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TO - AID/W TOAID A 4
PD-AAB-157-B1

FROM - Panama City

SUBJECT - Noncapital Project Paper (OROP)

REFERENCE -

Country PANAMA Project No. 525-11-190-070
Project Title AGRICULTURE DEVELOPMENT
Submission Date December 31, 1970 Original X Revision No. _____
U.S. Obligation Span -- FY 1962 through FY 1976
Physical Implementation Span -- FY 1962 through FY 1976
Gross Life-of-Project Financial Requirements (thousands of U.S. dollars) --

U.S. Contribution U.S. Dollars --

Grant

Loan

\$ 25,700,000

Generating Country Contributions (Cash value excluding existing physical facilities and existing equipment) to Grant Funded Project

11,000,000

Other Donors:

23,575,000

Total Contributions

34,575,000

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PAGE 1 OF 11 PAGES

DRAFTED BY Jesse R. Moffett	OFFICE RDD	PHONE NO.	DATE 12/31/70	APPROVED BY: Alexander Firfer, Director
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AID AND OTHER CLEARANCES

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I. SUMMARY DESCRIPTION OF THE PROJECT

A. Purpose

The purpose of this project is to assist the GOP in the planning and implementation of agricultural and rural development programs designed to:

- achieve and sustain a 5 to 6 percent annual agricultural sector growth rate to meet expanding needs for domestic food consumption, export earnings, and raw materials for industrial development, and
- improve inter and intra-sectoral relationships relative to income distribution and quality of life.

These ends will be sought primarily through loan funded activities developed and monitored by grant funded technical assistance focusing on:

- improved policy and program formulation and implementation, and
- expanded use of modern inputs, cultivation practices and agro-industry systems.

B. Progress to Date

Assistance under this project since its initiation in 1962 has resulted in or significantly contributed to:

- Reorganization and decentralization of technical agricultural services in the newly created Ministry of Agriculture and Livestock (formerly Agriculture, Commerce and Industry).
- Expansion of extension agencies from 2) to 42.
- Creation of first source of improved seed varieties tested and produced under local conditions (zero pounds in 1955 to 2.4 million pounds in 1959).
- First supervised credit program for small farmers (in 5 years almost 5000 loans totalling \$2.1 million).
- Completion of a rural cadaster and natural resources study covering 90 percent of the cultivated area and providing new data being actively employed in agricultural planning, the development of a more equitable rural land tax and a more aggressive agrarian reform program.

- Initiation of a 3 year (1970-72) \$7.0 million program focused on achieving productivity increases in a target group of 10,000 small marginal producers.
- New GOP initiatives to improve inter-agency coordination and private sector participation in policy and program formulation, implementation and evaluation.
- Development of 7 new producer associations, 10 new cooperatives, and a national federation of agricultural cooperatives.
- a 1960-69 sector growth rate averaging 6 percent - more than a 100 percent increase over the average of the preceding decade.

C. Summary of Project Future

FY 1971 marks both the start of the second year in the implementation of the Small Farmer Improvement Loan (525-L-034), scheduled for completion in mid-FY 73, and the initiation of a comprehensive sector analysis and planning activity designed to produce a detailed CY 1972-76 agricultural development program. As presently envisioned an AID sector loan will be required to provide a significant portion of the external financing required for execution of this 5 year program. Assuming authorization of a sector type loan in mid-FY 72 and a four year implementation schedule, the life of this project will extend through FY 76.

II. SETTING FOR THE PROJECT

A. Introduction

Panama's agricultural sector provides a livelihood and way of life for approximately 50 percent of the country's population. It employs 40 percent of the economically active population yet produces only 20 percent of the gross domestic product and its per capita output remains one of the lowest in the economy.

Over the past decade, the nation's general economic expansion averaged increases of 8 percent per year as compared to 6 percent for the agricultural sector. (For the 1950's, the respective figures were 4.8 percent and 2.5 percent).

