MEMORANDUM

May 14, 1991

To: William C. Doherty  
From: Richard L. Hough  
Subject: El Salvador Visit May 3-May 9, 1991

During the subject visit, I spent the largest part of my time reviewing the agrarian/rural program component of the Cooperative Agreement (CA). A rather detailed description of findings follows below.

Reporting Lag

There has been a reporting lag on the agrarian program. Leastwise, AIFLD/ES actions in implementing this program are further along than we were aware previous to our briefings by the CPD and his staff in San Salvador. In one sense, this is commendable. Mr. Llewellyn, the RDO, has been so purposefully involved in mounting the program -- and with the active support of the CPD -- that the reporting lag is reflection of effort rather than lack of it. In brief, considerable momentum, among all the parties involved, has been built-up for moving forward with implementation and the progressive draw-down of the CA funds.

Income Generation Strategy

The El Salvador Cooperative Agreement as originally designed was based on the premise that this would be the last CA that the USAID would grant to AIFLD at anything like the present levels of liberal funding through the agreement's major program components; therefore every effort had to be made to use this magnitude of financial support to progressively move our counter-
part labor organizations towards greater self-sufficiency in anticipation of major cut-backs from the USAID the next time around.

In effect, what AIFLD/EL SALVADOR has done over the past six to nine months -- I speak here only of the rural sector -- is to structure and substantially refine the program activities layed out in the CA and to move them to implementation or close to it. The dominant theme that runs through these activities is income generation by UCS and ACOPAI to facilitate increased self-sufficiency. UCS and ACOPAI have never had sales receivable accounts. Rather they have subsisted on the largess of AIFLD, sharing with us overarching political objectives and providing modest technical and social services to their cooperatives and communities. For the past decade, they have effectively performed representational functions, e.g. on agrarian reform, while essentially being community development, patronage type organizations. What has been missing is the production services and business enterprise dimensions of farmer associations. If UCS and ACOPAI are to survive, this absence of income generating capacity is a luxury that they no longer can afford given a marked decline in future AIFLD resource transfers, particularly overhead subsidies.

**Project Profiles**

The three year budget projection for the rural sector in the CA is an estimated 3 million dollars. The aim is to finance within the range of this projection a set of inter-related activities which essentially will rest on two levels and be of two types: 1) income generating projects calculated to strengthen the service capabilities and financial position of the intermediary federations, UCS and ACOPAI; and 2) integrated technical assistance projects at the level of the UCS and ACOPAI cooperatives designed to facilitate better utilization of services by the coops, increase and diversify production, and stabilize and augment the mass bases of these organizations.
An example of the first type of activity is the just begun fertilizer purchase program. AILFD has lent UCS and ACOPAI $300,000 for the local purchase of fertilizers which they in turn are selling to their cooperatives at competitive prices. There is no credit involved. The cooperatives purchase either with cash of a negotiable instrument (guaranteed check) from the agricultural bank. The volume of fertilizer bought is allocated on a 50-50 basis between UCS and ACOPAI. About 30 percent of the seasonal demand for fertilizer by the cooperatives should be met by present inventories. TechnoServe, a respected PVO specializing in agricultural services and cooperative development, has been contracted to monitor administrative procedures and financial accounting on the project.

Profit margins on the fertilizer program should be quite narrow the first year. UCS and ACOPAI will be gaining invaluable experience but not a lot of money. However, in the second year when the agro-chemical package will include insecticides, fungicides, etc., and ammonium sulfate imported, profit margins should increase substantially.

This project has been jointly planned in great detail and is enthusiastically supported by UCS and ACOPAI.

A second project worthy of note is the effort now in advanced stages of planning of contracting CLUSA (Cooperative League USA) to develop a non-traditional cash crop export program with UCS and ACOPAI cooperatives. The plan involves CLUSA, in collaboration with UCS and ACOPAI, selecting ten cooperatives to first produce sesame for export, a good foreign exchange earner if grown and marketed under quality control conditions. UCS and ACOPAI will put together a production and marketing team which will be counterparted by CLUSA technicians who will provide systematic technical assistance through each step of the production and marketing process.

A further technical assistance effort is now being planned with TechnoServe. An estimated 25 Phase I and Phase III Cooperatives affiliated with UCS and ACOPAI will be provided
integrated agricultural technical assistance by TechnoServe teams. This activity was initially proposed in the CA and has now been refined through on-going discussions/negotiations with TechnoServe management. The selection of the cooperatives will result from a field analysis to be done by TechnoServe according to a set of procedures and criteria developed over the years in El Salvador by this organization.

This activity, to begin later this year, will upgrade the capacity of the cooperatives to utilize services and, in general, markedly increase the efficiency and profitability of their operations. TechnoServe works across-the-board with individual coops, from financial management to agronomic problems, to commercialization of production, etc.

I have attached a helpful, though general, graph of the content and sequence of AIFLD-supported agrarian programs under the CA, which the above examples fall within.

I would stress that the overall program is not particularly large or unwieldy. We have sought out the best available locally-based technical assistance and, significantly, the UCS and ACOPAI are genuinely participating in the detailed planning of the activities. The obvious question is what are the chances of success?

