MEMORANDUM

February 3, 1992

To: James Holway

From: Richard L. Hough

Subject: Tractor Project for Santa Cruz Program

In reviewing the memo by Bernie Packer on the above subject, there are a few background facts that are worthy of consideration.

First, the average size holding of the individual "colono" members in the San Julián Agrarian Association is 40 to 50 hectares. Much of the land is of good quality, as I remember, Grade 2 and 3 land using U.S. soil classification standards. However, for lack of capital and equipment, the small farmer members are only able economically to cultivate 5 to 10 hectares on the average per capita.

Second, this vast area of the Bolivian Amazón region has primitive infrastructure, though this situation is gradually improving with more all weather roads, the development of market towns and commerce, etc. However, our project is still in an under-developed colonization zone and in large part peopled by small producers living in semi-isolation and practicing subsistence agriculture at least up to a few years ago.

Third, in light of this large gap between the land cultivated (as well as the quality of the land) and the overall sizes of the parcel, our small farmer constituency is vulnerable -- I would guess very vulnerable -- in the coming years to land encroachment and speculation by much larger scale commercial
and agricultural interests in Santa Cruz and from across the border in Brazil. This is a given. As modern infrastructure is extended in the greater Santa Cruz region, land values will progressively appreciate, capital-intensive commercial agriculture will become more feasible, and in one way or another, the small guys that is our project members will be eaten-up, even if their tenure is supposedly secured by land titles or perennial usufruct rights granted by the government. As I understand it, some of this has already happened on agricultural lands closer in to the city of Santa Cruz.

With this background in mind, the tractor project becomes more credible. The point is of course that the San Julián member farmers simply have to get more of their land into production. And the only way that I know to make this practical is thru mechanization. The thrust of the CPD’s proposal is certainly in the right direction. The question is whether the means chosen -- the loan project on the table -- makes the most sense.

I would note in this regard that Bernie and Tito deserve the benefit of the doubt. They have implemented the most successful agrarian project, specifically from an economic point-of-view, in AIFLD’s history, or at least since I have been with the Institute over the past decade. Generating about three quarters of a million dollars of gross sales over the past two seasons for the participant producers through cash crop exports is quite a collective accomplishment. More important, the proposal in this or some other form, runs to the heart of the ultimate survival, or self-sustainability of the project itself, particularly as we phase-out our financial support. If more land cannot be put into production, or the move to more commercial agriculture expanded thru the selective use of capital equipment, the project will soon collapse after the AIFLD subsidies are reduced and eventually eliminated. In brief, if the present proposal is not right, let’s cooperatively develop something better. The proposal should not be rejected outright. Alternatives and modifications should be considered.

I have the following suggestions:

1) Propose the project to the USAID. Given that costs will range around $50,000, the project is more characteristically like a small development activity that AID funds than one we would finance thru our much more limited social projects fund. (Bernie disagrees with this suggestion. He contends that too much time would be lost with the USAID bureaucracy and that he wants the success of the first tractor to leverage later a second tractor from the AID mission.)

2) Investigate the feasibility of a rental arrangement for the equipment from agro-industrial firms, or perhaps the Mennonites, in the Santa Cruz area. (Mike Verdu’s suggestions.)
3) If we decide to go ahead with a loan for the tractor, I would propose that the following conditions be included:

a) The Cooperative Federation should be required to put-up its own earnest money -- an up-front contribution of $5,000 to $10,000. The project must be accepted as a business deal by the small farmers, not as a grant, or give-away, disguised as a loan.

b) A service charge should be levied by the Federation for the use of the tractor. The reasons for this are multiple, perhaps the most important being to have a ready maintenance fund to make sure that the machine is not sitting idle when its operation is crucial to the enterprise.

c) A management/loan committee must be functioning within the Federation to manage the loan account, schedule the use of the tractor, maintain and house it, etc. The Federation must be more than a conduit for what are now largely individual operations by the project member farmers. Local institutional-building for the long-term must be a key dimension within the project's structure.

There are other important points and details to be discussed, but they can be left for later. The most important point here is to urge that we move ahead to resolve the problem that the subject project proposal presents; either that we approve the proposal with the conditions noted above included, or that we develop alternatives for further investigation and decision with the Field. I would opt for the former.

cc: Doherty, Members of Social Projects Committee, Oulahan, Packer
(CPD/La Paz)