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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523

PD-AAA-925-B1

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

520-L-018

(520-22-140-204)

GUATEMALA: RURAL DEVELOPMENT LOAN

AID-DLC/P-881

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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-881  
January 23, 1970

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Guatemala: Rural Development Loan

Attached for your review are the recommendations for authorization of a loan in an amount up to \$23,000,000 to the Government of Guatemala to assist in financing the costs of Borrower's rural development program, including up to \$16,670,000 for basic grains improvement and agricultural diversification, up to \$5,580,000 for human resources and up to \$750,000 for improvement in handicrafts.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Thursday, January 29, 1970.

Rachel C. Rogers  
Secretary  
Development Loan Committee

Attachments:  
Summary and Recommendations  
Project Analysis  
ANNEXES I-IV

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GUATEMALA - RURAL DEVELOPMENT PROGRAM

TABLE OF CONTENTS

	<u>PAGE</u>
<u>SECTION I : SUMMARY AND RECOMMENDATIONS</u>	1
<u>SECTION II : PROGRAM BACKGROUND</u>	4
A. Social and Political Analysis	4
B. Agriculture Sector Analysis	4
C. Current A.I.D. Strategy	7
D. Genesis of the Rural Development Plan	10
E. Summary of Plan	12
<u>SECTION III : DETAILED DESCRIPTION OF PROGRAM</u>	19
A. Social and Political Aspects	19
B. Administrative Aspects	23
C. Financial Aspects	31
D. Economic Aspects	35
E. Self-Help and Reform Aspects	49
F. Implementation Plan	64
<u>SECTION IV : CONDITIONS AND COVENANTS</u>	70
<u>SECTION V : ISSUE - THE PIPELINE</u>	77
<u>ANNEXES</u>	
I. Statutory Checklist	
II. Project Synopses	
A. Basic Grains	
B. Diversification	
C. Human Resources	
D. Artisanry	

III. Miscellaneous Exhibits and  
Director's Certification

IV. Draft Authorization

SUPPLEMENTS

- \* I. Iowa State University Report:  
"Agricultural Development and  
Policy in Guatemala", April  
1969.
- \* II. Plan Nacional de Desarrollo Rural,  
National Economic Planning Council,  
December 1969 (Spanish)
- \* III. Project Agreement 70-1, "Tax Admin-  
istration"

\* Copy available in Official Loan File

GUATEMALA: RURAL DEVELOPMENT PROGRAMPART I. SUMMARY AND RECOMMENDATIONS

## 1. THE BORROWER:

The Borrower will be the Republic of Guatemala, with responsibility for execution of the Program vested in the Ministry of Agriculture.

## 2. THE LOAN:

Up to \$23,000,000 on concessional terms: 40-year amortization including a 10-year grace period, with interest charged at 2% during the grace period and 3% thereafter. Approximately \$12.2<sub>1</sub>/million in Quetzal financing is contemplated.

## 3. THE PROGRAM:

Financing is requested for four distinct Projects included in the "Rural Development Program" portion of the comprehensive \$143 million "Agricultural Development Plan - 1971/75" recently completed by the Guatemalan National Economic Planning Council and approved by the President. The Plan will bring a sweeping range of institutional reform, technological modernization, and increased investment to Guatemalan agriculture, and will give particular emphasis to the economic, social, and political conditions and prospects in the rural sector. The four Projects, entitled Basic Grains, Agricultural Diversification, Human Resources, and Artisanry, form an integrated \$44.9 million unit within the \$101.7 million Rural Development

1/ One Quetzal = one Dollar

Program concentrating on this sector. The Projects will provide training, research and technical assistance, and production and marketing credits to producers of grains, diversified crops, and handicrafts.

4. PURPOSE:

In February, 1969, the C.I.A.P. presentation on Guatemala cited (1) the lack of public investment as one of the primary factors retarding the development process in this country, and the A.I.D. statement recommended (2) "that the Government of Guatemala clearly define and publically set forth a comprehensive program of rural development." This Program meets both these points, but has as its immediate purpose the introduction of modern technology to the processes of basic grains, diversified crops, and handicrafts production in Guatemala.

5. FINANCIAL PLAN:

The total public cost of the 4 Projects will be \$44.9 million. Of this total the GOG will provide \$21.9 million and A.I.D. \$23 million. Approximately \$10.8 million of the Loan will finance foreign exchange costs, with the balance to finance local currency costs. AID funds will finance the major part of production credit and less than half of the costs of training, research and technical assistance.

6. OTHER SOURCES OF FUNDS:

Considering (1) the substantial involvements of the IDB, IBRD, CABEI, UNDP, ICO, and WFP in other activities included in the \$143.2 million Plan; and (2) the nature of the four Projects under consideration and the protracted AID involvement in their development it appears that A.I.D. is the only free-world source of financing for these Projects on satisfactory terms. This has been confirmed by representatives of the IDB, IBRD, and EXIM in the course of their review of this Loan Paper and of discussions with members of the USAID, and LA/DP/LC.

## 7. STATUTORY CRITERIA:

All statutory criteria have been met.

## 8. VIEWS OF THE COUNTRY TEAM:

This proposal has been a subject of discussion between the Ambassador and the President, and enjoys the full support of the Country Team. The Secretary-General of the Planning Council, formerly Executive Assistant to the Secretary-General of SIECA, has stated that this Program is consistent with regional CACM agricultural policies.

## 9. ISSUE: The Pipeline

The Mission considers that this financing will not cause the pipeline (all agencies) to rise above the \$100 million level, and that this level is acceptable. A detailed justification of this position is presented in Section V.

## CAPITAL ASSISTANCE COMMITTEE:

Capital Development Office	Charles R. Connolly, Jr.
Agriculture Division	Alphonse Chable
	Alan Plant
	Louis V. Dixon
	Ray Stadelman
	Philip P. Church
	Alan Cohen
	Philip T. Cox
Economist	
Program Officer	
International Development	
Intern	Howard Handler
Regional Legal Advisor	Kent N. Knowles
Ass't. Director & Chief	
of Economic Section	S. Morey Bell

SECTION II. PROGRAM BACKGROUNDA. SOCIAL AND POLITICAL ANALYSIS

This analysis appears as a classified attachment to this Loan Paper.

B. AGRICULTURAL SECTOR ANALYSIS

Agriculture is the prime component of this economy. It provides 30% of the Gross Domestic Product. Five agricultural products - coffee, bananas, cotton, sugar and meat - lead to 70% of total exports. Some 65% of the economically - active population works in agriculture. It follows that development of the rural agricultural sector is central to this country's overall development.

In the last decade agriculture has experienced a growth insufficient for substantial improvement of the living standards of the rural population. In 1960-1968, agricultural production grew at 4.8% annually, a performance unsatisfactory not only because it exceeded population growth by only 1.6%, but also because in large measure that growth depended on a few export products. Internally-consumed products with which the level of rural life is closely associated grew almost not at all.

The insufficient rural development implied by an agricultural growth rate of 4.8% and by a nearly stagnant handicraft industry has not been countered by significant ameliorating phenomena. On the contrary, various structural factors restrict the style and rate of rural development. Items:

- a. Agricultural activity is dominated by three crops - coffee, cotton, corn. These currently represent about 60% of the gross value of production. Expansion of coffee and cotton production is determined by the international market situation, which has suffered serious reverses in recent years. In corn the production stimulus is provided by internal demand for human consumption, currently practically saturated, and the growth follows the population growth rate. The annual growth rates during 1960-1968 were 1.8%, 27.0%, and 3.1% respectively for the three crops.
- b. Ownership of farm land by size of holding is extremely unequal. Nearly 90% of the total land is concentrated in minifundia or latifundia. Some 88% of the owners possess about 14% of the land, and 72% of the land is distributed among 2% of the owners. The land utilization percentage varies in inverse relation with the size of the farm, from 95% in the micro-farms to 28% in large multi-family farms of 20 caballerías (908 hectares) or more. This concentration of land ownership is an important cause of the low degree of utilization - about 33% - of the workable land resource at the national level.
- c. Agricultural productivity is a fraction of what could be achieved if developmental services were widely implemented. Except for certain export products (cotton, sugar cane, lemongrass, and citronela), crop yields have grown very slowly. Frequently the growth has been based on incorporation of new crop lands. Linked to the problem of low productivity is that of insufficient

capitalization. The agricultural capital which does exist tends to be concentrated in areas dedicated to export crops, of which approximately 82% are in the Pacific coastal region.

- d. Development has occurred in regions dedicated to export activity, principally the Pacific Coast, while other regions the production of which is destined to satisfy internal needs have developed very slowly. Preliminary data indicate that Gross Domestic Product in the Western Highlands is equivalent to about a seventh of that of the Pacific Coast; and there are indications that the rate of growth of product on the Coast is more than twice that of the Highlands. It is estimated that 60% of the agricultural production at present comes from the Coast.

Thus the current agricultural situation is characterized by the presence of a commercial sector which is expanding rapidly, and of a large subsistence sector the technology and productivity of which are not changing. As might be expected, the subsistence areas are characterized by minifundia.

- e. The dual structure of agriculture restricts the flexibility needed to respond to new production requirements. Respecting subsistence agriculture, this is due to the limitations of quantity and quality of the available land and the difficulties of introducing new technological elements. With respect to commercial agriculture, there are often entrepreneurial or attitudinal inabilities or refusal to exploit totally the potential of the soil.

- f. Population growth, although frequently high in countries of similar level of development, is especially onerous in Guatemala. An economy so dependent on one sector has a limited capacity to absorb labor in significant amounts in other activities. That fact, plus the deficiencies observed in the agricultural activity itself, are reflected in growing indices of unemployment and hidden under-employment. The Planning Council estimates that between 1950 and 1962 under-employment of the agricultural labor force grew 38%. This situation requires that development projects put forward be labor-intensive.
- g. Two final factors should be mentioned. Deficient commercialization systems make it difficult for farmers to take advantage of the results of their technological innovations. Second, there is an insufficient institutional framework for the undertaking of agricultural development. This insufficiency is due in part to the multiplicity of sources of decision with respect to agricultural problems and to the lack of an integrated policy.

C. AID STRATEGY

The USAID strategy for the rural sector is based on a concept which is gaining increasing acceptance within the GOG -- that widespread popular participation in the development process is the surest way to economic, social, and political development. The traditional farmers of Guatemala constitute the largest identifiable economic group and, simultaneously, the one which has participated least in the economic and other gains of the country in years past. To begin moving

this group into the current of development we have initiated: the training of promotores sociales through Rafael Landívar University; the formation of campesino associations through a contract with a U.S. foundation; and assistance to rural self-help efforts through our Special Development Activities grants. We have also given our support to the GOG's efforts in campesino education and rural community development. All these activities aim at awakening the campesinos to the possibilities of economic, social, and eventually political organization and action. Our expanded cooperatives program goes further, establishing mechanisms for organization and action on a large scale.

The recently authorized \$2.1 million Loan (520-L-017) to assist INFOM in financing public works projects in small municipalities throughout the countryside will enable INFOM, through the training in public administration it provides in conjunction with such projects, to take a greater interest in the development of these communities as functioning social and political organisms.

A major USAID effort is being made in the field of rural education. The \$8.6 million Primary Education loan (520-L-015), largely rural-oriented, will establish centers providing education adapted to the needs and interests of rural children and facilities for adult education and rural community activities. Our Agricultural Education project (complementing an IBRD loan for school construction and equipment) is helping to strengthen and expand vocational agriculture training for rural youth. It is doing the same for the extension services using "mobile agricultural schools" serving wide areas of the country.

Our current projects and our strategy can be fully effective only if the economic base of the rural area is improved. This will require a thorough modernization of agricultural practices. To increase the production and income of campesinos they must be provided with credit for inputs, technical advice, and storage and marketing facilities. The presently available resources -- financial, institutional and human -- are not adequate.

The C.I.A.P. report issued following the Guatemala review in February 1969 included Statements by IDB, IBRD and AID representatives on the need for improving the public investment performance. The AID statement included the following:

"It is also important to observe that Guatemala must increase very substantially the level of public investment if a more adequate rate of economic growth is to be attained. The 1968 growth rate, while much improved over 1967, nonetheless was equivalent to only 1.7 percent per capita. An increase of 50 percent is required to meet the target of 2.5 percent per annum set forth at Punta del Este" ... "We strongly recommend that the Guatemalan Government clearly define and publicly set forth a comprehensive program of rural development and that this be accompanied by allocation of available investment resources to the rural sector."

The proposed loan-assisted Program is central to the strategy described in the FY 1970 CASP

and Country Field Submission in that it responds to the C.I.A.P. Report and is designed to promote improved income distribution, economic growth, and institutional modernization (see Part I of CASP) in agriculture. The figures involved imply that the Program will also force the GOG to increase government revenues, thereby approaching the public savings problem considered the fundamental barrier to more rapid national development.

D. GENESIS OF THE PROGRAM

A continuing discussion of how to alleviate the problems of the rural sector began between the USAID, the Ministry of Finance, and the Planning Council in 1966.

In April 1967, the Council issued a three-year Rural Development Plan intended to draw this sector into the economic, social, and political mainstream of the Republic. It forecast an investment of up to \$90 million, \$60 million to be obtained externally. Shortly thereafter the Ministry of Finance requested an unspecified amount of assistance from A.I.D., and an Intensive Review Request was discussed "in draft" by the then LA/CD Office. The large technical and administrative hurdles ahead were recognized by both sides, and work began at the staff level to develop a feasible proposal attacking this sectoral problem on a sectoral basis.

During the remainder of 1967 discussions continued on this program and on the Primary Education Loan. The latter also reflected a sectoral attack, and was to be coordinated with loans by the IBRD (secondary level) and the IDB (university level). Since the education loan proposals were developing swiftly, the Ministry of Finance and USAID concentrated on them during the first half of 1968, and did not return to the rural sector proposal until late in the year, when USAID retained an Iowa State team to survey agriculture in Guatemala.

During the Iowa State study, in which Guatemalan personnel of the Agriculture Ministry, the Planning Council and the Central Bank participated, enthusiasm for a major attack on the rural development problem grew.

In February, 1969 the Mission Director made a strong recommendation to interested GOG offices that the interministerial Rural Development Committee be reactivated with a tentative target of August, 1969, for the completion of a feasible proposal. In the spring of 1969 the Government's Rural Development Committee, made up of the Minister of Agriculture, Economy, Finance and Labor, and the Presidents of the Central Bank, the Industrial Development Institute, the Agrarian Reform Institute and other high officials, was activated in the spring of 1969 to review the Iowa State findings.

After the report (Supplement I) was filed, initial discussions of a possible major loan program were held between the American Ambassador and Guatemala's President Méndez; and with the Vice Minister of Agriculture as Coordinator of the Government's rural development planning group, working groups were established. Changes with developing projects of significant impact worthy of international financing in the following areas: grains, diversified crops, handicrafts, land tenure, infrastructure, human resources and institutions.

During the project preparation, USAID sponsored a trip to the Centro Internacional de Mejoramiento de Maíz y Trigo (CIMMYT) facilities in

Mexico for key participants in the working groups. After the Iowa State report's argument favoring efforts with small farmers was followed by CIMMYT's demonstration of the possibility of success in such efforts, the Guatemalans - who already favored a massive program on behalf of the small farmer - directed rural development planning to that end.

The resulting Rural Development Program, of which AID has been asked to finance four of six Projects, is part of the comprehensive "Agriculture Development Plan - 1971/75" approved by the Rural Development Committee and the President on December 8, 1969. USAID received a Loan Application for \$23 Million on December 10, 1969 (Annex III, Exhibit 1).

#### E. SUMMARY OF PLAN AND PROGRAM

##### 1. The Agriculture Development Plan - 1971-1975

The Government has devised an "Agriculture Development Plan - 1971/75". It includes the projects for which this A.I.D. loan financing is requested and related projects to be financed by the IDB, CABEI, IBRD, the UN and the ICO. The Planning Council document containing this Plan appears as Supplement II.

This comprehensive sectoral Plan foresees a total new public investment in agriculture of up to \$143,200,000 over five years. Over \$52,000,000 would be provided from new GOG budgetary resources. An analysis of this investment, showing source and use of funds, follows in Annex III, Exhibit 2.

2. The Rural Development Program

About two-thirds of the "Agriculture Development Plan - 1971/75" makes up the "Rural Development Program".

The latter comprises six distinct projects and calls for public investment of some \$101,700,000. Hereinafter called the "Program", it will be financed by the GOG (\$45.2MM), IDB (\$27.5MM), AID (\$25MM), and CABEI (\$4MM), as shown in Annex III, Exhibit 2.

On December 10, 1969, the Government formally sought AID financing (Annex III, Exhibit 1 ) for four of the Program's six projects: Basic Grains, Diversification, Human Resources, Handicrafts.

3. The Projects

a. AID-Financed

i. Basic Grains

This \$12.3 million project, of which A.I.D. will finance approximately two-thirds, will assist in modernizing production and marketing of five grains (corn, beans, rice, wheat, sorghum). It will strongly emphasize the introduction of improved seed, the use of fertilizers, and the creation of an efficient storage and price stabilization system. The project will include production credit, the construction of private storage facilities, and technical assistance. Although it will directly

touch only 5% of the grains producers in Guatemala, a country-wide annual production increase of 15% is expected by the end of the project, with steady gains expected thereafter as the techniques introduced by it spread through the country. Its technical and financial details are presented in Annex II, Exhibit A.

ii. Diversification

This \$22.5 million project, of which \$8.5 million will be financed by AID, is to provide credit and technical assistance for the production of seven crops (vegetables, plantain, citrus, sesame, deciduous fruits, avocado, flowers). Not now of major significance they appear to have a potential production advantage in Guatemala and good marketing prospects locally, in Central America, and world-wide. The annual production rate of these crops is expected to increase by as much as 150% during the project. Technical and financial details are presented in Annex II, Exhibit B.

iii. Human Resources

This \$8.9 million project, of which AID will loan-finance \$5.6 million will provide the training and institution-building needed to enable Guatemalan farmers, agricultural advisors, credit officials, and others to carry out their respective parts in the program.

It is intended to start a process of change in rural attitudes, to allow the "technification" brought about by the two production projects to become self-sustaining. Technical and Financial details are presented in Annex II, Exhibit C.

iv. Artisanry

This \$1.25 million project of which AID will finance \$750,000 will provide technical assistance and credit for the production and marketing of handicrafts, and is designed to create a viable industry out of what is now a profitable sideline for a very small part of the Highlands population. Technical and financial details are presented in Annex II, Exhibit D.

b. Non-AID Financed

i. Infrastructure

This \$37 million project includes construction of access roads (13 roads totalling 275 kilometers are presently under feasibility study by the Highway Department); irrigation and drainage facilities, and grain silos and food holding and processing centers, all in the areas served by the production projects. Financing will be sought from the IDB (\$21 million) and CABEI (\$4 million), as shown in Annex III, Exhibit 2.

The access roads and irrigation sub-projects represent continuations of activities now underway with IDB financing. The Basic Grains silos sub-project has developed from a feasibility study executed by ICAITI in 1967, and is coordinated with similar construction planned throughout Central America. Invitations For Proposals to cover feasibility studies of the Diversification produce holding and processing centers are being prepared by the Planning Council for A.I.D. approval prior to advertising and financing with the tag-end of Loan 520-L-008. The drainage sub-project, covering several areas along the Pacific Coast, will be the subject of a feasibility study in early 1970, likely to be financed under A.I.D. Loan 520-L-016. The GOG intends to secure the necessary financing for all infrastructure sub-projects during calendar 1970, and to complete their construction by mid-way through the 1971-75 term of the Rural Development Program.

ii. Agrarian Reform

This \$20 million project will be directed at correcting inefficiencies in land use in Guatemala. Included in a recent official statement (Annex III, Exhibit 3 ) are the various sub-projects contemplated thus far by the Planning Council: steps to enforce the vacant land taxes and land expropriation laws;

development of a mechanism to make it financially possible for renters and sharecroppers to purchase the land they work; development of state-owned farms and purchase of farms acquired in foreclosures by state-owned banks; drainage and colonization projects; land titling; and cooperative development of tiny holdings in the Highlands. Most of the external financing for the project is expected to come from the IDB; AID may be asked for \$2 million for subprojects of land titling and production cooperatives.

iii. Other

There are two other projects to be carried out during the execution term of this Program which could constitute a duplication of efforts if proper control is not exercised by the Ministry of Agriculture and the financing agencies.

c. Technical Assistance - UNDP

An assistance program proposal entitled "Economic and Social Development of the Central Western Highlands through Initial Emphasis on Improved Agricultural Production (GUA 14)" was presented by the UNDP to the GOG in January, 1970. The proposal involves 24½ man-years of expert services, training, equipment, and miscellaneous components for total project cost of \$942,400. This added to Participating and Executing Agency costs plus other UNDP expenses, brings the total cost to \$1,052,500.

Estimated equivalent value of GOG participation in project is \$2,000,000 during its three-year term.

The project will assist the GOG to establish one pilot demonstration area of about 1,200

square kilometers for integrated socio-economic development in the Quezaltenango Region. Increased agricultural production will be given priority attention.

The UNDP personnel will include a Project Manager with regional economic planning experience, backed up by experts in the field of coops and extension, farm management, agricultural marketing, horticulture, and fruticulture.

The host-government coordinating agency will be the National Community Development Agency who will provide counterpart technicians. This agency will cooperate closely with the Ministry of Agriculture to assure that no duplication of efforts occur while this project and the AID-assisted Program are being carried out.

d. Coffee Diversification - OIC/ANACAFE

\$6.5 million from the OIC Coffee Diversification Fund will be invested in the introduction of new crops in marginal coffee areas, under the direction of ANACAFE, the Guatemalan coffee association.

Primary emphasis will be placed on oil palm, tea, citrus, other tropical fruits, and dairying. Although citrus is also included in the Loan-financed Diversification Project, and other crops may come to be included in both activities, there is little or no use of marginal coffee areas foreseen in the Diversification Project and there appears to be little risk of duplication of effort.

### SECTION III. DETAILED DESCRIPTION OF PROGRAM

#### A. SOCIAL AND POLITICAL ASPECTS

This loan program should ultimately catalyze far-reaching social and political change in addition to its direct economic benefits. That is to say that it should help draw the rural sector into much more active participation in national life. Greater production will yield increased work opportunities and improved per capita incomes which, in turn, will yield better standards of living, decreased rural-urban migration and, it follows, greater political stability.

It is possible to identify six socio-political benefits.

1. The program will increase incomes and consumer purchasing power in those poor rural areas which currently contribute most to the unfortunate migration toward the nation's population centers, particularly the capital. Thereby migration will be diminished. Simultaneously, increased rural incomes will

provoke increased consumer demand, broaden the marketing base, and thus contribute to industrial development and the ability of urban centers to absorb that portion of the rural populace that persists in migrating.

2. Guatemala's evolution toward stability and constitutionality requires the involvement of rural Guatemalans in the decisions and processes which determine the quality and character of their lives. This loan program creates greater cooperation among producers in production and marketing, through producer associations, cooperatives, and other bargaining agents. The process by which producers work together in production and marketing will introduce an attitude of social cooperation which in the future will probably be brought to bear on matters of political import.
3. In Guatemala it is unrealistic to expect social change from the top down, and this loan program reflects the Title IX philosophy in contemplating change from the other direction. The Government can respond to the needs of its constituents only if it is made aware of these needs. Two elements of the program -- expansion of the cooperative movement and group training activities -- will open a way for those needs to be proclaimed by the alienated and under privileged rural majority. New rural interest groups will be able to make demands (more credit, services, inputs, better marketing system, favorable prices, etc.). Politicians seeking rural support may well link themselves to these rising interest groups

and identify themselves with their demands. The political balance between urban and rural interests may well change and be reflected in changes in political parties and legislatures tending in the direction of functional democracy.

4. Agrarian reform in Latin America is a sensitive issue. There is some evidence (see the University of Wisconsin Land Tenure Center Report on "U.S. and Host Government Strategies for Agricultural Development in Latin America" - AIDTO CIRC A-2141) that landowners of all sizes are receptive to participation in agricultural development programs. The Report also indicates that owner-farmers whose holdings are generally considered too small to be economical will actually be more innovative and productive than larger, often absentee, landlords when proper incentives and opportunities are available. This is particularly relevant to the Guatemalan Highland experience, where the bulk of the program's efforts will be concentrated and where the land tenure structure is one of small-owner farms. The program offers new technology for strengthening the position of small farm owners now in existence, and also those to be created by future land distributions or colonization schemes. With this support the GOG can approach the problem of agrarian reform by relating agricultural credit to its activities involving distribution and land tenure. Thereby the agricultural development program would be made immediately meaningful to small farmers on political and social as well as economic grounds.

5. Increases in the volume and variety of food production will improve the rural diet. Better nutrition will enable the rural population to make better use of the expanded educational facilities of the Primary School Program financed under AID Loan 520-L-015. Resulting higher incomes will allow parents to send children to the newly constructed rural primary schools instead of sending them to the fields. Improved diets will increase their ability to learn. Training and promotional activities will increase utilization of the regional schools and the adult education program. Instruction in home-economics, vocational trades, family planning, and agricultural activities will receive wider audiences and have a greater impact.
6. The program will also serve as a vehicle for expanding the activities of existing institutions engaged in the rural sector, and will provide an opportunity to multiply the benefits of past GOG and AID efforts. One example is the Instituto de Fomento Municipal (INFOM), the GOG agency charged with advising and financing rural municipalities in the development of public works programs and social services. Two effects can be foreseen as increased incomes are felt throughout the rural area. One will be an increase in the demand for INFOM's services and financing, a demand which will be articulated with increasing strength as new democratic organizations gain in number and influence. The second will be an increase in the local ability to pay for these services. INFOM has successfully carried out a program of waterworks financing

employing IDB funds, and is about to begin a program of public works (water, markets, slaughterhouses) in smaller villages financed by AID Loan 520-L-017. The increased ability to pay will enable INFOM to allocate its resources to a greater number of villages, and also improve the prospects of repayments to INFOM and ultimately to the IDB and AID.

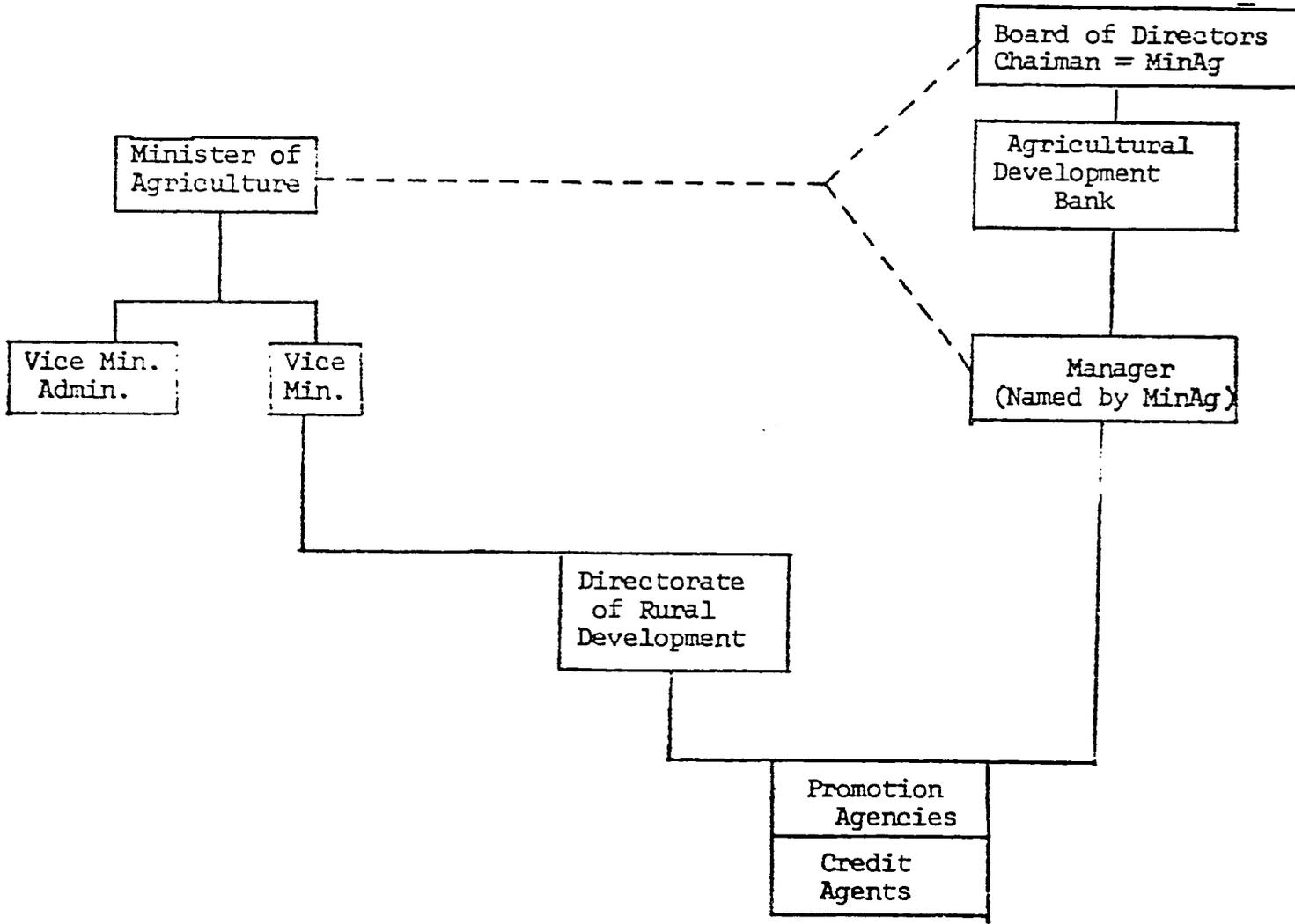
**B. ADMINISTRATIVE ASPECTS**

The Borrower is the Republic of Guatemala. General responsibility for execution of the Program is vested in the Ministry of Agriculture. Specific responsibility for execution of the four AID-financed Projects will be vested primarily in the Agricultural Development Bank to be established within the Ministry of Agriculture in the course of that Ministry's comprehensive reorganization. Other offices within the Ministry will also have responsibilities in the execution of these Projects. Organization charts on the following pages show the place of this Bank within the Ministry, and the interrelationships of the various offices within the Bank.

The organizational details of the new Bank and the other entities of the Agriculture Ministry are to be worked out with AID-grant financed assistance by the National Economic Planning Council during January-March, 1970, as specified in Annex III, Exhibit 4.

The operations and methods systems to be built into this Bank, and the resources and authority it is to have, will be designed to focus the national rural development effort in an efficient manner through the Ministry, and eliminate so far as is possible the wastage and lack of coordination which have marked

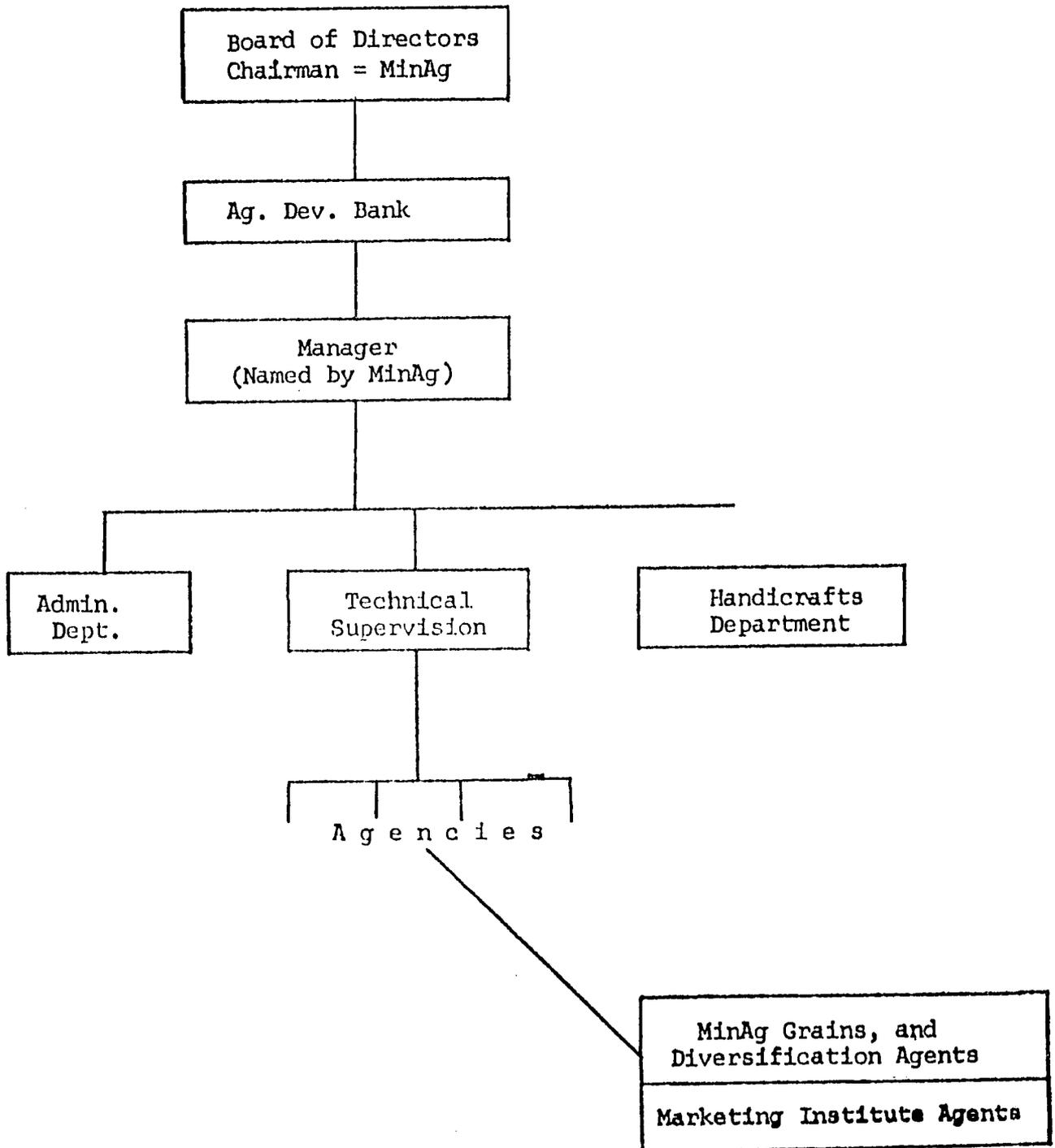
ORGANIZATION CHART  
PLACE OF BANK WITHIN MINISTRY



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AGRICULTURE DEVELOPMENT BANK



the GOG's efforts until the present. The scope of this reorganization is described in detail on pp. 54-60 of this paper.

