

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

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AID-DLC/F-838
June 17, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Panama: Small Farmer Improvement

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$3,500,000 to the Government of the Republic of Panama for United States dollar and local cost of goods and services to assist in financing the cost of a participant-oriented program for increasing income among marginal farmers, of which program the major components will be Technological Development Support, Technical Education, Marketing Improvement, Production Credit, and Program and Policy Development.

Please advise us as early as possible but in no event later than close of business on Tuesday, June 24, 1969, if you have a basic policy issue arising out of this proposal.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-IV

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PANAMA - SMALL FARMER IMPROVEMENT

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June 17, 1969

PANAMA: SMALL FARMER IMPROVEMENT

PART ONE SUMMARY AND RECOMMENDATIONS

1. BORROWER: The Government of the Republic of Panama (GOP). The executing agency will be the Ministry of Agriculture, Commerce and Industry (MACI). The financial agent for the production credit will be the Instituto de Fomento Economico (IFE). MACI and IFE are both headquartered in Panama City, Panama.

2. LOAN:
- a. Amount: The loan is for an amount not to exceed \$3.5 million.
 - b. Terms: Loan terms recommended are: 40 years with a 10 year grace period. Interest during the grace period to be 2% per annum and interest for the 30 year repayment period to be 3% per annum.
 - c. Local Cost Component: The total local cost requirements of the project are estimated at \$7,145,000. Of this amount, the AID portion is estimated at \$1,596,000 or approximately 22%.

3. DESCRIPTION OF THE PROJECT:

The project proposed for A.I. D. loan financing consists of five interrelated components for enhancing the economic, social and political life of a target group of small farmers in Panama. The components are:

- a) Technological Development Support.
- b) Technical Education.

- c) Marketing Improvement.
- d) Production Credit.
- e) Program and Policy Development

The limits of A.I.D. financing are identified in Item #5, Financial Plan of the Summary and Recommendations, and are detailed in the body of the loan paper and in Annex II, Exhibits 5 and 6.

4. PURPOSE

This project is designed to assist the GOP accomplish two of its key goals:

- a) Achieve a more equitable distribution of income by accelerating the development process of a target group of small marginally commercial farm operators, and
- b) Facilitate the policy and program development process by improving communication between the target group of small farmers and the GOP.

The project will involve approximately 7,500 farm families within the three year implementation period and a total of 12,500 by the end of the fifth year. As a major indicator of project effectiveness, a 50% increase in net cash income is expected to be achieved with at least 5,000 of the participant farmers within three years and with a total of approximately 10,000 within five years.

5. FINANCIAL PLAN

The proposed financial plan is as follows:
(in thousands) (US \$1 = B/1)

	<u>US \$</u>	<u>Local Costs</u>	<u>Total</u>	<u>%</u>
A.I.D.	1,878	1,596	3,474	38.5
G.O.P.		3,749	3,749	41.5
Farmers Input		500	500	5.5
Repayment Rollover		<u>1,300</u>	<u>1,300</u>	<u>14.5</u>
TOTAL	<u>1,878</u>	<u>7,145</u>	<u>9,023</u>	<u>100.0</u>

6. OTHER SOURCES OF FUNDS

On May 2, 1968, both the Export-Import Bank and the IBRD advised AID/W that they were not interested in financing this project. On May 7, 1968, IDB sent a similar response to AID/W.

7. STATUTORY CHECKLIST

All statutory criteria, as set forth in Annex III of this paper, have been met.

8. VIEWS OF COUNTRY TEAM

The project has been reviewed at length by the Embassy, USAID management and the Chief of the Agro-Industry Development Division of LA/DR of AID/W. Problems in the agricultural sector in such priority areas as income distribution, food production and technology, were identified in the FY 70 Program Memorandum as requiring prompt attention. The Country Team reaffirms that position and addresses these problems with this loan project.

9. LOAN ADMINISTRATION

Usual disbursement and procurement procedures will be followed in this loan.

10. RECOMMENDATIONS

On the basis of the conclusions of the Capital Assistance Committee that the project is technically, economically and financially justified, it is recommended that a loan to the Government of the Republic of Panama for an amount not to exceed three million five hundred thousand United States dollars (\$3,500,000) be authorized subject to the following terms and conditions:

A. 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 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 on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

B. Other Terms and Conditions

1. Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States and Panama. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.
2. United States dollars utilized under the loan to finance local costs shall be made available through appropriate procedures and shall be identified with procurement in the United States.

C. Conditions Precedent to Disbursement of Funds

1. Prior to the issuance of any commitment document or disbursement under the loan, the Borrower shall submit evidence, satisfactory to A.I.D.:

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- i) Of a satisfactory completion of the price support policy study initiated under the Sanderson and Porter/Lopez y Fábrega Associates Marketing Study, pursuant to Section 6.2 of A.I.D. Loan Agreement No. 525-L-010.
 - ii) Of a time-phased implementation plan covering each component of this project, showing interrelationship with and priority relative to other components.
 2. Prior to the issuance of a commitment document or disbursement for each activity under each component of the project, the Borrower shall submit, satisfactory to A.I.D., an implementation-evaluation plan for that activity.
- D. The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

CAPITAL ASSISTANCE COMMITTEE:

Loan Officer:	Norman Cohen
Rural Development Officers:	J. Robert Moffett
	Neil C. Fine
Economist:	Robert Edminster
Engineer:	Charles Stevens
Regional Legal Adviser:	Arthur Mudge
Community Development Officer:	James Green
Controller:	William McMoil
Program Officer:	Jimmy O. Philpott

OTHER ADVISORS AND CONTRIBUTORS:

Paul Holden	USAID/CR - Production Credit Advisor
Milo Cox	Agricultural Advisors
Martin Stoller	
Leonard Horwitz	Deputy Director, Office of Panamanian Affairs, AID/W
Michael Bloom	Deputy Director, Peace Corps/Panama

June 17, 1969

PART TWO: THE PROJECT

SECTION I NATURE OF THE PROJECT

A. DESCRIPTION OF ACTIVITY

1. Brief Project Overview

In an agricultural sector marked by a growing trend toward dualism, this project is designed to assist the Government of Panama accomplish two of its key goals:

- a) achieve a more equitable distribution of income by accelerating the development process of a target group of small marginally commercial farm operators, and
- b) facilitate the policy and program development process by improving communication between the target group and the Government.

Both of these objectives are of equal priority and the techniques to be employed to meet them are mutually supportive. More specifically, at the operational level, this project focuses on accelerating the adoption of improved technology in a selected group of commodities among a target group of marginal farmers, and the development of local, provincial and national committees drawn from the target group to assist in the project implementation and evaluation process:

The project will involve approximately 7,500 participant farm families within the three year disbursement period and a total of 12,500 by the end of the fifth year of the program. As a major indicator of project effectiveness, a 50% net cash income increase is expected to be achieved with at least 5,000 of the participant farmers within three years and with a total of approximately 10,000 within five years. It is believed that at the end of five years the program will be sufficiently institutionalized so that continued use of credit and technical assistance will enable these farmers to sustain a continuous rate of increase of output at least equal to the average rate of increase of the agricultural sector.

2. The Target Group

Selection of the target group for this project is best understood with reference to its production levels as measured by the amount of annual sales of agricultural products.

Best available statistics indicate approximately 5 percent of the Panamanian farmers have sales of \$1,000 or more per year and approximately 25% have sales of \$100 to \$999. (Figure 1 reflects the 1961 agricultural census data. Subsequent field

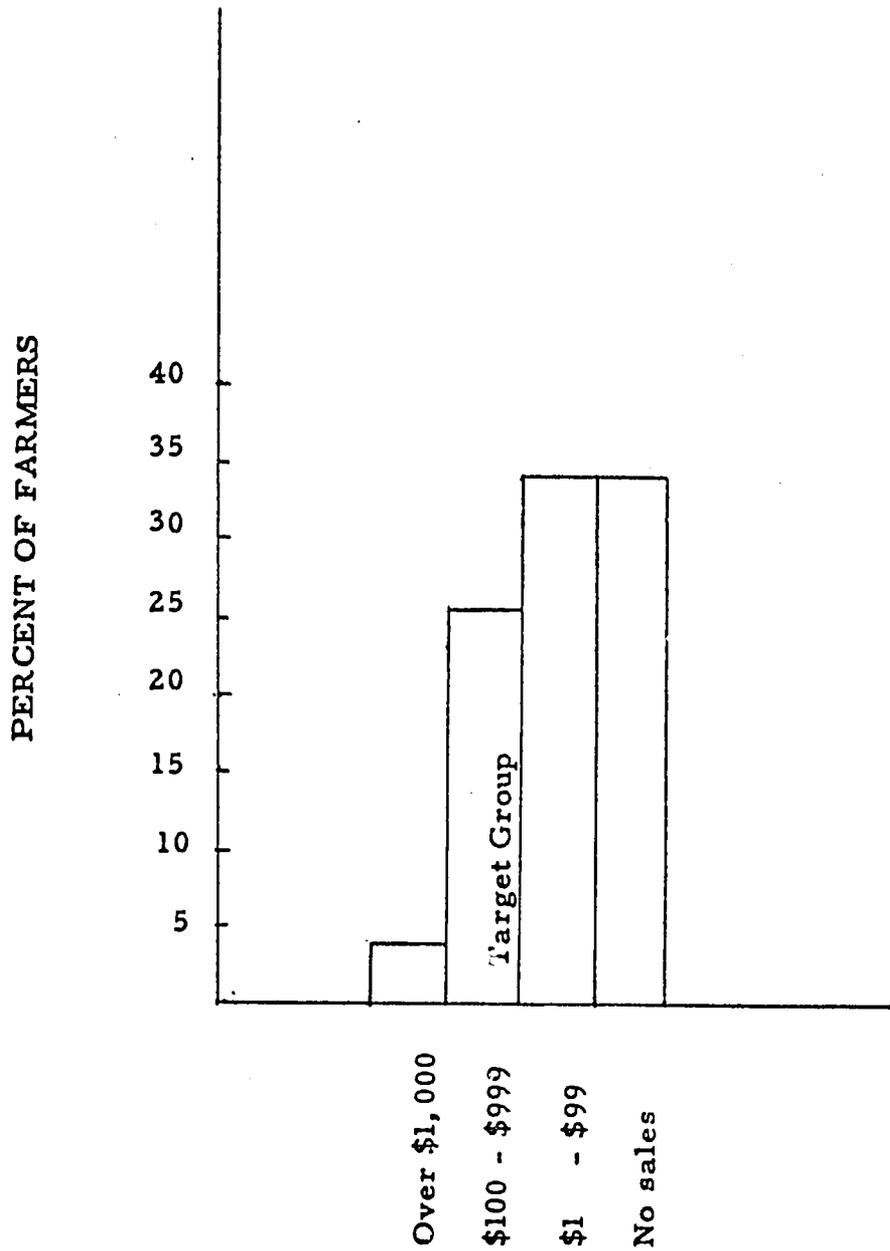


Fig. 1

ANNUAL SALES REPORTED

checks and area surveys indicate little substantive change in the relative percentages.) An accelerated upward movement in annual sales of the farmers in the \$100-\$999 group is to be sought. This group is a logical one on which to focus the resources of the project because its members have the greatest potential for becoming commercial farmers. By increasing their productivity and, thus, their sales, the base of commercial farmers is widened and a more equitable distribution of income is achieved.

The farmers in the category of \$100 - \$999 of sales (some 25,000 - 30,000 small farmers) are too numerous to be treated with the resources which will be available from the GOP and from this project within the three-year time frame established. The number must in some way be reduced until it is more compatible with the probable available resources and timing limitations. Applying the criteria (1) annual sales of \$100 - \$999, and (2) control of 5.0 and 50.0 hectares of land, selects a group of farmers numbering about 18,000 to 20,000 who make up a more manageable-sized group. The sales indicate that the farmers already have some degree of access to a market and the amount of land indicates that they control enough land to have economic units. These criteria serve the purpose of description rather than the purpose of rigid application. It is not contemplated that they would be so inflexibly applied at the lower limits so as to exclude a good candidate for this program.