Panama's lagging agriculture production relative to the balance of the economy, combined with increased personal incomes in the urban areas, is resulting in increasing imports of agriculture products. Food imports during the 1950's were constant at an annual level of 13 million balboas. During the 1960's, however, they increased by approximately 50 percent, to an annual level of 20 million in 1969. This represents a needless drain on the economy as 75 percent of these commodities, or suitable substitute therefor, could have been produced locally.

Limited food production, together with high prices, also inhibited food consumption. The population as a whole consumes a lower intake of calories than the FAO minimum standards.

Furthermore, most of the 40 percent of the nation's labor force employed in this sector appear to be experiencing a near-stagnant standard of living while other sectors are experiencing increased levels. These unbalanced living standards promote migration to urban centers, and, in turn, further contribute to the employment problems of these areas.

Experience in countries with comparable characteristics and at a similar development stage indicates that the type of unbalanced growth occurring in Panama soon constrains overall growth rates with the agricultural sector becoming the chief obstacle. For the immediate future, Panama will require a more diversified economic base to sustain the rather high growth rate currently being experienced. Accordingly, agricultural development has recently been given a high priority by both the GOP and the USAID.

B. Historical Performance within the Sector

1.- Productivity: Agriculture's share of total employment dropped from 55 percent in 1950 to 51 percent in 1960 and to about 40 percent currently. The contribution to GNP averaged 23 percent during the 1950's but currently accounts for approximately 20 percent of GNP as other sectors have expanded more rapidly. Crop production accounts for 77 percent of the sector's contribution to GNP, livestock and livestock products 17 percent, fisheries 5 percent, and forestry 1 percent. The growth rate in agricultural output was about one-half that of the economy during the 1950's although fluctuating widely from year to year (decreases of more than 3 percent and increases from 7-15 percent). During the 1950's annual growth has been consistently upward, but at a rate still less than that being achieved by the general economy. Overall performance, however, has been considerably influenced by banana production (largely foreign owned and operated). Best available data indicates only about 5 percent of all farmers have annual produce sales of more than \$1000. Approximately 65 percent have annual produce sales of \$100 or less.

2.- Markets and the Marketing System: The domestic market for local agriculture products has been largely limited to those in the fresh or semi-processed form. Export markets for potential Panamanian agricultural products and raw materials have not been fully investigated or exploited. Substantial imports of selected agricultural products and inconsistent price support policies have both contributed to, and been the result of inadequate domestic production. Considering consumer habits and prevailing levels of purchasing power, the prevailing marketing system appears to seriously inhibit a normal supply response. There are a number of serious deficiencies in the marketing system, among them, inadequate collection, storage, and processing and retailing methods and weak pricing policies. There is a lack of government marketing services such as production forecasting, market price services and grades and standards. The transportation system is inadequate and the lack

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of feeder roads is a particular weakness.

3.- Technology: Thousands of small farmers (lacking in education, research information, credit, and immediate market outlets) limit the amount of cultivated land to what they and their families can cultivate with the machete producing mainly for their own subsistence. Agricultural research is significantly deficient. National crop yields, accordingly, are near stagnant in a number of major commodities. Meanwhile a thin strata of producers are rapidly modernizing their operations and supplying an ever-increasing proportion of the commercial transactions in agricultural commodities.

4.- Land: Panama has a scarcity of arable land with serious soil fertility problems limiting productivity in certain areas. About 30 percent of total land (two-thirds of the estimated potential) is being used for agriculture according to a 1966 survey; the average cropland per farmer (120,000 farmers) is about 4.5 hectares and the average grassland per farmer 11.0 hectares. Poor soils, difficult climatic conditions, and a topography which inhibits movement of machinery from farm to farm and, in some areas from field to field, combine to reduce productivity and the amount of land that can be cultivated by an individual or family unit. Meanwhile development of new potentially productive areas is seriously limited by the lack of access. On a low, but still significant, level there are land tenure problems.

5.- The Government: The Ministry of Agriculture and Livestock has shown a steady trend of improvement and desirable institutional development as reflected in its timely implementation of the 525-L-010 and 034 loan projects. It, however, suffers from a shortage of capable technicians in sufficient numbers and in selected areas of specialization necessary to adequately meet its demanding role in policy and program development and execution.

