caused by the civil conflict Most of the organizations have "solidarity" as their major purpose, as opposed to providing services or improving the competitiveness of small producers Few are dynamic in recognizing what new challenges producers face in light of structural adjustment and globalization Few recognize and provide the types and levels of services for which producers are willing to pay

Small producers are skeptical of organizations They are discouraged from joining or supporting organizations because of past experiences when they were promised too much and delivered too little Many past small producer organizations formed around a charismatic leader or with a single purpose (obtain land, support a political party, lobby for credit, etc), and when that purpose was achieved (or forgotten) even if the organization continued to exist it frequently lost its purpose and participation Small producer wariness of organizations makes it difficult for programs that are organizing small producers in order to promote competitiveness

By and large, small producers have lost faith in their own organizations as means to obtain necessary services Comments by key informants who provide technical assistance to small farmers bear this out Their most difficult task, many of them say, is to overcome existing skepticism and convince small producers to take a chance on organizing once again

In many cases small producer cynicism is warranted (See Box 3) due to corruption within the organization As a result increasing small producer competitiveness through producer organizations is difficult in El Salvador

Box 3
Corruption Discourages Producer Organizations

In early 1997, Cooperative X produced and exported near $100,000 of fresh produce to the U S After delivery, the buyer, who had been on a "watch" list for prior incidents, failed to pay the cooperative

The cooperative's technical assistance provider secured a qualified law firm that advised the cooperative it had a strong case under PACA The firm offered to represent the cooperative for a $3,000 retainer and pursue the case on a contingency basis

The cooperative s Board of Director's declined to pursue the case Although no proof exists presumably the Board declined to pursue the case for fear of disclosure that they had already been paid by the buyer

The rules that govern small producer organizations are constraints to their effectiveness Several informants mentioned the lack of clear, coherent and flexible rules under which producers can organize For example, the groups of small producers organized and supported by CRECER have been unable to find a legal form of organization that suits their purposes (purchasing and marketing together) Existing forms of organization are inflexible or expensive They burden small producers with undue regulations and subsequent increases in transaction costs

Several years ago the rules governing cooperatives were reviewed and revised to improve governance It is likely time to undertake a new review of the institutional structures that govern producer organizations to reduce their negative impact on competitiveness

The responsibility for developing and assisting small producers in the post-structural adjustment era often falls on grassroots organizations and NGO's that are frequently little better organized or staffed than the producer organizations themselves Exceptions exist but most key informants viewed many of the NGO's and other programs working with or through small producer organizations as well-intentioned but ineffective or only marginally successful

It appears from informant comments that NGO's are much better at voicing their constituents social or political concerns than at more technical aspects of assistance When many NGO's attempt to provide technical assistance in production, finance, marketing and management, they are constrained by their lack of sound technical information and methods Many of the NGO's undertake poorly conceived projects with poorly trained personal working toward vaguely defined goals The large number of relatively new NGO's working in El Salvador tends to dilute the resources available to any of them As a result, the NGO's themselves share one of the problems of the producer organizations they are too small, inexperienced, and numerous to be effective agents for change Many of them are far removed from the pressures of competition and have little to offer producers regarding how to meet the competitive challenges

Several key informants commented on the lack of -- and need for -- an NGO coordinating body They believe that efforts to organize and assist small producers would be more successful if NGO's defined their geographical and/or subject area interests and expertise, and if they collaborated to recognize one another's weaknesses and to compliment one another's strengths Other informants felt this was anti-ethical to NGO's traditions and operating methods

Some informants felt that the great number of NGO's operating in rural areas-- even if small and underfunded -- was a strength, not a weakness, of the "system " They believed that the large number of NGO's and other change agents active in El Salvador today increased participation and gave voice to specific concerns that may not interest larger NGO's The ADEL's received particular praise from many informants, although some ADEL's were considered better than others

Regardless of the various strengths and weaknesses among producer organizations and the NGO's that support them, the need for a fundamental change in producer philosophy is obvious Under the new paradigm, markets rule and consumers are kings Small farmers must stop "selling what they produce" and "produce what sells " Several specific projects -- CRECER's small enterprise development group and the CLUSA and PROEXSAL activities, as well as Canada's assistance to CONFRAS -- were mentioned as examples of organizations that are reorienting producers to this reality

B3 Problems of Commercial Practices

Apart from disadvantages associated with size, small producers face strong disadvantages due to poor access to and influence over private institutions that undertake predatory commercial practices These practices, while not illegal, frequently hinder competitiveness Informants mentioned several examples that illustrate how small producers are excluded or disadvantaged in the competitive marketplace Just as "bad money drives out good money" in macroeconomies, "bad practices drive out good practices" in sector economics Since many of the practices are legal, if unethical, they are likely best remedied by increased transparency and competition