As a further criterion for qualifying for assistance in this program, target farmers must live within the radius of activities of the MACI rural extension agency and they must be willing to accept group training when available and when appropriate. The number of farmers who can meet the above general criteria and be treated in a time frame of three years (the disbursement period for this loan) is estimated to be approximately 7,500; these make up the initial target group as specified in the first paragraph of this section. However, at the end of the 3-year period the project should be well organized and the GOP plans to absorb an additional 2,500 new farm families into the program in each of the succeeding two years, making a total of approximately 12,500 in five years. Beyond this period it is expected that the GOP will be able to maintain the program at the same level for a reasonable period.

3. Project Components

The first objective of this project will be achieved through the following described components and their interaction. The second objective will be achieved through the procedure by which the project will be implemented at the local level

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The related cost breakdown of the project is as follows:

<u>TOTAL PROJECT COSTS</u> (in thousands of Balboas) (1)			
	<u>A. I. D.</u>	<u>G. O. P.</u>	<u>TOTAL</u>
<u>TECHNOLOGICAL DEVELOPMENT SUPPORT</u>			
Expansion Extension Service	403	650	1,053
Expansion Pure Seed Program	70	151	221
Expansion Rental Machinery Program	<u>478</u>	<u>429</u>	<u>907</u>
Sub-total	951	1,230	2,181
<u>TECHNICAL EDUCATION</u>			
Adult Education Centers	82	261	343
Vocational Education	228	555	783
Scholarships	<u>150</u>	<u>72</u>	<u>222</u>
Sub-total	460	888	1,348
<u>MARKET IMPROVEMENT</u>			
U.S. Technical Assistance	150	125	275
Farmer's Markets	92	401	493
Marketing Program Equipment	<u>71</u>	<u>64</u>	<u>135</u>
Sub-total	313	590	903
<u>AGRICULTURAL CREDIT (2)</u>			
Funds for sub-loans	1,500	--	1,500
Counterpart - operations	--	522	522
U.S. Technical Assistance and Training	100	38	138
Coop Credit Institution	<u>--</u>	<u>250</u>	<u>250</u>
Sub-total	1,600	810	2,410
<u>PROGRAM AND POLICY DEVELOPMENT</u>			
U.S. Technical Assistance	75	50	125
GOP PROJECT MANAGEMENT	--	106	106
CONTINGENCY	<u>75</u>	<u>75</u>	<u>150</u>
TOTAL	3,474	3,749	7,223

- (1) Balboa 1 = US\$1 proceeds from repayment on this loan & 010 loan
 (2) An estimated \$1,302,000 of / will also be available for sub-lending. The target farmer contribution in land rent and labor is estimated to be \$500,000.

and subsequently at higher levels building upon that target group participation described under Operating Criteria.

The following components treat those factors identified in the agricultural system, as related to the target group and the selected commodities, which require improvement or expansion to achieve the first objective:

a) Technological Development Support

- i) Construction and equipment for expansion of Extension Service with related personnel.
- ii) Expansion of the improved seed program.
- iii) Expansion of the machinery rental program.

b) Technical Education

- i) Construction, equipment, and personnel to expand and improve the National School of Agriculture.
- ii) Expansion to triple the adult training facilities for short-term extension courses for the target farmers.
- iii) U.S. training scholarships to provide specialty and graduate training not available in Panama.

c) Marketing Improvement

- i) U.S. technical assistance for the development and implementation of programs of price and market news, grades and standards, crop forecasts, and production cost studies.
- ii) Construction of five (5) small farmer's markets.
- iii) Equipment and personnel for an expansion of the MACI vegetable marketing program.

d) Production Credit

- i) Expansion of the supervised credit fund.
- ii) U.S. technical assistance.

e) Program and Policy Development

- i) U.S. technical assistance.

The U. S. technical assistance, training, special studies and the new and expanded programs will be coordinated by MACI.

The basic components of this project have application to the full geographic extension of Panama's agricultural sector. A

map showing location of construction and support facilities and services is noted in Annex II, Exhibit 2.

A brief description of each component follows (Refer to Annex II, Exhibit I for a complete discussion of each component):

a) Technological Development Support

1) Expansion of Extension Service

This activity provides greater geographical coverage for the Extension Service and improves its operations in areas where it is already established. The expansion is needed to reach a greater number of the target farmers with the technical assistance.

The implementation of this activity involves construction of 15 new extension agency buildings (See Plan #1, Annex II, Exhibit 3) of which 10 are in locations where presently there is no extension service; the construction of two new regional center office buildings and one warehouse-shop (Annex II, Exhibit 3 Plan Nos. 3 and 9); the purchase of 41 vehicles, one of which is a mobile audio visual unit; procurement of equipment for maintenance of vehicles and agricultural machinery; and demonstration equipment.

Annex II, Exhibit 2 is a map which shows the location of the above-mentioned buildings. Extension agency buildings are modest structures in which extension agents, credit agents, rural youth club agents and home demonstration agents have their offices. In many cases these offices will be the site for farmer's meetings and for local credit committee meetings.

The GOP input in this activity is for construction, salaries of the additional personnel (extension agents, and regional administrative and technical personnel) who will be employed, their per diem costs, maintenance costs of new buildings and equipment, and operating costs of vehicles, spare parts, etc. The AID input will cover 40 percent of construction costs and the U.S. procurement of vehicles and equipment.

ii) Expansion Pure Seed Program

The purpose of this activity is to double the output of improved seeds from the MACI Improved Seed Program, thus ensuring an adequate supply of pure seed for the target farmers of this Project. These seeds are only of the selected commodities.

The present Pure Seed Program of MACI, with facilities and headquarters located at Divisa, was a component of a previous Agricultural Development Loan (AID Loan 525-L-010). It was initiated in 1966 with technical assistance from the Mississippi State University - AID/W contract. It is now a successful ongoing program, but it has reached its limit for expansion for lack of storage space. This activity will construct and equip the required additional storage space at Divisa and a new center in Alanje. (See Annex 11, Exhibit 2 Map; for locations and Annex 11, Exhibit 3, Plan Nos. 16, 17).

Plans for this activity were reviewed in April, 1969 by a TDY consultant from the Mississippi State University - AID/W contract. He confirmed the correctness of Borrower's estimate of facilities needed to meet target farmer requirements in the near future. It is planned that the same consultant will be recalled to direct the installation of equipment in the new plant at Alanje. The GOP input is for construction, salaries, maintenance and operating expenses; the AID input will cover 40 percent of construction plus U.S. procurement of equipment.

iii) Machinery Rental Program

This activity provides a demonstration and machinery rental program for the target farmers to be operated by MACI in two areas of a high concentration of arable land and where mechanization is at a very low level. In operation, the activity will permit MACI to demonstrate to the target farmers those increases in production and income which may be achieved through better use of their land and to assist the target farmers in securing those small increments of mechanized power (i.e., a 55 horsepower tractor for 2-3 days) which can substantially increase productivity when available at reasonable rates. An additional objective of the activity is to demonstrate the feasibility and increase

the demand for farm machinery rental as an independent business enterprise or as an additional source of income for medium size farmers having only a marginal need for selected mechanically powered units.

The development of two such centers are planned at Las Tablas and Santiago, areas of high density of target farmers. (See Map Annex II, Exhibit 2 for locations; Annex II, Exhibit 3, Plan Nº 18; Annex II, Exhibit 4 for equipment list.) These centers will be patterned after and operated jointly with a machinery rental center now operating at Divisa.

The GOP input is to finance land, construction, operation and maintenance. The AID input will cover 40 percent of construction costs and the U.S. procurement of the related equipment and supplies.

b) Technical Education

1) Adult Education Centers

The basic objective of this activity is to triple the available facilities for group training of small farmers in short courses and to have training facilities available as the target group expands.

The objective is to be accomplished by constructing and equipping two new centers to be located at Capira and Concepción, (See Map Annex II, Exhibit 2). These centers will serve also as facilities for district or area meetings of farmer cooperatives or associations, the 4-S rural youth clubs, etc. (See Annex II, Exhibit 3 Plan #2).

The rapid acquisition of knowledge on the part of small farmers relative to improved technology, and particularly improved cultivation practices, is greatly facilitated by intensive short-courses directed by the research and extension personnel.

The participants for training at Adult Centers are to be selected from the target group by extension agents, who customarily select the more progressive small farmers in their respective areas and, subsequently, by the target group themselves. Approx-

imately 1,000 farmers per year from the target group will be given training in improved agricultural technology and CD at each of the two new centers and another 500 per year at the existing center. These courses average one week in duration and the farmers selected will be those who show the most interest in and capability to adopt new techniques to improve their own production and who may influence their neighbors to do the same, thus multiplying the training effect.

The GOP input is for land, 60% of the construction, salaries, food and transportation for trainees, and maintenance. The AID input will cover 40 percent of construction and the U.S. procurement of related equipment and training supplies.

ii) Vocational Education

This activity will increase the enrollment capacity of the National School of Agriculture, a vocational secondary school, to double its present capacity and permit curriculum improvements by providing new facilities. The activity will support the project operations with target farmers by training replacement extension agents and new credit agents who will be required to expand the target farmer program and to carry it on after the initial three year implementation period.

The National School of Agriculture is the major source of MACI personnel for operations in the rural areas. The expansion contemplated would increase the normal enrollment capacity from 116 to 212 students.

To effect this expansion, buildings will be needed to house students, and faculty (see Plan Nos. 10, 6, and 7, Annex 11, Exhibit 3 and new service and laboratory facilities (Plan Nos. 8, 11, 12, 13 and 14).

The major GOP inputs are for construction, new salaries for additional faculty, maintenance of facilities, and room and board for students. The AID input would cover 40 percent of construction and U.S. procurement of related equipment, materials and supplies.

111) Scholarships

The objective of this activity is to provide the full range of high-level qualified personnel not available presently or in the foreseeable future, which will be required by MACI to complete implementation, improve and sustain the new efforts growing principally out of the following components and activities: Program and Policy Development, Marketing, Supervised Credit, Expansion of the Extension Service and Vocational Education.

This training, not available in Panama, will involve the U.S. training of a minimum of 30 participants in short-courses, graduate level and specialty courses.

The GOP input reflects principally salaries paid to trainees during their absence from the country; the AID input covers transportation and U.S. training costs.

c) Market Improvement

1) U.S. Technical Assistance

The objective of this activity is to provide technical assistance in the development, training and implementation of a series of basic government services needed in Panama to stimulate the development of a modern marketing system and to provide additional data needed to improve GOP price support programming. The services will include the following:

- (a) Program of Price and Market News
- (b) Grades and Standards Program
- (c) Crop Forecasting Program
- (d) Production Cost Studies

While it is recognized that this activity will affect all types of producers, it is vital to improvement of a recently renewed MACI Vegetable Marketing Program which is directed almost exclusively at the project's target farmer group.

The GOP input will finance the salaries of local personnel required to initiate these programs and carry out the cost production studies. The AID input will finance U.S. technical assistance and a small amount of related equipment. The TA will be obtained most probably through a USDA PASA agreement.

ii) Farmer Markets

The purpose of this activity is to provide a place where target farmers may sell produce directly to the consumer, eliminating intervention of middlemen, and thus obtaining a higher share of the consumer's price. At the same time the consumer may find it to his advantage to deal directly with the farmer.

This type of farmers' market was recommended by Sanderson and Porter/Lopez Fábrega and Associates in their study of agricultural marketing in Panama. Two such markets have been operating in Panama for 3 to 5 years and are considered very successful. A total of five (5) new markets of simple design (see Annex 11, Exhibit 3 Plan Nos. 25 and 26), will be built. Two will be constructed in Panama; the other three will be built in Santiago, Chitré and Colón. (See Map, Annex 11, Exhibit 2). These are the urban centers where target farmers may have direct access to a considerable number of consumers.