The Institute of Economic Development (IFE), with responsibilities for promoting production as the official agricultural credit and commodity price support agency, has only recently begun to expand its clientele which, as reported in a 1967 survey, had been limited to the top 7 percent of the nation's farmers ranked in order by annual level of sales.

The Agrarian Reform Commission has not yet had a significant impact on the development process within the agricultural sector but is now grasping for a meaningful role.

In practice there has been no clear demarcation of policy-making and execution functions between these three entities, and no comprehensive detailed agriculture policy with related implementation assignments. In 1964 and again in 1968 (when new administrations began), emphasis was given to rural development (social infrastructure as well as development of agriculture per se). That the GOP continues to give increasing emphasis to the agriculture sector is indicated by the following: (a) agriculture received 6.9 percent of the

public sector capital investment budget in 1960 and 18.9 percent (planned) in 1970; and, (b) the Ministry of Agriculture received \$2.2 million as its budget allocation in 1965 and \$5.6 million in 1970.

6.- Other Donor Assistance: BID throughout the 1960's has provided all (approximately \$13.0 million) of IFE's external borrowing for their agricultural credit program and has been the principal source of external funding for road construction. Presently, BID is also seriously studying a proposal to expand the physical facilities of the University of Panama School of Agriculture. The UNDP activities, principally through FAO, have been active in irrigation studies, pasture and forage research, and in limited short-term technical assistance. IICA has provided limited technical assistance in agrarian reform planning. The Peace Corps also provides volunteer assistance in the MAG extension programs. The use of these related assistance resources has generally been well managed by the GOP and coordination between the international agencies at the working level has also been effective.

III. Strategy and Course of Action

A. Historical Development

Preliminary planning and implementation, during the first two years of this project (1962-63) were focused primarily on crop and livestock production increases among the larger farmers and vocational agriculture education. A concerted effort was also directed at the organizational and operational problems being encountered in the Ministry's assumption of new technical service functions. A study of the forestry sub-sector in 1963 had indicated limited development potential for this particular sub-sector, and fisheries, without project assistance, moved satisfactorily ahead under its own momentum.

In the mid 1960's, AID efforts were expanded to include a focus on production increases among a broader segment of the agricultural sector. This included special extension and credit assistance, cooperative development and assistance to decentralization of the Ministry's technical services. More recently new focuses have included improved coordination of the Ministry, CRA and IFE programs, technical training, and a strengthening of the sectoral review and planning process.

Four AID loans have been authorized and executed in the agriculture sector. A rural cadastre and natural resources survey loan, implemented by the Agrarian Reform Commission, provided \$2.7 million to establish the data necessary for agricultural and rural development planning, more expeditious land titling, and an equitable rural land tax system. An agriculture development loan for \$2.4 million administered by the Ministry was implemented in order to expand the extension services and support facilities, initiate domestic production of improved seed, develop a small demonstration and rental center for farm tractors and machinery, and develop a supervised livestock credit

program. A third loan for \$0.3 million provided funds for construction of two access roads to new resettlement areas. The latest loan to be implemented, \$3.5 million, is designed to broaden the base of commercial farming by focusing inputs and assistance to small farmers with annual produce sales of less than \$1,000.

D. Current Status and Future Planning

For reasons noted in the Introduction to Section II, Setting for the Project, an accelerated expansion of the agricultural sector has been given a high priority by both the GOP and the USAID. By executive decree in November, 1970, a special GOP commission, directed by the deputy director of the National Planning Office, was assigned to carry out an in-depth sector analysis and planning activity designed to produce Panama's first comprehensive 5 year (1972-76) development program for the sector.

The assignment of this commission and its task is an out-growth and expansion of planning activities initiated by the Ministry of Agriculture within the context of the Small Farmer Improvement program. The elevation of this special analysis and planning activity to the level of the National Planning Office is an indication of the priority assigned by the GOP both to this sector and this study. While it is envisioned that significant amounts of the external financing required to support the 1972-76 development program may be provided by other international agencies, principally by BID in the areas of agricultural credit and feeder roads, it is also anticipated that a substantial sectoral type AID loan proposal, probably in the 10 to 15 million dollar range, will result. Such a loan would cover assistance to agricultural research, technical training, marketing, extension, and agrarian reform.