Centralization of the GOG's overall agriculture sector policies and practices will be enforced through the presence of Ministry of Agriculture representatives on the Boards of the Bank, the Marketing and Stabilization Institute, and the Land Tenure Institute, and the participation of the Minister as Chairman of these Boards.

Responsibility for execution of this Program, including coordination of credit and technical assistance services, will be vested in the office of the Vice-Minister for Technical Operations within the reorganized Ministry. Responsibility for handling the bulk of the A.I.D. loan funds provided to four Projects within the Program will be vested in the Agriculture Development Bank. An analysis of responsibilities by functions within Project follows.

1. Basic Grains

a. Production Credit

An estimated \$5.2 million in loan funds will finance production subloans made by the Bank. Thirty Promotion Agents of the new Rural Development Office of the Agriculture Ministry will be charged with identifying and guiding small-farmer participants in the Basic Grains production sub-project. Offices of the Promotion Agents will be coincident with the rural offices of the new Agricultural Development Bank. The Promotion Agents will help the farmers draw up farm plans

employing modern technologies and specifying the credit needed. These farm plans will form the major part of subloan applications. Loans of less than perhaps \$1,500 (as yet unspecified) will be granted at the local agency. Larger loans will require central-office approval. In either case, field supervision of the use of subloans will be the duty of the Promotion Agent. Credit for seeds, fertilizers and pesticides will be given in the form of purchase orders (chits), rather than in cash. Participating suppliers will accept the chits for eligible commodities at pre-arranged prices, and will receive reimbursement from the Agriculture Development Bank. The Bank will have a team of agronomists to backstop the local credit agents and monitor the technical assistance being provided by the Promotion Agents.

b. Marketing Credit

An estimated \$2.9 million of loan funds and an equal amount of GOG funds will finance technical assistance for grain marketing and sub-loans for the construction of private storage facilities made by the Bank. Twenty-five field agents of the Marketing and Price Stabilization Institute will perform roles similar to those of the Basic Grains production promotion agents in the preparation and supervision of the sub-loans.

c. Technical Assistance

At a five-year cost of \$1.82 million, shared equally by AID loan and GOG budget funds, the technical advisory and supervisory services described above will be undertaken by the Rural Development D.G. and the Marketing Institute.

d. Research

Five research stations of the new Research D.G. will have programs in grains research. There will be direct liason maintained between the research stations and the Promotion Agents, and some research programs will be carried out in cooperation with CIMMYT. The five-year cost of the research program in grains will be Q1.35 million, to be shared by AID loan and GOG budget funding.

2. Diversification

a. Production Credit

An estimated \$7.03 million AID loan funds plus Q10.1 million of the Bank's own capital will finance the Diversification production sub-loans made by the Bank. One hundred thirty-one Promotion Agents, each specifically assigned to one of the seven crops, will have the same role in the lending process as will the grains Promotion Agents.

b. Marketing Credit

The GOG is preparing a Marketing sub-project for which perhaps \$3 million of IDB financing will be requested during 1970. The marketing sub-project will be part of the Infrastructure Project of the Rural Development Plan outlined on pages 15-16

c. Research and Technical Assistance

An estimated \$3,847,600 of GOG funds and \$1,494,600 of AID funds will be spent on research and technical assistance activities related to this Project. As in the case of

grains, this research will be crop-specific and problem oriented, and carried out by the Research D. G. in close liaison with the Promotion Agents.

Technical assistance will be provided by Promotion Agents assigned to specific crop programs under the Diversification section of the Rural Development Directorate. The Agents will select subloan recipients from among interested small farmers in the vicinities of the field agencies. The Agents will also choose cooperating farmers for demonstration plots.

### 3. Human Resources

An estimated 5.57 million of loan funds and \$3.32 million of GOG budget funds will finance training to be carried out under the aegis of the new Directorate General of Agricultural Training. \$2 million of Loan funds will provide seed capital for an expanded national agricultural cooperative confederation. The existing extension service will be absorbed by the Training D. G. and will administer the 4-H Club program. Extension agents will also provide technical assistance to agricultural cooperatives and participate in the selection of farmers for the direct training programs. The direct training programs will be administered by the B arcena Institute, which will itself be absorbed by the Training D.G. The training programs will be focussed around specific crops in specific regions. Most

of the participants will also be participants in the crop production programs of the Rural Development Directorate. Scholarship recipients at the secondary and higher education levels will be chosen by a board of high-ranking Ministry officials. Scholarship funds will be administered by the Training D.G.

4. Handicrafts

An estimated \$0.75 million of loan funds and \$0.50 million of GOG funds will finance production and marketing sub-loans and the costs of technical assistance. Sub-loans will be made by the Handicrafts Section of the Agricultural Development Bank. Agents of the Bank will help form and supervise cooperatives of artisans who receive financing. The Bank will also maintain three mobile promotion and training units to work with the co-ops.

## C. FINANCIAL ASPECTS

### 1. Projected Costs and Cash Flow

The following table presents a summary cost analysis and indicates the projected source and use of funds in the four loan-financed projects included in the Rural Development Program.

Although a breakdown of costs by currency, i.e. local (CACM) costs versus U.S. and other eligible Western Hemisphere dollar costs, cannot be made with any great degree of firmness, the Planning Council has projected that \$10.8 million of the A.I.D. Loan will be employed in financing foreign exchange costs, and that at least 75% of these foreign exchange costs will be related to procurement directly from the United States. The Mission considers these projections reasonable.

Annex III, Exhibits 7 and 8 present an opening Balance Sheet, estimated first year's Income Statement, and 5-year cash-flow projection for the Agricultural Development Bank, which will receive \$13.3 million of AID Loan funds over the five years of this Program.

### 2. Alternative Sources of Financing

The \$101.7 million, six-Project Rural Development Program will seek financing from CABEI (\$4 million - public grain storage facilities) and the IDB (\$27.5 million - access roads, irrigation and drainage, diversified produce holding and processing centers, land tenure subprojects) in addition to the \$23 million A.I.D. loan, new GOG budgetary resources (\$35.1 million), and the reallocation of present GOG-controlled resources (SOICAS and BNA - \$10.1 million). Throughout the balance of the \$143.2 million "Agriculture Development Plan - 1971/75" financing will be sought from the World Bank, the UNDP, the OIC and the FAO World Food Program, with an additional GOG budgetary contribution of \$17 million contemplated.

This represents an extraordinary mobilization and coordination of capital and technical assistance efforts from virtually the entire gamut of sources available to Guatemala. In devising this scheme the Planning Council has

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COST SUMMARY: AID FINANCED PROJECTS

PROJECT	Y E A R												TOTALS	
	1		2		3		4		5		AID	GOG		
1. Basic Grains	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG		
Production	\$982.6	480.7	589.2	219.7	556.8	251.2	1547.8	236.0	1524.8	243.2	5249.7	1210.6		
Marketing	351.0	350.0	350.0	350.0	625.0	625.0	625.0	625.0	955.0	955.0	2905.0	2905.0		
Subtotals:	1201.6	830.7	1039.2	569.7	1461.8	856.2	1972.8	861.0	2479.8	1198.2	8154.7	4115.9		
	AID:	\$ 2,154,700			GOG:	\$ 4,115,900			PROJECT:	\$ 12,270,600				
2. Diversification														
Production*	1693.6	3352.4	1432.6	3435.9	1594.1	2072.9	1541.3	1147.7	668.6	127.6	7030.2	10103.1		
Research & TA.	789.4	253.2	468.9	468.0	395.3	799.0	-	1168.0	--	1158.6	1494.6	3847.5		
Subtotals:	2483.0	3605.6	1901.5	3904.9	1989.4	2971.9	1541.3	2282.7	668.6	1286.2	8524.8	13950.7		
	AID:	\$ 2,524,800			GOG:	\$ 13,950,700			PROJECT:	\$ 22,475,500				
3. Human Resources	1195.6	639.8	1177.8	514.7	1684.7	621.6	736.7	688.6	775.7	755.6	5570.5	3320.1		
	AID:	\$ 15,570,500			GOG:	\$ 3,320,100			PROJECT:	\$ 8,890,600				
4. Artisanry	335.0	101.4	55.0	135.4	135.0	110.4	225.0	135.4	--	--	750.0	502.6		
	AID:	\$ 750,000			GOG:	\$ 502,600			PROJECT:	\$ 1,252,600				
TOTALS	\$5184.6	4997.3	4173.5	5204.6	5141.9	4460.1	4575.8	3967.7	3924.1	3240.0	23000.0	21889.3		
	AID TOTAL:	\$23,000,000			GOG TOTAL:	\$21,889,300			FOUR PROJECTS TOTAL:	\$44,889,300				

\*The GOG contribution to the diversification production sub-program will be the agriculture bank's commitment of its own capital resources to the provision of new production credits. The \$21.9 million GOG contribution to the four Projects then includes a reallocation of \$10.1 million of present capital and the investment of \$11.8 in new budgetary resources.

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32 UNCLASSIFIED

attempted to design projects meeting the particular criteria of the agencies to be solicited. The projects presented to A.I.D. reflect several year's preliminary work by the Ministry of Agriculture and the Planning Council together with the A.I.D. Mission, and more recently with the local office of the IDB, and were selected for A.I.D. consideration as the first parts of the program to receive financing because of this past involvement of A.I.D. and the four Projects' comparatively high degree of readiness. Considering the other substantial participation planned for the IDB, CABEI, and the IBRD, and the restrictions on EXIM financing, A.I.D. appears to be the only free-world source of financing for this program on satisfactory terms. This has been confirmed by representatives of the IDB, IBRD, and EXIM in the course of their review of this Loan Paper and discussions with members of the USAID and LA/DP/LC.

There is no local currency under A.I.D. control which could be made available for this Program.

### 3. Prospects of Repayment

Repayment of the loan will be an obligation of the Republic of Guatemala, which is current in meeting its external debt service obligations.

Guatemala's medium and long-term external public debt is approaching \$100 million. The Mission expects it to rise slowly from this level during the current decade.

The annual debt service obligation is currently about \$15 million and during the decade is expected to rise about \$20 million - \$25 million as drawdowns accelerate, grace periods expire, and the effects of higher interest rates are felt.

Foreign exchange earnings now approximate \$250 million annually. Even allowing for eventual decreases in returns from coffee and cotton, which now contribute 50% of the total, these also are expected to rise gradually in the future.

Consequently it appears that the ratio of debt service to export earnings, currently 5.4%, may stabilize at around 8% throughout the amortization term of this Loan, providing an ample foreign-exchange cover.

It therefore appears that there are reasonable prospects of repayment.

D. ECONOMIC ASPECTS

Quite apart from its socio-political benefits, the National Rural Development Program is justifiable on the narrowest of economic grounds.

Its impact on national output will be significant, and its impact on rural sector output tremendous. Individual small-farm entrepreneurs will secure high profits from the sub-projects. And the commercial and financial interests of the United States will distinctly benefit; the Program should generate more foreign exchange earnings for us during the five year period of loan disbursement than the \$23 million outflow from out loan.

Macro-Economic Analysis

The gross macro-economic impact of the Program is substantial. In the first year that impact, without multiplier effects, will be a growth (Table I)

TABLE I  
NET GNP INCREASES RESULTING FROM PROGRAM  
(millions of quetzales)

<u>Year</u>	<u>Divers.</u>	<u>Grain Prod.</u>	<u>Art.</u>	<u>Grain Stor.</u>	<u>Co-Op</u>	<u>GOG Budget</u>	<u>Total GNP</u>
1	6.4	1.2	.3	.2	.8	3.2	12.3
2	15.7	2.2	.7	.4	1.7	3.0	23.7
3	28.8	3.5	1.4	.8	2.2	3.1	39.8
4	37.4	5.8	2.8	1.2	2.2	3.3	52.7
5	47.9	8.4	2.8	1.9	2.2	3.3	66.5

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of 1% of Guatemala's Q1.5 billion GNP. Successful accomplishment of the Program can give GNP a 1% annual growth spurt for each of the first five year of its operation.

Naturally the relative impact on agricultural output is more impressive still. The Program will augment the total annual flow of gross agricultural product by 16%. It will add a 150% increment to the 1969 level of production of 7 diversified crops by the fifth year. It will increase the annual production of 5 basic grains by 15%. It will increase annual handicraft production by 200%. And counting the effects

TABLE II

ESTIMATED 1969 AND PROJECTED 1975 GROSS PRODUCTION  
(millions of quetzales)

	<u>GNP</u>	<u>Ag. Sector*</u>	<u>Divers. Crops</u>	<u>5 Grains*</u>	<u>Handi- crafts</u>
1969	1634.0	498.2	30.1	50.7	1.3
1975	2320.3	707.4	78.0	71.8	4.1

\*Growth rates of 6% are projected for GNP and the agricultural sector. A 3% annual growth in addition to growth due to the Program is projected for grains.

of grain storage, the increment to annual farm income from grain production will exceed 20% by the fifth year. (Table II)

An additional impact of major macro-economic importance is that on employment. The Program will involve over 11,000 grain farmers, 15,000

"diversified" farmers and nearly 2,000 artisans. All the activities will be labor intensive--mechanization does not play a large role in the Program. Vegetables and flowers, especially, will call for labor additional to that of the small farmer participant himself. It is expected that 100-125 thousand rural workers will be involved in the Program, or 10% of the projected 1975 rural labor force.

### Cost-Benefit Analyses

To achieve a rough comparison of project and sub-project benefits and costs we have developed a gross measure of the social rate of return over the first five years of the Program.

The social rate of return we define as the value added in increased production, adjusted for the real social cost of labor and land, divided by the project's inputs of loan funds, Government revenues and net bank lending. No discounting is undertaken in this gross measure because the costs and the production are realized within a short time span.

Let us first consider grains. In the case of production, the net income generated by the sub-project comes to Q11.2 million. The social cost-net lending plus expenditures on research and promotion-equals Q6.5 million. Thus the social rate of return is 1.73.

In the case of grain marketing two indices have been developed. First, the benefit-cost ratio (as traditionally defined and discounted at 12%) of the \$5.1 million invested in storage facilities is 1.5. Second, the social costs of the sub-project -- the Government's technical assistance costs -- have been compared with the

value of the grain saved from spoilage. Over five years Q900 thousand of grain (valued at producer prices) which would otherwise have spoiled will be safely stored. The Government's promotion efforts will cost Q750 thousand. Thus the minimum value of the social return is 1.21.

The rate-of-return indices in the cases of grains, it should be added, are relatively uncomplicated by valuation of labor inputs. Technification of grain production involves insignificant increases in labor inputs in the production processes.

But the Diversification Project involves a considerable additional input of labor that was formerly not involved in producing the new crops. Labor is in surplus in Guatemala, at least to the extent that the wage rates assumed by the Planning Council and the Agriculture Ministry overstate the marginal product of labor in the countryside. Their land rent assumptions are also exaggerated. We have therefore computed two social return indices:

1. The Value added in five years' production of 7 diversified products is Q107.3 million. That figure equals the gross value of production less the cost of purchased inputs. Comparing Q107.3 million with the social cost of the production -- Q22.5 million by the above definition -- gives a rate of return of 4.77. But this method implies a zero social cost of land and labor.
2. The net profit from five years' production when labor and land are valued at the Planning Council's exaggerated prices is Q56.0 million. The same social costs are

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applicable. The resultant index of social return is 2.49.

The return on the Diversification project, however measured, is understated because it includes costs of tree crops which do not enter production during the initial time span. But the error is less than 3%. In any case, social profitability of 150% to 400% or more is extraordinary. USAID technicians have reviewed the yield, cost and price projections on which the return calculations are based and have found the projections reasonable, although there exists a paucity of data by which such projections can be judged in Guatemala. Average results in Diversification will be heavily weighted by results in vegetables, which account for over half the project's costs and output. The return estimates given above may be high, due to the high risk involved in vegetable production. But as we have no prior knowledge of the likelihood of crop failures, it seems that the high return is well worth the risk involved.

The labor valuation problem also complicates the effort to evaluate the Handicraft project. If labor is given a zero value, the calculation is: Q3.4 million value-added divided by Q1.3 million social cost equals 2.64. If labor is valued at Q0.50 per day, an ample wage in the Guatemalan Highlands, the return rate is 1.8%.

Since the social costs include publically-supported activities such as research and promotion, the social rate of return understates the profitability of the projects to the individual farmer. There is every reason to expect that the high returns available from participation in the Program should be sufficient motivation to induce the projected participation levels.

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The returns to the Human Resources project are difficult to estimate. Certainly we expect significant long-run returns to such sub-projects as youth clubs, secondary schooling, university education, rural leader upgrading, etc. The farmers' direct training sub-projects will serve as added insurance that the production projects succeed. The agricultural information service has similar non-measurable backstopping returns. As with the research expenditures of the production projects, the training sub-projects are widely held to be of high but indirect economic benefit.

The economic returns of the co-op sub-project are subject to rough measurement. On the assumption that production sub-loans yield a 100% gross profit and that storage sub-loans generate a 40% return, the co-op loan and the Q1.5 million grant assistance will generate Q9.5 million of added product over 5 years. This amounts to an undiscounted return of nearly 3 to 1 on this investment.

The above-described method of calculating the social rate of return can be applied to the Rural Development Program as a whole. Total increases to GNP in five years amount to Q195.0 million; the total cost of the Program, including the Planning Council's exaggerated land and labor costs, is Q132.3 million. The resultant gross social rate of return is 1.47.

The Rural Development Program, therefore, easily meets the economic test.

Indeed, the 1.47 rate of return understates the true value to the economy of the Program: it has not been adjusted for real social costs of

surplus inputs; it does not include consideration of long-run benefits of research and education sub-projects; and it does not include a present value of long-run investments in grain storage and tree crops. Of course, the high expected return must be judged in the light of the high risk inherent in agricultural enterprises.

We have also computed the present value of the additions to GNP which the Program will create over the next 25 years, net of total (exaggerated) production costs. Discounted at 12%, that value is Q177 million; discounted at 25%, the value is over Q70 million. The present value of the five year public investment in the Program -- the sum of loan funds, Government revenues and net bank resources -- equals Q33 million discounted at 12% or Q23 million discounted at 25%. Discounting at 25%, quite a high rate, compensates for the high risk element. Yet even at that rate, and still without counting unquantifiable long-run benefits, the rate of return on the National Rural Development Program exceeds three to one.

#### Public Revenue Analysis

The Rural Development Program will require nearly Q2.5 million annually of increased public revenues to finance the Government's counterpart (Table III) contribution. Thus the Program will require about a 1.5% increase in central government revenues. This increase, on top of significant

TABLE III

GUATEMALAN GOVERNMENT CONTRIBUTIONS TO THE PROGRAM  
(thousands of quetzales)

<u>Year</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Total</u>
Amount	1,644.7	1,788.7	2,387.2	2,828.5	3,261.6	11,910.7

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other revenue demands for development efforts in education, health, infrastructure and elsewhere in the agricultural sector, will require a distinct and persistent effort on the part of the Government. Fortunately the Guatemalans are starting from a very low tax base and have considerable room for improving their revenue performance.

One of the most promising areas, because of its political palatability, is that of tax administration reform. The Government has already accepted and is beginning to implement a wide range of tax administration reform measures outlined in the AID-GOG Program Agreement 1-70 (Supplement III of this Loan Paper). The USAID Tax Advisor estimates that this reform package will generate Q3.8 million during the first year after its effectuation, and continue to increase total tax revenues by 10% annually for each of the next several years.

The Planning Council has outlined (Annex III, Exhibit 4 ) its projections of the sources of additional counterpart financing for all of the planned development efforts of the Government over the next five years. In addition to tax administration reforms, the Council expects legislative reforms of the income, property, sales, and motor vehicle taxes. By 1974, the legal and administrative reforms should be adding Q35 million annually to the public coffers above the normal expected growth of 3-4%. (Table IV).

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TABLE IV

PRELIMINARY ESTIMATES OF TOTAL GOG FISCAL REVENUES

(millions of quetzales)

<u>Year</u>	<u>Historical Tendency</u>	<u>Income from Administrative Reforms</u>	<u>Income from Legal Reforms</u>	<u>Total Income</u>
1969*	152.5			
1970	157.6			
1971	163.9	-		
1972	170.5	6.8	-	157.6
1973	176.5	10.7	5.2	175.9
1974	178.9	14.5	7.4	188.6
		18.7	9.8	201.0
			16.3	213.9

44

\* Projected as of 12/20/69

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Balance of Payments Analysis

The gross foreign exchange cost of the Program to Guatemala during its five year disbursement period has been estimated by the Planning Council to exceed Q40 million. This figure is somewhat inflated because it assumes that 100% of the farmer's cost of key inputs, especially fertilizers and pesticides, represents foreign exchange costs. About 80% would be a more fair assumption. As these inputs account for about 3/4ths of the projected foreign exchange costs, it seems fair to reduce the projected exchange cost by 15%. In addition, the Council assumes incorrectly that the co-op funding will finance imports; only about half will do so. Therefore, we have reduced the Council's import projections by 15% plus Q1 million. Thus total expected gross foreign exchange costs are Q33 million.

TABLE VPROJECTED FOREIGN EXCHANGE REQUIREMENTS OF PLAN  
(millions of quetzales)

Year	1	2	3	4	5	Total
Amount	3.1	5.1	7.2	8.3	9.6	33.3

The \$23 million AID loan will finance the bulk of this exchange outflow. Expected exports from the Handicraft project alone could finance most of the difference over the five years of the Program -- Handicraft exports of over \$7 million are projected for the first five years.

Substantial exports are also projected in both the short and long run from the Diversification project. In the short run, exports of sesame, plantains and flowers outside of Central America and vegetables within the region will be substantial. By the third year of the Program, exports of over Q 5 million annually of sesame and plantains are expected. Flower exports may reach Q7 million annually. Sesame will go largely to Japan; plantains and flowers to the U.S. Vegetable exports of Q8.5 million annually within the CACM are expected by the fifth year. In a longer time frame, exports of deciduous fruits and other tree crops within Central America is expected. Most of the Q3.5 million annual deciduous fruit production will be exported, as will a large part of Q1.2 million of citrus and Q0.4 million of avocado production. Overall exports of Q44 million outside the region and Q23 million within the region may be expected during the first five years of the Diversification project.

#### P.L. 480

During 1969 Guatemala received under P.L. 480 Title II (donations) \$2 million in milk, wheat flour, corn meal, vegetable oils, and "CSM", a mixture of corn, soya, and milk. The GOG realizes that should Guatemala become an exporter of basic foods, the P.L. 480 program could be discontinued as conditions warrant.

#### Effect on U.S. Economy

Since tying restrictions on loan funds have been loosened, it is difficult to project the source and origin of the imports required by the Program. Of the Q33.3 million to be imported, about a fourth will go for vehicles, educational and agricultural equipment and foreign study. Since the funds will be tied to eligible Western Hemisphere suppliers, we expect 90% of these purchases will come from the U.S.; that is, U.S. exports of \$7.5 million of vehicles, equipment and educational services should be demanded.

Some Q25 million of agricultural chemicals will be imported. Even if manufactured elsewhere in the Hemisphere, many of the components may be of U.S. origin. We expect that perhaps 2/3rds of this part of the foreign exchange needs of the

Program will be spent on dollar procurement. Thus, U.S. agricultural chemicals valuing around \$15 or \$16 million will be demanded.

Therefore total requirements for U.S. exports will be between \$22 and \$24 million, compared to the proposed capital outflow of \$23 million. Furthermore, an additional demand created by the loan for \$4-5 million annually in U.S. agricultural chemicals is likely to continue after the loan has been disbursed.

Relation of Program to Common Market

The Rural Development Program is consistent with the agricultural development policy of the CACM. The Secretary General of the Planning Council, who served as Executive Assistant to the Secretary-General of the Secretariat for Economic Integration in Central America (SIECA) through June, 1969, attested to this fact in a letter of January 5, 1970:

"Mr. Director:

I refer to our conversation of today concerning the relationship between our Rural Development Program and the Central American Economic Integration Program.

As you know, in drawing up the projects and sub-projects which comprise the referenced Program, we took very much into account the effects that the Program would have upon the Common Market in agricultural products. Accordingly we did not plan increases in production for crops which other countries of the region can produce in more advantageous economic conditions. Neither did we envisage production increases which could

produce surpluses -- and thereby trade problems -- at the regional level. Finally we believe that the economic policies derived from the Program are entirely consistent and congruent with the economic integration scheme."

The Secretary General and his principal assistant in the development of this Program -- the head of the Planning Council's Agriculture Section -- are both former SIECA staff members and both are committed integrationists. As the letter indicates, the Program has been designed so as to further regional free trade in agricultural commodities. It should also be recognized that the institutional reorganization which will precede the Program's implementation will improve Guatemala's effective participation in the Central American basic grains price stabilization mechanism in that it calls for the creation of a Ministry-controlled Marketing and Stabilization Institute.

E. SELF-HELP AND REFORM ASPECTS

Proof that the National Rural Development Program is a major commitment by the Guatemalan Government to improvement of rural life rests in the self-help and reform aspects of the Program. There will be action on three fronts: policy, organization, finances.

1. Policy

The Government will significantly shift the direction of its effort.

Absolute and comparative increases in the Ministry of Agriculture budget represent a policy shift to correct past public-sector discrimination against the 65% of the population which is rural. The increased expenditures called for by the 4 AID Projects alone -- not counting new agrarian reform, infrastructure, livestock and other programs contemplated by the Government -- amount to an 80% increase in the Agriculture Ministry's current expenditures over the record-high level of 1970.

TABLE I

RECENT AND PROJECTED PUBLIC AGRICULTURE SECTOR EXPENDITURES  
(Millions of Quetzales)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Total Annual Budget</u>	<u>181.4</u>	<u>184.1</u>	<u>208.9</u>	<u>225.0</u>	<u>238.0</u>	<u>256.0</u>	<u>272.0</u>
<u>Domestically-Financed Agriculture Budget</u>	<u>6.8</u>	<u>9.1</u>	<u>9.8</u>	<u>11.3</u>	<u>12.9</u>	<u>14.5</u>	<u>16.1</u>
Min Ag Current	3.2	3.9	4.6	5.4	6.2	6.9	7.7
Min Ag Capital	1.7	1.6	1.6	1.8	2.0	2.3	2.5
Transfers to Semi-Autonomous Agencies	1.7	3.6	3.6	4.1	4.7	5.3	5.9
<u>Externally-Financed Agriculture Budget</u>	<u>1.3</u>	<u>3.5</u>	<u>10.8</u>	<u>12.4</u>	<u>14.0</u>	<u>15.6</u>	<u>17.2</u>
Ming Ag	1.3	2.2	6.8	7.8	8.9	9.9	10.9
Semi Autonomous	---	1.4	4.0	4.6	5.1	5.7	6.3
Memo Items:							
GCC Budget Contribution to Four AID-Financed Projects	---	---	1.6	1.8	2.4	2.8	3.2
AID Loan Funding of 4 Projects:							
(Current Expenses)	---	---	5.2	4.2	5.1	4.6	3.9
(Capital Transfers to Bank)	---	---	( 2.7 )	( 2.1 )	( 2.4 )	( 1.4 )	( 1.1 )
			( 2.5 )	( 2.1 )	( 2.7 )	( 3.2 )	( 2.8 )
Domestically Financed Expenditures as Percent of Total Budget	3.7%	4.9%	4.7%	5.0%	5.4%	5.7%	5.9%
Total Agriculture Expenditures as Percent of Total Budget	4.5%	6.9%	10.0%	10.5%	11.3%	11.8%	12.2%

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More important than the general shift toward agriculture is the specific shift toward the small farmer. His new access to large amounts of credit and technical assistance, given their previous scarcity or total absence, is a dramatic indication of a profound shift in Government policy. A further indication of the magnitude of the shift is seen in the following data on the increase in current expenditure budgets projected for Agriculture Ministry activities directed at small farmers:

TABLE II

	Budgeted MinAg Expenditures 1968-1970 on Activities to be expanded by AID-financed projects			Planned Additional Expenditures on these activities by year of Operation				
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Technical Assistance	126.6	162.9	188.3	635.7	689.4	792.6	902.0	898.1
Research	747.7	884.0	904.6	1042.1	779.6	786.9	717.9	805.1
Training & Extension	714.1	715.9	786.9	1379.2	1322.5	1306.3	1425.3	1531.3
Marketing	95.1	98.2	98.2	192.0	192.0	192.0	192.0	192.0
<b>Total MinAg Current Exp.</b>	<b>3105.4</b>	<b>3677.3</b>	<b>3938.9</b>	<b>3249.0</b>	<b>2983.5</b>	<b>3077.8</b>	<b>3317.2</b>	<b>3320.5</b>

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Research will be doubled, training and extension and marketing tripled, and technical assistance (crop promotion among small farmers) quintupled by Program activities alone. (These figures do not take into account natural growth of Ministry activities or new projects outside the Program).

The seriousness of the commitment to directing efforts toward the rural sector is demonstrated by the projected expenditure totals. Its pragmatic nature is shown by details of the projections.

Heretofore the Agriculture Ministry has had a notably difficult time retaining capable personnel. A comparison of typical pay scales is shown on Table III. A large upward revision of salary schedules will go far toward overcoming this problem. Such a revision is included in all expenditures projected under the Program.

TABLE III

Starting Monthly Salaries of Agricultural Technicians in Guatemala

	<u>MinAg</u>	<u>Com. Agr.</u>	<u>Ind. &amp; Banking</u>
Perito Agrónomo	Q.225	Q.350	Q.450
Ingeniero Agrónomo	300	500	750

Furthermore, in connection with the administrative reforms discussed below, there will be established, for the first time, uniform, codified personnel policies within the Ministry. The commitment to a revitalized personnel policy is yet another indication that the Government has recognized its deficiencies and is willing to correct them in order to achieve the ends of the Program.

2. Organization

A still more important recognition of present weakness accompanied by willingness to correct it is apparent in the government's comprehensive reorganization plan for the institutions dealing with agriculture in Guatemala. The Program refers to a 1969 Inter-American Institute of Agricultural Sciences (IICA) study on administrative organization of agricultural activities, which pointed these out as weaknesses: there are a dozen or so extension services operating in the country without any joint planning among them; there are duplication and/or lack of coordination in research programs; and there is evidence of unnecessary duplication and rivalry among credit institutions.

To overcome these, the Government has proposed a thoroughgoing institutional reform with four principle features:

- a) Reorganization and strengthening of the Ministry of Agriculture, to endow it with the ability to provide strategic development services to small and medium-sized farmers;

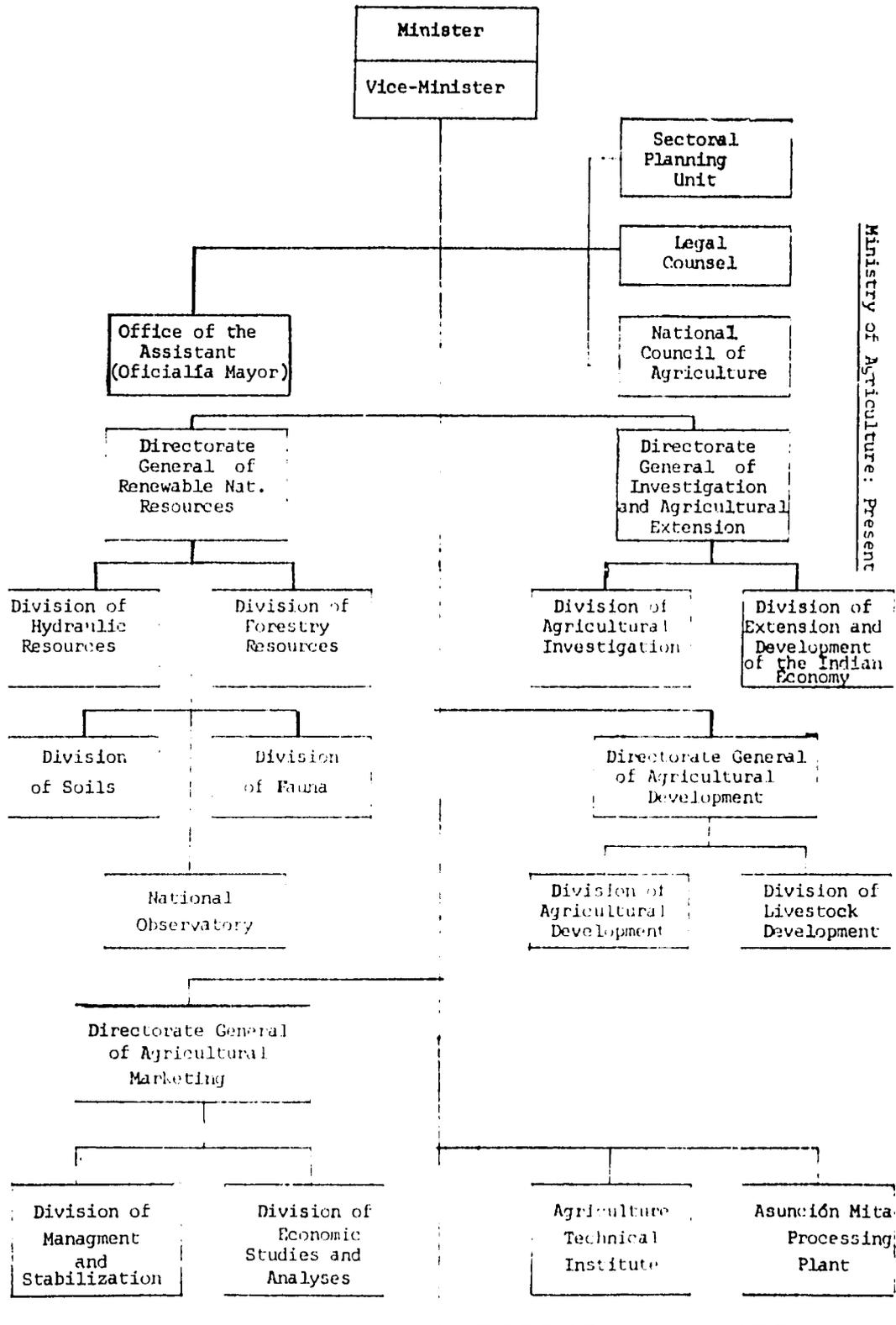
- b) Incorporation into the Ministry of activities which are currently decentralized and uncoordinated within institutions such as the Agrarian Reform Institute, the Petén Development Corporation, and the National Agrarian Bank;
- c) Creation of solid institutions to cover the fields of land tenancy, agricultural credit and marketing and price stabilization, each to function directly under the control of the Ministry of Agriculture.
- d) Reorientation of the patterns in which certain development services, such as credit and extension, are being furnished, and incorporation of these services into specific development programs; that is, the bulk of small farmer agricultural credit will be directed to participants in the Rural Development Program, and the bulk of extension work will involve the promotion of modern production techniques for specific crops among Program participants.