GOP contribution consists of construction costs (60%), land, maintenance, and salaries of operating personnel. The AID input will cover 40 percent of construction costs and U.S. procurement of a limited amount of related equipment.

iii) Marketing Program Equipment

This activity is to provide additional equipment to permit an expansion of the recently renewed MACI Vegetable Marketing Program. This program receives produce on a consignment basis from small producers which is then processed and wholesaled.

The equipment for this program consists of drying equipment for onions, washing and drying equipment

for potatoes, and one large refrigerated truck to handle consolidated shipments from the interior of the most perishable commodities.

Onion drying equipment will be installed at Chitré and Natá. At these places it will also be necessary to construct buildings to house the equipment and provide temporary storage space. (See Plan No. 19 Annex II, Exhibit 3).

The potato washing and drying equipment will be installed in existing buildings at Cerro Punta and Boquete. (See Map, Annex II, Exhibit 2 for locations of the onion drying facilities and the potato washing-drying equipment).

The GOP input is for construction costs, land, operating personnel, and maintenance and operation costs of the refrigerated truck. The AID input will provide 40 percent of the construction costs and the U.S. procurement of the related machinery and equipment.

d) Agricultural Credit

i) Funds for sub-loans

The purpose of this activity is to provide supervised agricultural credit for approximately four-fifths of the target farmers of this project. This activity constitutes the major portion of the financing involved. It will provide \$1,500,000 for re-lending, with about \$1,200,000 for supervised sub-loans to the farmers and \$300,000 as loans to cooperatives for the construction of supply outlets, storage facilities, transport equipment, grain dryers, etc. A portion of the \$1.2 million may, under appropriate conditions, also be made available to qualified cooperatives for re-lending. Annex II, Exhibit 7 gives detailed estimates of the lending and collections by years. Annex II, Exhibit 1 gives a review of the present agricultural credit situation in Panama, including the need for supervised credit.

For the first three years the estimated needs of this activity are:

For supervised credit	\$2,349,500
For credit to cooperatives	<u>300,000</u>
Total	\$2,649,500 or \$2.7 million

These needs will be satisfied from the following sources:

New funds, this loan	\$1,405,000
Proceeds O10 loan	600,000
Proceeds this loan	<u>702,000</u>
Total	\$2,707,000 or \$2.7 million

II) Counterpart Operations

The GOP input of \$522,000 covers salaries of new credit agents to be employed in the operation of this project for the three-year implementation period, and related expenses of transportation, per diem, and office expenses for the same period. Once the lending program starts, GOP is expected to maintain it, or even increase it, over a period of several years; the amount indicated here is for the initial three year implementation phase only.

III) U.S. Technical Assistance and Training

The purpose of this activity is to provide advice and assistance to the Borrower on the management and improvement of project lending operations. It will provide the services of an Advisor in Credit for a minimum of two years to work with the program especially in training technicians in MACI and IFE. The Advisor is also expected to set up a continuing training program for field personnel. The \$100,000 AID input also provides, in addition to the long-term Advisor, short-term consultant service to assist in the development of improved procedures and evaluation techniques.

The GOP contribution to the in-country training operation will be \$38,000.

iv) Cooperative Credit

The GOP will finance cooperatives with \$500,000 of new funds for re-lending. Half of this amount is to be for the exclusive use of the target farmers.

e) Program and Policy Development

Correcting a former weakness in the policy-making process for the agricultural sector, in March 1969 MACI was designated by cabinet decree as the entity responsible for national agricultural policy.

This activity proposes to complement and support, with timely technical advice and supporting studies, the MACI development of a medium range development strategy, with its related program and policy guidelines, for the agricultural sector.

This strategy, as presently contemplated, must provide for a broad base of existing rural population participation - and especially that of this project's target group. In addition to advancing further improvements in the production and marketing of commodities for domestic consumption, it is also intended to focus on export production and agri-industry development.

The GOP input covers salaries and related administrative expenses; the AID input will provide U.S. technical assistance.

B. OPERATING CRITERIA

1. Relationship to GOP Policy

This project is fully compatible with, and in direct support of, increasing GOP initiatives, to focus greater attention on the economic, social and political development of its rural areas and the creation of a viable agricultural sector capable of more effectively contributing to a balanced national growth and development process. These initiatives, appearing with increased frequency since 1962, have included creation of an agrarian reform agency, decentralization of the Ministry of Agriculture, new funds for agricultural credit and two large programs of rural self-help school construction. A 1964 AID loan-funded agricultural project assisted in considerably expanding MACI's capability to service the agricultural sector, and this project is now being requested to assist in treating a "second generation" development problem: that of achieving a more equitable and broader based participation in the forward momentum.

2. Project Management

The guidance and management of this project will emanate

from the GOP Project Director's office in the Program Office of MACI. His full time staff will include, as a minimum, an assistant project director, an accountant, an engineer, and a secretary. Also accountable to the Project Director for the related activities will be the respective division heads for research and extension, procurement, engineering, marketing, production credit and the director of the National Agricultural Institute at Divisa for vocational and adult education activities.

Field operations, involving principally the extension, credit and target group organizational activities, will revolve outward from the extension agencies under the direction of six MACI regional directors, who in turn will report to the Project Director through a coordinator.

3. Orientation of MACI Field Personnel

An initial step in operations will be the orientation of all of the MACI regional directors and extension agents as to the overall project and, more particularly, its goals and procedures for field operations at the local level. These field operations will also be complemented by the separately financed community development program which is already active in the rural areas as well as by the assistance of Peace Corps Volunteers assigned to MACI. To achieve the desired level of coordination between this project and the related activities of the CD and Peace Corps personnel, the MACI agents, during their initial orientation, will also receive CD indoctrination and plan complementary actions with representatives of the CD and Peace Corps staffs.

4. Orientation of Target Group Leaders

Each of the MACI extension agents will select from the local target farmers an average of ten potential farm leaders who will be sent to the Adult Training Center at Divisa during the first year of the project. These leaders, approximately 400, will be given an explanation of the program, a short course in supervised agricultural credit with emphasis on the responsibility of the local farmers to participate in its implementation and administration and a brief CD indoctrination. The latter will enable them and the local groups to organize more effectively to maximize use of the MACI technicians in technical assistance

rather than organizational activities. During the second year and thereafter, a brief version of this orientation would also be included in the agricultural short courses given to the target farmers in the three adult education centers.

5. Target Group Organization

Many comparable small farmer groups already exist, developed by MACI in the past year to facilitate the on-going technical assistance and credit programs. However, as the farm leaders return from their indoctrination on this project, they will assist the local agency to organize the target farmers into participating groups. These will be the vehicles for group training by MACI agents on production improvements in the selected commodities, the use of credit and marketing, and subsequently, for evaluating the project activities. Some of these groups, varying in size from 10 to 15 farmers upward, may wish to join with other groups under appropriate conditions to form cooperatives, or to do so independently. Each of these groups elects a representative to the district committee and thereafter upward to the provincial and national committees.

At the local community level, where 1 to 3 groups will normally prevail, the participants will elect local committees of three persons, preferably farmers who have received the related training. These committees will be responsible for initially screening all credit applications for their respective areas and for the subsequent evaluation of the overall project at their local level.

It is proposed that these committees have real responsibilities for the credit and technical assistance preparations. The committees at the provincial levels would have no operational responsibilities, but would periodically evaluate the operation of the program in their respective provinces, perhaps on quarterly basis, and advise the MACI Regional Office and the National Committee of their findings and recommendations. If the recommendation is of a fiscal nature, the provincial committee may make it known to the IFE agency involved. The National Committee, which might meet semi-annually, would advise the Minister of MACI and press for such changes as they feel are necessary.

6. Sub-lending Procedures and Terms

The funds for Supervised Agricultural Credit will be made available to MACI, but IFE will provide the banking services as in the present arrangement on 525-L-010 loan funds. In an alternative procedure, MACI may make available credit funds to agricultural credit cooperatives and/or a cooperative credit institution, always provided that (1) the money be re-loaned to farmers in the target group, (2) that the farmer agrees to accept supervision from MACI and (3) that the farmer has the approval of the cooperatives credit board.

As presently projected, program criteria would require that at least sixty percent of the supervised credit funds would be placed in crops production (principally corn, rice, beans and vegetables), and no more than forty percent go into livestock production. The average crop sub-loan would be about \$200 and the average livestock sub-loan \$350. The interest rate to be charged for sub-loans would be 8 percent. For crop production loans the term would be up to one year; livestock loans up to a maximum of five years. As determined by IFE, and to avoid overlapping programs, no farmer would be qualified for credit from this loan if he could qualify for credit from the IFE-BID programs. (See Annex II, Exhibit I).

Normally the sub-borrower will learn about supervised credit through his participation in an agricultural organization, where he will also be in contact with the MACI extension agent. In the organization, he will learn how to prepare a farm plan and credit application. The sub-loan application will be reviewed by the MACI agent, who assists in preparing a farm plan and a repayment plan. The target farmer will then pass his application to the local credit committee for review. If the application passes this screening, the farmer may complete his credit arrangement in two ways: (1) if his organization has funds for lending, he will obtain his loan directly from it, or (2) if the organization does not have loan funds, he will proceed with his application to IFE to complete the process with the advice and assistance of the MACI agent. After two or three years of experience under supervision, the farmer client is expected to have established a credit rating that will enable him to obtain financing directly from IFE or the farmer's own credit cooperative and to use the credit with minimal attention from MACI.

7. Other Inputs

Besides the technical assistance and credit, the target farmers will be able to purchase through the extension service improved seed from the seed improvement program. Members of the target group - those located near the machinery centers - will be able to rent farm machinery for plowing, planting and harvesting.

8. IFE Marketing Guarantee

The Instituto de Fomento Económico (IFE), which is the executing agency of the GOP price support program, shall agree to purchase at the prevailing support prices such quantities of corn, beans and rice as the target farmers may elect to market in this manner.

C. PROJECT BACKGROUND

1. Origin of Project

Initial negotiations on this project began following receipt of a formal application from Borrower, dated March 8, 1967, requesting an A.I.D. loan of \$3.6 million to finance a "Second Rural Development Program." This program consisted of several rather distinct components, some of which were continuations and expansions of activities begun under the preceding Agricultural Development Loan.

The Borrower's application for a second agricultural loan has undergone intensive study and review in the Mission, with TDY assistance from AID/W, and by the National Planning Office and MACI. In June of 1968, the original loan paper was returned to the Mission by AID/W without specific written instructions, but with the suggestion that more emphasis be put on credit and that the appearance of "scatteration" be eliminated by interrelating the various components.

The Borrower has recently submitted a revised application under date of May 12, 1969. Some of the former components were eliminated as a specific target farmer group was selected, and specific objectives with respect to those farmers set up. The loan now consists of components directed at the target group, namely supervised credit, adult education,

availability of pure seed, availability of farm machinery, and selected marketing improvements. The other components of the loan, expansion of the extension service, vocational education, scholarships and program and policy development are included because they are necessary for providing the personnel, organization and facilities to complete implementation and to institutionalize the program.

An additional new feature is the inclusion in the plan of operations of project procedures whereby the small target farmers are to be drawn into participation in groups and committees purposely designed to give them a voice in implementing and evaluating the program and to provide for them a mechanism for participating in the making of overall agricultural policy. Another benefit expected would be reduced administrative costs and improved subloan collections.

2. Resolved Issues

The following issues have been raised during the development of this project and addressed as follows:

a. Issue

Of the loan components, it appears that only supervised agricultural credit activities will be exclusively utilized by the small farmers. In view of the fact that the primary goal of the loan will be to increase the production and productivity of the small farmer, should not all of the components of this proposed program be specifically directed towards the small farmer?