Most key informant complaints relate to practices imposed by large commercial interests when dealing with small producers Unable to command power in the market, small producers must accept delayed payments (frequently 60 days or greater), undocumented discounts for poor quality that was unapparent at delivery, and frequent poor handling, storage, and presentation by buyers [NOTE While conducting one interview in the receiving department of a supermarket, the author witness cases of wine being stacked on top of cases of fresh produce As the interview progressed, the weight of the wine slowly compacted the produce with concomitant decreases in produce quality that was discounted from the producer's payment]

Small producers who attempt to sell directly in local markets frequently face high transaction costs, or worse, associated with obtaining space At times the costs are reflected in threats of violence and destruction of product or other property Several informants familiar with market practices stated frankly that if small producers could not maintain a "permanent market presence", they were better off to sell to intermediaries who could

A permanent market presence is seen as a pre-requisite for serious negotiations with buyers and establishment of a customer base The requirement for a permanent market presence is beyond the reach of many individual small producers [NOTE The need for a permanent presence is not unique to less developed markets, and extension marketing specialists working with farmers' markets in the US have stressed the same need to small farmers there]

Oligopoly practices are widely documented and criticized by small producers At least anecdotal evidence exists that in El Salvador's "thin" supplier markets, collusion exists among the few providers of certain goods and services Informants complained of exclusive distributorships that result in high prices for certain branded products One example of seed prices that were marked up in El Salvador over 100% above the costs in Guatemala

APA (the input suppliers association) denies that collusion between its members is commonplace, and it points to recent legal modifications that reduce bureaucratic burdens on importers and open the country to more competition Producer point out, however, that when farmer owned cooperatives do enter the markets as suppliers, prices fall immediately This was found to be the case in Honduras where the entry of UNIOCOOP brought fertilizer prices charged by the industry down by 13% and increased average actual weight of 100 pound bags from 96 8 pounds to 99 8 pounds Many of the same companies that lowered prices in Honduras in response to increased competition operate in El Salvador There is little reason to think that commercial practices are significantly different between the two countries

While oligopoly practices certainly exist, they are frequently exacerbated by El Salvador's small market for certain products The lack of considerable and consistent demand raises transaction costs of suppliers who, in turn, pass them on to producers Some suppliers of agricultural inputs decline to stock or price certain products competitively because the small Salvadoran market is not worth the risk There is evidence that some suppliers try to avoid competing with others because they fear direct competition in other product lines that are more important to their core business

Some informants conceded that predatory commercial practices occur without the knowledge or consent of management In many cases, poor business operating procedures or the lack of adequate internal controls permit lower level employees to engage in practices that damage both buyers and sellers and are not in management's best interest Only increased competition and the improved management practices that competition brings will eliminate these practices As Salvadoran business are increasingly exposed to competitive pressures, management will mature, efficiency will increase, and rent seeking behavior will diminish (See Box 4)

Civil law processes should level the playing field between large and small businesses and insure that equal opportunities to compete exist within the economy El Salvador's antiquated, cumbersome and expensive legal system discriminates against small businesses who cannot afford protracted legal battles Several key informants had sold products to buyers who never paid for them, subsequently claiming "bankruptcy" or paying light fines to escape punishment, then returning to repeat the offense with other producers Simple and low cost -- but swift and effective -- recourse for dispute settlements is in the interest of small producers The equivalent of "small claims courts" and dispute resolution through arbitration or mediation must be encouraged

B4 Problem of Public Sector Practices

The public sector also bears responsibility for barriers to competition and higher transaction costs facing small agricultural producers Many GOES practices are slow and antiquated and reduce the ability of all agricultural producers to respond quickly to changing world conditions

The GOES commitment to stability in macroeconomic policies does not extend to other policies affecting the agricultural sector Agricultural producers are subject to continually changing rules of the game, and as soon as producers adjust to one set of policies, they are changed During the early 1990's structural adjustment sent clear price signals to agricultural producers While agricultural prices improved, other factors limited the ability of the sector to respond

Institutional gaps in marketing, research, extension and rural finance are particularly noteworthy Clear price signals within the sector were not accompanied by clear signals of institutional reform Government involvement in private sector functions was eliminated without providing the private sector with incentives to assume these functions As a result, the sector suffers from a void of adequate supporting institutions and small producers – those most vulnerable – pay the price Larger scale, commercial agriculture more successfully and rapidly adopts to the use of private institutions than small scale farmers Civil institutions that serve smallholders are slower to emerge and may never do so without clear policy direction that reduces their risk of policy-induced failure

Just as small agricultural producers have limited access within civil society, their access and influence on government policy is limited as well Government still responds to larger, more vocal and politically or economically powerful interest groups and individuals Breakfast with a Minister in El Salvador is still frequently more influential than sound analyses and good policies Certain groups still command favors to the detriment of other participants in the sector (See Box 5)