Grant funded assistance through the remainder of the life of this project will be increasingly concentrated on loan development and monitoring. For FY 1971, and the remainder of the life of the project, a rural development officer and 5 agricultural advisors will be employed in general management and implementation of DL-034 (FY 1971-73) and the sector loan (FY 1972-76). This personnel and four local supporting personnel will cost approximately \$70,000 annually.

Grant funded PASA assistance for FY 1971 will include from the USDA one full time marketing advisor and four short-term technicians totalling four man months in the fields of marketing equipment design, agricultural statistics, grades and standards, and marketing news services. The cost of these services in FY 1971 are estimated at \$35,000. In FY 1972 the services of the principal advisor and three man months of short-term assistance will be required at an estimated cost of \$34,000. These advisors will furnish assistance in the development of marketing programs to be financed under DL-034 and will also provide general advice to marketing activities of MAG. Beginning in FY 1973, continuing services of the marketing advisors will be funded under the sector loan.

Other PASA requirements for FY 1971 include two technicians in natural resource utilization and planning for a total of seven man months at an estimated cost of \$23,000. These services, to assist in evaluating the potential of Panama's natural resources for the agricultural sector study, are scheduled from the Natural Resources Division of IASS in

the Canal Zone. Additionally, one farm mortgage advisor for two man months at a cost of \$6,000 is scheduled from the Farm Home Administration and one mineral analyst for three weeks at a cost of \$1,500 will be required from the US Geological Service. These services, to evaluate the demand for long term farm mortgage credit and the quality of local lime stone deposits for agricultural use, provide inputs to the sector study.

FY 1971 contract assistance is scheduled in four areas: (a) a university or personal services contract (subsequently to be phased into the sector loan) to provide assistance to the University of Panama's School of Agriculture to augment its ongoing research in feed and food crops at an estimated cost of \$40,000 for 14 man months of technical services, (b) provide one additional year of funding for the CLUSA contract at \$36,000 to continue technical assistance to the contract termination date of June 30, 1972, (c) a university or personal services contract of approximately \$35,000 to provide 12 man months of services by a senior agricultural economist to assist MAG in developing and analyzing its data inputs into the sector analysis and the subsequent design of a permanent economic research division, (d) other short-term contracts as required in support of the sector study during the last half of FY 1971. The latter, involving both institutional and personal services contracts, are expected to total at least \$50,000.

The tentatively identified contract studies include: (a) a study on the effects of current price policies; (b) factors affecting production costs and productivity at the farm level; (c) foreign agricultural trade potential; (d) land reform measures leading to increased productivity and capital formation among holders of 'possessory rights'-- legal squatters on government lands; (e) opportunities for private sector expansion in vegetable marketing; (f) guidelines for the expansion of university level training in agriculture.

For FY 1972, and in addition to DL-034 funds of approximately \$25,000, an estimated \$50,000 will also be required for contract services to assist in the design of the related sector programs emanating from the sector analysis activities which are expected to be completed in late FY 1971. For the life of the project subsequent to FY 1972, no further grant funded contracts are envisioned unless the final shape of the sector loan dictates monitoring responsibilities beyond the capabilities of the US direct-hire personnel levels.

FY 1971 participant training, at a cost of \$46,500, is scheduled for ten farm leaders at Loyola, two graduate students in agriculture economics and soils for strengthening the faculty at the University of Panama, and five Divisa graduates. FY 1972 participant training would fund completion of the training for the graduate students initiated in FY 1971, and training for five Divisa graduates. All subsequent participant training requirements are expected to be covered under the DL-034 or sector loan.

Other costs during FY 1971 are estimated at \$27,000. A significant portion of this amount is for international and invitational travel related to the use of personnel from AID/W and other Missions in the implementation of the sector study. The balance is for technical publications and demonstration material urgently required for ongoing projects and contracts for data inputs to the sector study to be developed

by senior agricultural and economics students from the University of Panama.