Answer

The following loan activities are addressed exclusively to target farmers:

Funds for sub-loans and rollover	\$2,800,000
Counterpart credit operations	522,000
Expansion rental machinery	907,000
Adult Education centers	343,000
Pure Seed Program	221,000
	<hr/>
Total	\$4,793,000

The following activities are addressed to the target farmers on the basis that these farmers have the highest priority as to use:

Marketing Program Equipment	\$ 135,000
Farmers Markets	493,000
	<hr/>
Total	\$ 628,000

Thus a total of \$5,421,000 or 60% of the total cost of the project will go for activities that directly assist the target farmers. The other 40% of the project costs are for necessary infrastructure support activities to sustain and improve the target farmer operations well after the end of the three-year implementation period of this project. These support activities, then, institutionalize the operative activities directed to the target farmers.

b) Issue

Analysis of Panama's price support program policies was a covenant in Loan 525-L-010. However, the study conducted was not completely satisfactory to AID and was recommended that such a price study be made a condition of the proposed loan with a specific time schedule. If necessary the loan paper should recommend that funds from the loan may be used to finance such a study.

Answer

A review of the covenant on price support policy (AID loan 525-L-010) is presented in Part Two, Section I, C. Borrower has now agreed to carry out a more comprehensive analysis and review of its price support program policy and such a study is made a condition precedent to any disbursement under this loan (See Part Two, Section III, B., Conditions and Covenants).

c) Issue

In view of the large percentage of local currency cost in the loan, the CAEC should decide whether AID should require more than the minimum requirements set forth in the Special Letter of Credit Memorandum.

Answer

See Part Two, Section II, D. 4.

a) Issue

The loan paper should include consideration of Title IX opportunities under the program. For example, it may be possible to stimulate the development of cooperatives and village associations through the supervised credit program and through specific inputs in adult education and training.

Answer

In line with the above suggestion, the loan project as re-structured involves the target group in the implementation and evaluation of the project and provides structures and procedures to give them a greater voice in the related program and policy decision-making process. (See Part Two, Section 1, 8, 4 and 5)

3. Evaluation of AID Loan 525-L-010

a) Borrower Compliance with Significant Conditions and Covenants

AID Loan 525-L-010 Agricultural Development, signed November 2, 1964, provided \$2.4 million toward a \$5.2 million program which financed construction and equipment for the extension service in six priority areas, a pure seed production activity, a machinery rental center and a supervised livestock credit activity.

The loan agreement contained five areas of conditions precedent and these five areas covered a total of 15 conditions that had to be met. All conditions were satisfactorily met.

Among the additional covenants and warranties (Article VI of Loan Agreement) Section 6.2 - Review of Price Support Policies - was the only one that created a problem. (See Annex 1, Approval of IRR). In this section Borrower covenanted...." to promptly undertake, with pertinent advice of A.I.D., a comprehensive review of its agricultural price support policies and practices with a view toward improvements to be made therein."

To comply with this covenant, Borrower had three possibilities: (1) carry out the study of contracting for it at Borrower's expense; (2) include the study in the

scope of work of the Agricultural Marketing Study financed under AID Loan 525-L-008; or (3) obtain the study through IFE. (A price support study was also a requirement under an IDB loan to IFE, which established funds for the study).

With pertinent advice of AID/W, an effort was made to follow the second possibility; i.e. to include the price support review in the Agricultural Marketing Study. In January 1966 and in following weeks there was exchange of viewpoints between AID/W and the Mission on the subject of what the study would include. Ultimately, this proposal was rejected by the National Planning Office which was GOP's agent for AID Loan 525-L-008. The Mission then notified MACI to select another approach and on May 11, 1966 MACI replied that the Institute of Economic Development (IFE) was contracting the services of the Latin-American Institute of Agricultural Marketing (ILMA) to carry out studies "relating to norms and regulations of price support, and price support policies, including the general field of marketing, as applies to agricultural products." Copies of correspondence were enclosed from which it was learned that IDB would approve ILMA as the contractor and that the technical assistance could be financed by IDB. It then seemed reasonable to wait until results of the IDB-financed study could be appraised. This study was never carried out.

In March, 1967, the AID financed study on Agricultural Marketing by Sanderson and Porter/Lopez-Fabrega and Associates was finished. It included a considerable amount of material on the present policies, operation of the price support program and its apparent effectiveness. One entire chapter (Chapter XXII - 40 pages) dealt with that subject. It shows that drying and storage facilities available to outlying and remote country stations are simply not adequate to maintain an effective price support system, nor was IFE sufficiently financed to do so even if the facilities were available. In other chapters (Chapters XXV, XXVIII) the study takes up in detail some recommendations for correcting the operational weaknesses in the on-going price support program. This study was submitted to IDB in Washington, where it was accepted in satisfaction of the agreement between IFE and IDB to obtain a price support study. Subsequently, the funds which were to finance the study were approved for a study of IFE's auditing and accounting system for the purpose

of effecting improvements therein.

The cited study, however, as related to fully satisfying the Section 6.2 requirement, failed to provide a sufficiently comprehensive analysis of the present price support policies and the related recommendations for functional, as contrasted to operational improvements. Efforts to correct this deficiency, until recently, have been thwarted by the local political events and developments, but will be dealt with as a condition precedent in the proposed loan. Current indications are that the Minister of MACI and the National Planning Office are anxious to complete this study recognizing the importance thereof.

b) Physical Achievements and Institutional Improvements

As mentioned briefly in the preceding section, the \$2.4 million Agricultural Development Loan assisted Borrower (MACI) in carrying out a project of agricultural development. In more detail the activities financed were:

- i) The provision of building and equipment facilities in six areas, selected by the Panamanian government for intensive coordinated economic and social development.
- ii) The provision for these six areas of marketing sheds, agricultural equipment for custom work in land preparation and crop production and harvesting; and improved seed for testing and distribution.
- iii) The purchase of additional equipment for the National School of Agriculture located at Divisa.
- iv) The establishment of a special fund for supervised credit for livestock producers following coordinated livestock and pasture management plans to finance the purchase of quality breeding stock, artificial insemination, pasture improvement and supplemental feeding, and livestock water development. (See Annex II, Exhibit 8 for detailed evaluation).

As stated in the Capital Assistance Paper, the general purpose of this project was to increase in six priority areas both total agricultural production and productivity in terms of yields per hectare and per person employed.

Inasmuch as the construction and staffing of the project were completed in 1967, the project has been fully operational for less than two years. An accurate evaluation of the impact of this project, based on production and yields per hectare, is not available for the six areas of concentrated effort, due to the sampling system of the GOP statistical and census bureau which produces the related data, at the lowest level, for provinces only. Global figures are favorable and many significant increases on individual farms have been recorded. General interest and efforts toward productivity increases are widespread and it is considered significant that while rice acreage declined in the 1968/69 crop year, yield per hectare was 28.0 cwt., a 10 percent increase. Livestock and livestock products are also beginning to reflect significant increases.

Aside from the overall production objectives there were intermediate objectives which consisted of the establishment of the physical facilities already mentioned, and for the first time in Panama, the establishment of a supervised agricultural credit program. Borrower succeeded in improving its services in the six priority areas. Each area now has a regional headquarters with a coordinator of technical services for the area. The pure seed program increased in volume of seed output until further growth is now limited by storage space. In the overall implementation of the loan project Borrower's performance was very satisfactory.

c) Relation of AID Loan 525-L-010 and Present Proposed Loan Project

The 010 Loan established certain activities which this loan will expand, namely supervised agricultural credit, construction and equipment for extension service activities, farm machinery rental units and pure seed production facilities. All of these are activities that involve either the inputs for production, financing the inputs, or the personnel who will plan and operate the program. The present loan builds upon the elements of the first loan, but it also focuses specifically on a target group, introduces new activities in the form of technical assistance, participant training, assistance to vocational education, and a strong element of target farmer participation.

3. Review and Recommendations of Country Team

The CAEC approved the IRR on April 18, 1968. It indicated "...that the loan paper should be specific in defining the objectives of the loan and the ways in which it will affect

small farmers." It also stated, "The loan paper should provide a detailed review and explanation of why the covenant by the GOP in loan 010 to undertake a price study was not met." This review and explanation are presented under the Evaluation of the A.I.D. Previous Assistance immediately preceding. (See Annex I - Approval of IRR for the official CAEC minutes.)

The Project was reviewed at length by the Embassy and the USAID management, including chiefs of the Divisions of Capital Development, Community Development, Development Planning and Engineering, and the Chief of the Agro-Industry Development Division of LA/DR of AID/W. The basic conclusion is that the project is feasible, that it will contribute materially to the attainment of Panamanian and USAID objectives, and is timely.

The Country Team recommends the approval of the project loan.

4. Opinions of Other Institutions

The IBRD and the Export-Import Bank have advised AID in writing that they do not have interest in financing the project. Their response was dated May 2, 1968. On May 7, 1968 the IDB also indicated it was not interested in financing this project.

D. PROGRAM JUSTIFICATION

1. Place of Project in the Country Program

The present project follows directly from the overall analysis of the Panamanian economy presented in the FY-1970 Program Memorandum. There it was said that the structure of development had resulted in an "uneven distribution of economic gains" with the rural small farmer being notably excluded. Furthermore, the general sluggishness in agriculture's growth rate was noted. As a consequence of this analysis, the sectoral strategy proposed, inter alia, "credit inputs oriented toward the smaller farmers and improved and expanded research and extension services, technical education for farmers, training for agricultural technicians, scholarships, etc." In a word, exactly those elements embodied in the present project.

2. Project Contribution to Panama's Economic Development

GNP. The secular rate of growth in Panama has been excellent. From 1950 through 1967 the compound annual

growth rate was 6.4% compared with 4.8% for 18 Latin American countries. The really exuberant period of advance has been the 1960's - the growth rate between 1960 and 1967 was 8.1% per year in Panama and 4.5% for Latin America. 1968, a year of political turmoil, was a bad year only by these rather high standards as the GNP increased about 5%.

Panama achieved the highest growth rate in the hemisphere during the 1960's primarily on the basis of the impulse originating in its international sector. (for purposes of economic presentation, both the Colon Free Zone and the Canal Zone are treated as external). The export of goods and services from Panama in 1967 reached a level 111% above that of 1960; an average annual increase of 11.3%. This expansion of foreign earnings was due to an increase of sales of goods and services to the Canal Zone (38% of the total increase); increased commodity exports, mainly bananas and petroleum products to the rest of the world (35%); and the balance, services to the rest of the world, e.g., tourism.

This export growth and the income it generated elicited a high level of domestic capital formation, mainly in the private sector, and probably principally, though here firm data are lacking, in the Metropolitan Area of Panama City. Gross domestic investment for the period 1960-1967 was 19.6% of GNP, compared with 18.6% for the 18 Latin American republics. During the four years ending in 1967, while gross investment was 16% of regional GNP for the CACM countries, it was 19.9% for Panama. About 76% of this gross investment in the 1960-1967 period was financed out of current domestic savings and the balance depended mainly on private and official capital flows and on official transfers. Private flows were usually considerably greater than official assistance.

Balance of Payments. For a country undergoing rapid development with an unusually open economy, Panama has been remarkably free of balance of payments problems since 1960. Exports have increased as noted above, and commodity imports have also increased rapidly (115% between 1960 and 1967). While imports from the U.S. into 19 Latin American countries increased by 17% during the period, 1960-1967, Panama increased its purchases in the U.S. by 27.5% (f.o.b. values). One can get an idea of how dependent Panama is on the international economy from the fact that its imports amount to some 30% of GNP (1967). In spite of a program of import substitution this dependence

is not likely to change materially in the future.

The inflow of private and official capital has made it possible for Panama to sustain a large debit balance on the goods and services account without evidence of disequilibrium. In recent year this deficit has amounted to some 11-13% of the total value of goods and services imported. In 1964 and in 1968 political events caused some temporary strain on the balance of payments which was primarily reflected in the reduced liquidity of the government-owned commercial bank (there is no central bank), but no violent internal contraction occurred and at no point was the monetary system (based on the U.S. dollar) seriously threatened. Panama aspires to become an international finance center and to some extent has already succeeded. Naturally the resulting increase of short term external liabilities increases the economy's vulnerability somewhat.