The present organization of the Ministry and the new one are shown on the following pages.

One outstanding feature of the new organization is the establishment of a second Vice-ministerial position. One Vice-Minister will be charged with administration of the Ministry. He will be supported by a new Directorate of Administration, to handle all purchasing, personnel, organization and methods and management matters of the Ministry.

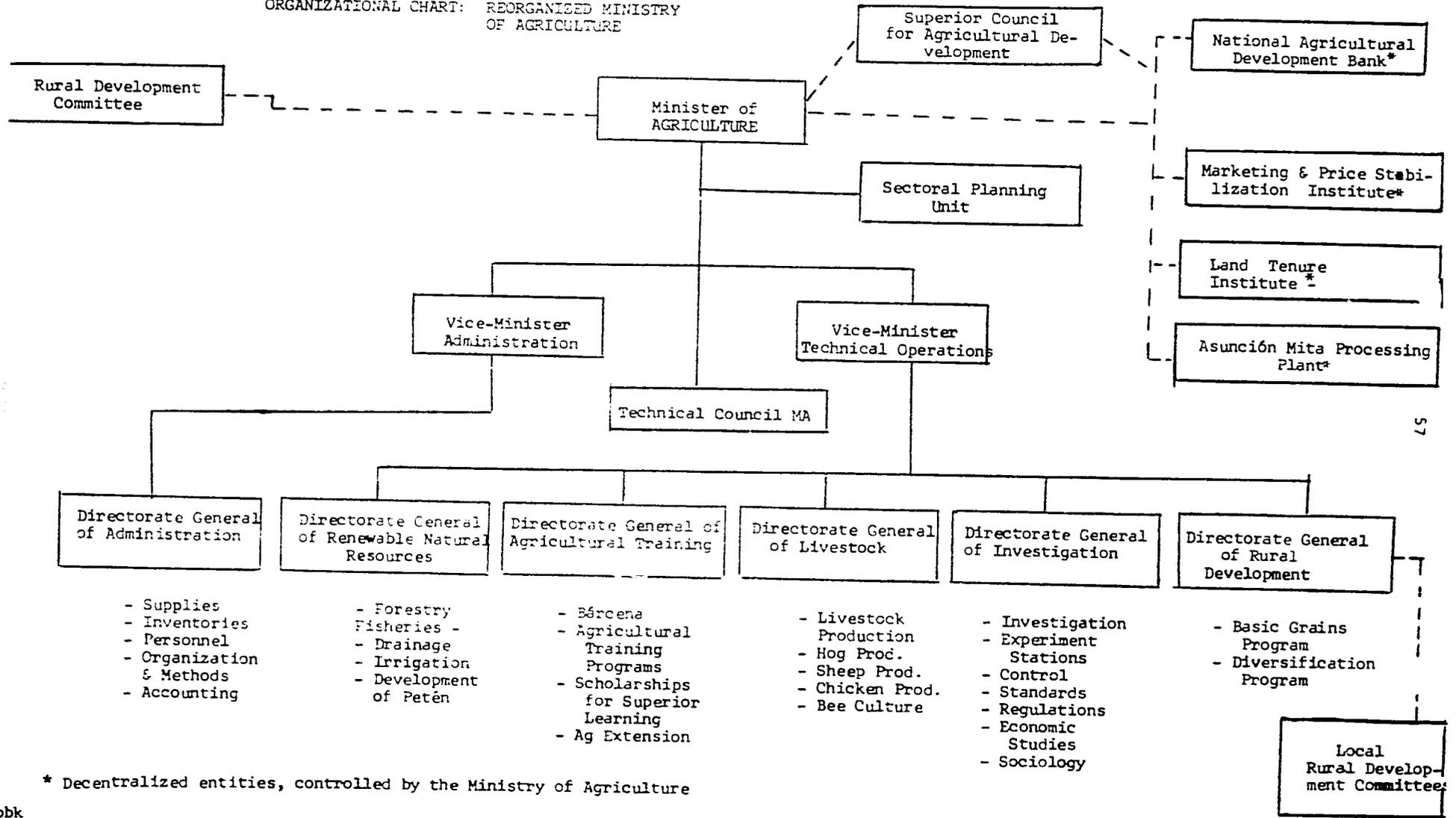
The other and senior Vice-Minister will articulate agricultural development policy and will be in charge of the technical Directorates of the Ministry.

MINISTER OF AGRICULTURE



Ministry of Agriculture: Present

ORGANIZATIONAL CHART: REORGANIZED MINISTRY OF AGRICULTURE



\* Decentralized entities, controlled by the Ministry of Agriculture

There will be five technical Directorates:

1) Renewable Natural Resources.

This Directorate at present is in charge of irrigation programs, forestry development, fish and wildlife and the weather bureau. It will, in addition to its current tasks, administer forestry development in the Petén.

2) Agricultural Training.

This new Directorate will administer the Bárcena Agricultural Institute and the extension service, and will be charged with carrying out the Human Resources project within the Rural Development Program.

3) Research

This new Directorate will administer the expanded research programs in grains and diversified products, and a greatly expanded soils laboratory. It will also take over experiment stations currently under the aegis of two separate Directorates.

4) Livestock

This new Directorate will handle the pro-

grams of the Ministry which deal with animal husbandry, including the IBRD beef and dairy cattle projects now being negotiated. Some \$13 million of loan funds are being requested for developing high potential grazing lands on the Pacific Coast.

5) Rural Development

This new Directorate will be the principal agent charged with implementing the Rural Development Program's production projects. It will have Divisions for grains and for diversification, with up to 160 field agents to select and guide the farmers who participate in the programs and to supervise the production sub-loans made.

Coordination of governmental activity in the rural sector will be further enhanced by the creation of three agencies under Ministry control which will absorb the functions of agencies often having operated outside the effective guidance of the Ministry:

- 1) An Agricultural Development Bank will fuse the Ministry's reasonably effective Supervised Credit Agency (SCICAS) and the semi-autonomous Agrarian Bank (BNA). The equity capital of this new Bank will include SCICAS' and BNA's resources, and will be augmented by AID Loan funds and Government capitalization. Since the IDB and AID loan funds to be employed by this Bank will be repaid by the GOG from general revenues, these funds will become equity capital for the Bank, and the Bank will have no debt service obligations. A projected Opening Balance Sheet, first year's Income statement, and 5-year Cash-Flow statement follow as Annex III, Exhibits 7 and 8.

The Bank will be largely devoted to financing the activities of small and medium-sized farmer participants in the Grains and Diversification Projects.

Although the Bank's lending policies and terms have not yet been fully defined, it is expected that loans will be made for terms dictated by the intended use of the funds, at market interest rates (currently 8%), and on an appraisal basis rather than strictly against a predetermined level of collateral.

The field agencies of the new Bank will serve as offices for the promotion/technical assistance agents of the Rural Development Directorate of the Ministry. The Bank will also include a handicrafts industry department to administer the Artesanry Project.

- 2) A Marketing and Price Stabilization Institute will incorporate the Ministry's Marketing Directorate and the National Production Institute's (INFOP) grain price stabilization unit. The operation costs and working capital needs of this Institute will be financed by the Government outside the AID loan program. It will be charged with provision of technical assistance for marketing and the stabilization of agricultural prices.
- 3) A Land Tenure Institute will take over the Agrarian Institute's (INTA) land programs and will carry out the agrarian reform program now being developed by the Government. In essence the new Institute will be INTA shorn of its development services, health services and infrastructure activities. Provision of these services will be left to the corresponding Ministries.

These three agencies will be controlled by the Ministry through appointment of these Executive Directors and through the chairmanship by the Minister of their respective Boards of Directors.

### 3. Finances

The Government's financial contribution to the AID-financed projects will consist of an \$11.8 million increase in the Ministry budget during the five years of the Program, all of which represents new expenditure for new activities, and will constitute an annual increase of approximately 75% over the present total Ministry budget; and the assignment of \$10.1 million now held by the BNA and SCICAS into the Agriculture Development Bank to be specifically used for financing small farmer participants in the Diversification Project. This \$10.1 million will come from the capital resources of the two state-owned financial institutions (present portfolios and part of IDB's credit to SCICAS).

In addition, during the execution term of the AID-financed projects, the Government will contribute \$23.5 million of its own resources to the two other Projects within the Program: \$12 million to infrastructure (access roads, irrigation and drainage, storage and processing plants); and \$11.5 million to land reform activities. The total GOG contribution to the Program then is estimated at \$35.1 million, a figure which does not include the \$17 million GOG contribution to the other new activities (livestock projects, forestry, coffee diversification, etc.) included in the overall Agriculture Development Program (see Annex III Exhibit 2 for an analysis of the \$143 million program and the total GOG contribution of \$52.1 million thereto).

In view of the Government's existing commitments to AID to resist pressures to reduce the coffee export tax and to undertake an extensive reform of tax administration, Guatemala should be able to derive the counterpart resources without great difficulty. Nevertheless, when that resource requirement is viewed in conjunction with the many other expenditure requirements implicit in the extensive long-term borrowing by the Government, it is clear that the Rural Development Program will put additional effective pressure on the Government to keep increasing its revenues. Thus the Program (and the AID contribution to it) is directly in line with the objectives of AID as stated in the Guatemala 1971 CFS, which involve inducing Guatemala to undertake extensive budgetary expenditure commitments. Guatemalan financial policy is solidly locked to the twin concepts of budgetary equilibrium and currency stability. It follows that the most effective pressure of all on the Guatemalan Government to increase taxes could derive from its perception that expenditure increases make tax increases necessary.

With the exception of the fiscal aspect, which in line with the above-cited CFS strategy has been the subject of constant USAID pressure for a maximum Guatemalan fiscal contribution, the extent to which the reform measures outlined herein reflect Guatemalan initiative is worth noting. Since the administrative, organizational and policy reforms required and proposed are exceptionally far-reaching, the Program itself would not be feasible without unqualified Guatemalan support at the highest level for the reforms. It is in the initiative the Guatemalans have demonstrated in developing this

program, in their broad Ministerial-level commitment to its implementation, and in the highest-level official commitment to reform in the rural sector, that the feasibility of this loan lies.

**F. IMPLEMENTATION PLAN****1. Timetable**

Here is an excerpt from a December 19, 1969, letter addressed by the Secretary-General of the Planning Council to the USAID Director, in translation:

"We recognize that execution of the Plan depends on carrying out the administrative and institutional reforms described in our loan application, and that these actions will require a great deal of work in the development of new legislation and implementing documents, as well as an initial period of hiring and training personnel

"We believe this work will take all of 1970, on the following schedule:

**"January-March 1970**

Detailed studies will be carried out to make operative the institutional scheme described in the Rural Development Plan, including the reorganization of the Ministry of Agriculture and the creation of the Agriculture Development Bank, the Agricultural Marketing Institute, and the Land Tenancy Institute. To

assist in this, eight international experts will come to Guatemala to work with Government officials in the drafting of legislation and implementing documents and other related tasks.

"The Rural Development Plan will be completed, by refining the work done to date and completing the Land Tenancy and Infrastructure projects.

"Consultants will be contracted to initiate feasibility studies in product commercialization, drainage, and other projects in the agriculture sector.

"The Loan Agreement with A.I.D. will be signed.

"Work underway in agricultural project identification and development will continue.

"April-July 1970

Legislative action will be taken to ratify the institutional and administrative scheme included in the Rural Development Plan, based on the studies made during the previous quarter.

- " The work of project preparation will continue.
- " The Land Tenancy and Infrastructure loan applications will be submitted to the IDB as part of the Rural Development Plan.
- " The A.I.D. Loan Agreement will be ratified and the Conditions Precedent to Initial Disbursement met.
- " The technical assistance plan with the UNDP will be put into effect.
- " August-December 1970
- " The Ministry of Agriculture and the decentralized entities included in the institutional scheme within the Rural Development Plan will be organized according to the new legislation.
- " Personnel will be hired and training will start as scheduled in the Plan.
- " Action will be initiated to include the Rural Development Plan in the 1971 National Budget and to restructure the salary scales of the experts participating in the Plan.
- " Regulations and internal dispositions of the organizations participating in the execution of the Plan will be promulgated.
- " Disbursement of the A.I.D. Loan will begin with the procurement of vehicles and equipment.

- " The financing remaining to complete the funding of the Rural Development Plan will be contracted with the IDB.
- " I believe that all of us are conscious of the difficulties in the execution of a program with the complexity and size of the Rural Development Plan 1971/75. Nevertheless I also believe the Plan is feasible, and that its execution will be of great importance to the development of Guatemala. It is due to this belief that the Government of Guatemala has decided to make an extraordinary effort - financial, administrative, technical, and institutional - to do a job whose success depends, too, on the timely cooperation of international organizations."

The full text of this letter (translated) appears in Annex III, Exhibit 2.

The Mission recognizes that the rapidity of implementation forecast above may prove optimistic. Yet this Program enjoys an extraordinary degree of support at the highest levels of the Government. And the timing of a major reorganization of a Ministry to occur simultaneously with the personnel changes customarily associated with a change in administrations strikes us as particularly opportune. On balance we consider the Secretary General's projection feasible.

The implementation of the four loan-financed Projects is thus scheduled to occur during the years 1971/75. Detailed disbursement projections covering the flow of GOG and A.I.D. funds for training, production credits,

technical assistance and research, and other costs are presented in the four Project Synopses (Annex II).

2. Procurement and Disbursement Procedures

Procurement will be carried out by the Rural Development D.G. and the Agriculture Development Bank, acting under the direction of the Minister of Agriculture, in a manner consistent with the A.I.D. Capital Projects Guidelines. U.S. Government-owned excess property will be procured in lieu of new items whenever possible.

Disbursement of loan funds for dollar costs will be effected through the AID Letter of Commitment procedure or through other A.I.D. procedures as appropriate.

Disbursement of loan funds for local (Guatemalan or Central American Common Market) costs will be made from the Special Letter of Credit-generated quetzal account maintained by the USAID/G Controller. These costs will be subject to the AID/W disbursement authorization procedure prior to disbursement by the USAID/G Controller.

Disbursements under the Loan for activities involving AID and GOG funds will be made simultaneously with (parri-passu) or subsequent to the disbursement of the GOG contribution.

3. Reporting and Evaluation

a. Reports

Monthly Progress Reports will be submitted to the Mission by the Agriculture Development Bank (Basic Grains, Diversification, and Artisanry Projects) and the Training D.G. (Human Resources Project).

Shipping Reports, as required, will be submitted by the Ministry of Finance. The customary Quarterly and Annual Progress Reports will be incorporated in the annual Evaluation Report.

b. Evaluation

The Monthly Progress Reports will be reviewed by the Agriculture and Capital Development divisions of the Mission, and will be agenda items for a joint GOG-AID Evaluation Committee. This Committee will meet at least quarterly to review progress towards agreed goals, compliance with agreed covenants and operating procedures, and performance by the GOG and AID in their roles in the Program. The Evaluation Committee will issue brief summaries of its meetings during the year and will issue an Annual Report during the February following each Program year. The specific benchmarks for evaluation in each Project are described in the Project Synopses (Annex II).

4. Director's Certification

The Director's certification of January 7, 1970 as to the satisfactory performance by the Borrower with respect to previous A.I.D. loans and its capability to implement the proposed Loan follows in Annex III, Exhibit 6.

#### SECTION IV. CONDITIONS AND COVENANTS

In addition to the customary terms and conditions, the Loan will be subject to the following special Conditions and Covenants. The Program Conditions and Covenants listed below are to be applicable to the entire financing; the subsequent Project Conditions and Covenants will relate to the release of funds for particular Projects. Not all of these items are to be included in the Authorization (Annex IV), but all will be covered in the Loan Agreement and Basic Implementation Letter.

##### A. Program

##### 1. Conditions Precedent to Disbursement

##### a. Borrower Contribution

The Borrower will furnish a detailed financial plan for the Program, including evidence that the Quetzal equivalent of \$11 million will be available as needed from appropriated funds in addition to amounts presently being budgeted for rural development. Compliance with this financial plan throughout the execution term of the Program will be a covenant and an item considered in the Program evaluation and included in the February annual evaluation report. The amount of Loan funds available for disbursement in each calendar year will be dependent upon the level of GGG funding for the Program in the approved National Budget for that year.

##### b. Administration

The Borrower will reorganize the Ministry of Agriculture to provide for the orderly, economical, and efficient administration and execution of the Program. This re-organization will include the actions described in Section III-E of this Loan

Paper, and will be scheduled to be carried out as described by the Secretary-General of the Planning Council (Annex III, Exhibit 2).

In addition to A.I.D. approval of the structural changes undertaken, the individual to be named as operating head of the Bank is to be acceptable to A.I.D.

c. Agrarian Reform

The Borrower will complete for legislative presentation the drafting of an agrarian reform program intended to increase the amount of land in use for agriculture, increase the efficiency of land use, and improve the incomes of medium and small farmers. A covenant will call for the GOG to pursue the enactment of this legislation.

2. Covenants

a. Continued Budgetary Support

i. Rollovers

The Borrower will retain all subloan payments of interest and repayments of principal in the Agricultural Development Bank, to be used again for Program purposes or for other purposes approved by A.I.D.

ii. New Funds

The Borrower will Covenant to continue financing out of its own budget resources the technical assistance, research, and training aspects of the Program at activity levels at least as great as those achieved during the last year of the Program.

As can be seen in Table I, by the fifth year of the Program the GOG will be financing 68% of the recurring costs of the technical assistance, research and training sub-projects. In order to continue these projects at the same level of activity as that undertaken during the fifth year, the GOG will have to add Q.1 million of additional expenditures to its current budget in the following year. Inasmuch as the revenue increases from legal and administrative reforms discussed in Section III-E will continue, it appears reasonable to expect that the GOG will be able to support fiscally this level of expenditure increase.

TABLE I

RURAL DEVELOPMENT PROGRAM: TECHNICAL ASSISTANCE, RESEARCH  
TRAINING, GOVERNMENT CURRENT BUDGET EXPENSES  
YEAR 5

(000 Q. )

<u>Project/Source of Funds</u>	<u>GOG</u>	<u>AID</u>		<u>TOTAL</u>
Human Resources	775.6	775.7	11	1151.3
Diversification	1158.6			1158.6
Basic Grains	243.2	243.2		486.4
	<u>2174.4</u>	<u>1018.9</u>		<u>3196.3</u>

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73

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b. Crop Restrictions

Loan funds will be used to finance activities related to the crops included in the Basic Grains and Diversification Projects, and to such other crops or subjects as may be approved by A.I.D.; but in no case will Loan funds be used to finance activities relating to coffee, cotton, sugar, or other commodities or subjects not acceptable to A.I.D.

c. Per-Capita Feasibilities

To allow the Program the maximum chance of success in achieving its per-capita production, income, and consumption goals, the Borrower will continue the comprehensive maternal health program now in operation throughout Guatemala. This program includes family planning services.

d. Evaluation

The Borrower and A.I.D. will jointly perform an intensive review of progress made in each previous calendar quarter and will reach agreement on the remedial actions, if any, to be carried out to meet the various goals of the Program.

B. Projects

1. Basic Grains

- a. As a Condition Precedent to Initial Disbursement, the Agriculture Development Bank will draw up and put into effect a subblending policy acceptable to A.I.D.

This policy will include subblending purposes and terms, the bases for evaluation of applications and applicants, and the system to be used in disbursement and collection.

- b. As a Condition Precedent to Initial Disbursement to Finance Storage Facilities Construction, the Borrower will devise a plan whereby sufficient storage credit will become available to finance the grain inventories to be held in the facilities proposed for construction with Loan funds.
  - c. As a Condition Precedent to Disbursement to Finance Any Particular Storage Facility Construction, the Borrower will submit satisfactory feasibility studies, final plans, and specifications, evidence of land availability, and the final contractual arrangements.
2. Diversification
- a. As a Condition Precedent to Initial Disbursement, the Agriculture Development Bank will draw up and put into effect a subblending purposes and terms, the bases for evaluation of applications and applicants, and the system to be used in disbursement and collection.
  - b. The Borrower will covenant to direct Loan funds for the financing of production credits, research, and technical assistance only into crops or subjects approved in writing by A.I.D.
3. Human Resources

The Borrower will covenant that for all Loan-financed training, the participants, courses of study, and institutions administering the

training will be acceptable to A.I.D. In the case of training to be given outside Guatemala, A.I.D. prior approval of these three items will be obtained.

4. Artisanry

- a. As a Condition Precedent to Initial Disbursement, the Agriculture Development Bank will draw up and put into effect a sublending policy acceptable to A.I.D. This policy will include sublending purposes and terms, the bases for evaluation of applications and applicants, and the system to be used in disbursement and collection.
- b. The Borrower will covenant to fund the Handicrafts Office of the Agriculture Development Bank in a manner acceptable to A.I.D. Compliance with this covenant will be another item considered in the evaluations and mentioned in the February annual reports.

SECTION V. ISSUE - THE PIPELINE

The combined AID-IDB-IBRD-EXIM-CABEI pipeline of loans active (signed) but not drawn down totals \$75,664,665 at December 31, 1969. Detailed analyses of the individual estimates making up this total are presented in Annex III, Exhibit 5. In addition, the IDB has recently authorized the \$15.5 million XAYA-Pixcayá loan, and A.I.D. has two loans (520-L-016, Studies, \$2 million; and 520-L-017, INFOM, \$2.1 million) awaiting signature.

Since 1966 the Mission has noted a steady improvement in the performance of the GOG in project implementation, as measured both by the record of disbursements and by the accelerated pace of operations within the GOG in the day-to-day processes of project execution. Disbursement performance during 1968 and 1969 is illustrated below:

SUMMARY: GUATEMALA PIPELINE AT DECEMBER 31, 1968

<u>FINANCING</u> <u>AGENCY</u>	<u>PROJECTS</u>	<u>LOAN TOTAL</u>	<u>UNDISBURSED</u>
AID	7	20,808,000	15,978,573
BID	6	30,620,000	26,207,529
CABEI	2	16,400,000	12,041,384
EXIM	3	17,362,000	2,195,164
IBRD	<u>3</u>	<u>28,300,000</u>	<u>23,907,000</u>
	21	113,490,000	
		PIPELINE :	80,329,650

SUMMARY: GUATEMALA PIPELINE AT DECEMBER 31, 1969

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<u>FINANCING AGENCY</u>	<u>PROJECTS</u>	<u>LOAN TOTAL</u>	<u>UNDISBURSED</u>
AID	7	\$21,438,000	\$14,964,500
BID	9	49,620,000	34,540,155
CABEI	4	19,550,000	11,000,000
EXIM	3	17,362,000	356,000
IBRD	<u>3</u>	<u>28,300,000</u>	<u>14,804,000</u>
TOTALS	26	\$136,270,000	

PIPELINE: 75,664,655

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## AID

These figures indicate that while a pipeline increase of \$22,780,000 occurred during 1969, approximately \$27,444,985 was drawn down. For 1970 the Guatemalan National Budget, as approved by the Congress and published in the gazette of December 18, 1969, shows as part of the projected capital expenditure of \$53.3 million a \$34.1 million drawdown on external loans as follows:

<u>SOURCE</u>	<u>DRAWDOWN</u>
AID	\$4,258,611
CABEI	7,393,175
IBRD	11,054,000
IDB	9,455,603
EXIM	<u>1,956,085</u>
TOTAL	<u>\$34,117,474</u> =====

In case of A.I.D. loans, this projection does not include disbursement to take place under the active loans for Rubber Development (520-A-002); in the case of IDB, it omits mention of the Higher Education loan signed in April 1969.

It is unlikely, given historical experience, that the GOG will fulfill 100% of its capital budget in 1970. But the historical record itself has improved markedly in the last two years. During the first half of 1969, the GOG had fulfilled 82% of its total capital budget and was completing over 90% of the projected work on foreign-financed projects. Closed accounts on 1969 budget performance will not be available until April.

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It may be expected that budget performance will continue to improve in 1970. Therefore, we estimate that total drawdown, including those on loans not contemplated in budget document, will reach \$32-34 million.

By mid 1970, when the new AID Studies and INFOM loans and the IDB Xayá-Fixcayá loan as well as the \$23 million loan contemplated in this paper are expected to have been included in the pipeline, Guatemala's total undisbursed long-term foreign credit availability will have reached \$100 million, as is suggested in the 1971 Guatemala Country Field Submission; and annual drawdown will have stabilized at about \$33 million. Because loan amortizations are increasing as was pointed out in the CFS, any pipeline that forced drawdown below this level through the first half of the 1970' could create growth-hampering balance of payments difficulties.

Overall, the Rural Development loan is consistent with a rational foreign lending policy with respect to Guatemala.

AID 1240-2 (1-69)

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer, or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1968.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1969.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA §.208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(1) Guatemala, through this new rural development program, will be making a considerable effort to increase food production. Two of the four proposed sub-projects, Basic Grains and Agricultural Diversification, will have a direct bearing and a significant impact in increasing food production and storage. (See Section III A-E & Annex II)

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(2) The steady flow of new plant investment, approximately \$170 million in 1969, demonstrates that the GOG has created a favorable climate for enterprise and investment.

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ANNEX I

Page 2 of 19 pages

AID 1240-2 (1-69)

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(3) *Increasing the public's role in the developmental process.*

(3) The proposed loan will lead to increased public participation in the development process through a substantial expansion of government activity in the rural sector through technical assistance, research, training and promotion of co-operatives. (See Section III, Part A)

(4) (a) *Allocating available budgetary resources to development.*

(4) The current budget of the Agriculture Ministry will be increased by 80% for activities related to the 4 proposed AID-financed Projects. (See Section III, Part E)

(b) *Diverting such resources for unnecessary military expenditure (See also Item No. 18.) and intervention in affairs of other free and independent nations. (See also Item No. 17.)*

(b) Guatemala does not appear to be making unnecessary military expenditures nor preparing to intervene in the affairs of any other free and independent nation.

(5) *Willing to contribute funds to the project or program.*

(5) The GOG is contributing \$21.9 million out of a total of \$44.9 million required for the Program. (See Section III, Part C).

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AID 1240-2 (1-69)

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(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

B. Are above factors taken into account in the furnishing of the subject assistance?

(6) In addition to the rural development program, Guatemala has initiated a long-range program of economic and socio-political reforms and is in the process of starting a three year tax improvement program assisted by another AID Loan (520-L-014). Land tenure arrangements are expected to be improved in a related sub-project. The GOG has also embarked upon an ambitious educational reform program with IBRD, BID, and AID assistance (520-L-015), Sec. II part C, (See Part SA, III part SA).  
(7) Guatemala has been adhering to the principles of the Act of Bogota and the Charter of Punta del Este.

(8) In following a course of political stability and attempting to promote economic development, Guatemala is taking action to induce its citizens to repatriate capital.

(9) The GOG by its demonstrated interest in the rural development program, implementation of a comprehensive modernization and expansion of the entire educational system, improvement in its public health services, initiation of a program of public works in municipalities throughout the country, and its determined effort to see that political campaigns now well underway continue in an orderly manner and lead to election in March, has demonstrated an interest and responsiveness to the needs of the Guatemalan people. (See Section II, Part C, Section III, Part A, Part E)

B. Yes

UNCLASSIFIED

AID 1240-2 (1-69)

Treatment of U.S. Citizens

2. FAA §.620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*

2. The GOG is not known to be indebted to any U.S. citizen in any such manner.
3. FAA §.630(c)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*

3. The GOG (including government agencies or subdivisions) has not taken any such action since January 1, 1962.
4. App. B.106. *If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U.S. citizens generally, what steps (will be) (have been) taken during loan negotiations to influence elimination of such distinctions?*

4. No case is known of attempts by Guatemala to create such distinctions in the granting of rights to U.S. citizens.

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AID 1240-2 (1-69)

5. FAA §. 620(a); Fishermen's Protective Act, §. 5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*
5. The GOG has not sized or imposed any penalty or sanction against any US fishing vessel on account of its fishing activities in international waters.

a. *has any deduction required by Fishermen's Protective Act been made?*

a. Yes

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

b. N. A.

Relations with U.S. Government and Other Nations

6. FAA §. 620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*
6. This loan is not for a productive enterprise which competes in the U.S. with a U.S. enterprise.
7. FAA §. 620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*
7. Guatemala has not permitted this and has taken adequate measures to prevent such damage or destruction.

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AID 1240-2 (1-69)

8. FAA §.620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
- 8 In December 1969 the GOG approved the first project under the investment guaranty program.
9. FAA §.620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
9. No
10. FAA §.620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
10. Guatemala has maintained diplomatic relations with the USA.
11. FAA §.620(w). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
11. Guatemala is not delinquent in its U.N. obligations.
12. FAA §.620(a); App. §.107(a) and (b). *Does recipient country furnish assistance to Cuba, sell strategic material to Cuba, or permit ships or aircraft under its flag to carry cargoes to or from Cuba.*
12. Guatemala complies with sanctions against Cuba and has taken appropriate steps to prevent trade with Cuba.

AID 1240-2 (1-69)

13. FAA §. 620(b). If assistance is to a government, has Secretary of State determined that it is not controlled by the international Communist movement. 13. Yes
14. FAA §. 620(f), App. §. 109. Does recipient country have a communist government 14. No
15. FAA §. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression. 15. No
16. FAA §. 620(n); App. 107(b) and 116. Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam? 16. Available information reveals no case of trafficking or permitting of trafficking by Guatemala.

Military Expenditures

17. FAA §. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? Is U.S. P.L. 480 or development assistance used for military purposes? Are country's resources devoted to unnecessary military expenditures to a degree which materially interferes with 17. Approximately 8.8 - 10% of the budget goes for military expenditures. About 1.5% of foreign exchange is spent on military equipment. Guatemala has no P.L. 480 programs for military purposes. Considering the military needs of Guatemala, Guatemala does not appear to be devoting an unnecessary percentage of the national budget to defense.

AID 1240-2 (1-69)

*its development? (Consideration of these points to be coordinated with PPC/MAS.)*

18. FAA §.620(v). App. §.119. *How much spent by country during current U.S. fiscal year for sophisticated military equipment purchased since January 1, 1968? Has corresponding amount been deducted from current OYB, or is the weapons purchase determined by the President to be important to U.S. national security? (Responses to these questions to be coordinated with PPC/MAS.)*
18. None.

CONDITIONS OF THE LOAN

General Soundness

19. FAA §.201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*
19. The proposed loan is legal under the laws of Guatemala and the USA and its terms are reasonable at this time.
20. FAA §.251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner.*
20. The activity has been found economically and technically sound (see Sec. III Parts C,D). Satisfactory assurances have been received that Loan funds will be used in an economically and technically sound manner.

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AID 1240-2 (1-69)

21. FAA §. 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
21. Guatemala is current in meeting its external debt service obligations. It appears reasonably certain that Guatemala will repay the loan. The country's foreign exchange position warrants the conclusion that dollars will be available as needed for repayment (see Sec. III, Parts C, D)
22. FAA §. 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
22. (a) Insofar as necessary. (b) A reasonable estimate of the cost to the USA of the activity to be financed has been obtained. (see Section I, Section III, Part C).
23. FAA §. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?
23. Congressional ratification of the Loan Agreement is necessary. The stated interest of the GOG in this project and the soft terms of the loan are the bases for an expectation that ratification will be completed with reasonable promptness. The further legislative action required to bring about the institutional and administrative changes contemplated in the Program within a few months after execution of the Loan Agreement, as described by the Borrower in the letter which follows as Annex III, Exhibit 2.
24. FAA §. 611(a). If loan is for capital assistance, and all U.S. assistance to project not exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
24. Yes. (see Annex III).
25. FAA §. 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
25. Financing for this activity is not available from other free-world sources including private sources within the USA (Section II, Part E, and Section III, Part C).

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AID 1246 2 (1-60)

26. FA 12.2000 (a). Consistent to which activities reflects appropriate emphasis on: (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the economy; (d) programs designed to meet the country's health needs; or (e) other activities of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; public administration; and modernization of agriculture.