The balance of grant funds programmed for FY 1971 is for the continuation, until loan funds are available, of AID's assistance to the Panamanian Federation of Credit Unions, and for local cooperative leadership training. The Mission is considering a possible loan for \$1.9 million to provide capital and technical assistance to the credit union federation. Until this loan is operational (the Mission hopes for January or February authorization and March signature), the Mission is underwriting \$3,000 a month of the Federation's operating expenses which may be necessary through June, 1971.

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NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

Table 1

Page 1 of 2

COUNTRY: PANAMA

Project Title: Agricultural Development

PROP DATE December 31, 1970

Original

Rev. No.

Project 125-11-150-070

P-NAMA

Fiscal Years	Ap	L/G	Total	Cont ^{1/}	Personnel Serv. ^{2/}			Participants		Commodities		Other Costs	
					AID	PASA	CONT	U.S. Agencies	CONT	Dir. U.S. Ag	CONT	Dir & U.S. Ag	CONT
Prior through Act. FY70	AG CF AL	G G L	1,688 57 8,900	177 57	1,091	24	177 57	98	18	7		273	
Oper. FY 71	AG AL	G L	518 1,800	161	160	66	161	47				84 1,800	
Budg. FY 72	AG AL	G L	394 15,000	50	240	34	50	25				45 15,000	
B + 1 FY 73	AG	G	256		240							16	
B + 2 FY 74	AG	G	256		240							16	
B + 3 FY 75	AG	G	254		240							14	
All Subs.	AG	G	254		240							14	
Total Life			29,377	445	2,451	124	445	170	18	7		26,162	

^{1/} Memorandum (nonadd) column

^{2/} Includes local and TCN personnel costs

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Fiscal Years	Other cash Contribution Cooperating Country ¹ (000)	Other Donnor Funds (\$ Equiv.) (000)
Prior through Act. FY70	11,	6,400 BID 600 FAO
Oper. FY71	100	625 FAO
Budg. FY72	110	1,200 BID 640 FAO
B + 1 FY73	140	2,000 BID 780 FAO
B + 2 FY74	200	3,000 BID 780 FAO
B + 3 FY75	250	3,000 BID 750 FAO
All Subs.	270	3,000 BID 800 FAO
Total Life		23,575

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¹/ Coop. Country contribution for grant funded project.

ANNEX

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FROM - Panama City

SUBJECT - Agriculture Development PROJ

REFERENCE : TOAID A-4; AIDTO A-11

In the January 7 AID/W review of subject PROJ, the USAID was requested to submit an Annex which would summarize the inputs required from both loan and grant funding sources to develop an agricultural sector loan program. The Annex would also identify other activities to be funded under the project which were not directly related to development of the sector loan. Attached herewith is the requested Annex.

Attachment: a/s

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PAGE 1 OF 1 PAGES

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RDD:JMoffett *[Signature]*

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AGRICULTURE DEVELOPMENT PROG. (525-11-090-070)

- A. Major and interdependent purposes of grant funded activities under this program during FY 1971 and FY 1972 are to:
1. Contribute to the development of a comprehensive program for development of the agricultural sector and,
 2. Preparation of a sector loan to support such a program.

Much of the technical assistance effort required during this period will be focused upon the completion of a detailed analysis of the agricultural sector which is a prerequisite for the development of an enlightened sector program. The sector program, in turn, will become the document upon which the GOP will base requests for external financial support, including a A.I.D. sector loan.

- B. An exercise of this type, but with a somewhat less comprehensive scope of work, was envisioned under Component E of A.I.D. Loan 525-11-090-070 (Initiated in FY 1970). Component E provides \$75,000 to be utilized for the improvement of planning and programming of development efforts in the agricultural sector. Under the expanded sector effort these loan funds will be used in the following manner:
1. Overall technical guidance in development of the sector analysis, sector program, and external assistance requirements - \$45,000.
 2. Technical assistance in the development of various sub-projects within the overall sector program - \$30,000.
- C. Due to the increased scope and increased comprehensiveness of the presently planned activities (resulting from the high priority assigned to the agricultural sector by both USAID/Panama and the GOP) grant funded technical assistance will be required to supplement the loan funded activities described above. It should be noted that USAID/Panama is particularly sensitive to the need for a technically accurate analysis of the agricultural sector and a technically sound sector program. The intention is to utilize supplemental technical assistance as a means of assuring this outcome. The following activities are planned for FY 1971 and FY 1972 which will contribute directly to the sector analysis and development of the sector program.
1. Natural Resources:
 - a. Land resource technicians - completion of the on-going land resource and utilization survey (FY 1971, \$23,000).