Budgetary Position. From 1960 through 1968 the revenues of the Central Government increased at a compound annual rate of 9.6%. This brought the revenues of the government to 14.4% of GNP, one of the highest in Central America. The greater part of these increases occurred as a result of the 1964 tax reforms that raised income tax collections by more than 60% from 1964 through 1967. Direct taxes now (1968) account for 47% of total tax revenue. By 1968, however, the impulse from the 1964 reforms had weakened considerably and revenue rose by only 6.7% or about half the previous year's rate of increase. The 1969 budget forecasts an 8% revenue rise.

Government expenditures on current account increased at only slightly less than the rise in revenues since 1960 and in 1968 rose by twice as much as the increase in revenue. As a result in 1968, the Central Government incurred on Ordinary Budget deficit of \$8.8 million. It should be remembered, however, that both the revenue and expenditure pictures in 1968 were distorted by special political factors. The 1969 budget was supposed to be something of an austerity budget with, for example, 855 filled and 2,797 vacant position in the government being eliminated. Total budgeted expenditures for 1969 were, however, up slightly from estimated actual expenditures in the preceding year and it remains to be seen whether actual expenditures in 1969 will be held to budgeted levels.

Income Distribution. Economic growth in Panama since 1960, with the export of services and goods as its leading sector, had its greatest impact on Panama City and

to a lesser extent on the banana regions (Puerto Armuelles and Bocas del Toro) and on Colon (Free Zone, Canal Zone and oil refinery). The result has been a boom in Panama City with rising incomes for businessmen, for the growing professional class, for some skilled workers and for Canal Zone employees. Ample evidence of this prosperity exists in the rapid growth of apartment buildings and other housing for upper and middle income families. Employed, unskilled workers in Panama City and to a lesser degree in other urban centers have had some increase in wage rates due, in part, to minimum wage legislation. With, however, the pool of unemployed in the metropolitan area being replenished by the flow of migrants from the interior, it is unlikely that even continued overall growth at present rates will cause wages to rise rapidly for this group. In the countryside the relatively efficient commercial farms have met the rising domestic demand for foodstuffs with output increases sufficient to maintain stable food prices. Direct data are lacking, but there is no reason to think that incomes in this select sector have not risen at least proportionately with aggregate income.

Rapid economic progress has largely passed two important social groups - the urban slum-dweller and the small farmer. Their incomes have risen very little if at all and, of course, their relative position in Panamanian society has worsened. It is not likely that continued growth even at the high rates of the past several years will help these classes of Panamanians in the near future in the absence of specific ameliorative policies. The present project proposes an attack on the economic problem of one of these two disadvantaged groups - the small farmer. Agriculture presently absorbs about 40% (155,000 persons) of the employed labor force (including the self-employed). The average output per worker in non-agricultural pursuits is approximately 2.7 times as great as the average output per worker in agriculture. The bulk of these agricultural workers are self-employed or unpaid family workers (only one farm worker in six is an employee). Most of these farmers have relatively small holdings. Some 46% of all farms are of less than 12.5 acres and 61% are of less than 125 acres. 1/

Methods of cultivation are generally those of slash and burn agriculture, without animal or mechanical power. Some 88% of Panama's farmers use only human energy and little fertilizer

1/ Data on farm size, sales, etc. are from the 1961 National Agricultural Census. It is unlikely that any significant change in structure has occurred since.

or insecticides. Much of the farming is only partially involved in the money economy. 89% of all farm holdings (1961) had sales under \$300 per year and only 5.5% of all farmers reporting had sales over \$1,000 per year. Even if one makes some allowance for a rise in some prices since 1961, for a tendency to underreport sales proceeds, and for some increase in commercialization, the picture remains essentially unchanged. A very low level of human productivity and hence of income for the majority of Panama's farmers still prevails as a result of a backward technology and a low level of capital input per worker and per hectare.

3. Consistency with the CIAP Reviews

On Panama in the Final Report on the review of February 12-17, 1969, CIAP named agriculture as a sector where prompt planning and action was necessary both for increases in exports and for domestic use. Discussing agricultural policy the Sub-committee said, "Two urgent problems confront the agricultural sector: first, to increase production... and second, to better the living standards of the rural population. The first requires credits, technical assistance, development of markets and the improvement of the infrastructure... The second, mainly requires a better distribution of income and productive resources and an educational effort... To achieve it, it will be absolutely necessary to increase the number of agricultural extension agents capable of bringing technical change to the overall farmers."

4. Certification of USAID's Director (FAA, Section 611(e)).

Annex I contains a certification by USAID Director David Lazar regarding performance by MACI with respect to AID Loan 525-L-010 and to its capability of implementing the proposed loan.

SECTION II: PROJECT ANALYSIS

A BORROWER

1. Principal and Participating Entities

- a) The Government of Panama (GOP) is the Borrower.
- b) Executing Agency: Loan proceeds will be made available to the Ministry of Agriculture, Commerce and Industries (MACI), which will be the implementing agency for this project. The agricultural credit portion of this loan will also be administered by MACI, with the GOP agricultural credit agency, the Instituto de Fomento Económico (IFE), acting as its financial agent.

2. Organization and Management

MACI - The principal purpose of MACI, as dictated by legislative decree, involves the achievement of two objectives: (a) the greatest possible welfare of the farming population and the most rapid social and economic development of the agricultural sector to levels comparable with other sectors of the economy; and (b) the maximum use of natural resources to a level compatible with their adequate conservation. Prior to 1964, MACI remained a strongly centralized agency with approximately 70% of its personnel assigned to the central office in Panama City. In 1964, a decentralization of MACI's agricultural operations resulted in the division of Panama into six regional organizations, each with its own regional director and technical staff. A comparable reorganization of the National Agricultural Institute (research and experimental center) at Divisa with its companion National Agricultural School created the equivalent of a seventh regional organization, and in the period of approximately one year the percentages of MACI personnel in the field, as contrasted to those in the central offices, was completely reversed. The administration and implementation of the previous Agricultural Development Loan (525-L-010) by MACI was considered very good. A.I.D. Audit Report 68-6 of November 30, 1967 is quoted as follows: "The spirit of the Alliance caught by both USAID and MACI personnel generated a warm cooperative effort. As a result, overall administration has been quite satisfactory. Conformance with the provision of the loan agreement and the applicable AID directives has generally been good. The resultant accomplishments, although not without problem areas, have been quite successful."

Organizational charts of MACI and a list of its top staff members are attached. (See Annex II, Exhibits 9 and 10).

IFE - This is an autonomous agency of the GOP created in 1953. While authorized by legislation to pursue a variety of development activities, its most important current activities are the granting of loans to farmers (it is the official agricultural credit agency of the GOP) and the administration of the agricultural price support program. Its administrative budget is derived principally from interest on loans and direct support from the GOP. Similarly, a limited amount of its credit funds are supplied by the GOP, but the bulk, presently totaling \$5.4 million, have been secured in loans from the IDB. Additionally, it is also acting as the financial agent for \$965,000 in MACI loan funds of the previous AID Agricultural Development Project 525-L-010. This entails the making of loan disbursements and collection of payments.

The Minister of Agriculture is the chairman of the governing body of IFE, which will again be designated as the financial agent for the supervised credit funds of this new loan. While IFE's participation has been satisfactory, in light of an expanded program and the need to review, analyze, and plan a continuing production credit program for Panama's small subsistence farmers, considerable inputs of technical assistance related to the supervised credit component of this new proposal are planned, others are being provided by IDB. In the judgment of the Mission, MACI has the ability to execute and administer the project. As a condition precedent of the loan MACI will be required to designate and appoint a project manager and other necessary personnel for this program. Further, MACI will be required to identify in its annual operational budget all expenditures it proposes in support of this project.

B. Engineering Analysis

1. General Description

The project construction is generally a continuation and expansion of that performed under the First Rural Development Program for Technical Assistance and financed under AID Loan 525-L-010. The engineering and construction phase will encompass relatively simple planning and construction consisting of regional and field service centers, adult education centers, shed-type storage and distribution warehouses throughout the country, and additions to the Divisa agricultural vocation school with dormitory, laboratory and other auxiliary facilities.

All proposed buildings are of one-story construction except for one structure, the Divisa school student dormitory which has two stories. Basically, the structures will consist of a reinforced-concrete frame with concrete floors, concrete block walls and corrugated metal roofing on light metal or wood trusses. Preliminary sketches showing basic dimensions and building layouts are showing in Annex II Exhibit 3. The function of these buildings is described more in detail in Section 1.A.

The projected completion progress schedule of 26 months, broken down by proposed construction contracts, is given in Annex II Exhibit 12. This breakdown also indicates the location and the project components of the various construction contracts.

A schedule of the estimated construction costs only is presented in this Section, and a schedule of the estimated total project costs, including those for equipment, furnishings, and other costs, are summarized in Section 1.A. The principal subprojects which involve engineering and construction activity are as follows:

<u>CONSTRUCTION PROGRAM</u>					
(costs in units of \$1,000)					
	<u>No.</u>	<u>Cost per Unit</u>	<u>Total Cost</u>	<u>AID (40%)</u>	<u>GOP (60%)</u>
1. Field Service Centers	15	12.9	193.5	77.4	116.1
2. Regional Centers	2	21.7	43.4	17.3	26.1
3. Mechanical Repair Shop	1	32.9	32.9	13.1	19.8

CONSTRUCTION PROGRAM
(costs in units of \$1,000)

	<u>No.</u>	<u>Cost per Unit</u>	<u>Total Cost</u>	<u>(40%)</u>	<u>(60%)</u>
4. Seed Processing Center	1	80.6	80.6	32.2	48.4
5. Machinery Center	2	42.5	85.0	34.0	51.0
6. Adult Training Center	2	73.7	147.4	59.0	88.4
7. Onion Drying Shed	2	11.7	23.4	9.4	14.0
8. Farmer's Market	2	50.0	100.0	40.0	60.0
	3	33.5	100.5	40.2	60.3
9. Divisa School					
a. Student Dormitory	1	77.4	77.4	31.0	46.4
b. Dining Room & Kitchen	1	60.0	60.0	24.0	36.0
c. Laundry	1	15.5	15.5	6.2	9.3
d. Dairy Products Laboratory	1	20.0	20.0	8.0	12.0
e. Meat Products Laboratory	1	15.8	15.8	6.3	9.5
f. Faculty Housing					
2 bedroom duplex	3	19.1	57.3	22.9	34.4
3 bedroom duplex	3	23.0	69.0	27.6	41.4

CONSTRUCTION PROGRAM
(costs in units of \$1,000)

	<u>No.</u>	<u>Cost per Unit</u>	<u>Total Cost</u>	<u>AID (40%)</u>	<u>GOP (60%)</u>
g. Additions to Hog Shed	1	10.5	10.5	4.2	6.3
h. Addition to Seed Center	1	28.9	28.9	11.6	17.3
i. Utility Extensions (water, sewerage, power) L.S.		25.0	25.0	10.0	15.0
Total estimated construction cost			1,186.1	474.1	711.7

These estimates are based on the cost data and information developed in the work recently completed under the previous AID Loan 525-L-010. The construction cost estimates include an allowance for escalation, construction contingencies, and provisions at selected sites for water, sewerage, electricity and minimum site and drainage work.

For this type of construction, experience has shown that of the total construction cost, 80 per cent represents local currency building costs and 20 per cent U.S. dollar procurement costs. Applying U.S. dollar costs to the A.I.D. contribution of 40 per cent for this construction results in a ratio of 50 per cent of A.I.D. funds for U.S. dollar costs against 50 per cent for local currency costs.

Five of the field service centers will be located in isolated areas, and provisions for water and/or electricity in these areas will be difficult to develop and maintain. For these reasons, these utilities are not included for these five sites. At two of the field service centers sites, small water wells and electric generating units are proposed. The remaining eight field service centers and all other proposed units are located within areas accessible to existing water and electric utility systems. Sewage disposal will be accomplished by means of septic tanks and drain fields. At the Divisa school, an additional allowance has been made, as well, for a new water storage tank and other additions to the existing utility systems.