27. FA 12.2000 (b). Information and conclusions on activity's relationship to, and consistency with, other development activities, and the project's contribution to long-range development.

28. FA 12.2000 (c). Information and conclusions on activity's relationship to, and consistency with, other development activities, and the project's contribution to long-range development.

26. The four sub-projects will have a clear effect on democratic, political and social institutions.
- (a) The Human Resources sub-project will facilitate long-range agricultural development through increasing farmers' receptivity to technological changes via organizations of rural youth and adults. (Annex II).
  - (b) The program will substantially increase Guatemala's output of food (see Sec. III, Part D, Annex II).
  - (c) The Human Resources sub-project will improve the availability of trained manpower in the country. (Sec. II, Part E. Sec. IIIA).
  - (d) The country's nutritional level will be favorably effected by the improvements in food quality brought about by the project.
  - (e) The four sub-projects will affect industry by improved quality, better marketing and storage and a greater export base. The rural development program includes a major reorganization of the agricultural institutional framework which has already demonstrated changes in planning, public administration and modernization. Communications and transportation will also be improved and the cooperative movement strengthened. (see Sec. II-E, Sec. III, Annex II A.B.D.).

27. No. It is, however, consistent with regional agricultural policies.

28. This project is consistent with Guatemala's development plan and AID program. It is part of the Overall Rural Development Program for 1971/75 which has been developed over the past year and is essential to the realization of long-range development objectives. (See Section II C D, Section III E.)

AID 1240-2 (1-69)

29. FAA §.281(a)(1). Information and conditions on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
29. Insofar as improvement in rural employment levels, incomes, quality and supply of domestic food supply, volume of agricultural exports, diversification and greater export base (as concerns handicrafts), cooperative promotion and greater participation by those traditionally disenfranchised and outside the national economy brought about by increased training facilities, etc., is essential to economic development this project will contribute to the achievement of self-sustaining growth. (See Section I, Section IIE, Section IIIA-E)
30. FAA §.281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.
30. This loan will contribute to assuring maximum participation in the task of economic development on the part of the Guatemalans by encouraging and training more efficient government institutions, technicians and producers. (Section III A, E & Annex II)
31. FAA §.281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage ...; and support civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
31. This loan is a response to the recognition of the particular needs, desires and capacities of the people of rural Guatemala. (Section I, Section II, Section III)

D 1240-2 (1-69)

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IAA §. 251(f). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

IAA §. 670. If assistance is for newly independent country; to be furnished through multilateral organizations or plans to the maximum extent appropriate?

IAA §. 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

\* IAA §. 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

32. (a) The Basic Grains, Diversification and Handicrafts sub-projects all include components that will have a direct effect on substantially increasing Guatemala's exports. (b) To the extent that an improved marketing and storage system will be created as well as improved quality varieties, yields and expanded export base. Improved communications and transportation infrastructure will also greatly affect private industry and competition. (d) Increased stimulus to private industry and competition will help to discourage monopolistic practices. In addition, the creation of producers associations will act as countervailing power in confronting monopoly practices. (e) The basis for all of the 4 sub-projects is the fact of improving technical efficiency in agriculture industry and commerce. (Section IIE, Section III, Annex II)
33. Guatemala is not a newly independent country

34. This activity is consistent with the findings and recommendations of CIAP in its 1969 review which calls for more public investment and clearly defined comprehensive program of rural development. (Section II C)

35. The loan has a major cooperative input. (Section II A, Section III, Annex II).

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ATD 1-30

36. FAA §. 209; §. 247(b). Information and conclusion on whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

Loan's Effect on U.S. and A.I.D. Program

37. FAA §. 251(b)(6); §. 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

38. FAA §. 607(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

36. To the extent that these projects will help strengthen the agricultural economy, the project will encourage economic and political integration of the area. The Rural Development Program, as stated by the former Executive Assistant to Secretary General of SIECA, is consistent with the agricultural development policy of the CACM (See page 47)

37. This project will have no foreseeable adverse effects on the USA economy or areas of labor surplus. Assistance will be furnished in a manner consistent with improving the US balance of payments position, US commodity needs (Section III D) and demand for US capital goods. Assistance will be furnished in a manner consistent with improving the U.S. balance of payments position.

38. US private trade and investment abroad will be indirectly encouraged through development of additional possibilities via the import components of the sub-projects. (See above)

39. FAA §.601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*
39. Yes. They will be so used.
40. FAA §.602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*
40. Through the publication of proposed procurement in the AID Small Business Circular as specified in the AID Capital Projects Guidelines, US small business will be permitted to participate equitably in the furnishing of goods for the project and to make proposals for services.
41. FAA §.620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Block countries?*
41. The Loan Agreement will provide that assistance provided by this loan will not be used in a manner which promotes or assists foreign aid projects of communist-block activities.
42. FAA §.621. *If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*
42. The loan will finance the procurement of goods and services from private enterprises on a contract basis. No utilization of the services of other federal agencies is foreseen.

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UNCLASSIFIED  
AID-  
ANNEX I  
Page 15 of 19

AID 1240-2 (1-69)

43. FAA §.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

43. Through the Agricultural Development Bank approximately 12.5 million of the 23 million total will finance procurement of goods and services from private organizations in the USA and CACM. The remainder will be used for local cost financing for research, technical assistance and training. (Section I).

Loan's Compliance with Specific Requirements

44. FAA §.201(J). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

44. Yes. (Section I)

45. FAA §.608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

45. The Loan Agreement will so require.

46. FAA §.604(a); App. §.108. Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?

46. Procurement financed under the loan will be from USA and other eligible Western Hemisphere sources, as determined by the President.

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UNCLASSIFIED  
AID-  
ANNEX I  
Page 16 of 19

AID 1240-2 (1-69)

47. *FAA §.604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?*
47. No bulk commodity procurement is contemplated under this loan.
48. *FAA §.604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?*
48. Guatemala does not so discriminate. The loan agreement will so provide.
49. *FAA §.604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?*
49. None is anticipated.
50. *FAA §.611(b); App. §.101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*
50. Not applicable.
51. *FAA §.611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?*
51. Invitations for bids for construction work will be solicited by the Directorate General of Rural Development in the Ministry of Agriculture.

UNCLASSIFIED

AID 1240-2 (1-69)

52. FAA §.620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
52. The Loan Agreement will preclude such use of loan funds.
53. FAA §.612(b); §.636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.
53. There are no foreign currencies owned by the USA. The GOG will be making a substantial local currency contribution. (See Financial Section).
54. App. §.104. Will any loan funds be used to pay pensions, etc., for military personnel?
54. No.
55. App. §.111. Compliance with requirements for security clearance of U.S. citizen contract personnel.
55. These requirements will be complied with.

AID 1240-2 (1-69)

56. *App. §.112. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?*
56. The Loan Agreement will so provide.
57. *App. §.114. Will any loan funds be used to pay U.N. assessments?*
57. No.
58. *App. §.115. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).*
58. Regulation 7 will be complied with.
59. *FAA §.636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?*
59. Procurement of vehicles will be in accordance with AID procurement regulations and the FAA of 1961, as amended.
60. *App. §.401. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?*
60. No.

AID 1240-2 (1-69)

- |   |         |
|---|---------|
| 61. <u>FAA §.620(k)</u> . <i>If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?</i> | 61. No. |
|---|---------|

NOTE: This statutory check list does not include such new provisions or changes as may become law under the F.A.A. of 1970 or the FY 1970 Appropriation Act.

UNCLASSIFIED  
AID-DLC/P-881  
ANNEX II  
Exhibit A  
Page 1 of 45 pages

PROJECT SYNOPSIS: BASIC GRAINS

- I. BACKGROUND
  - A. Present Production
  - B. Factors Limiting Production
  - C. Production Potential
  
- II. THE PROJECT
  - A. Summary Description
  - B. The Production Subproject
  - C. The Marketing Subproject
  - D. Costs and Benefits
  - E. Implementation

UNCLASSIFIED

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ANNEX II  
Exhibit A  
Page 2 of 45 pages

## BASIC GRAIN SUBPROJECT

### I. BACKGROUND

#### A. Present Production

The average Guatemalan's dietary intake is 2,000 calories daily. Of that intake, two-thirds derives from basic grains, mainly corn. Black beans, the second most important food in the diet, serve as a valuable protein supplement. Wheat, rice and grain sorghum substitute for a part of the beans and corn consumed in some areas and add variety.

These five crops are the nutritional base in Guatemala. For the two most important, corn and beans, yields are declining.

Average bean yields have declined 42 per cent since the mid-fifties (Table).

Table 1

#### AVERAGE BEAN YIELDS IN GUATEMALA

<u>Period</u>	<u>Pounds per acre</u>	<u>Decline in yields</u>
1953-57	750	---
1958-62	577	23%
1963-67	384	42%

Source: Estimates of Dirección General de Estadística, GOG.

At the same time, bean acreage increased 250 per cent in response to declining yields and expanding needs.

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ANNEX II  
Exhibit A  
Page 3 of 45 pages

Corn yields on traditional lands are also declining, but the fact is hidden by the shifting of production to new lands that initially produce higher yields. Table 2 shows the trends of corn production, acreage harvested and yields per acre from 1950 to 1968. During this nineteen year period, production increased forty-three per cent.

Table 2

TRENDS IN CORN PRODUCTION, ACREAGE HARVESTED, AND YIELDS  
PER ACRE FROM 1950 TO 1968

<u>YEAR</u>	<u>AREA HARVESTED</u> (1000 acres)	<u>PRODUCTION</u> (1000 M.T.)	<u>YIELDS</u> Lbs/Ac. Bu.Ac.	
1950	1,492	438	646	11.5
1955	1,404	361	365	10.1
1960	1,644	500	670	12.0
1965	1,706	639	823	14.7
1968	1,669	627	827	14.8

Source: Estimates by Dirección General de Estadística, GOG.

From data in Table 2, production increases might appear to be coming from country-wide increases in yields. This is not the case. During this period various land settlement programs were initiated, especially along the Pacific Coast. These account for 3/5 of all the land planted to corn in Guatemala. Yet this same 1/13 accounted for nearly 1/4 of all the corn produced in Guatemala and accounted for nearly 3/4 of the increased production. Corn yields in the traditional areas therefore are slowly declining.

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ANNEX II

Exhibit A

Page 4 of 45 pages

Farms smaller than 17.5 acres (Table 3) produce more than half of Guatemala's basic food grains. Over ninety per cent of its 400,000-plus farms (Table 4) plant corn, and it is estimated that at least 50,000 additional holdings too small to be classified as farms also produce it.

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Table 3

BASIC FOOD GRAINS PRODUCTION COMES MAINLY FROM SMALL FARMS

	<u>SIZE OF FARMS</u>		<u>PRODUCTION OF BASIC FOOD GRAINS</u>				
	In hectares	In acres	<u>Corn</u> %	<u>Rice</u> %	<u>Beans</u> %	<u>Wheat</u> %	<u>G.Sorghum</u> %
Less than	3.5	8.8	46.2	25.0	35.0	41.9	38.9
" "	7.0	17.5	61.7	36.9	57.5	62.8	54.8
" "	45.0	112.5	84.6	65.3	84.8	89.3	80.5

Source: Estimates of Dirección General de Estadística, GOG.

Table 4

PER CENT OF TOTAL FARMS PLANTING BASIC FOOD GRAINS

Corn	93%
Beans	22%
Rice	3%
Wheat	8%
G.Sorghum	5%

Source: M.A.G., GOG

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 6 of 45 pages

Corn is grown throught the country. Figure 1 shows the more important commercial production regions for the other basic grain crops.

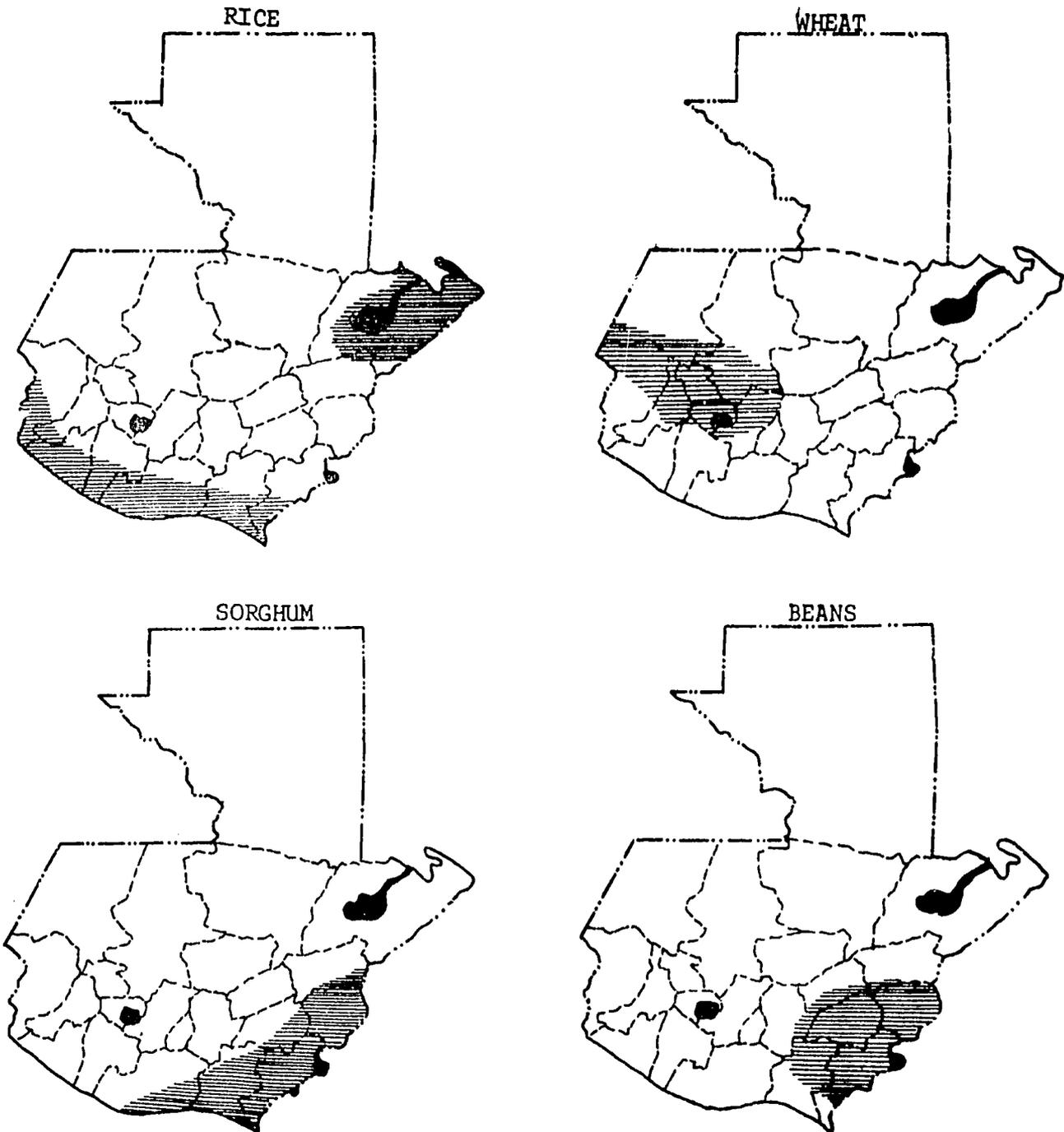
UNCLASSIFIED

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ANNEX II  
Exhibit A  
Page 7 of 45 pages

FIGURE 1

BASIC GRAINS (EX-CORN) PRODUCTION AREAS



UNCLASSIFIED

ANNEX II

Exhibit A

Page 8 of 45 pages

Average yields for the entire country during even the most recent years were extremely poor (Table 5).

Table 5

AVERAGE AREAS HARVESTED, YIELDS PER UNIT AREA, AND PRODUCTION FOR THE FIVE BASIC GRANS DURING THE CROP YEARS 1963-1967

Crop	<u>Area Harvested</u>		<u>Yields</u>		<u>Production</u>
	Hectares 1,000	Acres 1,000	Kg/Ha.	Lb/Ac.	Metric Tons 1,000
Corn*	696.6	1,741.5	963	847	670.6
Rice	9.5	23.8	1,832	1,612	17.4
Beans	117.9	294.8	387	341	45.6
Wheat	31.5	78.8	1,006	855	31.7
G.Sorghum	48.0	120.0	704	619	33.8

Source: National Planning Council, GOG.

\* National Planning Council stated that these values consider all acreage and thus differs from data in Table 2.

Production has not met needs; consequently, imports have generally exceeded exports (Table 6).

Table 6

AVERAGE NET IMPORTS OR THE BASIC GRAINS FOR THE FIVE-YEAR PERIODS 1953-57, 1958-62, AND 1963-67

<u>GRAIN</u>	<u>AVERAGE NET IMPORTS (1,000 Metric Tons)</u>		
	<u>1953-57</u>	<u>1958-62</u>	<u>1963-67</u>
Corn	15.0	4.9	8.0
Rice	2.2	0.1	-0.2
Beans	1.6	- 0.7	1.3
Wheat	48.7	57.5	65.0
G.Sorghum	-22.6	-46.7	-8.5

Source: National Planning Council, GOG, and Dir. Gral. de Estadística, GOG.

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 9 of 45 pages

Cost-of-production estimates vary widely among several reporting agencies (Table 7). The variations are due in part to different agencies using different evaluation methods.

Table 7

COST OF PRODUCING BASIC GRAINS IN TUATEMALA  
U. S. \$ PER 100 POUNDS

	<u>Corn</u>	<u>Rice</u>	<u>Beans</u>	<u>Wheat</u>	<u>G.Sorghum</u>
B.N.A.	1.71	2.50	3.95	3.72	1.41
SCICAS	2.12	3.19	5.21	5.02	----
Nat.Irrig. Program	1.86	2.92	3.22	----	----
Bank of Guatemala	1.34	2.61	3.89	----	2.15
AVERAGE	1.76	2.80	4.07	4.36	1.78

Source: National Planning Council, GOG.

These costs reflect inefficient production methods and are high compared to world market prices (Table 8).

Table 8

WORLD MARKET PRICES - BASIC GRAINS  
(RANGE FOR 1960-66)

	<u>C.I.F. IMPORT PRICES</u> <u>\$/100 Lbs.*</u>	<u>GRADE</u>
Corn	2.50 - 3.00	U.S. No. 3 Yellow
Rice	6.68 - 8.32	Siam P. No. 2
Beans		
Wheat	3.04 - 2.54	U.S. No. 1 hard winter
G.Sorghum	2.18 - 2.54	U.S. No. 2 yellow milo

Source: FAO Production Yearbook, 1967

\*Port of Entry, U.K.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 10 of 45 pages

Internal prices are high. They reflect high production costs and large grain losses between time of harvest and final consumption. The internal price of wheat is fixed by law at U.S. \$6.00 per hundred weight. The Instituto de Fomento de la Producción (INFOP) is legally obligated to buy corn and rice at U.S.\$3.75 and \$4.50 per hundred weight, respectively; but this function has never been carried out. Consequently, prices have fluctuated in a wide range around the official prices.

How do these prices compare with those of the other Central American Republics?

Table 9

ESTABLISHED MINIMUM PRICES FOR BASIC GRAINS IN THE  
CENTRAL AMERICAN REPUBLICS  
( U.S. \$ per 100 Lbs)

<u>Country</u>	<u>Corn</u>	<u>Rice</u>	<u>Beans</u>	<u>G.Sorghum</u>
Guatemala	3.75	4.50	----	----
El Salvador	3.80	4.40	9.00	3.00
Honduras	3.25	4.50	6.50	----
Nicaragua	3.69	5.26	7.14	2.86
Costa Rica	3.91	6.39	9.77	3.19

Source: SIECA/CCMEP - 10/D.T.2 Guatemala, March 26, 1969.

This then is the situation. The five basic grains (corn, beans, wheat, rice, and grain sorghum) form the nutritional base in Guatemala. Over half the basic grains produced come from small farms (17.5 acres or less) using traditional agricultural methods. Yields are extremely low and are declining for the two most important grain crops, corn and beans. Production costs are high. Production increases have come from increased acreage in traditional areas or new lands. Production has not met needs; consequently imports usually exceed exports.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A

Page 11 of 45 pages

Indications are that demand will exceed supply of the basic grains in Central America in the future (Table 10).

Table 10

DEMAND, SUPPLY AND BALANCE OF BASIC GRAIN CROPS

CENTRAL AMERICA - 1975 PROJECTIONS

(1,000'x of M. T.)

	<u>Demand</u>	<u>Supply</u>	<u>Balance</u>
Corn	2,294	2,115	-179
Beans	240	228	- 12
Wheat	438	42	-396
Rice	278	277	- 1
Sorghum	331	261	- 70

Source: Batelle Memorial Institute, Projections of Supply and Demand for Selected Agricultural Products in Central America to 1970 and 1980, May 1968.

B. Factors Limiting Production

The following are the major restraints which must be overcome before the situation can change.

Limited credit is the first restraint. This is not only in respect to limited availability of monies, but also credit policy limitations placed on the banking institutions by law.

The second restraint is an inadequate system of marketing. Public involvement in basic grain marketing is limited to price regulation through

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 12 of 45 pages

INFOP. Although INFOP has been in the grain handling business for over fifteen years, it has experienced little success in price stabilization.

Limitations to INFOP's price regulation programs are insufficient storage capacity (less than 2% of National grain production), little operating capital, and administrative rigidity. A limited number of buying stations exist on the Pacific Coast, but many producers, particularly in the highlands, are left to depend on traditional private marketing channels which provide little access to INFOP facilities. In short, INFOP facilities are inadequate for regulating prices or for meeting the country's needs for grain storage and handling. The bulk of grain sales will remain in private hands.

The private sector, despite its active participation in marketing, is handicapped by a lack of technical knowledge and accessible credit. The results are needless grain losses, excessive marketing costs, and inequitable distribution of income among producers, sellers, and consumers.

The third restraint is the paucity of accumulated agronomic research data on improved practices for the basic grain crops and an inadequate mechanism for delivering information to farmers.

It has been estimated by the National Economic Planning Council that if corn production increases continue at the past rate, the country should become self sufficient in corn by 1975. This assumes that human consumption will remain at its present per capita level, that consumption by animals will not increase more than six per cent, and that storage losses will remain constant. But the increase in corn production has been stimulated by more fertile soils within Pacific Coast colonization projects

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 13 of 45 pages

and most of the increase can be attributed to these or other virgin lands. Continued increases in corn plantings within the Pacific Coast area will meet short-range needs. This is a soil-depleting agriculture, however, and beyond 1975 yield levels will decline unless modern farming practices are adopted.

Bean yields are declining. Increased plantings have decreased the magnitude of the deficit; but unless a strong program to increase per acre yields is undertaken, Guatemala will continue to be a net importer of the high-protein staple.

Rice production increases, if maintained at former levels, would be sufficient to cover internal consumption; but annual internal consumption is estimated at only 4.8 pounds per capita. Any factor that stimulated consumption, such as a decrease in price, could produce a deficit.

Wheat production is in deficit and the deficit is growing. Guatemala probably never will become self sufficient in wheat.

The country is a net exporter of grain sorghum. While data is limited, it is reasonable to expect consumption to follow increased animal feed needs with some margin for the demands of the Central American markets.

Low farm incomes will persist. The average Guatemalan farmer produces 847 pounds of corn (Table 5) per acre. His cost of production is 0.176 cents per pound (Table 7); hence production costs per acre are \$14.91. The value of this production at \$2.50 per hundredweight is \$21.18 and the profit per acre is \$6.27. In addition, if he personally performs

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A

Page 14 of 45 pages

all labor he has earned about \$13.20 as wages. His total earnings from the acre of corn are then \$19.47. Since nearly half the corn produced in Guatemala comes from farms of less than 8.8 acres, (Table 3), the maximum income from corn for this farmer would be \$171.74 per crop year.

Declining yields and an expanding population diminish the per capita food supply, force prices upward, and thereby decrease real income and further lower the already low level of life in the countryside.

C. Production Potential

Now consider what is possible, based on experience of the better farmers --those who follow improved practices based on research findings. Looking first at average yields of corn, wheat, and rice for selected neighbors of Guatemala, we note that Guatemala's performance is consistently lower (Table 11).

Table 11

AVERAGE YIELDS FOR CORN, WHEAT, AND RICE IN SELECTED COUNTRIES  
FOR THE PERIOD 1960-64

	<u>CORN</u> <u>Lbs/Ac.</u>	<u>WHEAT</u> <u>Lbs/Ac.</u>	<u>RICE</u> <u>Lbs/Ac.</u>
Guatemala	745	657	1274
United States	3500	1512	3778
Mexico	868	1764	1961
El Salvador	963	----	1645 (1)
Nicaragua	NA	----	1353

Source: U.S.D.A. Agricultural Statistics 1968  
National Planning Council, GOG.

(1) 1968 figure.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 15 of 45 pages

Yet just as an average 3500 pounds per acre (62.5 bushels) of corn does not reflect what the better U. S. farmers are producing, neither does the 745 pounds (13.3 bushels) average reflect what the better Guatemalan farmers are harvesting (Table 12).

Table 12

HOW THE BEST GUATEMALAN FARMS YIELD IN RELATION TO THE CURRENT NATIONAL AVERAGE (INCREASED YIELDS THROUGH IMPROVED PRACTICES)

<u>CROP</u>	<u>Lbs/Æc.</u>	<u>Increase</u>
Corn	5040	538 % more
Beans	1470	320 % more
Wheat	3240	266 % more
Rice	5090	215 % more
G. Sorghum	4004	546 % more

Source: Dirección General de Investigación y Extensión Agrícola.

Moreover, while these farmers are increasing yields, they also unusually are lowering their unit production cost (Table 13).

Table 13

PRODUCTION COSTS OF THE BASIC GRAINS PRODUCED ON THE BEST FARMS AS COMPARED WITH AVERAGE NATIONAL PRODUCTION COSTS

U. S. \$ per 100 Pounds

<u>CROP</u>	<u>TRADITIONAL</u>	<u>TECHNIFIED</u>
Corn	1.76	1.08
Beans	4.07	4.36
Wheat	4.36	2.35
Rice	2.80	1.65
G. Sorghum	1.78	1.24

Source: Dirección General de Investigación y Extensión Agrícola and Table 7.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 16 of 45 pages

In general, yields produced under research conditions in Guatemala are of about the same magnitude as those of the best local farmers. This is due mainly to the researcher's inexperience and a paucity of back-up information. Where limiting factors were better controlled, researchers have obtained yields of 10,147 Kg/Ha., 4,392 Kg/Ha., and 2,000 + Kg/Ha. for corn, wheat, and beans respectively.

When a farmer increases yield and lowers his unit production cost, his potential profit obviously will increase.

Increased yields coupled with increased production costs, however, may or may not increase profits. A case in point is the bean production costs shown in Table 13. These improved practices increased yields, but they also increased unit production costs; however, the value of the increased production more than offset the increased production costs, and the farmer would net an additional \$40 per hectare.

## II. THE PROJECT

### A. Description

The Basic Grain Project includes production and marketing credit and technical assistance in a coordinated attack on the factors inhibiting modernization -- inaccessibility of capital, low productivity, high production costs, and inflated marketing costs.

The three major activities ("subprojects") will:

1. Provide production credit sufficient to finance the costs of technification of proposed crop acreage;

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 17 of 45 pages

2. Improve the storage and marketing of the basic grain crops; and
3. Provide an adequate program of technical assistance for improving cultivation practices, marketing and investment by the small farmer.

The primary objectives of the Project are to introduce to Guatemalan grain producers modern farming technology designed to attain higher yields, lower unit costs, and more efficient land utilization; and to introduce modern grain handling and marketing practices, to translate the improved production practices into increased returns to producers.

The Project will improve cultural practices on 60,000 hectares within a period of five years and elevate yields and production from present levels to those shown in Table 14.

Table 14

CROP LANDS TO BE TECHNIFIED, ANNUAL YIELD GOALS, AND ANNUAL PRODUCTION GOALS TO BE REACHED WITHIN 5 YEARS

<u>Crop</u>	<u>CROPLANDS</u>		<u>YIELD GOALS</u>		<u>INCREASED PRODUCTION</u>
	<u>Hectares</u>	<u>Acres</u>	<u>Kg/Ha</u>	<u>Lbs/Ac.</u>	<u>1,000 Metric Tons</u>
Corn	35,000	87,500	3591	3160	93.9
Beans	10,000	25,000	1162	1022	5.3
Wheat	6,000	15,000	2500	2200	9.8
Rice	3,000	7,500	3250	2860	4.6
G.Sorghum	6,000	15,000	3175	2794	13.6

These yield goals are about one-half the current production levels of the best farmers.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 18 of 45 pages

The planting goals will be reached according to the following schedules.

Table 15

PLANTING GOALS - BY CROPS AND YEARS  
(Hectares)

<u>Crop</u>	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>
Corn	5,000	12,000	21,600	25,300	35,000
Beans	1,400	2,100	3,400	6,200	10,000
Rice	700	1,150	1,650	2,500	3,000
Wheat	1,000	1,500	2,400	3,600	6,000
G.Sorghum	<u>1,000</u>	<u>1,500</u>	<u>2,500</u>	<u>4,000</u>	<u>6,000</u>
Totals	9,100	18,250	31,550	41,600	60,000

These goals are considered to be consistent with the programmed availability of technical assistance personnel.

The project will operate in current production regions where plantings can be expanded as shown on the next page.

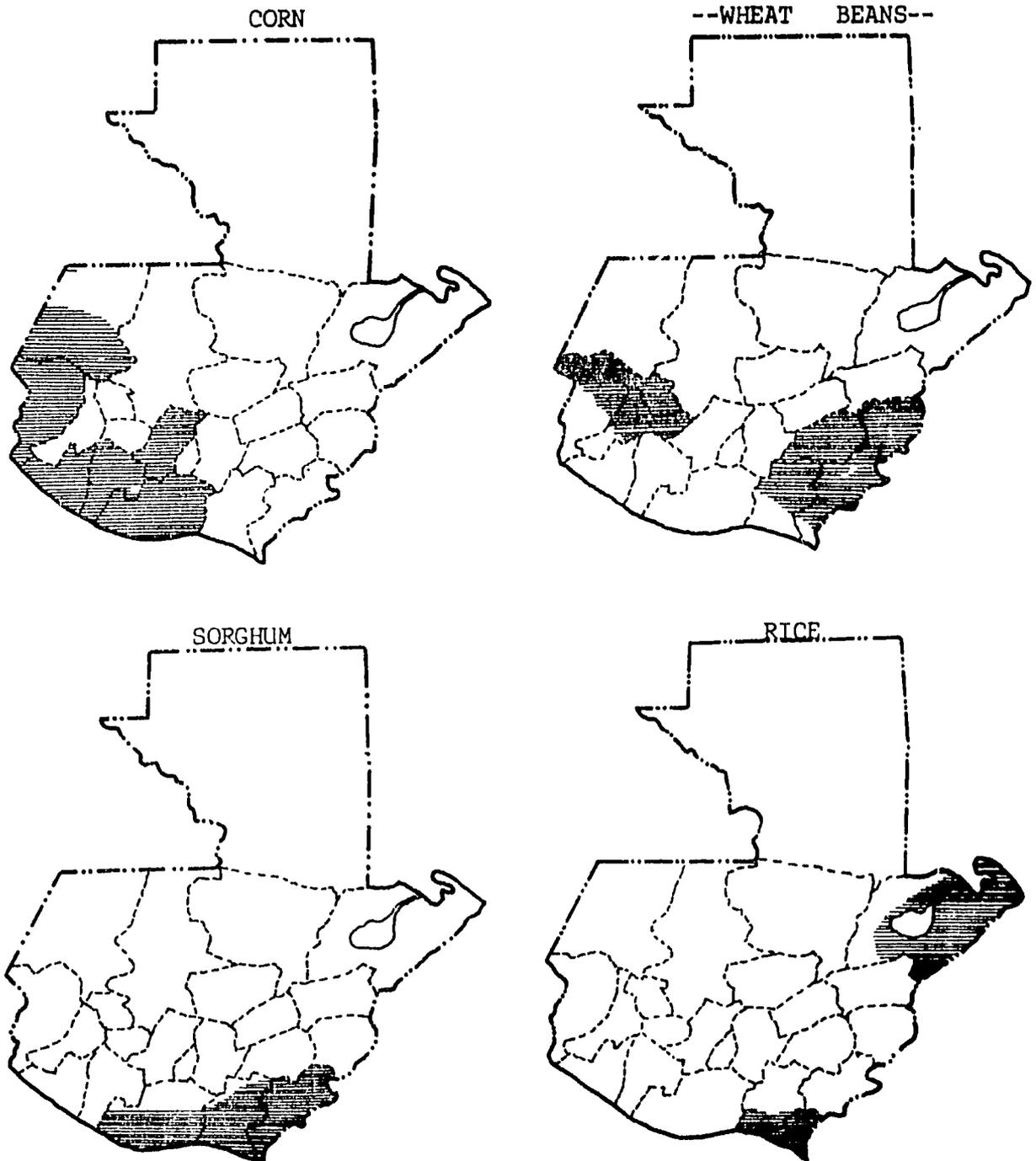
UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 19 of 45 pages

Figure 2

WHERE NEW PLANTINGS WILL BE LOCATED



UNCLASSIFIED

ANNEX II

Exhibit A

Page 20 of 45 pages

Marketing goals are to increase private grain storage and handling facilities by 46,000 metric tons over a period of five years. Total modern grain storage capacity should approach 100,000 metric tons, excluding that of the grain processing industry. Emphasis will be given to farm and community storage in locating the private grain marketing facilities.

Another marketing goal is to reduce handling and storage losses. INFOP estimates that at least 20% (150,000 metric tons) of the corn crop is lost between time of harvest and final consumption. With the cost of production valued at nearly \$40 per M.T., this loss amounts to about \$6,000,000 annually.