- b. Mineral analyst - evaluate limestone deposits as a source of agricultural lime (FY 1971, \$1,500).
 2. Farm mortgage credit specialist - to examine farm mortgage credit needs (FY 1971, \$1,000).
 3. Other technical assistance - Sector Analysis: to be further defined as areas in the sector analysis emerge which require specialized short term assistance (FY 1971, \$50,000 contract, \$20,400 - TOV services from AID/W and other USAID's). These areas are tentatively defined as:
 - a. Agricultural Economist - sector cost estimates, production cost and return estimates, price policy evaluation, economic evaluation of land reform measures.
 - b. Marketing system specialist - examination of the agricultural marketing system.
 - c. Education specialist - provide guidelines for expansion of university level training in agriculture.
 - d. Agricultural trade specialist - identify foreign trade potential for agricultural commodities.
 - e. Marketing specialist - evaluate opportunities for private sector expansion in vegetable marketing.
 4. Other technical assistance - Sector Program Development: Technical assistance in developing certain specific agricultural sector-related programs already funded AID Loan 525-L-034. These activities to be defined as they emerge from the sector analysis and preliminary development of the sector program (FY 1972, \$50,000).
 5. Other Costs - Collection of required field data by students of University of Panama (FY 1971 - \$3,500).
- D. Other activities to be grant funded during the life of the project are:
1. Agricultural marketing advisor and technical support (FY 1971, \$35,000; FY 1972, \$34,000).
 2. Completion of on-going contract activities in support of the new federation of agricultural cooperatives (FY 1971, \$36,000).

3. Assistance to MAG in developing a division capable of generating and evaluating agricultural data for policy and program purposes (FY 1971, \$35,000).
4. Interim technical assistance to the Faculty of Agronomy research effort prior to anticipated loan funding (FY 1971, \$40,000).
5. Agricultural technical support - RDD staff (FY 1971, \$160,000; FY 1972 through FY 1976, \$240,000 per year).
6. Participant training (FY 1971, \$47,000; FY 1972, \$25,000). It is possible that there will be a modest requirement for training beyond FY 1972 that will not be covered under the loan.
7. Grant to Panamanian Federation of Credit Unions to support credit union development until loan funds are available (FY 1971, \$23,500).
8. Support for local leadership training for cooperative and credit union leaders (FY 1971, \$22,500).
9. Miscellaneous - RTAC publications; other technical publications, demonstration materials, etc. (FY 1971, \$3,500). It is anticipated that a small annual requirement will continue for the life of the project.

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FROM - WASHINGTON

SUBJECT - Agricultural Development PROP, Project
No. 525-11-190-070

REFERENCE - TOAID A-4

DATE SENT

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1. The LA Bureau PROP review panel approved this project for its life on January 7, 1971.
2. The panel experienced some difficulty in differentiating the purpose of the technical assistance to be provided under this grant project from that provided under DL-034 or the contemplated sector loan. It was suggested that a brief appendix outlining a) the technical assistance function to be performed, b) the source of the TA and c) a note of the reasons for loan or grant funding be prepared to clarify this point.

JOHNCOI

PAGE **1** OF **1** PAGES

DRAFTED BY George A. Hill	OFFICE LA/OPNS	PHONE NO. 29882	DATE 1/20/71	APPROVED BY LA/DP: Jack I. Heller
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AID AND USE OF FUNDS BY GRANTEE
LA/DP: Schnapnick **LA/PAN: J. Royer** **LA/DR: L. Peacock**

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