Although the communities where proposed facilities are to be constructed have been selected, the exact sites of all proposed buildings within the communities are still pending final location. As a result, boring data will be collected during final design and prior to construction. Since these are relatively simple one-story structures with loading well distributed and of little or no concentrated weight, it is not anticipated that soils conditions would appreciably change

the planning herein proposed. In fact, final site selection will be contingent upon adequate soils and drainage conditions.

2. Technical Feasibility

The project is based on standards prepared and developed during the performance and accomplishment under AID Loan 525-L-010. In the implementation of this previous loan, MACI staff personnel furnished all engineering assistance in planning, design and construction supervision.

Based on this experience, MACI has developed the preliminary planning and cost data for the proposed construction to be financed with this new loan. The field service centers, regional centers, and training centers will be duplicates of those previously constructed and will be adapted to the new site condition. This is also true of the shed-type storage warehouses and seed centers. Cost data prepared by MACI on other construction are also based on the previous experience under the 010 loan and include nominal allowances for estimated escalation. No one unit of construction is expected to exceed \$80,000 with the majority of structures costing less than \$35,000.

It is considered that the technical and engineering requirement of FAA Section 611 have been met.

3. Implementation Plan

Final design and supervision of construction will be performed both by MACI using its personnel and its funds and by consultants to be retained by MACI financed with loan funds.

During the implementation of the 010 loan, MACI personnel effectively administered and performed the planning, design and supervision of all construction. It is proposed to do this again on the smaller and simpler projects, such as the regional centers, service centers, training centers, storage sheds and warehouses.

In view of the added work load of this new program and to better and more effectively utilize the present MACI engineering staff, the design and supervision of construction of the additions to the Agricultural School at Divisa will be performed by consultants to be retained by MACI and financed under the loan. The engineering consultant will be either a qualified U.S. firm, Panamanian firm, or joint venture of U.S. and Panamanian firms.

All construction will be performed by contract to be awarded through competitive bidding.

4. Maintenance

MACI will assume the responsibility of operating and maintaining the new facilities. The experience under the OIO loan shows that MACI has developed the organization and is adequately maintaining these previously constructed facilities.

A new operation and maintenance plan will be requested of MACI prior to disbursement for construction showing its revised organization and budget to adequately maintain the proposed facilities to be financed under this new loan.

C. TECHNICAL FEASIBILITY

1. Project Rationale

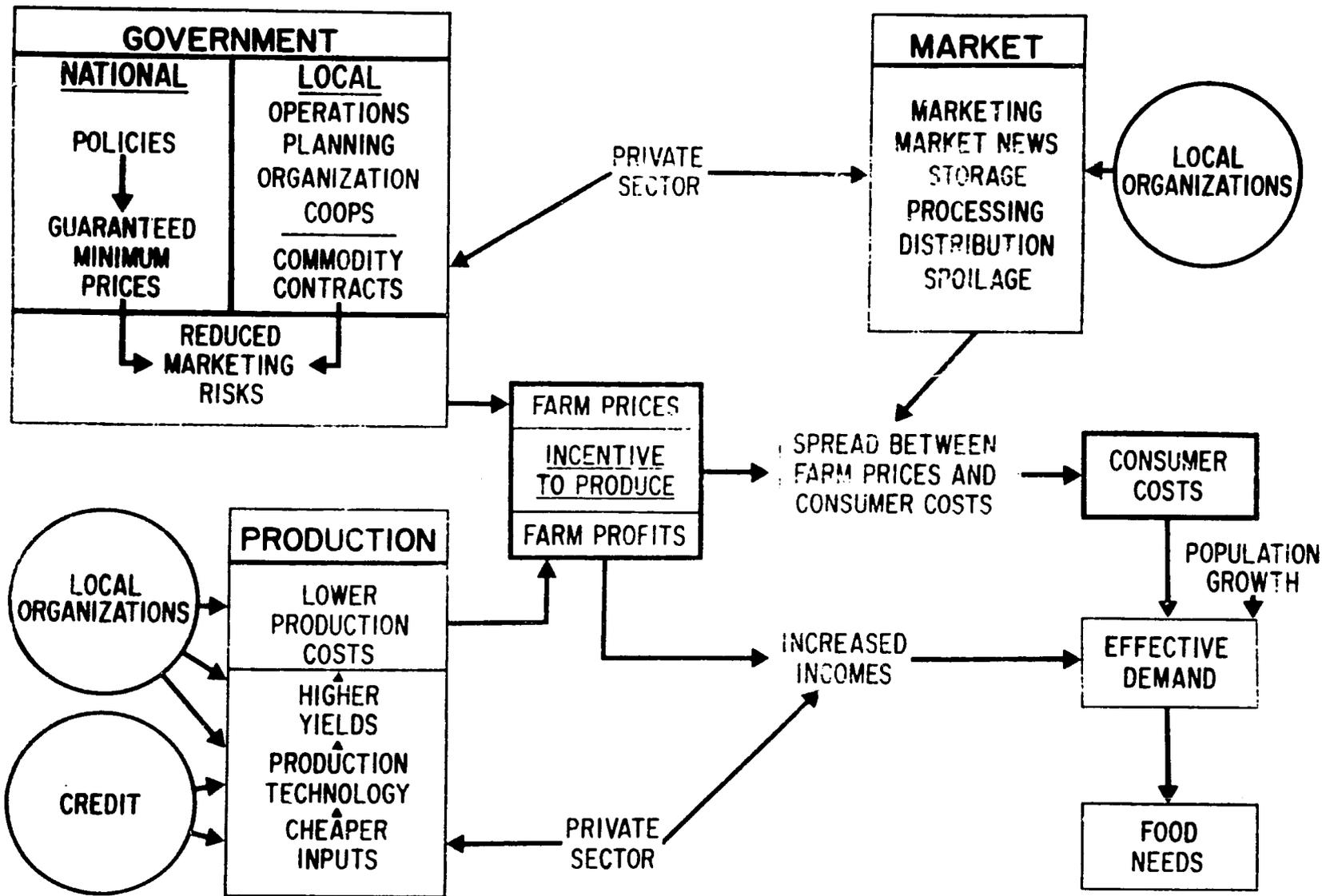
This project is the outgrowth of a series of basic conclusions reached through joint GOP and USAID reviews of the agricultural sector, and with TDY assistance from AID/W and the Costa Rican and Bolivian Missions.

Out of these reviews, basic conclusions were reached which, in turn, assisted in the identification of the selected components and give the program its basic rationale. The general sequence of these conclusions, working from the Sector System Analysis approach recommended by LA/DR/AID (see next page) were as follows:

- a) Effective demand for food will continue to increase under the impetus of population growth and increased incomes provided that consumer costs do not rise too rapidly.
- b) This new demand - and the present deficits - will be generally met by imports if it is not met by locally produced items
- c) Local production increases can come either from new land or improved practices on land already settled.
- d) Enough land is now being farmed, or is immediately available, and improved practices on most of this land would be more economically feasible than opening new lands.
- e) New and improved practices can and are more quickly adopted by large landowners and operators than by small farmers.
- f) Thus, the larger, more efficient farmers that are already using some of the new methods are most likely to capture the new demand, the small farmers will be left out of the growth pattern and they will retreat to a more pure subsistence pattern or join the urban migration.

And in furtherance of the income distribution objective to be sought by broadening the numerical base of commercial farming and providing an improved framework of related policy and programs, the following conclusions were reached:

- a) Programs must be designed that will allow small farmers to be more competitive and allow them to share more



equitably in the market and the profits of a growing agricultural sector.

- b) In bringing small farmers more into the money economy they should also be brought into the policy and program decision-making process.
- c) As participants, these farmers will be involving themselves in the democratic process and, through education and effective communications, this participation can be a logical, thoughtful, and valuable contribution to the success of this project.

2. Commodity Selection

While production increases for the sector are not an immediate objective of this project, but rather the development of a broader base for participation in such increases, in the selection of the crops or commodities to be focused upon, demand for each commodity was carefully considered to insure that the groundwork being laid was compatible with future projections of demand developed by the National Economic Planning Office. Additionally, consideration had to be given to the willingness of the target group to invest their land, labor and the new credit in the selected commodities and, finally, it was deemed advisable to work to the extent possible upward from the base of knowledge and technology existent among the target group. Consideration of these factors resulted in the selection of corn, beans, rice, vegetables, milk and livestock as the commodities upon which the project would be initiated. An annual review of the selected commodities will be jointly conducted by the Borrower and the USAID, however, to insure compatibility of the selection with the objectives of the project, changing market conditions and national sectoral goals.

3. Related Development Strategy

To increase the agricultural productivity of marginal farmers emerging from a traditional agriculture is a complex task requiring many different conditions, or factors, to be created or modified, by different persons and by different groups of people. It is equally baffling because the spirit of a people is also involved. New production and marketing techniques are not enough. They have to be combined and used with intelligence, imagination, experimentation, and continuing hard work. Agricultural development, for this group, is as dependent on how effectively people work together as it is on the natural

resources with which they begin or the new production factors introduced into the system.

Recent activities in the rural areas - an increasing emphasis on rural development, expanding credit, marketing and other infrastructure - have combined to create an environment, affecting both the target group and the MACI personnel, favorable to significant improvements in the spirit and attitudes of the people involved in this project. To modify and capitalize on this factor community development techniques will be employed as noted in the Operating Criteria section.

The transformation from traditional to commercial agriculture in a relatively free market society - the process to be accelerated with the target group - is based predominantly upon the introduction of new factors producing economic incentives to influence farmers in making production decisions and to reward them in accordance with their efficiency. The introduction of these new factors, however, must generally be effected by activities designed to facilitate their adoption and to teach the participant how to make effective use of the new set of factors.

The identification of profitable new factors and the process of effectively introducing and perpetuating them in the agricultural system of the target group was the principal task in the development of this project proposal.

4. Component Selection

This task was pursued in a series of joint GOP and USAID reviews of the agricultural sector, the income distribution patterns, and the characteristics of the target group and the related commodities. TDY assistance from AID/W and the Costa Rican and Bolivian Missions was also involved.

The initial selection of factors and the related components was made in a joint effort involving the MACI, the National Economic Planning Office of the GOP and the AID personnel utilizing the "essential" and "accelerating" factors approach as outlined in the Agricultural Development Council's publication on agricultural development strategy entitled Getting Agriculture Moving. Subsequently, the Sector System Analysis approach recommended by LA/DR/AIDD was also used, particularly to insure adequate consideration of the selected component effects relative to effective demand. Desirable social and political goals required consideration in the factor identification and implementation activities, the lack of sufficient and accurate input-output data for many

factors limited both their technical and economic analysis, and the final selection of many activities comprising the proposed project components were required to be made on the basis of the best subjective judgment of the combined technical personnel. In this process, the principal focus always was the target group and the selected products. Other farmer groups and other commodities than those specifically targeted in this project will indirectly benefit from selected component activities but in the total component selection process, each chosen activity was identified as being vital to the objectives sought for the target group.

While considerable variation was encountered, with respect to the different commodities, the following generalizations are made to add clarity to the activity and component selection process:

- a) Early evaluations indicated that effective demand over the next five years would be adequate to maintain farm prices at least at present levels if consumer costs are held constant and the spread between farm prices and consumer costs is not increased.
- b) Consumer costs are largely regulated by the GOP and there are no serious pressures thereon which tend to indicate significant adjustments.
- c) The spread between farm prices and consumer costs, however, is high and improvements in the target group income will be sought in this area through the Marketing Improvement and Program and Policy Development components.⁽¹⁾
- d) Farm prices at present levels generally provide the target group with the incentive to produce more assuming reasonable increments of modern factors in their production process and the reasonably efficient use of these factors.
- e) Data from selected areas in Panama, among the target group, validate the proposition that production increments in the chosen commodities can be achieved efficiently through the selected new production factors.
- f) The introduction, application and effective use of these new factors, however, is a complex task among the target group and require an expansion of the extension service,

⁽¹⁾ Additionally, a reduction in marketing risks for three commodities, relative to operation of the GOP price support program, is also proposed as a condition precedent to this loan.

the availability of credit and the additional material and educational inputs identified in the Technological Development Support, Agricultural Credit and Technical Education(1) components. This series of new factors, however, also requires the organization approach referred to under Operating Criteria (Part Two, Section 1, B) to more effectively accomplish their introduction into the agricultural system of the target group and to provide the means for accomplishing this project's second objective.