B. The Production Sub-project

The production Sub-project's intent is to increase planting and improve cultivation practices to attain higher yields and lower unit costs. It includes research, technical assistance, and credit.

1. Research and Technical Assistance

The technical assistance offered will include:

- a. Applied field research which will have an immediate economic impact on farm practices; and
- b. Promotion of the best practices discovered so that the lag between investigation and the acceptance of its application is shortened.

Local and imported grain varieties will serve to start the program. Breeding, selection and testing of varieties will be carried out systematically. This is necessary to insure a flow of disease-

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 21 of 45 pages

resistant, fertilizer-responsive, high-yielding more nutritive varieties fully adapted to the local variations in climate and soil. For example, most reports on the composition of corn grain give the protein content as about 10%; however, this value is more often about 7.5% to 8% when grown under conditions of nitrogen deficiency. This Project should increase protein production per hectare a minimum of 125% through an increase in yields; and, equally important, through a 25% increase in quality. Unfortunately, nitrogen does little to improve the quality of protein per se. To improve protein quality, efforts will be made to incorporate the high-lysine gene into the corn breeding programs, and other high protein crops such as soybeans, peanuts, garbanzo, etc., will be studied.

Under the Basic Grains and Agricultural Diversification Projects a minimum of 5,000 additional soil samples will be analyzed by the Research Office the first year and up to 50,000 by the fifth year. This will be an important element in the technical soundness to be built into each production subloan, and will be a factor in the Agriculture Development Bank's willingness to make subloans against little or no collateral. In order to meet this need, the Soil Fertility-Plant Nutrition Section of the Research Office will be amplified.

The subproject will work directly with farmers throughout the Project area and will not be confined to the experiment stations.

The subproject will use the following five experiment stations; no additions are needed at this time:

UNCLASSIFIED

UNCLASSIFIED

Labor Ovalle  
Chimaltenango  
Cuyuta  
La Fragua  
Quiriguá

ANNEX II  
Exhibit A  
Page 22 of 45 pages

2. Research Personnel

The research, technical assistance, and marketing personnel available at the end of 1969 for all programs being carried out by the Ministry of Agriculture were as follows:

Table 15

MINAG RESEARCH, TECHNICAL ASSISTANCE, AND MARKETING PERSONNEL  
1969

<u>Research &amp; T.A.</u>		<u>Monthly Salaries</u>
Technical Personnel	21	\$ 300-600
Semi-technical	5	200-300
Technical Assistants	12	100-200
Sub-assistants	5	Up to 100
Station Administrators	4	190-300
Subtotal:	<u>47</u>	
 <u>Marketing</u>		
Technical Personnel	9	
Studies Technicians	5	
Technical Assistants	2	
Subtotal:	<u>16</u>	

This list does not include the staffs of Los Brillantes (approximately 12) and the Directorate General of Renewable Natural Resources (Approximately 20) who are also engaged in these activities.

Field research personnel needed to accomplish the objectives of this subproject are:

- a. 5 Station chiefs charged with the execution of the planned work projects and reporting to the Research D.G.
- b. 5 Research leaders charged with supervision and execution of individual crop programs,

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 23 of 45 pages

reporting to station leaders. In some cases, the crop research leader may be the station leader.

- c. 7 Research Assistants capable of carrying out supervised research and directly responsible to the crop research leaders.
- d. 7 Full and part-time secretarial assistants.

3. Technical Assistance Personnel

Regional promotional centers will be located in the following fourteen Departments:

Chimaltenango  
Chiquimula  
Escuintla  
Huehuetenango  
Izabal  
Jalapa  
Jutiapa  
Quezaltenango  
Retalhuleu  
San Marcos  
Santa Rosa  
Sololá  
Suchitepéquez  
Totonicapán

Staff requirements are:

- a. 5 Regional Chiefs charged with directing the Promotion Agents in their areas. They are responsible to the Director of the Rural Development Office.
- b. 36 Promotion Agents charged with promotion of a specific crop or crops for a given area and responsible to a Regional Promotion Specialist. These Agents will be Peritos Agrónomos (Agronomists) with specialized training in cultivation, disease and pest control, fertilization, etc. for the crops they advise upon.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A

Page 24 of 45 pages

They will be backstopped by specialists in the research program. The effectiveness of these promotion personnel will be increased through the aid of the graduates of the Mobile School; the Landivar Social Promotores, Cooperatives, Municipalities, religious and other groups at the community level. Each crop specialist will have a minimum of five semi-technical assistants.

c. 14 Office assistants.

d. 14 Field assistants.

4. Production Credit

a. Administration

The duties of the Promotion and Technical Assistance Section will also include a close collaboration with the Credit Agents of the Agriculture Development Bank in the appraisal, disbursement, monitoring, and collecting of subloans. In this collaboration, the Promotion Agents will:

- i. identify farmers willing and able to use Basic Grains Project subloans, and assist them in preparing their subloan applications;
- ii. monitor the farmer's use of funds, consistent with the terms of his subloan;
- iii. certify the correctness of payments under the subloan;
- iv. respond to the farmer's requests for technical advice, backstopped by the Grains Research Section; and

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 25 of 45 pages

- v. report regularly to the Credit Agent and to the Agriculture Development Bank on the technical progress of each subloan.

The routines of credit administration will be carried out by the Credit Agents; they will:

- i. receive subloan applications;
- ii. approve or reject those under \$1,500 (tentative), and forward those over \$1,500 to the Bank's main office in Guatemala City for consideration;
- iii. advise the farmer and the Promotor of the approval or rejection of the application;
- iv. disburse funds to the farmer or directly to suppliers, or issue chits to the farmer, as planned in the subloan contract;
- v. collect and record payments of interest and repayment of principal;
- vi. maintain books and records of all transactions; and
- vii. report regularly to the interested Promotor and to the Bank on the financial status of each subloan.

Credit Agents will have the authority to stop the disbursement of subloan funds if the Promotor's reports or their own investigation indicate that funds are being misused, and to

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 26 of 45 pages

approve repayment term extensions when circumstances so dictate. These credit operations will be subject to regular audit by GOG auditors.

Coordination of the efforts of the Research Station Chiefs, the Regional Promotion Specialists, and the Credit Agents will be the responsibility of the office of the Vice-Minister for Technical Operations. An organization chart illustrating this system appears on Table 16.

b. Costs

The Planning Council estimated that over the five years of the Project employing \$4,038,800 of the A.I.D. Loan and the use of rollovers there will be up to \$24 million in production subloans made. Production subloans will be fully financed by the Loan.

The Research and Technical Assistance costs of the Project totalling \$2.42 million will be shared equally by the GOG and A.I.D.

A detailed cost analysis of this subproject, showing the projected source and use of funds over five years, follows as Table 17.

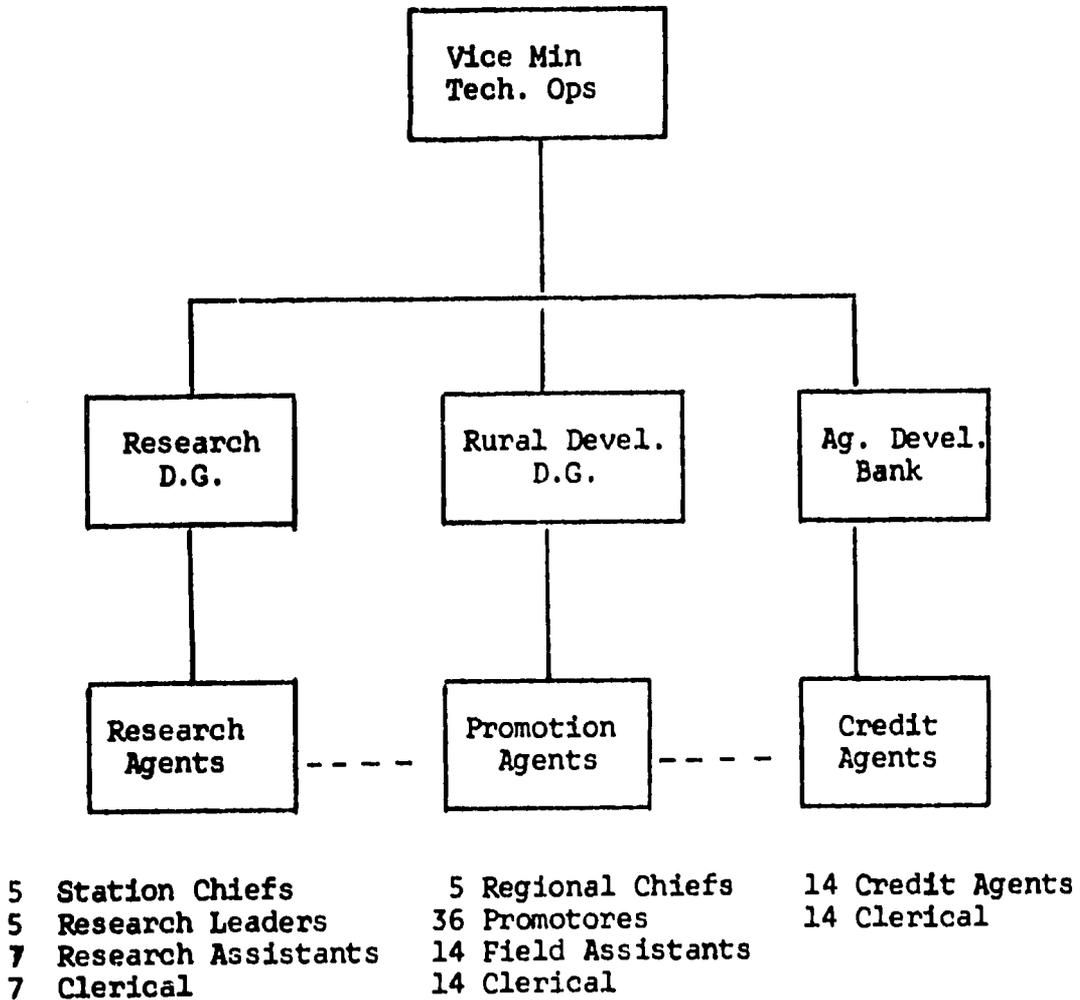
UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 27 of 45 pages

Table 16

ORGANIZATION CHART: GRAINS PRODUCTION SUBPROJECT



UNCLASSIFIED

Table 17COST ANALYSIS: BASIC GRAINS PRODUCTION SUBPROJECTI. Technical Assistance and Research Cost Breakdown

( 000 Q )

Year	1		2		3		4		5		6	
	<u>AID</u>	<u>GOG</u>										
<u>Purpose</u>												
Personnel	181.7	181.7	187.8	187.8	199.3	199.3	202.3	202.3	209.6	209.6	980.7	980.7
Maintenance	4.3	4.3	6.7	6.7	6.7	6.7	8.5	8.5	8.5	8.5	34.7	34.7
Materials	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2	126.0	126.0
Equipment & Vehicles	69.5	69.5	---	---	---	---	---	---	---	---	69.5	69.5
Subtotals	280.7	280.7	219.7	219.7	231.2	231.2	236.0	236.0	243.3	243.3	1210.9	1210.9

Table 17 (Cont.)II. Production Credit - Wholly A.I.D. Financed

( 000 Q )

Year	1	2	3	4	5	<u>Total</u>
Seeds	149.1	122.7	158.3	290.6	335.0	1055.7
Fertilizers	360.2	296.5	382.5	702.2	809.5	2550.9
Pesticides	<u>61.0</u>	<u>50.2</u>	<u>64.8</u>	<u>119.0</u>	<u>137.1</u>	<u>432.1</u>
Subtotal	570.3	469.5	605.6	1111.8	1281.6	4038.8

GOG Total: \$1,210,900      A.I.D. Total: \$5,249,700      Subproject Total: \$6,656,600

UNCLASSIFIED

ANNEX II

Exhibit A

Page 30 of 45 pages

### 3. Production Benefits

The factors that influence production are inter-related and cannot be compartmentalized to say "this factor must increase yield by X per cent". The factors are not additive. For example, nitrogen application may increase yields 500 Kg/Ha. and an application of phosphorus may increase yields 200 Kg/Ha. When applied together, however, this nitrogen plus phosphorus often would increase yields on the same field 1000 Kg/Ha. Such synergistic relationships exist between nearly all factors involved in improved practices. The effect of this relationship on producers' returns is illustrated in Tables 18 and 19.

UNCLASSIFIED

Table 18

COSTS AND VALUES PER HA. FOR TRADITIONAL AND IMPROVED PRACTICES

<u>Crop</u>	<u>With Improved Practices</u>			<u>With Traditional Practices</u>		
	<u>Yield Kg/Ha.</u>	<u>Value Q/Ha.</u>	<u>Cost Q/Ha.</u>	<u>Yield Kg/Ha.</u>	<u>Value Q/Ha.</u>	<u>Cost Q/Ha.</u>
Corn	3591	197.50	143.50	963	52.96	75.48
Wheat	2500	325.00	200.93	1006	130.78	136.85
Sorghum	3175	174.62	123.91	704	38.72	56.92
Rice	3250	282.75	210.77	1832	159.38	143.18
Beans	1162	185.92	156.01	387	61.92	85.51

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 32 of 45 pages

Table 19

MARGINAL COSTS, PROFITS, AND MATERIAL INPUT COSTS  
OF IMPROVED AGRICULTURAL METHODS COMPARED WITH  
TRADITIONAL METHODS

<u>Crop</u>	<u>Marginal Costs Q/Hectare</u>	<u>Percent of Total Production Cost</u>	<u>Marginal Profits Q/Hectare</u>	<u>Material Input Costs Q/Hectare</u>
Corn	66.99	46.7	77.55	70.70
Beans	70.50	45.2	51.50	73.30
Rice	67.59	32.1	123.37	77.85
Wheat	64.08	31.9	130.14	93.96
Sorghum	66.99	54.1	68.91	58.70

C. The Marketing Subproject

Private grain storage and handling facilities will be increased 46,000 metric tons in five years (Table 20). This plus an estimated 54,000 metric tons of new public storage capacity will result in some 100,000 metric tons of new capacity within five years, a capacity increase from 2% of project production levels to 14% of projected production levels, exclusive of the facilities presently operated by the grain processing industry.

Table 20

<u>Year Following Initiation</u>	<u>Metric Tons Storage</u>
1st	5,100
2nd	10,200
3rd	20,450
4th	30,700
5th	46,000

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 33 of 45 pages

New private grain storage facilities will be located in areas covered by the Production subproject. The marketing subproject comprises: Marketing assistance; Construction credit; and Commercialization credits.

1. Marketing Technical Assistance

Marketing technicians will provide a variety of services to the private sector. These services include:

- a. Feasibility studies to determine worthwhile investments;
- b. Technical design of installations;
- c. Assistance in the operation of new facilities; and
- d. Dissemination of accurate market information to grain holders.

These services require a central office staff plus regional agencies to maintain close contact with grain producers. Included are local personnel for:

	<u>Personnel</u>
Design and Construction of Installations (Professional)	3
Studies and Feasibility of Installations (Professional)	2
Storage and Conservation (Professional)	7
Market News (1 Professional and 3 Assistants)	4
Domestic Sales Promotion	2
Export Promotion (1 Professional, 1 Assistant)	2
Crop Forecast	5
TOTAL	<u>25</u>

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 34 of 45 pages

2. Construction Credits

This major subproject expenditure (\$4.95 million) will be the financing of the construction, improvement and expansion of private grain marketing facilities. These sub-loans will be promoted and executed in the same manner as the production subloans, with the Marketing Technical Assistance staff collaborating on technical grounds with the Credit Agent of the Agriculture Development Bank. ( The publically owned facilities scheduled to be constructed at the same time are expected to be financed by a \$4 million credit from CABEI).

Coordination of the construction credit subproject with the grain production promotion, technical assistance, and commercialization subprojects will be the responsibility of the Director of Rural Development.

3. Commercialization Credit

Unless producers have credit for working capital, they will not be able to operate their new storage and handling facilities efficiently or to bargain effectively in selling. The volume of operating capital required is large. Not only must the costs of drying, cleaning, storing and transportating of the grain be met but the purchase of the grain itself must be financed. Transportation costs, fiscal taxes, drying, cleaning and temporary storage of grains

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 35 of 45 pages

all hit the producers at harvest time when their working capital is exhausted and indebtedness is greatest.

These farmers may be quite willing to sell, but in most cases they must have immediate payment in cash to cover their own expenses and to pay off production credits. The cash is often not available or scarce, and the result is that storage facilities may stand idle because all of the local and public resources were put into fixed investment - structures and equipment - leaving no reserves for operating expenses, and the farmer, when he does sell, must accept a disappointingly low price.

Assuming that the proposed 46,000 metric tons of new private storage capacity to be built under the subproject were filled entirely with corn, the capital needed to buy the grain from producers at Q55 per metric ton (Q2.50 per cwt.) would total Q2,530,000. With a handling and storage cost of Q10/metric ton, an additional Q460,000 would be needed to cover costs until the grain is marketed. The total of Q2,990,000 would have to come from some source: producers, themselves, advance payments by buyers, bank financing, etc.

The GOG intends to meet this problem by providing to the Marketing and Price Stabilization Institute a \$7 million working capital fund, which may be used to finance grain hold

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 36 of 45 pages

ings in public and in private facilities, and which will be created by a \$3.5 million donation of wheat from the FAO World Food Program and a matching contribution of \$3.5 million in cash from the GOG budget. Should the negotiations with the World Food Program not succeed, however, then the GOG has agreed that the development of a solution to this problem satisfactory to AID will be among the Conditions Precedent to the first disbursement of loan funds under the Basic Grains Project.

Under consideration at present are the following alternatives:

- a) an additional GOG budgetary contribution to the Project scheduled to be made as storage facility construction is completed, and of sufficient size to finance all or a major part of the new working capital requirement; or
- b) the creation of a "Guarantee Fund" designed to offer a private banking system an assurance of an adequate profit level and a rapid enough claims procedure to make this financing commercially attractive.

A detailed cost analysis, projecting the source and use of funds over the five years of the Marketing subproject (and not including any GOG contribution for grain storage working capital costs) follows in Table 21.

UNCLASSIFIED

T A B L E 21

COST ANALYSIS: BASIC GRAINS MARKETING SUB-PROJECT (000 Q.)

PURPOSE	Y E A R										Total		
	1		2		3		4		5		AID	GOG	
	AID	GOG											
<u>A. Technical Assist. -</u>													
Salaries	45	45	45	45	45	45	45	45	45	45	225	225	
Vehicles, Maint., etc.	20	20	20	20	20	20	20	20	20	20	100	100	
Scholarships	10	10	10	10	10	10	10	10	10	10	50	50	
<u>B. Installations</u>													
Construction Credit	275	275	275	275	550	550	550	550	880	880	2530	2530	
<b>TOTAL</b>	<b>350</b>	<b>350</b>	<b>350</b>	<b>350</b>	<b>625</b>	<b>625</b>	<b>625</b>	<b>625</b>	<b>955</b>	<b>955</b>	<b>2905</b>	<b>2905</b>	

GOG TOTAL: \$2,905,000    AID TOTAL: \$2,905,000    SUBPROJECT TOTAL: \$5,810,000

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 37 of 45 pages

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 38 of 45 pages

D. Summary Costs and Benefits

1. Costs

The costs of Basic Grains Project will be apportioned in the following manner:

Crop Production Subproject:

Production:	A.I.D.	4,038,800
	G.O.G.	

Technical Assistance	A.I.D.	1,210,900
	G.O.G.	1,210,900

Subproject Cost		6,460,600
-----------------	--	-----------

Marketing and Storage Subproject:

Construction Credits	A.I.D.	2,530,000
	G.O.G.	2,530,000

Technical Assistance	A.I.D.	375,000
	G.O.G.	375,000

Subproject Cost		5,810,000
-----------------	--	-----------

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 39 of 45 pages

**Basic Grain Project:**

Total Contribution	A.I.D.	8,154,700
	G.O.G.	<u>4,115,900</u>
Total Project Cost:		<u><u>\$12,270,600</u></u>

2. Benefits

The Project will reach more than 6 million consumers. About 11,000 loans will be made which will directly affect some 55,000 people and indirectly affect 350,000. About 7,750,000 man days of labor requiring an additional 1 million man days of supporting services will be generated.

Increased yields of the basic grains will free land for other diversified agricultural production. Thus more food of better quality and greater variety at reasonable prices will become available.

Nevertheless, it is the economic benefits that will finally determine whether or not the innovations will be retained. What are these economic benefits?

Grain production increases projected over the five-year Project term amount to nearly 339,000 metric tons worth about \$21.5 million and yielding some \$10.8 million in profits. Moreover, the capacity to produce an additional 128,000 metric tons of basic food grains annually will

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 40 of 45 pages

be developed. About \$12.6 million will enter the economy annually, of which at least \$4.6 million will be direct profits to small farmers.

Per unit production costs will usually be lowered. In all crops profits will be increased. Estimated marginal benefit-cost ratios for production are:

Corn	2.2
Beans	1.7
Wheat	3.0
Rice	1.8
G. Sorghum	<u>2.0</u>
All Crops	2.0

Losses of stored grain, from the time of harvesting until sale to final consumer, will be reduced three-fourths. Savings of 17,700 metric tons of grain worth almost \$1 million will result from construction credits during this period. Storage losses for the combined public-private marketing sector will be lowered some 15,000 metric tons annually. Savings, at \$55 per metric ton of grain, will amount to some \$825,000 annually.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 41 of 45 pages

The combined economic benefits of improved production, lowered per unit production costs, and grain savings will result in lower domestic consumer prices and increased producer incomes. Lower prices also will stimulate entry of these products into the Central American Common Market and favorably influence export earnings.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 42 of 45 pages

## E. Implementation Plan

### 1. Policy

Basic Grains policy will be established by the Rural Development Committee composed of the Ministers of Agriculture (as Chairman), Finance, Economy, and Labor; the President of the Bank of Guatemala; and the Secretary-General of the NEPC; and implemented under the direction of the Vice Minister of Technical Affairs assisted by the Director-General of Rural Development. This Policy will include the development of an adequate legislative and administrative backdrop for the successful production and marketing of the Basic Grains; the provision of adequate funding for the Project activities; and the determination of lines of authority and general operating procedure for the implementation of the Project. The Director-General of Rural Development will be specifically charged with coordinating the efforts of three offices in carrying out this Project: the Agriculture Development Bank (production credit); the Marketing and Price Stabilization Institute (storage and marketing); and the Research Office (technical assistance).

### 2. Production and Marketing Credit

Credit will be advertised, contracted, disbursed and collected by teams of Promotion Agents and Credit Agents located in rural areas. The processes of promoting, executing, and monitoring subloans and the specific functions of the 100 Technical Assistance Agents and the Credit Agents are described earlier in this Synopsis.

Credits for Basic Grains storage facilities construction will be extended by the Agriculture Development Bank following the completion

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A

Page 43 of 45 pages

of satisfactory feasibility studies of each particular construction proposed. AID approval of the findings of each study, the final plans, specifications, and bid documents, and of the construction contractor selected will be required as a condition to the release of Loan funds to finance construction.

3. Technical Assistance

Technical assistance will be provided to the Bank in appraising subloan applications and to the farmer in the preparation of his application and the execution of his particular subproject. The Human Resources Project contemplates the training of Promotion Agents over the course of the Project as shown on page 23 of this Synopsis. This training will be scheduled in phase with the increasing technical assistance likely to be required to meet each year's credit, planting and production goals. These agents will reside in the areas they are serving.

4. Research

Research services will support the Promotion Agents in (1) their analyses of farmers' proposals, and (2) responding to farmers' requests for special assistance during subloan execution terms. The Research Office also will conduct continuing experimentation in the crops receiving attention in this Project.

5. Implementation Schedule

Following the negotiation, signing, and ratification of the Loan Agreement and the meeting

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit A

Page 44 of 45 pages

of the primary conditions to the Loan, an implementation term of five years is projected for that portion of the Project which will involve AID/GOG financing. The Project will continue for several years thereafter employing solely GOG funds and rollovers.

#### 6. Procurement and Disbursement

The items to be financed with Loan funds, as shown in Table 17 on page 29 will be procured in accord with A.I.D. regulations. U.S. Government-owned excess property will be procured in lieu of new items whenever possible.

Most of the Loan funds used in this Project will finance the commodity costs of production subloans. In the case of orders placed with U. S. or other eligible suppliers outside the Central American Common Market the Letter of Commitment or the Direct Payment procedures will be used.

For all other transactions, A.I.D. will set up in the Agriculture Development Bank a local currency revolving fund of perhaps \$100,000. The Bank's requests for replenishment of this fund will include a detailed list of the specific subloans receiving financing, identifying each sub-borrower, subproject location, subloan size, purpose and terms, and whether this is the sub-borrower's first credit under the Project.

Subloans will be disbursed by the Bank to farmers via cash advances, supplier chits, or direct payments to suppliers, depending on the terms of each subloan agreement.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 45 of 45 pages

7. Evaluation

The first level of evaluation will include the monthly progress reports to be submitted by the Bank to A.I.D., and the results of regular site inspections and other checks performed by USAID technicians.

The second level of evaluation will be the end-use and control-of-funds checks included in the periodic audits to be performed by the GOG and A.I.D.

The third level of evaluation will be carried out quarterly by a joint USAID-GOG committee measuring progress in the following:

- a. Meeting area planting goals;
- b. Subloans made and their repayment record;
- c. Meeting yield and production volume goals;
- d. Increases in producers' returns.

Reports covering all three levels will be reviewed by the Mission with an eye to remedying problems or redirecting Project efforts and will be transmitted to AID/Washington for information or for special attention as the case may be.

UNCLASSIFIED

PROJECT SYNOPSIS: AGRICULTURAL DIVERSIFICATION

INDEX

- I. BACKGROUND
  - A. Present Agricultural Situation
  - B. Agricultural Potential
  - C. Problems Impeding Development
  
- II. PROJECT DESCRIPTION
  - A. Crop Selection
  - B. Planting and Production Goals
  - C. Production Credit
  - D. Technical Assistance
  - E. Cost Analysis
  - F. Project Costs and Benefits
  - G. Implementation Plan

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 2 of 38 pages

PROJECT SYNOPSIS: AGRICULTURAL DIVERSIFICATION

I. BACKGROUND

A. Present Agricultural Situation

Agriculture contributes about 30% of Guatemala's GNP. Coffee, bananas, cotton, sugar and beef provide some 70% of present export earnings, and about 65% of the economically active population owes its living to agriculture.

But agricultural growth is barely keeping ahead of population growth. The heavily populated area comprising the larger farms on the South Coast is commercially active and produces about 60% of all agricultural products. The other major area of population density, the western Highlands, is engaged in traditional agriculture close to the subsistence level, with many small farms insufficiently capitalized, technologically backward, and of decreasing fertility. Underemployment in both these areas is increasing.

Traditional marketing methods are uneconomic and there is no institutional framework able to carry out an integrated attack on the problems of agricultural development.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 3 of 38 pages

The recurrent setbacks suffered by Guatemala in export earnings due to an overwhelming dependence on coffee, bananas and cotton also point out the need for changes in agricultural policy.

B. Agricultural Potential

The potential for agricultural development in Guatemala is nearly unlimited. Almost any type of climate may be found, from the tropical rainy lowland, through irrigable dry areas, to cold highland regions. In all of these areas there are soils of good structure and texture with reasonable requirements of fertilization. There is an adequate labor force and a good network of roads, many of them paved. Large new areas could be opened to agriculture by building additional all-weather roads as contemplated in the Infrastructure Project. Technification and diversification of Guatemalan agriculture will initially depend, however, on more intensive production methods on the land now in crops, with special attention to the tradition-bound Highland areas.

The potential for agricultural development in Guatemala is great enough to rescue the country from the dangers of over-population and under-production menacing the rest of Central America.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 4 of 38 pages

C. Problems Impeding Development

Some of the restraints are implicit in the foregoing description. There are deficiencies at all levels, from the farm up to the federal government, in regard to the use of economic resources, application of technical knowledge, transport, marketing, and price stabilization. Specific problems in these fields are caused basically by lack of an integrated overall institutional framework which would enable the necessary decisions to be made soundly and rapidly, and by lack of sufficient trained personnel to carry out the decisions. And at the root of these deficiencies is the lack of sufficient funds to cover the requirements of a well-staffed group of institutions.

The Rural Development Program includes a major reorganization of the agricultural institutional framework. The Agricultural Diversification Project will offer a major incentive for this change and an unusual opportunity to capitalize on it. It will increase rural employment and incomes, the quality and variety of the domestic food supply, and the volume of agricultural exports. The Project is directed primarily at small and medium-sized farmers on the South Coast and in the Highlands; some attention is also given to the development of citrus and plantain in the Northeast. It could lead to greater income from lands at present considered marginal for coffee production, but it is not dependent upon or tied to the use of such lands.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 5 of 38 pages

## II. PROJECT DESCRIPTION

### A. Crop Selection

Of the large number of crops which could be grown in Guatemala in much greater quantity than at present, seven have been selected for the Project:

1. Citrus

Oranges and tangerines (to constitute 80% of proposed plantings)  
Lemons (to constitute 10% of the proposed plantings)  
Grapefruit and limes (to constitute 10% of the proposed plantings)

2. Avocado

3. Cold-climate fruits (apples, pears, peaches, plums)

4. Plantains

5. Sesame

6. Flowers (roses, gladiolas, carnations, chrysanthemums)

7. Vegetables (onions, carrots, tomatoes, garlic, bell peppers, cabbage, lettuce, cauliflower, cucumbers, muskmelons, celery, eggplant, beets, potatoes)

This selection was based on the existence of favorable feasibility studies of these crops

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 6 of 38 pages

and successful experience with them on the part of some Guatemalan farmers. Production credit in each of these crops does not now exceed \$300,000 annually.

These feasibility studies have been made in recent years by competent specialists in Guatemalan Government agencies, and cover the crop situation at the time of writing, detailed costs and benefit analyses, market studies, cultivation practices, varieties, yields, technical assistance needs (including research) and a description of how the sub-projects would be administered.

The emphasis of this expanded development is directed: first, to satisfying the national market; second, to supplying Central American demand; third, to trade to other Latin American outlets; and finally, to trade with other markets which have commercial relations with Guatemala.

This Project reflects substantial revision of the original proposals, with two production goals (avocado and citrus) sharply reduced. A precis of each report follows.

CITRUS - Published by Ministry of Agriculture in 1966, this study covered the planting of 10,000 hectares which would produce 360,000 metric tons of fruit from 2 million trees, and

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 7 of 38 pages

would require financing of Q.13,964,500. It was compiled by nine specialists from the Ministry, Bank of Guatemala and the National Economic Planning Council (NEPC).

The prime market for Guatemalan product in the near term is El Salvador, a traditional importer of fresh citrus.

AVOCADO - Published by the Ministry in 1966 (second edition), this study considered the planting of 3,000 hectares in five years at a cost of Q.4.3 million. The income from the 468,000 trees would amount to Q.468,000 in the first year, and to Q.3,276,000 in the 10th year. The report was written by 11 specialists from the Ministry, the Bank of Guatemala, and the National Economic Planning Council (NEPC).

Avocado is one of the most widespread tree crops in the country. It is a seasonal export item to El Salvador.

COLD-CLIMATE FRUITS - Published by the Ministry in 1967 (second edition), this study considered the planting of 1,537 hectares during 10 years, with full production of Q.3.5 million per year after 20 years. Financing of Q.2.25 million would be required. It included a description of soils and climatic conditions in the areas selected. Gua-

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 8 of 38 pages

temala's Highlands have a natural advantage in the production of deciduous fruits for the CACM. For the next 10 years retail and processor demand are expected to exceed Common Market production.

This study was written by four specialists from the Ministry, Bank of Guatemala and USAID/Guatemala.

PLANTAINS - Published by the Ministry in 1967, this study considered the planting of 2,000 hectares in three years at a cost of Q.2.46 million. Income over seven years was estimated at Q.9.6 million. This report was written by 9 specialists from the Ministry, Bank of Guatemala and the NEPC.

Traditionally coffee farmers have grown plantain as temporary shade for their plantations, and the National Coffee Association may eventually set up its own marketing agency for the fresh fruit as well as product diversification (chips, flour, baby foods, etc.)

SESAME - Published by the Ministry in 1968, this study considered planting 10,000 hectares the first years, and 11,600 the second and following years. Cost was estimated at Q.1.6 million the first year and Q.1.7 million each following year.

UNCLASSIFIED

Sesame is looked upon with great interest in those areas now diversifying out of cotton. Japanese buyers in particular have responded very positively to this crop as an item in exchange for their industrial products. During 1967 Guatemala exported 5,048 metric tons of sesame (\$1.3 million), of which about one-fifth went to Japan. The marketing prospect is exceptionally good during the next five years.

FLOWERS - This 1968 study considered the planting of 205 hectares of the four most important flowers - chrysanthemums, carnations, roses and gladiolas, at a cost of up to Q3 million per year for the first three years, falling to about Q500,000 in the 7th year. The report was written by 7 specialists from the Ministry, the Bank of Guatemala and the NEPC.

To date the major outlet for flower production has been the CACM. This demand is still unsatiated, and the additional 130 hectares scheduled for this subproject will address internal and Common Market demand in the near term. Exports to other markets will expand as economical and reliable air transport facilities develop.

Three cooperatives have formed recently to enter this business. In time smaller growers throughout the country are expected to be incorporated into regional groupings for the channeling of technical and marketing guidance.

UNCLASSIFIED

ANNEX II  
Exhibit B

Page 10 of 38 pages

VEGETABLES - This report has not been published. It was compiled by Ministry specialists, assisted by the USAID/Guatemala Vegetable Advisor and others, and is generally known to the present USAID staff.

New vegetable production is centered around those areas of favorable soils which will be irrigated in the near future. Contracts are now being let for design and construction under the IDB irrigation program. At least eight projects are under construction which upon completion will provide 12,500 hectares of land with a water supply adequate for intensive farming.