The maintenance of oligopoly power by large agrochemical and supply firms is assisted by GOES regulations and procedures For instance, *ceteris paribus*, small farmers could have a competitive advantage over larger farmers in the production of high value, highly labor intensive Nat's The seed and other inputs for many these Nat's are not available locally Efforts by small farmers (and even official donor projects) to import seeds and other inputs have met with delays (4-6 months for the requisite permissions) that damage competitiveness or make production impossible

One of the GOES's greatest failures that contributes to competition barriers facing small producers is the chronic lack of effective agricultural technology generation

Box 5
Changes in Marketing Practices Favor a Few

The Government of Japan donates fertilizer and other agricultural inputs to El Salvador as part of its aid program These donations have been divided among the fertilizer producers who then monetize them in the market

In 1997, BOLPROES convinced the GOES to market donations through the "bolsa" giving farmer cooperatives and organizations, as well as the traditional fertlizer companies, an opportunity to bid

The fertilizer companies vocally opposed the sale and threatened to boycott it They eventually participated but refused to pay BOLPROES' 1% commission The GOES capitulated, violating BOLPROES's charter to accommodate the fertilizer companies

and transfer This is particularly disturbing given the availability since 1992 of $30 million dollars in World Bank financing to reform the Ministry of Agriculture and improve technology transfer Informants uniformly criticized CENTA as a "do nothing" organization that perpetuates ' *una cultura de maiz y lluvias*" referring to its inability to promote diversified or irrigated agriculture Informants routinely report that the only worthwhile activities undertaken in CENTA are those associated with donor projects

Small producers and the organizations that represent them are routinely ignored or by-passed by GOES policy makers and official institutions The process of public participation in policy making is nascent in El Salvador and those most affected by policy changes are frequently not consulted or ignored The most recent example occurred in September 1998 when a new law was passed to promote free zones by permitting them to sell 100% of their production into the local economy This will have a profound effect on small and microenterprise, as well as agricultural producers of raw materials such as sugar, rice, milk, etc that can be imported from world markets distorted by subsidies, then repackaged and sold locally It remains to be seen if adjustments to the law will level the playing field for agricultural and small enterprises

SECTION IV
SUMMARY

In summary, the study found evidence of a general anti-agricultural bias in El Salvador's macroeconomic policies Specific sector policies that discriminate against agriculture were more difficult to identify Key informants made valuable observations regarding constraints to competitiveness in the agricultural sector, but their observations were oriented more to structural problems and practices than to policies As such, there are limited policy based solutions

The sector is less protected and more vulnerable than any other, and its dismal performance over the last 20 years indicates that it is, with few exceptions, unable to compete in world markets To contribute to national growth, agriculture must be reinvented in El Salvador The natural and human resources that are currently locked up in the sector must be re-directed both out of agriculture and into more productive agriculture The current strategy for doing so is to have no strategy at all Increased private sector competition and reforms of public institutions are essential to guarantee that the contributions small farmers make to national welfare are maximized

ANNEX A

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ANEXO A
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ANNEX B

PERSONS INTERVIEWED

ANNEX B
PERSONS INTERVIEWED

Name	Institution or Affiliation
Ing Edwin Escobar	FIDE/PRODAP
Ing Manuel Ponce	PROCHALATE
Sr Fernando Campos	CCS
Sr Micheas Torres Ramos	CONFENACORA
Ing Ernesto Sandoval	CORDES
Lic Betty Reyes	CIRES
Sr Jose Tomas Mungia	COACES
Sr Jose Ofilio Cuchillas	CONSALCOOP
Sr Dimas Vanegas Vasquez	FUNPROCOOP
Ing Martin Efilio Flores	FENACOA
Ing Marcos Galvez	CRIPDES
Sra Ana Vilma Jovel de Vega	Coop El Castano
Sra Deysi Cierra Anaya	ADEL-Chalatenango
Ing Francisco Ramos	CONFRAS
Sra Margarita Rivas	CONFRAS
Lic Pedro Juan Hernandez	FUNDE
Lic Rene Rivera Magana	FUNDE
Ing Nelso Cuellar	PRISMA
Sr Martin Martinez	Coop Las Lajas
Sr Julio Gilberto Portillo	Coop Lombardia
Sr Nelsaon Zelaya	Coop La Pradera
Sr Lorenzo Ortiz Perez	Coop Sta Emilia
Lic Silvia Elena Henriquez	UCAFES
Sr Walter Blake	CRS
Ing Ricardo Flores Bueso	CRS
Ing Jan WanBecke	CENTA/HOLANDA
Ing Balmore Ochoa	CENTA/HOLANDA
Ing Jaime Tobar	CENTA/HOLANDA
Lic Vidal Ceren	COSUDE
Sr Ulises Palma	UCRAPROBEX
Ing Edmundo Mendoza	TECHNOSERVE
Ing Rafael Paredes	TECHNOSERVE
Dr Cornelius Hugo	IICA
Ing Mariano Olazabal	IICA
Lic Ligia de Luna	USAID
Ing Rafael Cuellar	USAID
Ing Jorge Garza	CIDA-Social Reconstruction
Lic Rafael Callejas	CARE
Lic Rebeca Arias	PNUD