- j) An improved sectoral growth and development process - more compatible with, and, in support of, the interests of the target group - is both feasible and desirable and may be significantly influenced by the national role in policy and programming activities. Improvements in this role is the objective of the Program and Policy Development component.

5. Servicing the Target Farmer Group

There are approximately 25 to 30 thousand farmers in the category of \$100 - \$999 of annual sales with their geographic dispersion strongly correlated to soil capability, access to transportation facilities, and the size of land holdings. These considerations, which also served as criteria for the selection of the new field service centers, indicate that approximately 12,000 farmers of the target category are within the operational areas of the present extension agencies and that this number will increase to approximately 18,000 following completion of the proposed new service centers. One-third of these farmers have been considered to lack the transportation and communication facilities necessary to permit an active participation in this project within the next five years. Approximately 12,000 farm families thus constitute the target group for a five year effort with 7,500 active participants programmed into the project during the first three years and 2,500 each of the succeeding two years. The targeted 50 percent net increase in cash income is expected to be achieved with 2 out of 3 participants during the first three years and with 4 out of 5 participants at the end of five years.

6. Insurance Coverage

Risk of loss will be protected by the GOP which is a self insurer and will cover all losses except where specific surety bond coverage for private contractors is utilized.

- (1) A significant part of the scholarships activity is also related to the development of improved capability in a broader range of program and policy development.

D. ECONOMIC EVALUATION

1. Market Analysis

This project is aimed primarily, although not exclusively, at increasing the output of a group of farmers who now produce a relatively small fraction of total output of rice, corn, beans, cattle, milk, and vegetables produced in the country. Even the rapid increase envisioned in their total sales should be absorbed by the market at more or less the prices prevailing in the recent past.

Concerning the selection of crops whose production will be encouraged, the policy to be followed in extending credit will be based on the maximum return to the farmer in light of his capabilities and anticipated short-term market conditions. IFE has agreed to purchase the target group's production of rice, corn, and beans at the prevailing support price.

Target group farmers will be informed of this policy, advised of the prevailing support prices, and assisted in determining the most promising production alternatives. The danger that a large segment of the target group will be encouraged to produce a crop which will be in unmanageable surplus is considered to be a low probability eventuality.

Beyond this group to whom major emphasis is given, the project envisions a general increase in technological capacity via increased educational services. In the nature of the case, these educational inputs yield their increments to output over an extended period of time. Given continued high rates of growth of national income, there should be no difficulty in absorbing these output increases.

2. Project Contribution to the National Economy

It has been stated repeatedly that the major economic benefit sought by the present project was a better distribution of income via an increased participation of the target group in the economic life of the nation. From the point of view of altering an existing pattern of income distribution that shows little tendency to correct itself automatically, this project is a new approach with far-reaching implications. If successful, it may provide a general model with fairly wide applicability where a similar situation prevails. The necessary

conditions are farmers at the margin of commercial agriculture, using a primitive technology, with very low capital/land and capital/labor ratios and with a relative abundance of land per farmer. There is the further condition that the rate of growth of non-farm income almost insures a consumer market at existing prices for the increases in output that the disadvantaged group may achieve. Once the situation is described it is apparent that a program that brings, in one package, technological knowledge and access to relatively low-cost credit with the incentive to the farmer to use both will raise the group's output and hence its income.

USAID has estimated that the average farmer in the program for ten years will have raised his net income by about 130%.

Even this large relative income increase will leave those families at very low average levels of net incomes - probably less than \$1,000 per year per family. However, further capital inputs from existing and proposed IDB loans can pick up where the present project leaves off to continue the rise in family income growth rates.

From the point of view of the economy as a whole, the present project shows surprisingly good results. On most probable assumptions, and a 10% discount rate, the benefit - cost ratio is 1.37 for 10 years. With more pessimistic benefit and a 20% discount rate, the ratio is still greater than 1. The data on benefits and costs are summarized in the Tables in this Section.

It should be obvious that the calculations of the increases in output as a result of inputs of capital and inputs leading to technological changes are very difficult to make with a high degree of confidence. The data shown here rest on a number of propositions. Line 1A of the benefits represents the best estimates of USAID technicians that the combined package of technical assistance, community action and capital inputs from the loan will increase the gross output of the average participating farmer by 25% in the first year of his participation and by 30% in the second year. Most of this increase in the first two years will be the direct result of increasing inputs of seed, fertilizers, insecticides, etc. The increase in net sales is fairly small.

In the third year of participation, the farmer will have had two years of contact individually and in groups with technical advice, and output is thus forecasted to increase 15% over the preceding year. Thereafter, annual output increments are estimated at two levels. The A level is optimistic, but considered most probable - it is 10% per year. The B level is taken as a minimum below which output growth of the target group farmer is not likely to fall after three years in the program. It is 6%, the rate at which agricultural output as a whole has grown in the recent past. There is some upward bias in the benefits figure since shadow prices of output could not conveniently be used. Support prices exist for some products, e.g., rice, but not for others, e.g. meat. The flexibility of the program makes it impossible to forecast the exact commodity composition of output increases and hence impossible to correct values for shadow prices. The bias is not thought to be large. Increases in output under the credit program were corrected to exclude the roll-over funds from the previous 010 loan.

With respect to components other than the credit program only those benefits to farmers outside the target group are shown. All benefits to the target group are included under the credit program.

Benefits occurring from training (lines 4 and 5) are based on estimated increased earning ability of trainees which is taken as accurately reflecting their marginal value in production.

3. Economic Conclusions

This project is economically sound. It has an excellent chance of achieving its objectives. The economic data upon which this evaluation is based were certainly not entirely adequate but the uncertainty thereby introduced into the economic evaluation was no greater than is usual in Latin America for similar projects.

The applicable requirements of FAA Section 611 have been met.

No steps in addition to those already covered in this presentation are suggested to increase its economic benefits.

4. Local Cost Financing

There is no local currency owned or controlled by the U.S. in Panama nor will there be any in the future. It is proposed to cover 22% (\$1,596,000) of total local costs of the project (\$7,145,000) with dollar funding. This decision was based on the proposition that the government could not finance by taxes and internal borrowing more than roughly 78%.

The rate of increase of revenues from the important and progressive tax reforms of 1964 is falling (See Section I.D.). On the expenditure side the GOP is faced with normal rising demands for governmental services of a growing economy. It is trying with some success, to restrain this growth but it is not likely that all increases can be avoided. It is also obligating itself to come up with considerable local cost financing of other AID, IDB and possibly IBRD loans in the next few years. The GOP is aware that these rising needs require it to improve its collection of existing taxes and to undertake tax structure reforms, and is acting accordingly. Rural property tax collections should increase over the next few years with the implementation (now in process) of the fiscal aspects of the GOP's Rural Cadastre Program. An urban cadastre with far greater revenue potential is planned for the coming year as is the continuation of tax and customs administration reform programs. Additional areas of revenue potential are being investigated as the result of a tax policy study conducted in late 1968 by an international expert. Apart from these actions, more efficient allocation of public resources is being sought by the GOP through an extensive administrative reform program already underway. It is USAID's intention to support these programs with technical assistance through a public administration development loan.

Because the marginal propensity to import is normally very high in Panama the GOP has very limited ability to finance projects by any type of inflationary internal borrowing without causing balance of payment problems. Having no central bank, Panama, in effect, has no official dollar reserves. An out-flow of dollars affects immediately the supply of money, commercial bank reserves and domestic credit. The system has already suffered some contraction as a result of recent political events. It would not now be prudent to put further strains on it.

Marginal Propensity to Import out of Increases in GDF

(3 years Moving Average)

1960 - 2	.48
1961 - 3	.39
1962 - 4	.33
1963 - 5	.47
1964 - 6	.33
1965 - 7	.30

Sources: Panama en Cifras

Looking at the effect on the U.S. balance of payments of the dollar financing of local costs, the following considerations are relevant. In the first place it must be remembered that Panama has a very open economy in its monetary and commercial policy aspects. There are no exchange controls, U.S. dollars are a large component of the circulating media, tariffs are relatively low and non-discriminatory. There are quotas on some industrial products but they are non-discriminatory as to country of origin. This system is partially the result of treaty obligations to the U.S. (convertibility of the dollar) and partially the natural outcome of a small commercial economy extremely dependent on the international economy. It follows this that it is virtually impossible to assure completely that dollars supplied will be spent for U.S. goods without a basic change of economic policy.

On the other hand, even without specific controls most such dollars will either be spent directly in the U.S. or join the growing money stock of the growing Panamanian economy or be spent in Western Hemisphere countries with very high average and marginal propensities to import from the U.S. Most recent data (1967) show that U.S. exports to Panama (F.O.B.) are some 40 per cent of total Panamanian imports and in reality constitute a larger share stemming from Panama's imports from the Colon Free Zone, the origin of whose imports, in turn, is the United States to the extent of some (27%). Among developed countries (U.S., Japan, and Western Europe), the U.S. share of Panamanian imports in 1967 was over 66 percent.

SUMMARY
ESTIMATED PROJECT BENEFITS ^{1/}
(In Thousands of Dollars)

YEAR		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	15th	20th
1. Value of Increased Output of Target Group													
	A	461	1,155	1,591	1,877	2,404	2,878	3,402	3,791	4,182	4,601	7,409	11,933
	B	461	1,155	1,591	1,849	2,304	2,700	3,116	3,370	3,594	3,809	5,098	6,822
2. Pure Seed Program (Non-Target Group)		-	-	518	518	518	518	518	518	518	518	518	518
3. Machinery Rental Program (Non-Target Group)		-	-	75	75	75	75	75	75	75	75	75	75
4. Vocational Education (Non-Target Group)		1	1	1	1	1	1	1	1	1	1	1	1
5. Scholarships (Non-Target Group)		-	-	-	15	15	15	15	15	15	15	15	15
TOTAL	A	462	1,156	2,185	2,486	3,014	3,487	4,011	4,400	4,792	5,210	8,019	12,542
	B	462	1,156	2,185	2,458	2,913	3,310	3,725	3,979	4,203	4,418	5,707	7,431

^{1/} Benefits (increased output) of the Target Group are summarized under line 1. Lines 2 through 5 summarize non-Target Group benefits (increases in output) resulting from inputs of the corresponding components. Increases in output for the non-Target Group by component are 50 per cent, 25 per cent, 44 per cent and 50 per cent of total output increases resulting from component inputs of lines 2 through 5, respectively.

SUMMARY
ESTIMATED PROJECT COST (EXPENDITURES) 1/
(In Thousands of Dollars)

YEAR	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	15th	20th
Expansion of Extension Services	258	477	309	205	205	205	205	205	205	205	205	205
Expansion of Pure Seed Program	62	118	36	36	36	36	36	36	36	36	36	36
Machinery Rental Program	70	661	174	174	174	174	174	174	174	174	174	174
Adult Education Centers	93	184	87	87	87	87	87	87	87	87	87	87
Vocational Education	220	432	166	166	166	166	166	166	166	166	166	166
Scholarships	74	74	74	-	-	-	-	-	-	-	-	-
Technical Assistance in Market Imp.	63	106	106	-	-	-	-	-	-	-	-	-
Farmers Markets	166	218	103	103	103	103	103	103	103	103	103	103
Potato & Onion Equipment	20	98	20	20	20	20	20	20	20	20	20	20
Supervised Credit Program	652	994	984	784	914	909	909	909	909	909	909	909
Tech. Assistance in Credit & Training	28	55	55	-	-	-	-	-	-	-	-	-
Tech. Assistance in Agric. Program and Policy Formulation	25	50	50	-	-	-	-	-	-	-	-	-
TOTAL	1,731	3,467	2,164	1,575	1,705	1,700						

1/ Note that estimated total and component annual costs are identical from the 6th year forward.