The vegetables sub-project will reach the equivalent of 20,000 hectares of production through the multiple cropping of 10,000 hectares including 2,500 hectares of new plantings:

HECTARES IMPROVED: VEGETABLES

<u>Location</u>	<u>Y e a r s</u>					<u>Total</u>
	1	2	3	4	5	
Technification of Existing Production Areas	750	1125	1500	1875	2250	7500
New Land Development on Irrigated Areas	250	375	500	625	750	2500
<hr/>						
Cumulative Total of Improved Areas	1000	2500	4500	7000	10000	10000
<hr/>						

UNCLASSIFIED

UNCLASSIFIED  
ANNEX II  
Exhibit B  
Page 11 of 38 pages

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 12 of 38 pages

Over a five-year period a total 10,000 hectares of land will have benefitted by improved practices. At no time will there be more than this amount being cultivated under the Project. By double cropping each year, this land can produce the equivalent of 20,000 hectares and will constitute the major commercial production of the country. At least 75% of this production will go into the national market -- both fresh and processed. The export component is scheduled for CACM and Latin American markets, with gradual entry into more quality-conscious markets as the quality of production improves.

Substitutions may be made within this list should studies now being carried out by the Ministry reveal more attractive opportunities in other crops. Present subjects of study are cacao, cashew, pineapple, yucca, soya, peanut, and barley.

B. Planting and Production Goals

Present plantings of these crops will be enlarged and intensified, and modern technology and management brought to bear in their production to obtain larger yields, higher product quality, and an improved unit margin which may be translated into a higher net return to the producer.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
 Exhibit B  
 Page 13 of 38 pages

1. Planting Goals

New plantings and technification of these seven selected crops will be carried out according to the following schedule:

Crops	Y e a r s					Total Hectares
	1	2	3	4	5	
Citrus	50	100	200	350	500	1,200
Avocado	50	80	100	120	150	500
Fruits	150	200	300	400	500	1,550
Plantains	300	700	1,000	-	-	2,000
Sesame	3,000	3,600	5,000	-	-	11,600
Flowers	30	40	60	-	-	130
Vegetables	2,000	3,000	4,000	5,000	6,000	20,000
Totals (has.)	5,580	7,720	10,660	5,870	7,150	36,980

(1 hectare = 2.47 acres)

UNCLASSIFIED

2. Production Goals

Volume and value increases in production of these seven crops are estimated as follows:

DIVERSIFICATION PROJECT

Production & Value

	PRODUCTION (M. T.)					Totals
	1	2	3	4	5	
Vegetables	35,259	881,148	158,666	246,815	352,592	881,480
Flowers	3,020.5 (000) Doz	11,713.0	21,755.5	21,755.5	21,755.5	82,000 (000) Doz
Sesame	4,731	10,411	18,300	18,300	18,300	70,042
Plantain	8,995	29,985	59,973	59,973	59,973	218,899
Deciduous						
Fruits	-	-	62.5	221.0	640.5	924
Avocado	-	-	-	-	950	950
Citrus	-	-	-	400	1,250	1,650
Six Crop*						
Total	48,985	128,544	237,001	325,709	433,706	1,173,945

\* Excludes flowers - not measured in metric tons.

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 14 of 36 pages

UNCLASSIFIED

UNCLASSIFIED

	VALUE (000) Q.					
Vegetables	3444.1	8610.3	15498.5	24108.8	34441.2	86102.9
Flowers	1794.8	4190.5	7777.6	7777.6	7777.6	29318.1
Sesame	735.4	1618.7	2845.3	2845.3	2845.3	10890.0
Fruits	-	-	10.7	37.7	109.3	157.7
Plantain	397.2	1323.7	2647.2	2647.2	2647.2	9662.5
Avocado	-	-	-	-	27.5	27.5
Citrus	-	-	-	20.7	64.8	85.5
Seven Crops	6371.5	15743.2	28779.3	37437.3	47912.9	136244.2

UNCLASSIFIED  
ANNEX II  
Exhibit B  
Page 15 of 38 pages

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 16 of 38 pages

C. Production Credit

Slightly more than \$7 million of the A.I.D. Loan will finance production credits, which the Planning Council estimates may exceed \$50 million in five years including the roll-over use of funds repaid by farmers. The amount of AID Loan financing to be directed to each crop is shown in Table I following. These subloans will be made by the Agriculture Development Bank employing the services of the Promotion Agents described in Section D. Technical Assistance immediately below, with the routines of credit administration to be carried out by local Credit Agents working in close collaboration with the Promotion Agents. Credit Agents will:

1. Receive subloan applications;
2. Approve or reject those under \$1,500, and forward those over \$1,500 to the Bank's main office in Guatemala City for consideration;
3. Advise the farmer and the Technical Assistance Agent of the approval or rejection of the application;
4. Disburse funds or credits to the farmer or

UNCLASSIFIED

TABLE I

NEW LOANS BY CROP BY SOURCE OF CAPITAL (FIRST USE OF FUNDS)

Year	1		2		3		4		5		TOTAL	
	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG
Citrus	119.2	--	196.8	--	287.0	--	242.7	--	293.6	--	1139.3	--
Deciduous	64.8	--	103.7	--	175.0	--	266.5	--	375.0	--	985.0	--
Vegetables	490.6	418.7	735.9	628.1	981.2	837.5	1226.5	1046.8	1471.8	1256.2	4905.9	4187.4
Sesame	--	675.1	--	486.1	--	405.1	--	--	--	--	--	1566.3
Plantains	--	434.4	--	794.0	--	147.2	--	--	--	--	--	1375.6
Flowers	--	879.6	--	1055.3	--	398.2	--	--	--	--	--	2333.1
Avocado	--	74.8	--	134.2	--	156.1	--	148.4	--	127.6	--	641.1
<b>TOTAL</b>	674.6	2482.6	1036.4	3097.7	1443.2	1944.1	1735.7	1195.2	2140.4	1383.8	7030.2	10103.5

UNCLASSIFIED

UNCLASSIFIED  
ANNEX II  
Exhibit B  
Page 17 of 38 pages

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 18 of 38 pages

directly to suppliers, as planned in the subloan contract;

5. Collect and record payments of interest and repayments of principal;
6. Maintain books and records of all transactions; and
7. Report to the bank and the interested Promotion Agent on the financial status of each approved subloan.

Credit Agents will have the authority to stop the disbursement of subloan funds if the Promotion Agent's reports or his own investigations indicate that funds are being misused, and to approve repayment term extensions when circumstances so dictate. These credit operations will be subject to regular audit.

The ANACAFE subproject also deals with agricultural diversification, but it will be carried out separately as follows: the funds collected through the .60 per bag tax on coffee exports to new markets will be used to finance diversification within the coffee zones under the supervision of ANACAFE. There is \$6.6 million programmed for this purpose for the Departments of San Marcos, Retalhuleu, Suchitopéquez, Quezaltenango, and Alta Verapaz. Major emphasis will be placed on African oil palm, tea, citrus, other tropical fruits and dairying.

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D. Technical Assistance

A pre-requisite to making more credit available to the small and medium farmers in this Project will be the provision of sufficient technical assistance to assure that the small and medium farmers are borrowing on a technically sound basis and can offer a reasonable assurance of repayment from their earnings. For the Agriculture Development Bank this availability of technical assistance will take the place of the physical guarantees which public banks now demand as collateral.

The research, technical assistance and marketing personnel available at the end of 1969 for all programs being carried out by the Ministry of Agriculture were as follows:

TABLE 15

MINAG RESEARCH, TECHNICAL ASSISTANCE, AND  
 MARKETING PERSONNEL - 1969

<u>Research &amp; TA</u>		<u>Monthly Salaries</u>
Technical Personnel	21	\$300-600
Semi-technical	5	200-300
Technical Assistants	12	100-200
Sub-assistants	5	up to 100
Station Administrators	<u>4</u>	190-300
Subtotal	47	
 <u>Marketing</u>		
Technical Personnel	9	
Studies Technicians	5	
Technical Assistants	<u>2</u>	
Subtotal	16	

This list does not include the staffs of Los Brillantes (approximately 12) and the Directorate General of Renewable Natural Resources (approximately 20) who are also engaged in these activities.

Technical assistance will be more expensive than in the past, reflecting the GOG's awareness that competent performance can only be obtained by employing competent people, fairly paid and well supplied with the necessary vehicles and equipment. All technical assistance under the Project will be provided by Ministry of Agriculture personnel.

A total of 131 Promotion Agents hired and assigned to crops as shown in Table II on the next page, working under 7 Project Chiefs responsible to the Rural Development Directorate General, will have the following duties:

1. To carry out the educational and promotional programs being brought to large numbers of farmers under the Human Resources Project;

TABLE II  
PROMOTION AGENTS' HIRING AND ASSIGNMENT SCHEDULE

<u>YEAR</u>	<u>CITRUS</u>	<u>AVOCADO</u>	<u>DECIDUOUS</u>	<u>PLANTAIN</u>	<u>SESAME</u>	<u>FLOWERS</u>	<u>VEGETABLES</u>	<u>ANNUAL TOTALS</u>
1	1	1	2	2	5	5	25	41
2	1	1	1	1	3	1	25	33
3	1	-	1	-	2	1	25	30
4	-	-	1	-	-	-	25	26
5	-	-	1	-	-	-	-	1
<hr/>								
Cumulative Crop Totals	3	2	6	3	10	7	100	
Cumulative Promotion Agents								131

UNCLASSIFIED

UNCLASSIFIED  
 ANNEX II  
 Exhibit B  
 Page 21 of 38 pages

UNCLASSIFIED

ANNEX II  
Exhibit B

Page 22 of 38 pages

2. To identify farmers willing and able to use Diversification Project subloans, and assist them in drawing up their Farm Plans and subloan applications;
3. To monitor the farmer's use of funds, consistent with the terms of his subloan;
4. To certify the correctness of payments under the subloan;
5. To respond to the farmer's requests for technical advice in the development of his crop, backstopped by the Research Section; and
6. To report to the Credit Agent and to the Agriculture Development Bank on the progress of each subloan.

The Technical Assistance Agent will be at least a Perito Agrónomo with specialized training in cultivation, pest control, fertilization, and harvesting and marketing of the product.

E. Cost Analysis

1. Production Subloans

Table III on the following page presents the estimated disbursement cash-flow for this five-year Project, covering the first use of AID and GOG funds.

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TABLE III

NEW LOANS BY OBJECT OF EXPENDITURE BY SOURCE OF FUNDS

Year Object	1		2		3		4		5		TOTAL	
	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG
Labor	163.2	600.8	250.8	749.6	349.3	470.5	420.0	289.2	518.0	334.9	1701.3	2445.0
Seeds, Plants	72.9	268.1	111.9	334.6	155.9	210.0	187.5	129.1	231.2	149.4	759.4	1091.2
Fertilizer	62.1	228.4	95.3	285.0	132.8	178.9	159.7	110.0	196.9	127.3	646.8	929.6
Pesticides	29.7	109.2	45.6	136.3	63.5	85.4	76.4	52.6	94.2	60.9	309.4	444.4
Organic Mat.	0.7	2.5	1.0	3.1	1.4	1.9	1.7	1.2	2.1	1.4	6.9	10.1
Packing	139.6	513.9	214.5	641.2	298.7	402.4	359.3	247.4	443.1	286.4	1455.2	2091.3
Water	17.5	64.5	27.0	80.5	37.5	50.6	45.1	31.1	55.6	36.0	182.7	262.7
Other Inputs	86.3	317.8	132.7	396.5	184.7	248.9	222.2	153.0	274.0	177.1	899.9	1293.3
Mechanical Serv.	35.1	129.1	53.9	161.1	75.0	101.1	90.3	62.1	111.3	72.0	365.6	525.4
Marketing Serv.	11.5	42.2	17.6	52.7	24.5	33.1	29.5	20.3	36.4	23.5	119.5	171.8
Agronomic Serv.	25.0	91.9	38.4	114.6	53.4	71.9	64.2	44.2	79.2	51.2	260.2	373.8
Tools	2.7	9.9	4.1	12.4	5.8	7.8	6.9	4.8	8.6	5.5	28.1	40.4
Machinery	14.2	52.1	21.8	65.0	30.3	40.8	36.4	25.1	44.9	29.1	147.6	212.1
Construction	4.7	17.4	7.3	21.7	10.1	13.6	12.2	8.4	15.0	9.7	49.3	70.8
Other Invest.	9.4	34.8	14.5	43.5	20.2	27.2	24.3	16.7	29.9	19.4	98.3	141.5
<b>Total</b>	<b>674.6</b>	<b>2482.6</b>	<b>1036.4</b>	<b>3097.7</b>	<b>1443.2</b>	<b>1944.1</b>	<b>1735.7</b>	<b>1195.2</b>	<b>2140.4</b>	<b>1383.8</b>	<b>7030.2</b>	<b>10103.5</b>

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 23 of 38 pp

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit B

Page 24 of 38 pages

AID Loan funds will be used to finance production subloans, technical assistance and research, and will be disbursed within five years. Subloan disbursement beyond five years and the costs of research and technical assistance thereafter will be financed with GOG resources and the use of rollovers.

2. Technical Assistance

The costs of technical assistance for the Diversification Project have been estimated at \$2,756,500 for five years and Q.5971,300 during ten years. This includes salaries, per diem allowances, equipment, vehicles, maintenance, etc.

Presented by subprojects, the total 10-year technical assistance costs are as follows:

a.	Citrus	Q.	239,500
b.	Avocado		187,300
c.	Fruits		374,300
d.	Plantains		242,500
e.	Sesame		604,900
f.	Flowers		479,100
g.	Vegetables		3,843,700

The vegetables subproject requires the

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major part of technical assistance resources because it involves the technicalization of existing and new plantings increasing from 1,000 to 10,000 hectares in five years. Because the plantings will often be on small family plots, there may be as many as 2,000 additional individual farms to be technicalized each year.

#### Research Costs

Research costs will amount to about Q5,168,200 during the 10-year period, and will be spent on the solution of problems as they appear. Half of this total has been allocated to this 5-year Project, as shown in the summary costs, indicating the source and use of funds which follows as Table IV.

T A B L E    I V

TECHNICAL ASSISTANCE AND RESEARCH COST BREAKDOWN

Year	<u>1</u>		<u>2</u>		<u>3</u>		<u>4</u>		<u>5</u>		<u>TOTAL</u>	
	<u>AID</u>	<u>GOG</u>	<u>AID</u>	<u>GOG</u>	<u>AID</u>	<u>GOG</u>	<u>GOG</u>	<u>GOG</u>	<u>AID</u>	<u>GOG</u>	<u>AID</u>	<u>GOG</u>
Salaries	473.7	253.1	301.5	468.9	97.4	799.0	1005.6	1009.8	877.6	3535.1		
Per Diem	77.4	-	88.5	-	96.9	-	101.7	102.7	252.8	101.1		
Vehicles	141.5	-	39.0	-	30.0	-	18.0	3.0	210.5	21.0		
Fuel, etc.	20.0	-	25.9	-	28.7	-	28.7	29.0	74.6	57.7		
Office Equip.	34.0	-	6.0	-	6.0	-	6.0	6.0	46.0	12.0		
Lab. Equip.	108.0	-	8.0	-	8.0	-	8.0	8.0	124.0	16.0		
<b>TOTAL</b>	<b>759.4</b>	<b>253.1</b>	<b>468.9</b>	<b>468.9</b>	<b>265.3</b>	<b>799.0</b>	<b>1157.0</b>	<b>1159.6</b>	<b>1494.6</b>	<b>3546.1</b>		

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UNCLASSIFIED  
Annex II  
Exhibit B  
Page 26 of 58 pages

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 27 of 38 pages

#### 4. Marketing Costs

Marketing costs (personnel, equipment, credit for construction of produce holding and processing facilities) are estimated roughly at Q.6 million. Studies will be undertaken in the first semester of 1970 to define them more exactly, at which time negotiations will be undertaken for the financing. The Planning Council is drawing up scopes-of-work for the necessary feasibility studies, which will be financed under AID Loan 520-L-008.

#### F. Project Costs and Benefits

In the following analysis a period comprising 10 years has been used since two subprojects, cold-climate fruits and avocados, will require five years or more to come into production.

The total annual production costs and benefits, in current dollar values and without adjusting to net present values, will be spread over the first ten years as shown on the following Table V.

A percentage breakdown of the total production costs for the ten-year period follows Table V. It should be noted that material inputs represent more than half of the total cost, an indication of the high degree of technification in the Project.

Manual labor also represents a significant amount (19.6%) of the total, reflecting the emphasis given to improving rural employment.

UNCLASSIFIED

**UNCLASSIFIED**

**ANNEX II**

**Exhibit B**

**Page 28 of 38 pages**

Mechanization has been kept to a minimum and capital investment is also low. Thus the technological structure of the Diversification Project reflects the technification and employment objectives of the Agriculture Development Plan 1971/1975.

TABLE V  
PRODUCTION COSTS AND BENEFITS  
(In Thousands of Quetzales)

YEAR	PRODUCTION COST <u>1/</u>	TECHNICAL ASSISTANCE COST <u>2/</u>	RESEARCH COST <u>3/</u>	TOTAL COSTS	VALUE OF PRODUCTION <u>4/</u>	ESTIMATED PRODUCERS PROFIT
1	4,074.3	333.3	579.2	5,036.8	5,869.1	782.3
2	12,732.4	441.2	496.6	13,670.2	14,352.9	1,292.7
3	23,209.4	568.7	496.6	24,274.7	27,391.9	3,117.1
4	30,510.6	671.4	496.6	31,678.6	37,023.2	5,349.6
5	27,651.2	662.0	496.6	28,809.8	47,515.7	18,705.9
6	27,572.6	659.7	496.6	28,728.9	48,450.0	20,877.4
7	27,567.5	659.0	496.6	28,723.1	49,047.1	21,479.6
8	27,731.6	659.0	496.6	28,887.2	49,495.7	21,764.1
9	27,957.9	659.0	496.6	29,113.5	50,070.5	22,112.4
10	28,208.5	659.0	496.4	29,362.9	50,503.5	22,300.0
<b>TOTALS</b>	<b>237,216.0</b>	<b>5,971.3</b>	<b>5,148.4</b>	<b>248,335.7</b>	<b>360,339.3</b>	<b>137,781.1</b>

From Annexes II-1 to II-14 Consejo Nacional de Planificación - Unidad Sectorial de Planificación del Ministerio de Agricultura - Versión Preliminar Dic. 1969.  
 " " III - 1  
 " Table 6  
 " Table 7  
 Anexo II - Programa de Diversificación Agrícola

UNCLASSIFIED

ANNEX II

Exhibit B

Page 30 of 38 pages

PERCENTAGE BREAKDOWN OF TOTAL PRODUCTION COSTS

Nature of Cost

1.	Labor	19.6%
2.	Material Inputs	52.0%
	Seeds, plants, etc.	9.3%
	Fertilizers	7.8%
	Pesticides	3.8%
	San, Wood, Organic Matter	0.1%
	Packaging Materials	17.8%
	Irrigation Water	2.2%
	Others	11.0%
3.	Services	8.1%
	Mechanized work	4.0%
	Marketing	1.3%
	Agronomic	2.8%
4.	Investment	3.5%
	Implements and tools	0.3%
	Machinery and equipment	1.6%
	Buildings and	
	Installations	0.5%
	Others	1.1%
5.	Land rent	4.6%
6.	Administration and contingencies	12.2%

UNCLASSIFIED

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**ANNEX II**

**Exhibit B**

**Page 31 of 38 pages**

Income by Crop

Total income from crops produced during five and ten years is estimated at \$136 million and \$365 million, as shown below:

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	<u>GROSS INCOME PROJECTIONS</u>				
	Five Years		Ten Years		
	M. T.*	(000) Q.	M. T.*	(000) Q.	%
Vegetables	881.480	96,102.9	2,644,440	258,308.9	70.7
Flowers	82,000,000	29,318.1	164,000,000	58,636.2	16.0
	(doz)				
Sesame	70,042	10,890.0	140,084	21,780.0	6.0
Plantain	218,899	9,662.5	437,798	19,325.0	5.3
Decid. Fruit	924	157.7	24,892	4,581.3	1.3
Avocado	950	27.5	24,740	717.4	0.2
Citrus	1,650	85.5	35,600	1,844.1	0.5
		<u>136,214.2</u>		<u>365,193.0</u>	<u>100.0</u>

\* Metric Tons

UNCLASSIFIED  
Annex II  
Exhibit B  
Page 32 of 38 pp

### Population Benefited

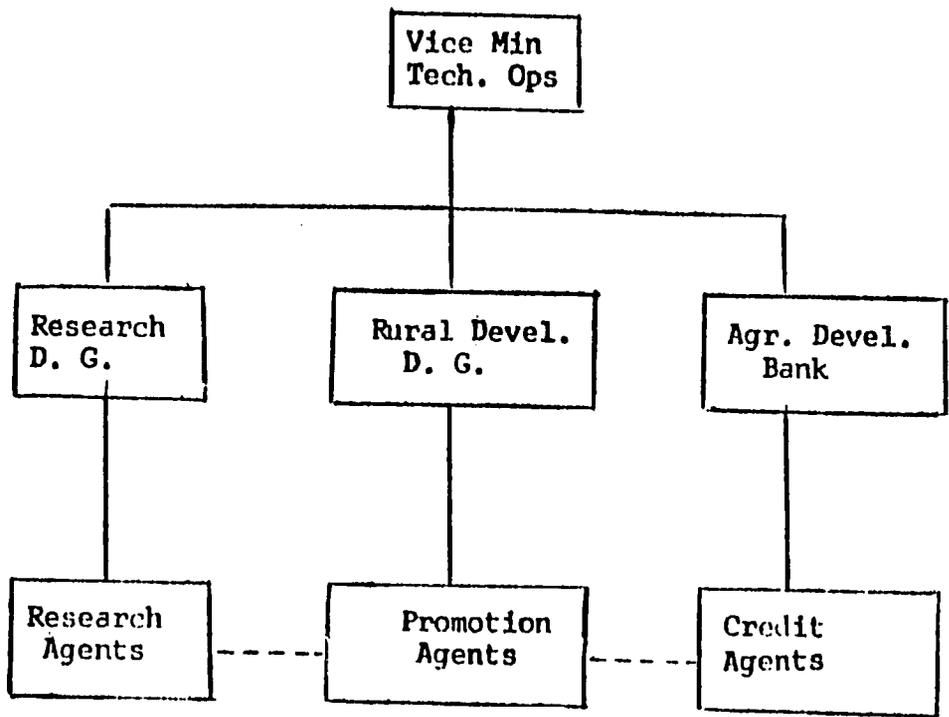
Approximately 15,000 farmers will take part in this program. Most of the crops discussed are highly labor-intensive and can be expected to absorb a minimum of five laborers per hectare. This will provide employment to approximately 75,000 farmers or approximately 20% of the farm family heads. Considering that the cumulative value of production in the 10th year is nearly \$365,000,000, a significant increase in rural income may be foreseen.

### G. Implementation Plan

#### 1. Policy

The Agricultural Diversification policy will be established by the Rural Development Committee composed of the Ministers of Agriculture (as Chairman), Finance, Economy, and Labor; the President of the Bank of Guatemala and the Secretary-General of the NEPC; and implemented under the direction of the Vice-Minister of Technical Affairs assisted by the Director-General of Rural Development. This policy will include crop selection; the development of an adequate legislative and administrative backdrop for the successful production and marketing of the crops selected; the provision of adequate funding for the Project activities; and the determination of lines of authority and general operating procedures for the implementation of the Project. The Vice-Minister for Technical Operations will be specifically charged with coordinating the efforts of three offices in carrying out this Project: The Agriculture Development Bank (production credit); and the Rural Development Directorate General and the Research Directorate General (technical assistance) as shown in the following organization chart.

ORGANIZATION CHART: DIVERSIFICATION PRODUCTION



UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 35 of 38 pages

2. Production Credit

Credit will be advertised, contracted, disbursed, and collected by teams of Promotion Agents and Credit Agents located in rural areas. The processes of promoting, executing, and monitoring subloans and the specific functions of the 131 Technical Assistance Agents and the Credit Agents are described in pages 16 and 21 of this Synopsis.

3. Technical Assistance

Technical Assistance will be provided to the Bank in appraising subloan applications and to the farmer in the preparation of his application and the execution of his particular subproject. The Human Resources Project contemplates the training of Promotion Agents over the course of the Project according to the schedule shown on page 20 of this Synopsis. This schedule is in phase with the increasing technical assistance likely to be required to meet each year's credit, planting and production goals. These agents will reside in the areas they are serving.

4. Research

Research services will support the Promotion Agents in their analyses of farmers proposals and in responding to farmers requests for special assistance during subloan execution terms. The Research Office also will conduct continuing experimentation in the crops receiving attention in this Project.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 36 of 38 pages

5. Implementation Schedule

Following the negotiation, signing, and ratification of the Loan Agreement and the meeting of the primary conditions to the Loan, an implementation term of five years is projected for that portion of the Project which will involve AID/GOG financing. The Project will continue for several years thereafter employing solely GOG funds and rollovers. The five-year planting program and AID Loan disbursement figures are presented earlier in this Synopsis.

6. Procurement and Disbursement

The items to be financed with Loan funds as shown in Tables III and IV will be procured in accord with AID regulations. U.S. Government-owned excess property will be procured in lieu of new items whenever possible.

Most of the Loan funds used in this Project will finance the commodity costs of production subloans. In the case of orders placed directly with U.S. or other eligible suppliers outside the Central American Common Market the Letter of Commitment or the Direct Payment procedures will be used.

For all other transactions, AID will set up in the Agriculture Development Bank a local currency revolving fund of perhaps \$100,000. The Bank's requests for replenishment of this fund will include a detailed list of the specific subloans receiving financing, identifying each sub-borrower, subproject location, subloan size, purpose and terms, and whether this is the sub-bor

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit B  
Page 37 of 38 pages

rower's first credit under the Project.

Subloans will be disbursed by the Bank to farmers via cash advances, supplier chits, or direct payment to suppliers, depending on the terms of each subloan agreement.

7. Evaluation

The first level of evaluation will include the monthly progress reports to be submitted by the Bank of AID, and the results of regular site inspections and other checks performed by USAID technicians.

The second level of evaluation will be the end-use and control-of-funds checks included in the periodic audits to be performed by the GOG and AID.

The third level of evaluation will be carried out quarterly by a joint USAID-GOG committee measuring progress in the following:

1. meeting area planting goals;
2. subloans made and their repayment record;
3. meeting yield and production volume goals;
4. increases in producers' returns.

Reports covering all three levels will be reviewed by the Mission with an eye to remedying problems or redirecting Project efforts (for instance, into a new crop), and will be transmitted to AID/Washington for in-

UNCLASSIFIED

**UNCLASSIFIED**

**ANNEX II**  
**Exhibit B**  
**Page 38 of 38 pages**

formation or for special attention as the case may be.

**UNCLASSIFIED**

PROJECT SYNOPSIS: HUMAN RESOURCES

- I. INTRODUCTION
- II. SUBPROJECT SUMMARIES
  - A. Farm Youth
  - B. Cooperatives
  - C. Farmers Direct Training
  - D. Agricultural Ministry Personnel
  - E. Secondary Schools
  - F. Rural Change Agent Upgrading
  - G. University Students
  - H. Information Service
- III. COST SUMMARY

PROJECT SYNOPSIS: HUMAN RESOURCES

I. INTRODUCTION

The Program includes a comprehensive Project to develop human resources as a necessary complement to the production programs. It has two primary foci: direct training of small farmers, and formation of technical cadres for this and future rural development plans.

On the necessity for basic educational programs in rural Guatemala we can cite data from the 1964 population census: of 2 million persons 7 years old and older in rural areas, 82% had had no formal education and only 3% had had more than 3 years of education. Needless to say, formal vocational training in agriculture has been negligible.

The current supply of agricultural technicians is small, but to the extent that higher salaries can attract technicians to government service there should be enough available over the next 5 years to man the rural development program. There are about 850 "peritos agrónomos," or graduates of agricultural high schools in Guatemala, 230 of whom are currently employed by the government. The Technical Agriculture Institute is being rapidly expanded and should be graduating over 100 students annually in the 1970's. At a higher level there are 83 registered and 40-50 unregistered agronomists ("ingenieros agrónomos") in the country. An expansion of university programs is also occurring.

The Human Resources Project proposes to provide training in terms of recipients as detailed in Table I.

TABLE I

Goals of the Human Resources Program  
 (in terms of recipients of training)

<u>Subprojects</u>	<u>Recipient Groups</u>	<u>Number</u>
1.	Farm Youth (via 4-H Club Development)	50,000
2.	Small and medium Farmers (via agricultural co-ops)	50,000
3.	Small and medium Farmers (via direct training)	36,000
4.	Agriculture Ministry Technical Personnel	160
5.	Secondary school students	1,000
6.	Rural change agents (school teachers, promotores sociales)	2,900
7.	Secondary school teachers	125
8.	University students	100

The two subprojects affecting the greatest number of people are intended to facilitate long range agricultural development through increasing the present and future farmers' receptivity to technological changes via the organization of rural youth (4-H Clubs) and adults (co-operatives). These subprojects strongly reflect the objective of Title IX of the U.S. Foreign Assistance Act in their direct involvement in the formation of private democratic organizations.

II. SUBPROJECT SUMMARIES

A. Farm Youth

The first subproject aims at increasing 4-H Club memberships from 5,000 to 50,000 in five years. To do this, the government proposes: to merge the 40 existing extension agents into the new Directorate of Agricultural Training; to attach to each agency 3 rural social promoters (sub-technicians receiving Q100 per month) trained at the Landívar CAPS program, whose sole task would be the promotion of 4-H Clubs; to provide educational and agricultural materials for the clubs; to grant 125 scholarships for training promoters and specialists in didactic methods, languages and social sciences at local institutions such as CENDAP, Bárcena and San Carlos; to conduct competitions in crop production and other agricultural pursuits; and to hold annual 4-H conventions. It is expected that each of the 120 promoters will supervise 10 clubs. The cost of the subproject is Q1,200,000.

FARM YOUTH SUBPROJECT: COST ANALYSIS  
(000 quetzales)

YEAR Item:	1		2		3		4		5		Totals	
	GOG	AID	GOG	AID								
Personnel	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	413.0	413.0
Training	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	42.5	42.5
Services	74.1	74.1	74.1	74.1	74.1	74.1	74.1	74.1	74.1	74.1	370.5	370.5
Equipment	12.8	12.8									12.8	12.8
Materials	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	23.8	119.0	119.0
Awards, Conventions	11.0	11.0	11.0	11.0	11.0	11.0	11.1	11.1	11.1	11.1	55.2	55.2
GOG TOTAL: \$600,000      AID TOTAL: \$600,000      SUBPROJECT TOTAL: \$1,200,000												

UNCLASSIFIED

ANNEX II  
Exhibit C  
Page 5 of 21 pages

UNCLASSIFIED

AID funds will finance one half the subproject. Foreign exchange costs amount to Q95,600 for fertilizers, pesticides, sprayers and audiovisual equipment.

In the short run the benefits of this subproject will be only a slight increase in the members' food output; however over the long run a major change in the willingness of youth to remain on the farm and to adopt new methods is expected.

B. Cooperatives

Cooperatism began in 1954 in Guatemala. While still relatively weak and disorganized at the national level, co-operatives are popular in the Highlands and stand ready to serve as a medium through which to spread economic development to that backward area. At present perhaps one dozen co-operatives are functioning well in Guatemala.

The Cooperatives subproject will provide \$2 million seed capital for stimulating a self-sustaining agricultural co-operative movement in Guatemala. The AID Loan will finance credit for storage facilities construction, working capital for 125-140 individual Highland agricultural co-ops and regional co-op federations to finance storage operations and crop inventories, and for sub-lending to individual members to finance modern agricultural production inputs.

USAID is grant-funding support to local institutions so that the co-operative movement is strengthened at the national level. U.S. contracts and direct hire experts will advise the local institutions. The latter will provide training for co-op leaders, supervision of co-op financial affairs, and other technical assistance on co-operative matters.

Agriculture extension and crop promotion agents of the Agriculture Ministry will provide technical assistance to co-op members. Sub-loans will be made by the Co-op Federation and discounted by the Development Bank with little or no interest markup. The interest differential between the 3%-or-so cost of money to the Co-op Federation and the 12% they collect will cover operating expenses, subloan losses, and regular increments of capital of the Co-op Federation. Full disbursement of loan funds is expected to require three years.

COOPERATIVE SUBPROJECT: DISBURSEMENT  
ANALYSIS

(000 quetzales)

YEAR	<u>1</u>	<u>2</u>	<u>3</u>	<u>Totals</u>
Item:	_____	_____	_____	
Credits	500	500	1,000	2,000
Storage const.	250	125	125	500
Storage credit	125	125	500	750
Ag. Prod.	125	250	375	750

LOAN TOTAL: \$2,000,000

This subproject will be fully financed by A.I.D. Up to half of the loan funding of the co-op subproject may finance foreign exchange costs of inputs and storage facilities.

C. Farmers' Direct Training

A large part of the Human Resources Project is devoted to the direct imparting of technical knowledge to about 36,000 small farmers throughout Guatemala. In large measure the recipients of this training will be the same small farmers who are participating in the crop production phases (see the Basic Grains and Diversification Annexes) of the National Rural Development Program. The recipients of training will be selected by local extension and promotion agents. The recipients will be among the most dynamic farmers in their communities, and may be expected by example to stimulate an interest in improved techniques among their neighbors.