Positive Signs

There are positive signs that allow for some optimism, or at least hope. First, the seminar in program planning put on last year in San Salvador by Rupert Scofield’s Rural Development Services (RDS) with AIFLD support produced constructive results with the agrarian unions. Both UCS and ACOPAI have presented AIFLD/ES reasonably well-designed, feasible agricultural service projects, using the format, analytical tools and procedures taught in the seminar. Much of the content, though not the magnitudes of financial assistance requested, of the proposals is included in the evolving CA agrarian program outlined above. The seminar was apparently a fruitful learning experience, taken
seriously by a campesino leadership beginning to realize the stakes involved for the continued existence of their organizations.

Second, the performance thus far on the fertilizer sales program has to be considered encouraging. In the first two weeks of sales, ACOPAI has sold twenty percent of its allotted inventory. UCS has been abit slower in getting started, but it would appear that ample demand and fair prices, even without credit, makes the program quite competitive in the market place. Inventories for both UCS and ACOPAI should be progressively drawn-down, perhaps fully sold, in the next three months. This program figures to be a significant confidence-builder for both organizations.

Third, the scope of the original CA agrarian program has been narrowed. Two cooperative federations, FECORASAL and FECORASEN, have been eliminated from AIFLD support, permitting full concentration of resources and attention on ACOPAI and UCS only.

Fourth, UCS and ACOPAI began last year the process of internal staff restructuring and reduction required by the program changes which have been summarily described. UCS has cut-back its promotores from 71 to 45; increased the number of its technicians from 7 to 14 and reduced overall staff from 150 to 131. UCS now has an accountant and agronomist in each of the eleven departments of El Salvador. ACOPAI, leaner staff-wise than UCS, has reduced the number of their promoters from 38 to 21 while expanding technical staff.

If these changes are real and not cosmetic, they represent the beginning of the type of internal retooling that is condition precedent to adding the dimensions of business enterprise and income generation essential to the longer-term survival of UCS and ACOPAI as large, multifunctional national organizations.

Negative Factors

There are negative factors in play as well. Traditional oligopolistic structures and practices designed to favor the monied few, e.g. in foreign trade, access to credit and government
monetary and fiscal policies, have to be dealt with and deflected, at least on the margin. However, it is important that the USAID fully approves of this conversion of UCS and ACOPAI from political mobilization, community development type organizations, partially at least, to agro-business type organizations. We should be able to rely on the U.S. Mission for effective support with the GOES and private sector institutions.

Further, UCS and ACOPAI do not appear to be particularly well-equipped at this time to carry out this conversion. A start has indeed been made, but skill levels have to continue to be upgraded and patronage marginalized, at least in the areas of performance where income generation objectives are involved.

What seems to be more or less the reality in the local units of UCS and ACOPAI, but particularly the former, is a sort of humanitarian featherbedding. The promotores are usually elected agrarian union officials at the Cantón, municipal and department levels. We are not quite sure what they do to earn their very low salaries of $87 to $100 a month. Resources apparently have been spread very thin, at least until last year, to keep as many of these officials on the rolls as possible as promoters or activists. Skill levels are low and only salary is provided; there are no funds for travel, nor in most cases are social benefits provided. This is the profile of a non-professional organization.

However, there are large gaps in our information as to how UCS and ACOPAI operate in the field, or, stated differently, gaps as to what we are actually paying for with the large overhead costs we cover to support their field operations. In recent memory, for example, there has been no AIFLD official or contract employee that has visited, much less evaluated, all eleven UCS departmental offices. The same is true at the local level. The surveys in 1989 and 1990 done by Rupert Scofield and the RDS staff were largely focused on UCS and ACOPAI cooperatives, and even here the samples were quite limited. In a number of cases, those interviewed were brought to San Salvador rather than RDS staff visiting field units. This is not to be critical. The previous
RDS studies have proven very useful. Rather the point here is that we need a more systematic look at UCS and ACOPAI field operations if we are to be able to pursue effectively a strategy of encouraging/leveraging restructuring and reduction of UCS and ACOPAI staffs towards great professionalization and income generation capabilities. Without such a look, my sense is that we will be flying blind, or at least operating on a hit or miss basis.

AIFLD /ES has proposed that we contract the services of RDS employee Juan Arce to carry out the above study. I fully endorse this choice. Juan is respected by UCS and ACOPAI management; he knows the Salvadoran rural scene very well, having worked for us on agrarian problems in El Salvador a number of times before. He could be off and running with little preparation. I know of no one any better for this task.

I emphasize that the purpose of this study is not only to gather the information we need, but also to secure UCS and ACOPAI cooperation; in effect, to obtain their active collaboration in the strategy of reduction and restructuring. In this sense, the proposed study is in some part a finesse.

Conclusion

I would note the obvious first: no one can guarantee success for this "adventure". However, we really don't have much of a choice. We don't want to give the money back and I doubt that it is feasible to transfer the funds to other AIFLD country programs. Beyond the collapse of UCS and ACOPAI as we know them today, this alternative would involve major bureaucratic obstacles in AID. It is possible that we would lose the funds altogether.

I suggest rather that we should aim for some realistic figure of self-sufficiency by the end of the Cooperative Agreement, say one-third of present recurrent costs, or alternatively reach an understanding with UCS and ACOPAI that the level of AIFLD overhead assistance would be reduced that much. We should also maintain strict oversight on the use of AIFLD funds for these agricultural service projects. The fertilizer purchase program is a good