Ing Salvador Urrutia	PROCAFE
Ing Tony Cabrales	FUSADES
Lic Edgar Cruz Palencia	FUSADES
Lic Jaime Acosta	FUSADES
Ing Gilberto Casanova	FUSADES
Lic Sandra Munguia	BOLPROES
Lic Oscar Melgar	BOLPROES
Lic Mercedes Llort	CAMAGRO
Dr William Pleitez	CAMAGRO
Lic Miriam Sorto	CAMAGRO-CRECER
Dr Rolando Barrillas	PEACE CORPS
Ing Raul Saca	CORSEPRO
Lic Oscar Hernandez	BCR
Lic Aristotole Esperanza Flores	Fundacion Calpia
Ing Ricardo Benett	Banco Agricola
Ing Mario Barahona	Banco Salvadoreno
Ing Carlos Duran Barahona	CREDISA
Ing Alfredo Alfaro	BMI
Sr Ramon Aristides	UCS
Lic Alfredo Cardosa	Bayer
Ing Roberto Pineda Moreno	APPA
Ing Roberto Silva	AgroCentro S A de C V
Ing Oscar Henriquez Portillo	Fertica, S A de C V
Ing Jose Fajardo	Inversiones El Olvido
Ing Luis Arriola	Semillas, S A de C V
Ing Max Novoa	Arrocera San Francisco
Lic Lemuel Flores	Industrias Arroceras El Progreso
Ing Jose Fajardo	Inversiones San Antonio
Ing Aldo Miranda	NOBS Hidrofusion
Lic Ana Leonor Diaz Fal'a Pocasangre	COEXPORT
Sr Daniel Huezo Cornejo	AFOSALVA
Ing Angel Calderon	APPLE
Ing Jose Roberto Castillo	PROLECHE
Ing Carlos Molina	AVES
Sr Juan Jose Caceres	SEIDGYAC
Ing Godofredo Pacheco	PROEXSAL
Mr Stanley Kuehn	CLUSA
Ing Waldo Mendoza	CRECER
Ing Jaime Hernandez	CRECER
Lic Luis Martinez	CRECER
Dr Hugo Ramos	CRECER
Dr Amy Angel	CRECER-MAG-FUSADES
Ing Jorge Alabi	MAG-DGEA
Ing Eduardo Huidobro	MAG-OSPA
Ing Max Anaya	MAG-OAPA

Sr Domingo Martinez	Producer
Sr Guillermo Garcia	Producer
Sr Maximiliano Martinez	Producer
Sr Juan Jose Dada	Producer
Sr Heriberto Rodriguez	Producer
Sr Juan Francisco Iraheta	Producer
Sr Martin Alvarado	Producer
Sr Abel Sierra Sosa	Producer
Sr Arturo Jose Cuevas	Producer
Sr David Alfaro	Producer
Sr Lorenzo O Ramos	Producer
Sra Teresa Machon	Producer
Sr Marco Antonio Velasquez	Producer
Sr Oscar Santamaria	Producer
Sra Anabella M de Ochoa	Producer
Sra Gladys Palecia Parker	Producer
Sr Balmore Ortiz Mancia	Producer
Sr Rigoberto M Perdomo	Producer

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ANNEX C

SCOPE OF WORK AND ACTIVITIES

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SCOPE OF WORK AND ACTIVITIES

Following the study's objective, the consultant is expected (at a minimum) to undertake the following activities

1 Review the existing literature and recent studies on rural poverty, the agricultural sector, transaction costs, and small farm production in El Salvador

2 Interview technical staff of donor agencies, NGO's, producer organizations, credit providers, etc to gain their insights into the existence, origin, and extent of small producer transaction costs

3 Based on insights obtained and the consultant's experience, develop a framework to guide interviews with,small producers about their experiences in obtaining access to production, finance, input supply, and marketing goods and services

4 Organize and describe findings of the above interviews in terms of their relationship to existing policies and institutions

5 Appraise the impact that current policies and institutions have on the structure of small producer transaction costs, and

6 To the extent that systematic policy based or institutional barriers are found, suggest policy direction and institutional orientation to diminish them