This training will be offered in new agriculture centers and via mobile schools. Six training centers will be constructed in the Ministry of Agriculture stations of Chiantla, Chamelco, Chocolá, Totonicapán, Cuilapa and Navajoa (see following map). The Agriculture Ministry's new Directorate of Agricultural Training will staff each center with five resident agronomist-instructors. The Technical Institute at Bárcena and the Research Directorate will provide back-up technical expertise in specialized areas. At these centers the farmers will receive 30-day courses involving the demonstration of modern agricultural techniques adapted to local

# LOCATION OF DIRECT TRAINING CENTERS

AID-  
ANNEX II  
Exhibit C  
Page 9 of 21 Pages



X = Mobile School Centers  
• = Agricultural Training Centers

conditions. Simpler training will be offered by the three mobile schools headquartered at the experiment stations at Cuyuta, Chimaltenango and Labor Ovalle. The mobile schools will bring farmers and Agriculture Ministry technicians together for somewhat less sophisticated 15-day training courses. Each of these nine centers will handle 800 students per year for an expected total of 36,000 students in 5 years. The total cost of this subproject is estimated at \$1,873,000 to be financed half and half by the GOG and AID.

**FARMERS' DIRECT TRAINING: COST ANALYSIS**  
(000 quetzales)

YEAR	1		2		3		4		5		Totals
	GOG	AID									
Personnel	76.5	76.5	76.5	76.5	76.5	76.5	76.5	76.5	76.5	76.5	765
Admin.	8.5	8.5	15.5	15.5	22.5	22.5	22.5	22.5	22.5	22.5	183
Maintenance	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	62
Materials	4.1	4.1	4.3	4.3	4.7	4.7	4.7	4.7	4.7	4.7	45
Meals	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	450
Equipment	84.0	84.0	42.5	42.5							253
Construction	32.5	32.5	25.0	25.0							115
<b>TOTALS:</b>	256.8	256.8	215.0	215.0	154.9	154.9	154.9	154.9	154.9	154.9	1,873

**AID TOTAL: \$936.5      GOG TOTAL: \$936.5      SUBPROJECT TOTAL: Q1,873,000**

UNCLASSIFIED

UNCLASSIFIED  
ANNEX II  
Exhibit C  
Page 11 of 21 pages

UNCLASSIFIED

ANNEX II  
Exhibit C  
Page 12 of 21 pages

Up to \$203,000 in foreign exchange may be needed to pay for vehicles and agricultural and educational equipment.

D. Agriculture Ministry Personnel

Several sub-projects are aimed at providing the needed technical personnel for the Rural Development Program and other current and future rural development efforts. The first of these is a Q250,000 short-course activity upgrading Ministry of Agriculture personnel. 90 technicians will be sent abroad to foreign universities and research centers. 70 will be sent to Guatemala's San Carlos University and to the INCAP and ICAITI research facilities within Guatemala. Students will be chosen by a board of high-level Ministry officials. 60 of the grants for foreign study will sponsor study of the production of diversified crops; 20 grants will deal with irrigated agriculture and/or irrigation administration; 10 grants will deal with marketing. The program will be administered by the Training Directorate.

The Planning Council has indicated its awareness that this sub-project incorporates under loan financing training that might have been forthcoming under AID participant training grants, and thus represents loan-financed technical assistance. The program will be 100% loan financed.

PERSONNEL UPGRADING: COST BREAKDOWN  
(000 quetzales)

YEAR	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>Total</u>
Foreign Study	56	48	48	28		180
Local Study		15	15	20	20	70
	<u>56</u>	<u>63</u>	<u>63</u>	<u>48</u>	<u>20</u>	<u>250</u>

LOAN TOTAL: \$250,000 ... Foreign exchange costs will amount to Q100,000

UNCLASSIFIED

E. Secondary School Students

Future technicians will come from the Agricultural Institute at Barcelona. This Institute will be upgraded by this \$1,920,000 subproject providing; (a) 7 new specialized full-time teaching positions; (b) 30 additional man-months annually of technicians; (c) the awarding of 50 five-year scholarships each year for students specializing in the senior levels; and, (d) the awarding of 50 five-year scholarships each year for students of the regular program. Barcelona will be expected to produce 110 graduates annually.

Another secondary level activity will be the initiation of vocational agriculture programs in the new regional high schools being financed by a World Bank loan. Each year another school will be added to the program which will call for the assignment of five agriculture instructors to the regional high school for the training of 40 students per school in agricultural curricula and giving additional courses for all students.

SECONDARY SCHOOL PROJECT: COST BREAKDOWN

Items	<u>1</u>		<u>2</u>		<u>3</u>		<u>4</u>		<u>5</u>		<u>Total</u>	
	GOG	AID	GOG	AID								
Barcena Teachers	73.5	73.5	91.5	91.5	109.5	109.5	127.5	127.5	145.5	145.5	547.5	547.5
Barcena Scholarships	12.5	12.5	35.0	35.0	52.5	52.5	70.0	70.0	92.5	92.5	262.5	262.5
Regional School Teachers	<u>10.0</u>	<u>10.0</u>	<u>20.0</u>	<u>20.0</u>	<u>30.0</u>	<u>30.0</u>	<u>40.0</u>	<u>40.0</u>	<u>50.0</u>	<u>50.0</u>	<u>150.0</u>	<u>150.0</u>
<b>Totals</b>	60.0	60.0	92.5	92.5	120.0	120.0	147.5	147.5	180.0	180.0	950.0	950.0

GOG TOTAL: Q960,000

AID TOTAL: Q960,000

SUBPROJECT: Q1,920,000

This subproject has no foreign exchange costs.

UNCLASSIFIED

UNCLASSIFIED  
AID-  
ANNEX II  
Exhibit C  
Page 14 of 21 Pages

F. Rural Change Agents

Taking vacation time advantage of the facilities of Bárcena, the regional high schools, and the AID-financed rural primary schools, the Training Directorate will carry out a program of rural change agent upgrading. Vacation courses in agricultural techniques and the techniques of knowledge dissemination are to be given to rural primary teachers, rural social workers and promotion agents, and other rural leaders. The object of the subproject is to show rural community leaders where they and their neighbors can find solutions to various agricultural problems. They will be taught not to solve problems directly but rather to identify them and how to locate specialized help. These rural leaders will complement the Promotion Agents in developing customers for the Production projects in the Program. This subproject will cost Q420,000, or a little more than Q140 per student.

RURAL CHANGE AGENT UPGRADING: COST BREAKDOWN  
(000 quetzales)

YEAR Item	1		2		3		4		5		Total	
	GOG	AID	GOG	AID								
Instruction	3.5	3.5	7.0	7.0	10.5	10.5	14.0	14.0	17.5	17.5	52.5	52.5
Per Diem	<u>10.5</u>	<u>10.5</u>	<u>21.0</u>	<u>21.0</u>	<u>31.5</u>	<u>31.5</u>	<u>42.0</u>	<u>42.0</u>	<u>52.5</u>	<u>52.5</u>	<u>157.5</u>	<u>157.5</u>
Totals	14.0	14.0	28.0	28.0	42.0	42.0	51.0	51.0	70.0	70.0	210.0	210.0

GOG TOTAL: Q210,000      AID TOTAL: Q210,000      SUBPROJECT TOTAL: Q420,000

There will be no foreign exchange costs.

UNCLASSIFIED

UNCLASSIFIED  
ANNEX II  
Exhibit C  
Page 16 of 21 pages

G. University Students

This subproject encompasses three activities. The first is direct student support: 15 five-year scholarships for the study of agronomy or veterinary medicine at San Carlos University will be awarded each year, as will 5 two-year scholarships for study abroad in the same fields. The second involves support to students of secondary teaching who will specialize in agriculture: 195 one-year scholarships at San Carlos will be offered. The third involves Q20,000 annually in support of academic research in agriculture. These scholarships and research grants will be awarded by a unit of the to-be-created Directorate of Training of the Agriculture Ministry. The University Program will cost a total of Q707,000 over 5 years and will finance the education of about 125 secondary teachers and 100 agricultural university graduates at an average cost slightly over \$3,100 each.

UNIVERSITY STUDENT SUBPROJECT: COST ANALYSIS  
(000 quetzales)

YEAR	1		2		3		4		5		Total	
	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID
Items												
San Carlos Student Scholarships	15.0		30.0		42.5	2.5	50.0	10.0	52.5	22.5	190.0	35.0
Foreign Study Scholarships		25.0		50.0		50.0		50.0		50.0		225.0
Research	8.5	8.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	78.5	78.5
Secondary Teaching Scholarship	<u>15.0</u>	<u>5.0</u>	<u>20.0</u>	_____	<u>15.0</u>	<u>5.0</u>	<u>15.0</u>	<u>5.0</u>	<u>20.0</u>	_____	<u>85.0</u>	<u>15.0</u>
Totals:	38.5	38.5	67.5	67.5	75.0	75.0	82.5	82.5	90.0	90.0	353.5	353.5

GOG TOTAL: Q353,000      AID TOTAL: \$353,000      SUBPROJECT TOTAL: \$707,000

Foreign exchange costs will come to \$225,000.

UNCLASSIFIED

UNCLASSIFIED  
ANNEX II  
Exhibit C  
Page 18 of 21  
pages

H. Information Service

Finally, to provide support for all of the human resources and crop promotion programs of the Ministry of Agriculture a new agricultural information service will be created. This service will produce educational materials for the 4-H Clubs, co-op and training centers, pamphlets and newspaper articles for general distribution.

Up to sixteen technicians skilled in publishing and radio programming will be retained. The total cost of this subproject is estimated at \$520,600, of which A.I.D. will finance half.

INFORMATION SERVICE: COST BREAKDOWN  
(000 quetzales)

YEAR	1		2		3		4		5		Total	
	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID
Item												
Personnel	40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3	201.5	201.5
Equipment	<u>58.8</u>	<u>58.8</u>	—	—	—	—	—	—	—	—	<u>58.8</u>	<u>58.8</u>
Totals	99.1	99.1	40.3	40.3	40.3	40.3	40.3	40.3	40.3	40.3	260.3	260.3

GOG TOTAL: \$260,300      AID TOTAL: \$260,300      PROJECT TOTAL: \$520,600

Foreign exchange costs for vehicles and equipment will amount to \$117,600.

UNCLASSIFIED

UNCLASSIFIED  
ANNEX II  
Exhibit C  
Page 20 of 21 pages

**III. COST SUMMARY**

The following table presents a summary of the source and use of funds under the Human Resources Project.

**HUMAN RESOURCES PROJECT: COST SUMMARY**

	<u>GOG</u>	<u>AID</u>	<u>TOTALS</u>
1. Farm Youth	\$ 600,000	\$ 600,000	\$2,200,000
2. Cooperatives	---	2,000,000	2,000,000
3. Farmers Direct Training	936,500	936,500	1,873,000
4. Agricultural Ministry Personnel	---	250,000	250,000
5. Secondary School Students	960,000	960,000	1,920,000
6. Rural Change Agent Upgrading	210,000	210,000	420,000
7. University Students	353,500	353,500	707,000
8. Information Service	<u>260,300</u>	<u>260,300</u>	<u>520,600</u>
TOTALS	\$3,320,300	\$5,570,300	\$8,890,600

UNCLASSIFIED  
AID-DLC/P-881  
ANNEX II  
Exhibit D  
Page 1 of 18 pages

PROJECT SYNOPSIS: ARTISANRY

INDEX

- I. PRESENT SITUATION
  - A. The Resource Base
  - B. The Productivity Restraints and the Record
- II. POTENTIAL
- III. THE PROJECT
  - A. Objectives
  - B. Methods
  - C. Costs
  - D. Benefits

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 2 of 18 pages

I. PRESENT SITUATION:

A. The Resource Base

1. Natural Resources

Guatemala, renowned for its handicrafts, has raw materials in plentiful supply throughout the country - cotton, wood, silver and other alloys, clay, materials for dyes, glazing components, sisal, willow bamboo and sedge.

2. Human Resources

Roughly 87,000 people are employed in handicrafts production. Of these, some 40,000 reside in the Indian Highlands, 1,600 in the capital. Thus artisan activity contributes directly or indirectly to the livelihood of about 10% of the country's population. Within this work force exists, sometimes to an unusually high degree, the manual skill and artistic talent imperative for a true handicraft industry. By and large these artisans are under employed.

3. Institutional Resources:

Institutions presently assisting in handicrafts production and marketing are these:

- a. The Department for the Development of the Indian Economy, a dependency of the Ministry of Agriculture, which administers:

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit D

Page 3 of 18 pages

- i. The Chiantla Development Center-  
A vocational training center holding 121 students and graduating approximately 50 indians, age 12 and above, every two years. It teaches carpentry, weaving and various agricultural activities. The purpose is to train leaders who are in turn supposed to return to their communities and with their own capital set up a business. On completing their two year training, however, many migrate to the capital.
- ii. The Rabinal Development Center-  
Specializing in ceramics. It has a capacity to train 40 students. At present 15 are enrolled.
- iii. Cooperatives - The State has organized three artisanry cooperatives, one at San Pedro La Laguna, Sololá (rug production); another at Rabinal, Alta Verapaz (ceramic production); a third at Totonicapán (weaving). Several graduates of the training schools are working with these cooperatives.

Department for the Development of  
Indian Economy budget:

Annual Operations	\$136,344
Existing Rotating Fund for credit and marketing	25,000
	<u>\$161,344</u>

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit D

Page 4 of 18 pages

- b. The Handicraft Department of the Government's Community Development Program was created in 1967 to promote the internal and external marketing of handicrafts. Two years later it has established one store for the sale of handicrafts in the capital. With a working capital of Q40,000 it has been limited to purchasing from producers only enough items to meet current foreign and domestic demands. It can address itself only to small groups of new artisans, and fails to reach the majority of unorganized, small-scale producers who, with a minimal exposure to handicrafts promotion, might increase their production substantially.

The Handicraft Department of the Community Development Program budget:

Annual Operations	\$30,000
Existing Rotating Fund	40,000
Annual Budget:	<u>\$70,000</u>

- c. The Museum of Handicrafts and Popular Industry, a dependency of the Ministry of Education, maintains a permanent exhibition for sale of various handicraft articles.

The Museum of Handicrafts and Popular Industry budget:

Annual Operations	\$ 9,419
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UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 5 of 18 pages

The current annual total GOG budget in support of artisanry is then \$176,063.

Other institutions interested in handicrafts include the Popular University. Created through private initiative and supported by state and private donations, its function is the teaching of plastic arts. Still others are various religious orders and penal institutions throughout the country.

With sparse and scattered financial and human resources, these organizations cannot carry out an effective development program.

B. The Productivity Restraints and the Record

The altogether unsatisfactory state of handicraft activity in Guatemala today results from fundamental restraints on production and marketing and from an inadequate institutional structure.

Low productivity and poor quality are caused by faulty preparation and utilization of raw materials (e.g., lack of knowledge on the proper use of dyes); lack of modern technology in production and design; lack of production credit; and thin markets in raw materials and demand for finished products. The last point is of particular significance, for these thin markets raise the producer's costs, reduce his profits, and create a vicious circle of low returns reducing the incentive to produce, which in turn further contracts the raw materials and finished product markets.

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Public and private institutions involved in handicraft development have attempted to improve quality increase production, and establish a marketing system. Success has been slight.

Statistics are scarce, but a survey by the Handicrafts Department puts total handicraft production in 1968 at Q1.3 million. This low figure reflects the unemployment and underemployment prevalent in the rural areas, especially the Highlands, and it points up the existence of a large pool of manpower which, if utilized through an effective handicraft development program, could markedly improve the quality of life in those areas and contribute to the national economy by improving Guatemala's export base and payments position.

## II. POTENTIAL

Guatemalan handicrafts possess an unusual artistry. Hence they are a highly saleable product. The success in handicraft development in such countries as Mexico, Peru, Ecuador and Bolivia (see Ebersole, Robert P. "Project Report on Handicraft Development in Peru," USAID/Peru; Banco de Guatemala, "Situación y Desarrollo de las Industrias Artesanales en Guatemala," memorandum No. 21/68 Guatemala, 1968; and Primer Seminario Latinoamericano de Artesanía y Artes Populares, Mexico, D.F. 1965) offer a realistic precedent for the success of a Guatemalan Handicrafts Development Program if it can be carried out in a professional manner.

Of the approximately 40,000 artisans in the Highlands alone, the overwhelming majority now underemployed, each could turn out at least Q500 worth of products yearly the National Planning Council estimates. Thus there would be a total annual production

UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 7 of 18 pages

of Q20 million, contrasted to Q1.3 million in 1968. It should also be noted that many of the estimated 370,000 people in the Highlands now engaged in agriculture during much of the year would devote more time to handicraft activities if the industry were developed.

The potential for a rapid productivity increase within this group is relatively high, since most artisans are underemployed and their production processes are inefficient. Moreover, additional capital investment required to achieve higher production is comparatively small.

### III. THE PROJECT

#### A. Objective

The objective of the Project is to modernize handicrafts production and marketing. Meeting this objective will permit an increase in rural employment and producer incomes and an increase in exports.

#### B. Methods

There will be a promotional program of producer cooperatives who will eventually assume responsibility for their own marketing operations. Producers will be provided, through the Handicrafts Department of the Agricultural Development Bank, assistance in production - mechanical training; improved production techniques; improved raw materials purchasing practises; introduction of quality standards and controls; and credit for plant and working capital. This assistance with production is intended to reduce unit costs and increase gross production. It will be carried out in the field through the Department's extension agents working out of the regional production centers and mobile schools. Then there will be assistance

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit D

Page 8 of 18 pages

in marketing - promotion of producer cooperatives, advertising, sales to the state, intended to provide the incentive for increased production and an increasing number of people to enter the industry.

The Project will directly touch some 2,000 artisans, in terms of organizing, training and credit facilities. That figure does not, of course, reflect the handicraft industry's expansion beyond the four-year Project period. The new administrative organization will create employment for 33 persons.

Technical and financial assistance will be provided by a Handicrafts Department to be created within the new Agricultural Development Bank, through the operation of two Divisions (See Table I):

1. Production Division

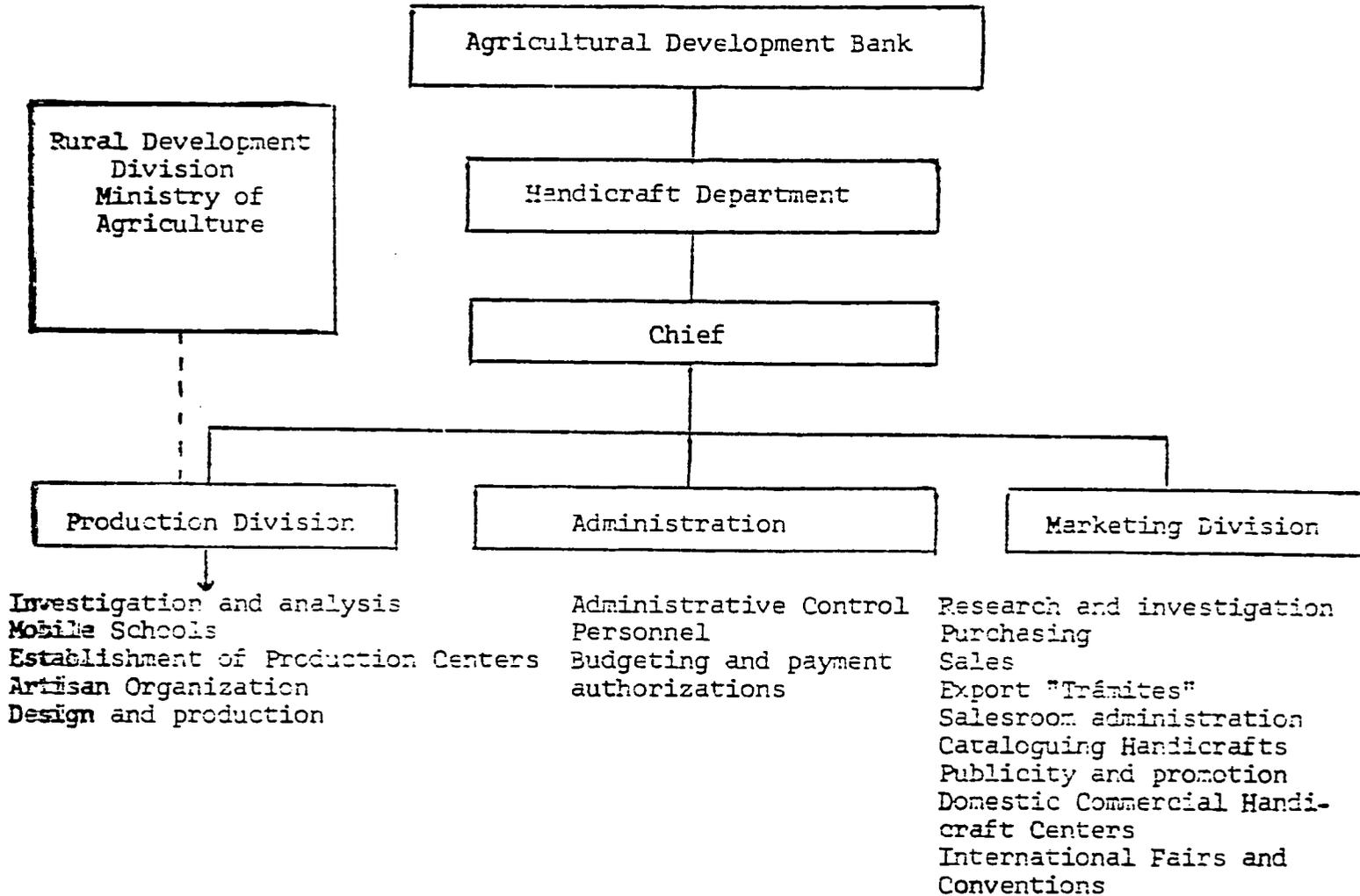
Its activities will include technical research and analysis of credit needs; administration of mobile school units for the promotion and training of handicrafts; establishment of production centers; organization of production enterprises, and production and design guidance. The field operations will be carried out through:

a. Mobile Training Schools

Their purpose is to take training to the artisan. The system has had wide success in Mexico and Spain at very low costs of operation. Its operation will be similar to that of the agricultural mobile schools presently operating with AID assistance in rural Guatemala.

UNCLASSIFIED

TABLE I  
ORGANIZATION CHART: ARTISANRY PROJECT



UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 9 of 18 pages

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit D

Page 10 of 18 pages

There will be three units, each with two instructors and one driver. It is estimated that the maximum cost for each, fully equipped, will be Q20,000. Major areas of training will be weaving, wood craft and ceramics. Trainees will be selected by the regional extensionist once the regional centers are established.

b. Rural Production Centers

Four centers will backstop the mobile units and offer production training. They will be located in the Highlands in Totonicapán, Huehuetenango, Panajachel and Rabinal.

Training and technical assistance will be provided to producers of specific lines as indicated below:

Weaving:

- i. Extension work (promotion and training) in modern techniques of weaving, quality control and standardization.
- ii. Reduction of production costs by wholesale purchasing and by introduction of proper dyeing techniques to eliminate the need for purchasing commercially dyed yarns.
- iii. Simplification of designs and processes to permit mass production.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 11 of 18 pages

- iv. Broader use of the treadle type loom with the wider flying shuttle that will permit production of a wide range of items.
- v. Introduction of lighter weight material for the weaving of clothing.

Ceramics:

- i. Technical assistance to improve clay preparation and glazes (the present use of lead glaze is harmful to the health of the potterer and those using the utilitarian items glazed).
- ii. Introduction of "jolley and jigger" so that uniform dinner ware can be produced systematically and in complete sets.

Woodcraft:

- i. Training people with aptitude to do tridimensional wood-working.
- ii. Promoting a variety of designs.
- iii. Encouraging production of wooden articles such as trays, bowls, etc., as presently produced in Honduras.

UNCLASSIFIED

UNCLASSIFIED

ANNEX II

Exhibit D

Page 12 of 13 pages

Silver Craft:

- i. Ordering of silver wire and sheet in volume, for the lower prices thereby obtainable.
- ii. Introduction of lapidary to provide settings and basic materials. Interesting stones such as jadeite, jasper, and serpentine are available in Guatemala.
- iii. Introduction of new designs and combinations with other materials.

Leather Craft:

- i. Technical training for practicing artisans.
- ii. Introduction of new designs and patterns.
- iii. Procurement and reproduction of good foreign shoe lasts.

2. Marketing Division

Its responsibilities will be investigation and analysis of internal and external marketing; gov't. buying; domestic sales; exports; cataloging articles; advertizing and participation in fairs and conventions. The three major functions - internal marketing, external marketing and state buying - will be carried out as follows:

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit A  
Page 13 of 18 pages

a. Internal Markets

This Division will establish and/or assist in creating handicraft markets in the principal tourist areas of the country and at the frontiers. It will also periodically stage domestic expositions for promotional purposes. It is expected that by the fifth year the producers' cooperatives will take over their own marketing operations.

b. External Markets

It will locate and analyze potential export markets, and organize exhibitions for international conventions and fairs. With the technical assistance of AID (the newly-established position of USAID Export Development Advisor and the ROCAP Regional Export Advisor) the Division will contact American firms dealing in handicraft sales.

c. Buying

Approximately Q80,000 (GOG-financed) will be available for state purchases over the four-year period. These purchases will be made by the Marketing Division during periods of slack demand.

3. Credit Operations

These will be handled by the credit office of the Agricultural Development Bank. Loans will be between Q100 and Q1,500. It is estimated that 75% of the loans will be for raw materials purchases and 25% for machinery,

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 14 of 18 pages

equipment and marketing. The tentative lending policy contemplates loan terms of 1 to 5 years, depending on the intended use of funds, at concessional interest rates and with brief grace periods.

C. Project Costs

An analysis of Project costs, showing the source and use of funds, appears in Table II following.

Financial Analysis:

TABLE II

ARTISANRY PROJECT: AID AND GOG CASH DISBURSEMENTS

Items	Year 1		Year 2		Year 3		Year 4	
	GCG	AID	GOG	AID	GOG	AID	GCG	AID
1. Operations								
A. Personnel								
a. Prod.	58,800	-	58,800	-	58,000	-	58,800	-
b. Mktg.	42,000	-	42,000	-	42,000	-	42,000	-
c. Admin.	9,600		9,600		9,600		9,600	
B. Equipment & Supplies		71,000		30,000				
2. Credit								
a. Raw Material		150,000				100,000	25,000	175,000
b. Equip.		50,000		25,000		25,000	-	50,000
c. Wrkg. Cap.		15,000		-		10,000	-	-
3. Construction	11,000	49,000	-	-	-	-	-	-
4. Mkt. Purch.			25,000					
TOTALS	121,400	335,000	135,400	55,000	110,400	135,000	135,400	225,000

TOTAL GOG CONTRIBUTION: \$ 502,600  
 TOTAL AID CONTRIBUTION: \$ 750,000  
 TOTAL PROJECT COST : Q1,252,600

UNCLASSIFIED

ANNEX II  
 Exhibit D  
 Page 15 of 18 pages

UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 16 of 18 pages

D. Benefits

The gross macro-economic measure of the benefits of the Handicraft project is the value of the production which would not have occurred in the absence of the project. During the first four years of the project Q5.2 million of added production is expected. Annual production levels of Q2.8 million would occur thereafter even if the promotion program were discontinued after the initial period.

The net value of the project to Guatemala's national product equals the value added component of the added production adjusted for the social cost of the labor input. Since Guatemala is a labor surplus economy, the social cost of labor approaches zero. Thus the maximum benefit of the project by the fourth year is equal to the total value added -- Q3.4 million, or considerably more than the combined total GOG and AID input of Q1.3 million. If the social cost of labor is valued at Q0.50 per day, an ample wage in the Guatemalan Highlands, the total social cost of the added production still amounts to little more than half the net benefits.

	<u>Gross Value of Production</u>	<u>Input Values</u>	<u>Value Added</u>
Year 1	\$349,359	\$123,196	\$226,163
Year 2	732,058	256,246	475,812
Year 3	1,416,272	496,484	919,788
Year 4	2,791,391	979,340	1,812,051

Total Value Added: \$3,433,814

UNCLASSIFIED

UNCLASSIFIED

ANNEX II  
Exhibit D  
Page 17 of 18 pages

2. Effect on Balance of Payments

The project in its fourth year will generate the following foreign exchange:

Exports of handicrafts	2,325,000
Internal Marketing to tourists	260,400
Exchange Earnings	<u>2,585,400</u>
Less Imported Inputs	<u>149,300</u>
Net Benefit to Balance of Payments	2,436,100

3. Return to the Artisan

Modernization of production and marketing by the fourth year will create approximately \$625,000 of new income in the Highlands. Assuming that the Planning Council's estimate is 100% too high, returns to producers will still exceed \$300,000. Spread over a producer base of 2,000 - 3,000 artisans, this implies an increase in annual income of \$100 - \$150 per producer. This would be a doubling of the area's present per capita income.

4. Employment

The Planning Council estimates the Project will directly involve approximately 2,000 artisans. This implies an income benefit to families totalling perhaps 10,000 people.

5. Title IX

Inherent in the project is greater cooperation by producers in the production and marketing of their products.

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ANNEX II

Exhibit D

Page 18 of 18 pages

The program will promote and assist the formation and operation of producer associations, cooperatives and other bargaining agents. Working together in production and marketing will be a form of economic and social cooperation that could well have useful political ramifications: successful group action will increase the confidence of rural artisans in their capacity to deal with their own problems, and they may begin to express themselves on national political issues through their trade groups.

CONTENTS

Exhibit 1	Loan Application
Exhibit 2	Letter: Agriculture Development Plan - 1971/75
Exhibit 3	Letter: Land Reform
Exhibit 4	Letter: Fiscal Plan
Exhibit 5	AID, IDB, IBRD, EXIM and CABEI Pipelines
Exhibit 6	Director's Certification
Exhibit 7	Agriculture Development Bank: Opening Balance Sheet and First Year Income Statement
Exhibit 8	Agriculture Development Bank: 5-Year Cash-Flow Projection

UNCLASSIFIED  
ATD-DIC/P-881  
ANNEX III  
Exhibit 1  
Page 1 of 3 pages

LOAN APPLICATION (Translation)  
Ministry of Finance

December 9, 1969

Mr. Richard E. Kaegi  
Acting Director  
Agency for International Development  
Edificio Cruz Azul  
Ciudad.

Mr. Director:

It is a pleasure for me to submit for your consideration the official request of the Government of Guatemala for financial assistance in an amount of \$23,000,000 (twenty-three million dollars), for the purpose of collaborating in our Rural Development Plan.

As you know, this Plan has been elaborated during the last few months, in order to improve the level of rural life in a short term. The Plan foresees substantial increases in the agricultural and artisan production, which will contribute towards reaching the development goal provided in our Development Plan for the period 1970-1975 of a 6% annual increase in the gross geographic product. Likewise, with the foreseen investment, we would meet three basic additional ends: we would improve income distribution in Guatemala by dedicating attention to increasing exports; and contribute in avoiding underemployment and unemployment and thus benefit 400,000 people in the Guatemalan rural area.

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 1  
Page 2 of 3 pages

The Rural Development Plan takes a broad view of agricultural development and contemplates six specific integrated projects. Such projects are: basic grains, diversification, human resources development, artisanry land tenancy and infrastructure. Each project includes a series of sub-projects, with their respective production goals and detailed costs. On the other hand, the Plan contemplates institutional reforms in the organizations dealing with agrarian development, for the purpose of strengthening such organizations and avoiding duplications in project executions.

Up to date, we have concluded the documentation related with the first four projects previously enumerated, which are part of this request. As you can see, the execution of these programs requires external financing for an amount of Q.32.8 million and a state donation -- in addition to the resources actually being provided for this -- for Q.11.4 million during the five years of the Plan. Of the global external assistance foreseen, we hope to obtain approximately Q.10.0 million from other sources (UNDP, BID), and the balance of Q.23 million from the Agency for International Development, in the best possible conditions as far as interest rate, time and grace period is concerned.

I trust that the Agency for International Development will receive this request favorably, and I am at your disposition to initiate negotiations at the time you consider convenient. Likewise, the signee, the Minister of Agriculture and our technical personnel will be glad to clarify any concept related to this request.

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 1  
Page 3 of 3 pages

Waiting for your comments, I take this occasion to  
renew my best considerations,

Cnel. y Lic. Emilio A. Peralta P.  
Minister of Finance

cc: Minister of Agriculture  
NEPC's General Secretary

LETTER: AGRICULTURE DEVELOPMENT PLAN 1971/75  
(TRANSLATION)

NATIONAL ECONOMIC PLANNING COUNCIL

Guatemala, December 19, 1969

Mr. Richard E. Kaegi  
Acting Director  
AID Mission to Guatemala  
Guatemala City

Mr. Director:

I refer to our conversation of this week related to the National Rural Development Plan, and to the complementary information that you need to support our request for financial assistance which the Government of Guatemala submitted for consideration to the Agency for International Development on December 10th.

First of all, and as I told you during our conversation, I must point out that our financial projections for the Plan have been revised during these past days. In accordance to this revision, the source providing funds for the total expenditures of this Plan, Q153.7 million during the next five years, are the following:

AID Loan	Q 23.0 million
Central Government Support	11.5 million
State Banks' Support	10.1 million
Participating Farmers' Support	40.1 million
Loan Rollovers	<u>69.0 million</u>
<b>TOTAL</b>	<b>Q153.7 million</b>

UNCLASSIFIED

ANNEX III

Exhibit 2

Page 2 of 8 pages

As you can see, the first four projects that are part of the Rural Development Plan -- grains, diversification, human resources and handicrafts -- do not contemplate financial assistance from other international organizations than the Agency for International Development. Nevertheless, we have estimated that both programs pending elaboration -- infrastructure and land tenancy -- will need additional financing from the Interamerican Development Bank for approximately US\$ 27.5 million.

I call your attention to the fact that the Rural Development Plan is just one element -- even if it is the principal element -- of the action that the Government will develop in the agricultural sector during the next five years. According to the attached Table -- which I only show to give you an idea of the scope, since the figures are too tentative -- we propose to request assistance from various international organizations to contribute to the financing of the agricultural programs that will be part of the Public Investment Plan 1971-1975. According to this Table, the Government will invest Q143.2 million in the sector during the period 1971-1975, from the following resources.

	<u>Amount in</u> <u>Quetzales</u>	<u>Relative</u> <u>Participation</u>
Government support	Q 52.1	36.5%
State Banks' Support	10.1	7.1
Loans:		
AID	25.0	17.5
IDB	27.5	19.2
CABEI	4.0	2.8
International Support:		
ICO	6.5	4.6
WFP	3.5	2.4
UNDP	1.5	.9
<b>TOTAL</b>	<u>Q 143.2</u>	<u>100.0%</u>

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 2  
Page 3 of 8 pages

I would also like to point out that some of the GOG counterpart contributions to other agricultural programs will have a direct bearing upon the Rural Development Plan. For example, this will be the case with the GOG Q.3.5 million contribution as a complement to the donation from the World Food Program to supply working capital to the future Marketing Institute for Agricultural Commodities. In summary, once the agricultural development program is initiated within the Public Investment Plan 1971-1975, the relative contribution of AID to the program will approximate 17.5 per cent.

We recognize that the magnitude of the previously described projects is ambitious and that for its timely and adequate execution we will need, among other things, international technical assistance. In this sense, we propose to join the Rural Development Plan to our integrated development project in the Highlands, submitted to the United Nations Development Program. Under that project, we anticipate a mobilization of more than 24 expert/years in different fields related to the agricultural development, including horticulture, fruitculture, soil conservation, soil chemistry, agricultural products commercialization, farm administration and handicrafts. On the other side, we hope to establish cooperation with the Centro Internacional de Mejoramiento de Maíz y Trigo (CIMMYT) of Mexico, for our grain program, and as you know, we have already started conversations on the subject. Finally, we would request the additional technical assistance to be required by the development of the different programs from among the various international organizations and friendly Governments that provide this kind of cooperation.

We also recognize that the execution of the Plan involves effective administrative and institutional reforms to which the loan request document refers.

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 2  
Page 4 of 8 pages

These will need intense work in the preparation of new laws, regulations and dispositions, as well as a preparation period to hire and adequately train personnel. We believe that these jobs will take all of 1970, and will cover the following working schedule:

January-March 1970

There will be detailed studies to raise to operative levels the institutional scheme described in the Rural Development Plan, including the Ministry of Agriculture reorganization and the creation of the National Agrarian Development Bank, Institute of Marketing for Agricultural Commodities and the Institute of Land Tenancy. For this effect, eight international experts will arrive in Guatemala who will cooperate with Government officers in the preparation of documents, law projects and other jobs to be done.

The Rural Development Plan will be completed by refining the existing documents and completing the land tenancy and infrastructure programs.

Consultants will be contracted to initiate feasibility studies in agricultural products commercialization, drainage projects, and other projects within the agricultural sector.

The Loan Agreement will be signed with AID.

The work begun on identification and project preparation in the agricultural sector will continue.

UNCLASSIFIED

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ANNEX III  
Exhibit 2  
Page 5 of 8 pages

April-July 1970

Legal and legislative measures will be taken to legalize the institutional and administrative scheme which is part of the Rural Development Plan, based on the studies made during the previous quarter.

Project preparation work will continue.

The land tenancy and infrastructure documents will be submitted to the Interamerican Development Bank, as part of the Rural Development Plan.

The Loan Agreement with AID will be in operation.

The Technical Assistance Plan for UNDP will be put into effect.

August-December 1970

The Ministry of Agriculture and the decentralized entities that are part of the institutional scheme of the Rural Development Plan, will be organized according to the new legislation.

Personnel will be hired, trained and organized in accordance with the features of the Plan.

Budget measures will be taken to include the Rural Development Plan in the 1971 Budget, and to restructure the salary scale of the experts who will participate in such Plan.

Regulations and internal dispositions of the organizations participating in the execution of the Rural Development Plan will be established.

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 2  
Page 6 of 8 pages

Disbursement of the credit given by AID will be initiated for the acquisition of vehicles, equipment and accessories.

The financing required to fund the Rural Development Program in its totality will be contracted with the Interamerican Development Bank.

I believe that all of us, Mr. Director, are conscious of the difficulties implicit in the execution of a program that has the characteristics and magnitude of the Agriculture Development Plan 1971/1975. Nevertheless, I believe that the Plan is realizable, and that its execution will be of great significance to the economic development of Guatemala. It is due to this belief that the Government of Guatemala has decided to make an extraordinary effort -- financial, administrative, technical and institutional -- for the realization of a job whose success depends, also, on the opportune cooperation of international organizations.

If you need any additional information related to the documents that are enclosed to this letter, I am at your disposition. At the same time, I take this opportunity to renew our best considerations.

Lic. Gert Rosenthal K.  
Secretary General

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AGRICULTURE DEVELOPMENT PLAN 1971/75: PRELIMINARY ESTIMATE OF PUBLIC COSTS  
(Millions of Dollars)

Programs & Projects	Sources of Funds	Ag. Devel. Bank.									Total
		GOG	CABEI	AID	IDB	IBRD	UNDP	ICO	WFP		
<b>I. Rural Development Plan</b>		35.1	10.1	4.0	25.0	27.5	-	1.0	-	-	101.7
<b>A. Basic Grains</b>		4.1	-	-	8.1	-	-	-	-	-	12.2
<b>B. Diversification</b>		3.8	10.1	-	8.5	-	-	-	-	-	22.4
<b>C. Human Resources</b>		3.1	-	-	5.6	-	-	-	-	-	8.7
<b>D. Artisanry</b>		0.6	-	-	0.8	-	-	-	-	-	1.4
<b>E. Infrastructure</b>		12.0	-	4.0	-	21.0	-	-	-	-	37.0
1. Market Roads		5.0	-	-	-	10.0	-	-	-	-	15.0
2. Irrigation		3.0	-	-	-	5.0	-	-	-	-	8.0
3. Silos		1.0	-	4.0	-	-	-	-	-	-	5.0
4. Storage or processing centers		1.5	-	-	-	3.0	-	-	-	-	4.5
5. Drainage		1.5	-	-	-	3.0	-	-	-	-	4.5
<b>F. Land Tenure</b>		11.5	-	-	2.0	6.5	-	-	-	-	20
1. Consolidation of agrarian parcelamientos		2.5	-	-	-	2.5	-	-	-	-	5.0
2. Colonization-Ixcán		2.0	-	-	-	4.0	-	-	-	-	6.0
3. Improvements in Highland Land Tenure		1.0	-	-	2.0	-	-	-	-	-	3.0
4. Other projects		6.0	-	-	-	-	-	-	-	-	6.0

Agriculture Development Plan 1971/75: Preliminary Estimate of Public Costs (Cont'd)

Programs & Projects	Sources of Funds	Ag. Devel.									Total
		GOG	Bank	CABEI	AID	IDB	IBRD	UNDP	ICO	WFP	
II. Rest of Agricultural Sector		17.0	-	-	-	-	13.0	0.5	6.5	3.5	40
A. Beef cattle		2.0	-	-	-	-	10.0	-	-	-	12.0
B. Milk cattle		1.0	-	-	-	-	3.0	-	-	-	4.0
C. Other livestock		1.5	-	-	-	-	-	0.5	-	-	2.0
D. ANACAFE Program		-	-	-	-	-	-	-	6.5	-	6.5
E. Forestry projects		5.0	-	-	-	-	-	-	-	-	5.0
F. Capitalization Institute of Marketing		3.5	-	-	-	-	-	-	-	3.5	7.0
G. Technical Assistance		4.0	-	-	-	-	-	1.0	-	-	1.0
H. Other Projects		4.0	-	-	-	-	-	-	-	-	4.0
	GRAND TOTAL	52.1	10.1	4.0	25.0	27.5	13.0	1.5	6.5	3.5	143.2
	PERCENTAGES	36.4	7.1	2.8	17.5	19.2	9.1	0.9	4.6	2.4	100.0

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UNCLASSIFIED  
ANNEX III  
Exhibit 2  
Page 8 of 8 pages

UNCLASSIFIED  
ATD-DIC/P-881  
ANNEX III  
Exhibit 3  
Page 1 of 8 pages

LETTER: LAND REFORM

(Translation)

National Economic Planning Council

Guatemala, December 23, 1969

Mr. Richard E. Kaegi  
Acting Director  
USAID Mission/Guatemala

Señor Director:

With respect to our conversation of yesterday afternoon, relative to the land tenure program which will form part of the Rural Development Plan, it is my pleasure to attach to the present letter a document which outlines certain preliminary ideas over the possible content of that program.

As you will be able to appreciate, our object is to significantly alter the present system of land tenure in Guatemala by the means of the execution of a mixture of initiatives. We hope to convert these initiatives -- described in the attached document -- into specific projects in a short time and, opportunely, to submit them to international organizations for their consideration.

In hopes that this document is of interest to you, I take this occasion to renew the examples of my highest consideration.

Lic. Gert Rosenthal K.  
Secretary General

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 3  
Page 2 of 8 pages

PRELIMINARY POINTS CONCERNING THE CONTENT OF A LAND TENURE  
POLICY

The content which is given the policy by which the actual patterns of concentration of real property are to be modified, will condition the degree of advance of rural development. As much as it is certain that such modification constitutes only a part of the solution to the problem of development of social and economic systems in agriculture, it is no less certain that new advances will have to be undertaken in order that the land support a greater number of agricultural workers.

The matter of future land tenure policy can be concentrated in the application of schemes of direct action or in indirect mechanisms. There is, rightfully, a wide margin of doubt with respect to the ability of indirect mechanisms to get to the base of the agrarian problem. But, on the other hand, it is no less certain that the application of a direct scheme or a profound agrarian reform which totally transforms the agricultural and social picture, is to a certain point incompatible with a constitutional state. The historical focus of agrarian reform underlines the fact that, effectively, the deeper schemes have been applied where they have been preceded by important changes in the constitutional order.

The ideas which are outlined on the following pages take off from the belief that that which is viable, in a short term, is an application of a group of measures of the indirect type. There are, among the groups of instruments that make up this scheme, various which the next government can manipulate with satisfactory results. In this

UNCLASSIFIED

UNCLASSIFIED

ANNEX III

Exhibit 3

Page 3 of 8 pages

way, the land tenure policy would come to conform to our objectives. Although each of the individual measures would have very limited effects, the effect of the whole group, added to other programs already prepared, would be a substantial impact. Among the measures will be some of national effect; others will be applied in specific form to determined regions of the country which currently present particular problems with respect to the concentration and use of land.

1. It is evident that the body of law currently applied to land tenure should be modified. With a new conception, the fundamental laws over the matter should facilitate actions such as the following:

- 1.1 Acceleration of the paperwork for the expropriation of empty land and a redefinition, in terms of technical criteria, of the concept of emptiness. This measure is basic in order that the new Institute of Land Tenure be able to develop with more agility specific projects of agrarian development in areas of high potential, such as the South Coast.

Furthermore, there should be created mechanisms of automatic expropriation applicable to those lands which have been found to be permanently empty. This measure would liberate an appreciable quantity of land in the northern part of the country and would widen the physical base of the Land Tenure Institute to execute new development projects.

- 1.2 Restructuring the system of agricultural taxes so that land is taxed in accord with its productive potential rather than its fiscal value, as currently occurs. As agricultural potential

UNCLASSIFIED

UNCLASSIFIED

ANNEX III

Exhibit 3

Page 4 of 8 pages

is a concept linked to aspects which connote agronomic conditions (such as access, physical location, possibilities of external economics, public services) it would be affected by near concentrations of public investments such as highways, irrigation, electricity, banking services, etc.

- 1.3 To have adequate dispositions in the matter of formation of irrigation districts and drainage zones in order that future investments that the state applies to this type of projects give the results of a convenient distribution of land in the affected areas. With this measure, considerable land areas will be rescued which will then be destined to projects of agrarian development with deep social and economic content.
- 1.4 To suspend provisional titling in areas where there is possible application of agrarian development programs.
- 1.5 To establish financial facilities by which farmers who have determined requisites of eligibility or, preferably, associations or communities of them, can acquire lands through purchase, always given that these lands be assigned to the execution or productive projects previously approved by the Land Tenure Institute and the Ministry of Agriculture. The new Agricultural Development Bank could manage these funds.
- 1.6 Program of Development and expansion of the national fincas (held by BNA and INTA). Acquisition of other fincas that are in auction by state owned banks.

UNCLASSIFIED

UNCLASSIFIED

ANNEX III

Exhibit 3

Page 5 of 8 pages

2. At a level of identifiable agricultural regions, the land tenure policy could be implemented by actions such as the following:
  - 2.1 South Cost:
    - 2.1.1 Consolidation of the development of the agrarian parcelamientos (settlements) by means of the granting of services which are still lacking or which have an inadequate scale.
    - 2.1.2 Development of complementary investments in irrigation, drainage, internal roads, and commercialization projects in these parcelamientos.
    - 2.1.3 Expropriation of empty lands for the formation of new agrarian development projects. These projects would imply a modification in the patterns applied until the present, approximately in the terms that are indicated in 2.4 below.
  - 2.2 Western Highlands
    - 2.2.1 Regrouping of minifundios;
    - 2.2.2 Promotion of cooperative and pre-cooperative enterprises or communities.
    - 2.2.3 Construction of earthworks, small irrigation, drainage canals, etc.
    - 2.2.4 Promotion of fruits, vegetable, flowers and other activities.
    - 2.2.5 Formation of commercial forests with fast growing varieties, in public or private lands which are otherwise unadaptable to

UNCLASSIFIED

UNCLASSIFIED

ANNEX III

Exhibit 3

Page 6 of 8 pages

other crops. The incorporation of community systems of land tenure could redistribute in a better way another important natural resource such as forests.

### 2.3 East

2.3.1 Development of irrigation works where the potential permits it and over new legislative bases in the matter of tenure.

2.3.2 Appropriate taxes for lands under irrigation -- as long as this is supplied by public investment -- when these are inadequately taken advantage of, and expropriation when lands remain empty which no longer have a deficit of water. (This measure could be applied throughout the country).

2.3.3 Promotion of adequate crops for the zone.

### 2.4 Northern Lowlands (Izabal, Alta Verapaz and the north of Huehuetenango and Quiché).

2.4.1 Consolidation of existing parcelamientos;

2.4.2 Execution of the Colonization Project in the northern zone of Ixcán and others which will be identified later.

It is opportune to indicate at this point that the new projects of agrarian development will be applied in patterns different from the historical ones. The development of resources, the size of the individual parcels and the existence of individual parcels and the existence

UNCLASSIFIED

UNCLASSIFIED

ANNEX III

Exhibit 3

Page 7 of 8 pages

of parcelas in common use -- if this is the case -- the concentration of population in centers and other characteristics of the projects will be carefully programmed by the Institute of Land Tenure. In this manner local resources will be taken advantage of in a better manner and the cost of the projects at the charge of the state can be reduced and the services improved.

## 2.5 El Petén

2.5.1 To modify the law of use of the resources of El Petén and transfer to the new Land Tenure Institute the colonization functions that used to be given to FYDEP.

2.5.2 New legal dispositions should be emitted based on technical economic criteria, in order that the lands which have been distributed in El Petén be made productive in certain periods of time or that they be returned to the state patrimony and thereby widen the public base for new development projects.

3. It should not be forgotten that the execution of a land tenure policy on all of the fronts above noted implies a cost and effort beyond the possibilities of the state, if this has to attend adequately to other program already functioning or that have been

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 3  
Page 8 of 8 pages

prepared for their future execution. It is clear that land tenure policy should be implemented keeping in mind priorities determined by the benefits that the respective actions will yield to agricultural development in a short term. The restructuring of the relevant body of law is, of course, the first priority. There will be developed shortly several projects of greater benefit-cost ratios and more immediate effects, such as irrigation drainage, actions proposed for the western highlands (the majority of which are low cost) and the consolidation of the existing agrarian parcelamientos. In the future -- or perhaps at the same time -- new projects of colonization in the northern lowlands will be studied over new patterns of orientation.

With respect to El Petén and from the point of view of agricultural development exclusively, immediate action should be concentrated in achieving the legal dispositions mentioned above, and the execution of profitable projects (particularly of forests). Massive development actions -- if this were possible -- should be carefully studied in the light of their cost, in their technical facets and their possible real effects on the national economy.

UNCLASSIFIED

UNCLASSIFIED  
AID-DLC/P-881  
ANNEX III  
Exhibit 4  
Page 1 of 5 pages

LETTER: FISCAL PLAN  
(TRANSLATION)

NATIONAL ECONOMIC PLANNING COUNCIL

Guatemala, 23 de diciembre de 1969

Mr. Richard E. Kaegi  
Acting Director  
USAID Mission to Guatemala  
Guatemala City.

Mr. Director:

I would like to refer myself to our conversation of yesterday afternoon, relative to our request for financial assistance from AID for the execution of the Rural Development Plan, and especially to your question related to the financial capacity of the Central Government to provide the total counterpart to the subject loan.

As I pointed out to you, this General Secretariat is currently working on the financial programming of the Central Government for 1971-1975 and we hope to conclude the first version of this work in the middle of January. However, making all the necessary reservations over the preliminary nature of the figures with

UNCLASSIFIED

UNCLASSIFIED

ANNEX III

Exhibit 4

Page 2 of 5 pages

respect to your question, it is my pleasure to advance some fundamental elements of the proposals which will undoubtedly be contained in our document.

In the first place, we recognize that if the Government of Guatemala intends to undertake an Economic Development Plan of significant size, it will have to amplify the financial base which sustains that plan. In effect, we estimate that savings in the current account for 1970 will ascend only to Q28.9 million (ordinary income == Q157.6 million, and ordinary expenditures == Q128.7 million), an amount which will be destined in large proportion to cover the amortization of the public debt. The development plan which we are preparing requires a substantial increase in public expenditures --as much in investment as in current-- for which fiscal income will have to increase at least at the same rate as the increase in expenditure. Our financial program contemplates achieving this increase in three forms: (a) a minimal annual increase due to expansion of the gross domestic product; (b) a much more substantial increase to result from a program of improvement in administration and collection of existing taxes; and (c) an increase coming from reforms in the structure of existing taxes.

With respect to the historical growth rate of income, we estimate that this oscillates between 3% and 4% annually; that is, less than the annual increase in gross domestic product (in other words, in the absence of reforms in the administration or structure of the tax system, the tax pressure would tend to decline). We estimate that ordinary income from current tax system without the introduction of improvements of any kind would ascend to Q178.9 million in 1974.

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 4  
Page 3 of 5 pages

On the other hand, we believe that a program of improvements in administration and collection of existing taxes offers important gains and to this end we have outlined the formulation of a program to be put into action in middle of 1970. This program will include recommendations for improved assessment, reduction of evasion, facilitation of payment, and mobilization of administrative action on the following taxes: income, property, sales (alcohol, tobacco, petroleum products), stamps, and foreign commerce (imports and exports). The program also contemplates a more restrictive exemption policy, and institutional improvements in the Ministry of Finance. Among the latter, we have in mind unifying the General Directorates of Income and of the Income Tax into a General Directorate of Internal Taxation and the creation of a governmental center of data processing at the level of said Directorate General. Based in preliminary work that we have elaborated, we estimate that the administrative reforms could render an additional Q18.7 million for the year 1974.

Finally, with respect to the legal reforms referred to, we foresee the following changes for the period 1970-1975:

- a) The perspectives for the ratification of the Protocol of San José are highly favorable during the first quarter of 1970. If this is so, the Stabilization Tax will be charged on all Central American imports and not only on some as currently occurs. We estimate that the full action of the San José Protocol will represent additional fiscal income for the Government of Guatemala in excess of Q5 million during its first year of application.
- b) We will propose several reforms to the income tax, basically in the reduction of exemptions

UNCLASSIFIED

UNCLASSIFIED

ANNEX III

Exhibit 4

Page 4 of 5 pages

and legal deductions now applied. Said reforms will bring in Q1.5 million during their first year of application and we estimate that they can be applied in 1971/1972.

- c) We will also propose certain changes in the motor vehicle taxes in order to make them more equitable. Said reforms, which would be applied in 1971, would bring in about Q500,000 during their first year of application.
- d) We will wish to reform the real estate tax to the end of taxing all property at the proportional rate of 6 per thousand. This reform could be introduced in 1971 in order to begin bringing in an additional Q1.5 million in 1972.
- e) During 1971/1972 there could be a new attempt at the creation of a sales tax in substitution for the stamp tax. We estimate that with a generally applied rate of 5%, said tax could bring in Q5 million additional during its first year of application.

In total the above described reforms could bring in Q16.3 million additional in 1974.

Permit me to summarize the very preliminary estimates of the total fiscal income of the Central Government for the next five years (in millions of Quetzales):

<u>Year</u>	<u>Historical Tendency</u>	<u>Income from Administrative Reforms</u>	<u>Income from Legislative Reforms</u>	<u>Total Income</u>
1970	Q 157.6	-	-	157.6
1971	163.9	6.8	5.2	175.9
1972	170.5	10.7	7.4	188.6
1973	176.5	14.7	9.8	201.0
1974	178.9	18.7	16.3	213.9

UNCLASSIFIED

UNCLASSIFIED

ANNEX III  
Exhibit 4  
Page 5 of 5 pages

The projected increases from legal reforms in the tax system are as follows:

<u>Year</u>	<u>Stabilization Tax</u>	<u>Vehicle Taxes</u>	<u>Income Tax</u>	<u>Sales Tax</u>	<u>Total</u>
1971	Q 5.2				Q 5.2
1972	5.4	Q .5	Q 1.5		7.4
1973	5.6	.7	2.0		9.8
1974	5.9	.9	2.5	Q 5.0	16.3

As you will be able to appreciate, our program of improvement in the collection of fiscal income is relatively modest, but realizable. In absolute figures we project annual income increases of from Q18.3 million in 1971 to Q12.4 million in 1973.

If you would like any additional information about financial aspects of the new Development Plan of the Government, I would be happy to give it to you if it is in my power to do so. On the other hand, I hope to be able to refine the projections contained in this letter by the middle of next month with better bases of judgement. In the meantime, I take advantage of this opportunity to assure you of my highest consideration,

Lic. Gert Rosenthal K.  
Secretary General

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SUMMARY: ESTIMATED GUATEMALA PIPELINE - DECEMBER 31, 1969

<u>FINANCING AGENCY</u>	<u>PROJECTS</u>	<u>LOAN TOTAL</u>	<u>UNDISBURSED</u>
AID	7	\$21,438,000	\$14,964,500
BID	9	\$49,620,000	\$34,540,155
CFBEI	4	\$19,550,000	\$11,000,000
EXIM	3	\$17,362,000	\$ 356,000
IBRD	3	\$28,300,000	\$14,804,000
		PIPELINE: \$75,664,655	

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AID-DIC/P-881  
ANNEX III  
Exhibit 5  
Page 1 of 4 pages

ESTIMATED AID - GOG LOAN PIPELINE AS OF DECEMBER 31, 1969

<u>PROJECT</u>	<u>LOAN</u>	<u>SIGNED</u>	<u>DISBURSED</u>	<u>BALANCE</u>
1. Rubber Development	\$5,000,000	8-17-59	\$2,950,000	\$ 2,050,000
2. Rio Hondo Paving	750,000	10-14-66	638,500	119,500
3. Surveys & Studies	2,000,000	9- 1-65	770,000	1,230,000
4. Customs Modernization	700,000	8-17-65	325,000	375,000
5. Malaria Eradication	2,180,000 (2)	8-17-66	1,440,000	740,000
6. Property Tax Development	2,200,000	7-10-67	350,000	1,850,000
7. Primary Education	8,600,000	11-14-68	--	<u>8,600,000</u>
				\$14,964,500

ACTIVE LOANS TO GOG - 7; PIPELINE - \$15 MILLION  
OMITS AUTHORIZED BUT UNSIGNED INFO: \$2.1MM AND STUDIES (SECOND): \$2MM

- (1) Omits Loan 520-L-013 (\$5MM) to FIASA, a private financiera.  
 (2) Increased from \$1,550,000 on July 30, 1969

CRC:smc  
 Estimates at 12-12-69

ANNEX III  
 Exhibit 5  
 Page 2 of 4 pages

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BID - GOG ACTIVE LOAN PIPELINE AT DECEMBER 31, 1969 \*

<u>PROJECT</u>	<u>LOAN</u>	<u>SIGNED</u>	<u>DISBURSED</u>	<u>BALANCE</u>
1. Low-cost Housing (INVI)	SPTF-39: \$5,300,000 (04,800,000; \$500,000)	10-1-62	\$5,300,000	
2. Municipal Water Systems (INFOM)	SPTF-100: \$3,020,000 (0920,000; \$2,100,000)	8-11-66	1,292,698	\$1,727,302
3. Rural Water Supply (SESP)	113-FSO: \$1,300,000 (0100,000; \$1,200,000)	9-30-66	812,698	487,302
4a. Banco de Guatemala ind., ag., livestock	133-O/C: \$3,200,000 (all \$)	12-1-66	2,030,494	1,169,506
4b. Banco de Guatemala ind., ag. credits	105-FSO: \$2,000,000 (0700,000; \$1,300,000)	12-1-66	642,825	1,357,175
4c. Banco de Guatemala ind., ag. credits	106-FSO: \$800,000 (all Q)	12-1-66	761,132	38,868
5. Feeder Roads	129-FSO: \$9,000,000 (01,900,000; \$7,100,000)	3-9-67	2,817,832	6,182,168
6. Small Irrigation Works	162-FSO: \$5,000,000 (03,325,000; \$2,675,000)	2-15-68	685,457	5,314,543
7. Ag. Credits (SCICAS)	204-FSO: \$4,500,000 (02,093,000; \$2,407,000)	4-25-69		4,500,000
8. Higher Education	217-FSO: \$9,500,000 (01,217,000; \$8,283,000)	4-25-69		9,500,000
9. Low-cost Housing (INVI)	219-FSO: \$5,000,000 (01,325,000; \$3,675,000)	4-25-69	736,709	4,263,291
<b>BID SUMMARY - ACTIVE PROJECTS: 9; LOAN TOTAL: \$49,620,000; PIPELINE: \$34,540,155</b>				

\* Includes estimates of December's disbursements.

ANNEX III  
Exhibit 5  
Page 3 of 4  
pages

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CABEI - GOG ACTIVE LOAN PIPELINE AT SEPTEMBER, 1969

<u>PROJECT</u>	<u>LOAN</u>	<u>SIGNED</u>	<u>DISBURSED</u>	<u>BALANCE</u>
1a. El Rancho-Sta. Elena section of Coban Road. Loan No. 147	\$ 4,200,000	8-17-66	\$4,180,062	\$ 19,938
1b. Sta. Elena-Cobán section of Cobán Road	4,000,000	9-11-67	1,542,494	2,457,506
1c. Additional Sta. Elena-Cobán financing	4,700,000	10-24-68	567,170	4,132,830
2a. CA-12 Padre Miguel-Angiatú Road	2,433,000	9-11-67	1,440,149	992,851
2b. Additional CA-12 financing	1,067,000	10-24-68		1,067,000
3. Feasibility Study - Champerico	450,000	3-21-69		450,000
4. GUATEL - Telecommunication	2,700,000			2,700,000

CABEI SUMMARY: ACTIVE PROJECTS: 4, DISBURSEMENT PIPELINE \$11,820,125

EXIM - GOG ACTIVE LOAN PIPELINE AT OCTOBER 31, 1969

<u>PROJECT</u>	<u>LOAN</u>	<u>SIGNED</u>	<u>DISBURSED</u>	<u>BALANCE</u>
1. El Malino/Rio Honda Highways. Loan No. 1253	\$3,812,000	1-24-61 (increased 1966)	\$8,522,577	\$ 289,423
2. Interamerican Highway. Loan No. 1375	4,000,000	1-24-61 (increased 1967)	3,653,341	346,559
3. <del>Marías</del> de Gálvez. Loan No. 2175	4,550,000	9-30-66	4,000,233	549,767

EXIM SUMMARY: ACTIVE PROJECTS: 3, PIPELINE: \$1,185,849

WORLD BANK - GOG ACTIVE LOAN PIPELINE AT DECEMBER 31, 1969

<u>PROJECT</u>	<u>LOAN</u>	<u>SIGNED</u>	<u>DISBURSED</u>	<u>BALANCE</u>
1. Electrification (Jurón Marinalá), No. 487	15,000,000	3-10-67	12,133,000	2,867,000
2. Electrification (Guacalate), No. 545	7,000,000	6-28-68	1,363,000	5,637,000
3. Secondary Education, No.	6,300,000	12-16-68		6,300,000

WORLD BANK SUMMARY: ACTIVE PROJECTS: 3, PIPELINE \$14,800,000

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AID-DIC/P-881

ANNEX III  
Exhibit 6  
Page 1 of 1

CERTIFICATION PURSUANT TO SECTION 611(c) OF THE  
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Richard E. Kaegi, the principal officer of the Agency for International Development in Guatemala, having taken into account, among other things, the maintenance and utilization of projects in Guatemala previously financed or assisted by the United States, do hereby certify that in my judgment Guatemala has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, Rural Development Program.

This judgment is based upon the improving implementation record of AID-financed projects in Guatemala and the quality of the planning which has gone into this new project.

(signed) Richard E. Kaegi  
(date) January 7, 1970

I OPENING BALANCE SHEET - DECEMBER 31, 1970

AGRICULTURE DEVELOPMENT BANK  
(\$ Thousands)

<u>ASSETS</u>		\$26, 8
Liquid Assets	\$ 1,232	
Loans/Investments	16,056	
Other Assets	1,860	
Loans in Arrears	6,950	
<u>LIABILITIES</u>		\$15,030
Deposits	\$ 4,650	
Credits from Central Bank	8,812	
Other Obligations	1,568	
<u>CAPITAL &amp; SURPLUS</u>		\$11,068

II FIRST YEAR INCOME STATEMENT

Income	Interest Earnings	\$1,194,000
Expenses	Administration	<u>474,000</u>
Net Income.....		\$ 720,000

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CASH-FLOW PROJECTION  
AGRICULTURE DEVELOPMENT BANK  
(\$ Thousands)

<u>SOURCE OF FUNDS</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Liquid Assets (1)	\$ 1,697	\$ 2,002	\$ 1,508	\$ 1,230	\$ 2,074
AID Loan	2,500	2,100	2,700	3,200	2,800
IDB Loan (Scicas) (2)	1,425	1,425	---	---	---
Borrower (3)	1,000	1,000	---	---	---
Interest Earnings (8%) (4)	1,194	1,650	2,062	2,427	2,718
Subloan Collections	6,000	11,852	17,388	22,164	26,509
	<u>\$13,816</u>	<u>\$20,029</u>	<u>\$23,658</u>	<u>\$29,024</u>	<u>\$34,101</u>
 <u>USE OF FUNDS</u>					
<u>Subloans: Rural Development</u>					
Original Use	\$ 5,852	\$ 5,536	\$ 4,773	\$ 4,348	\$ 2,928
Rollover Use	---	5,852 (6)	11,388 (6)	16,161 (6)	20,509 (6)
<u>Subloans: Others</u>	6,000	6,000	6,000	6,000	6,000
Administration (4%) (5)	474	696	886	1,060	1,177
Available Surplus	1,490	945	611	1,455	3,487
	<u>\$13,816</u>	<u>\$20,029</u>	<u>\$23,658</u>	<u>\$29,024</u>	<u>\$34,101</u>

- (1) Includes 10% annual growth rate of deposits;  
(2) To be repaid to IDB by Ministry of Finance; not obligation of Bank.  
(3) Counterpart to IDB Loan;  
(4) Interest earned on average balance outstanding;  
(5) Charged against gross annual lending;  
(6) Reflects six-month rollover of vegetables sub-project.

DRAFT

LOAN AUTHORIZATION

Provided from: Alliance for Progress Loan Funds  
GUATEMALA: Rural Development Loan

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Guatemala ("Borrower") up to twenty three million United States dollars (\$23,000,000) to assist in financing the costs of Borrower's rural development program, including up to 16.67 million dollars for basic grains improvement and agricultural diversification, up to 5.58 million dollars for human resources and up to .75 million dollars for improvement in handicrafts ("Project").

1. Interest and Terms of Repayment:

Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars interest on the disbursed balance of the loan of two (2) percent per annum during the grace period and three (3) percent per annum thereafter.

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2. Other Terms and Conditions:

- a. Equipment, materials and services financed under the loan shall have their origin in and be procured from the United States or independent countries of the Western Hemisphere south of the United States (except Cuba).
- b. United States dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through Special Letter of Credit procedures and shall be used only for procurement in the United States.
- c. Prior to and as a condition precedent to the first disbursement under the loan, Borrower shall furnish A.I.D., in form and substance satisfactory to A.I.D., evidence that it has:
  - i. Furnished a detailed financial plan for the Project, including evidence that the quetzal equivalent of \$11,000,000 will be available as needed for the Project from appropriated funds in addition to amounts presently being budgeted for rural development;
  - ii. Completed reorganization of the Ministry of Agriculture;
  - iii. Completed for legislative presentation the drafting of an agrarian reform program intended to increase the amount of land in use for agriculture, increase the efficiency of land use, and improve the incomes of medium and small farmers.

- d. Borrower shall covenant that it and A.I.D. will jointly perform an intensive review of progress made in the previous quarter or quarters towards meeting the goals of the Project and will reach agreement on the remedial actions, if any, to be carried out by Borrower. These reviews shall evaluate the progress of the program and the extent to which qualitative improvements has been effected.
- e. The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

\_\_\_\_\_  
Deputy U.S. Coordinator  
Alliance for Progress

\_\_\_\_\_  
Date