BENEFIT/COST RATIOS ^{1/}

I

10% Discount Rate

<u>Year</u>	<u>Present Value of Benefits</u> ^{2/}		<u>Present Value of Costs</u> ^{2/}	<u>Benefit/Cost</u>	
	<u>A</u>	<u>B</u>		<u>A</u>	<u>B</u>
10th	16.7	15.6	12.2	1.37	1.28
15th	26.5	23.1	14.7	1.80	1.57
20th	35.9	29.1	16.2	2.21	1.79

II

20% Discount Rate

<u>Year</u>	<u>Present Value of Benefits</u> ^{2/}		<u>Present Value of Costs</u> ^{2/}	<u>Benefit/Cost</u>	
	<u>A</u>	<u>B</u>		<u>A</u>	<u>B</u>
10th	9.9	9.4	8.6	1.16	1.10
15th	13.1	11.9	9.4	1.39	1.26
20th	15.1	13.2	9.7	1.55	1.35

^{1/} A and B refer respectively to high and low level assumptions of future benefits.

^{2/} In millions of dollars.

INTERNAL RATE OF RETURN

<u>Years</u>	A	B
	<u>High Benefit Assumption</u>	<u>Low Benefit Assumption</u>
10	24.1%	23.1%
15	24.6%	24.2%
20	23.8%	23.7%

E. FINANCIAL SOUNDNESS

1. Funding Requirements and Sources

The total value of the project is estimated at \$9.0 million. A.I.D. contribution will be a loan to the GOP not to exceed \$3.5 million with a period of disbursement of three (3) years from the date of execution of the Loan Agreement. (See chart on Project Costs at end of this Section).

The proposed financial plan is as follows

	<u>Dollar Costs</u>	<u>Local Costs</u>	<u>Total</u>	<u>%</u>
A.I.D.	1,878,000	1,596,000	3,474,000	38.5
G.O.P.		3,749,000	3,749,000	41.5
Farmers Input		500,000	500,000	5.5
Repayment Rollover		1,300,000	1,300,000	14.5
Total	1,878,000	7,145,000	9,023,000	100.0

The GOP contribution amounting to \$3,749,000 will be budgeted over a period of three years.

The AID and GOP Inputs are broken down in detail in Annex II Exhibits 5 and 6. All cost figures presented are based on actual costs from existing MACI operations and carefully developed projections. Several significant points on the GOP cost breakdown should be noted.

First, of the almost \$1.6 million allocated to salaries, \$1.4 million is for new personnel needed for this program. The balance of about \$200,000 is for salaries of persons being shifted from other phases of MACI's operations to this program. This is important since it reflects a substantial redirection of MACI's efforts to assist the target farmers of this program. Next, a recent annual valuation of building sites was made by MACI to review and evaluate land values in the areas where proposed facilities were planned for construction. The Mission has not attempted to make an appraisal of the site values, and we have taken the valuations presented as being representative of land costs in the areas involved.

Another input in the financial plan comes from the farmers receiving credit under this program. MACI/IFE experience

has shown that farmer contribution in land and labor is equivalent to approximately 20% of the value of credit received. In this program, approximately \$2,800,000 in new and rollover credit will be available to the target farm group. Thus a contribution of \$500,000 in land and labor from the farmers is considered reasonable.

The \$1,300,000 in rollover funds from subloan repayments is a combination of repayments from A.I.D. Loan 525-L-010 and this loan. Repayments under the 010 loan are approximately \$200,000 annually. Repayments under this loan are projected as \$240,000 in the second year of this loan, and \$460,000 in the third year. These projections are believed to be reasonable.

The A.I.D. loan will be used for 40% of the construction costs, procurement of equipment, machinery and vehicles (primarily from U.S.), technical assistance from U.S. and supervised credit. A.I.D. funds will cover 38.5% of the total project costs and about 22% of the local costs.

The estimated disbursement schedule for each source of funds is set forth below (000 omitted)*:

	<u>FY-70</u>	<u>FY-71</u>	<u>FY-72</u>
A.I.D.	1,400	1,500	574
G.O.P.	1,100	1,400	1,249
Rollover	200	440	660

* \$500,000 labor/land input from farmers not included here.

2. Loan Terms and Repayment

Loan terms for this project are recommended to be the most concessional available by A.I.D., i.e. 2% interest during a 10 year grace period and 3% interest for the remaining 30 years repayment. Loan repayment prospects are good.

PROJECT COSTS

	<u>A. I. D.</u> <u>\$ Local Costs</u>		<u>G. O. P.</u>	<u>Farmers</u>	<u>Rollover</u>	<u>Total</u>
Technological Development Support	854,000	97,000	1,230,000			2,181,000
Technical Education	359,000	101,000	888,000			1,348,000
Market Improvement	265,000	48,000	590,000			903,000
Agricultural Credit	250,000	1,350,000	810,000	500,000	1,300,000	4,210,000
TA Pro/Policy	75,000	---	50,000			125,000
Project Management	---	---	106,000			106,000
Contingency	75,000	---	75,000			150,000
T O T A L	<u>1,878,000</u>	<u>1,596,000</u>	<u>3,749,000</u>	<u>500,000</u>	<u>1,300,000</u>	<u>9,023,000</u>

SECTION III - LOAN ADMINISTRATION

A. PROJECT EXECUTION

1. Execution Plan

The execution of this project is divided more or less into six types of activities:

- a) Meeting conditions precedent.
- b) Incorporation of U.S. Technical Assistance and GOP personnel.
- c) Construction
- d) Procurement
- e) Training
 - i) Participants (U.S. training)
 - ii) Local operating personnel
 - iii) Target farmers
- f) Credit and sub-lending operations.

One of the conditions precedent to initial disbursement is the preparation of an overall time-phased implementation plan showing breakdown, timing and interrelationship of the various steps which will be required to effect a timely execution of the project. The principal steps are given in the Execution Plan which follows.

There are interrelationships between the above activities which will be taken into account in the master plan for execution. The principal ones are:

- a) Procurement to be timed in relation to construction to provide equipment and furniture as needed.
- b) Construction in the same general location to be bid as a package, but timed so that adult education, vocational education, and the seed improvement program facilities will be finished first.
- c) Seed production facilities are needed to provide seed input to target farmers in the credit program, but credit operations

EXECUTION PLAN

<u>Step or Activity</u>	<u>Responsibility</u>	<u>Time Spread - Month of Project</u>																	
		2	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36
Sign Loan Agreement (estimated 8/31/69)	GOP/AID																		
1. Prepare master plan of execution and operations	MACI		---																
2. Meet conditions precedent *	MACI		-----																
3. Construction	MACI; Contractors				-----														
4. Procurement	MACI					-----													
5. Implementation of U.S. TA	MACI																		
a. Credit	MACI				-----														
b. Marketing	MACI				-----														
c. Prog.&Pol. Form.	MACI; IFE; CRA; National Plan- ning Office				-----														
6. Orientation of Borrow- er: Personnel	MACI		-----																
7. Training Target Farm- ers	MACI				-----														
8. Sub-lending(credit)	MACI; IFE				-----														

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* In order to expedite implementation of the project, the Mission will endeavor to obtain the satisfaction of as many conditions precedent as possible before execution of the Loan Agreement.

can be initiated with the production of seed available from the present seed facilities. By the time the credit program is well in operation, seed production facilities will be finished and in use.

- d) Construction of additional facilities at the National School of Agriculture will be carried out as soon as possible in order to permit the training of an increased number of personnel who are required to continue the credit and extension program with target farmers from the third year on.
- e) Construction of new field service centers and procurement of vehicles will be needed to take care of expanded extension and credit operations, but the credit program can be started with what facilities as are now available.
- f) Technical assistance in marketing to commence at an early time so as to begin market improvements for the commodities produced by the target farmers.
- g) Technical assistance in credit to commence at an early time in order to guide the sub-lending program as it expands.
- h) Scholarship program to be initiated at an early date so that personnel will be trained and available for extension, research, credit and marketing programs.
- i) Various technical assistance contract personnel to be present at time participants are selected for training in U.S. in order to help plan the required training.
- j) Initial orientation of MACI personnel and training of the first group of target farmers to precede beginning of sub-lending activity.

2. Administrative Provisions and Responsibilities

Project management will be composed of personnel from MACI and it will be organized similar to that in the previous Agricultural Development Loan (AID Loan 525-L-010). A number of the key personnel will remain in the same jobs and become members of the management team for this project. These technicians have worked with AID programs for a number of years and they are familiar with AID loan procedures. MACI will again appoint a project manager to oversee the whole project operation.

Technical Assistance will be provided through contractual arrangements with private firms, U.S. universities or USDA. The monitoring of the implementation of recommendations made through technical assistance will be the responsibility of MACI. The Peace Corps has been consulted on program planning and will consult with MACI regarding possible areas of Peace Corps cooperation in the program.

Loan disbursements will be made under Letter of Commitment for the dollar costs and through Special Letter of Credit procedure for the local costs. It is estimated that the loan will be fully disbursed within three (3) years.

Fiscal Control of loan funds will be the responsibility of MACI and audit and review of activities will be made by both the USAID Controller and by the GOP controller.

The Borrower shall submit to AID for approval all construction plans and specifications, all procurement specifications, and all contractual arrangements. The plans and specifications should be prepared in consultation with advisors made available through technical assistance. The USAID/Panama Project Coordinator will have the responsibility of monitoring the general operation of the Project.

Maintenance and operation of the facilities will be the responsibility of MACI. Experience with the preceding loan shows that MACI has developed the organization and is adequately maintaining previously constructed facilities.

3. U.S.A.I.D. Monitoring Responsibilities

The Chairman of USAID Project Committee, who is head of RDD, will have primary monitoring responsibility. This responsibility will entail the receipt and initiation of all correspondence with Borrower on matters of execution, compliance with the basic Loan Agreement, issuance of letters of implementation, approval of construction plans and contracts, and receipt of progress reports. The USAID Engineering Division, USAID Legal Advisor, USAID Community Development Division and USAID Capital Development Division will assist in monitoring activities appropriate to their fields of competence and responsibility.

B. CONDITIONS AND COVENANTS

In addition to the usual conditions precedent and covenants, the following special requirements are proposed:

1. Conditions Precedent. Prior to the issuance of any commitment document or disbursement under the loan, the Borrower shall submit evidence, satisfactory to A.I.D.:

- a) Of a satisfactory completion of the price support policy study initiated under the Sanderson and Porter/Lopez y Fábrega Associates Marketing Study, pursuant to Section 6.2 of AID Loan Agreement No. 525-L-010.
- b) That MACI has designated and appointed a project manager and other necessary personnel for this program.
- c) That adequate budgetary provisions have been and will be made available by the Government of the Republic of Panama to carry out this project on a timely basis.
- d) Of a satisfactory plan for maintaining the equipment procured and structures built under this program.
- e) Of a time-phased implementation plan for each component of this project, showing interrelationship and priority of each component.
- f) Of an agreement between MACI and IFE wherein IFE agrees to provide the necessary manpower and resources to adequately implement the fiscal services required under the supervised credit program.
- g) Of an agreement between MACI and IFE requiring IFE to purchase, at the then prevailing support prices, those supported commodities jointly selected for production in this project proffered by participant target farmers of this project.

Prior to the issuance of a commitment document or disbursement for each activity under each component of the project, the Borrower shall submit, satisfactory to A.I.D., an implementation-evaluation plan for that activity.

COVENANTS

1. Borrower agrees that funds received from subloan repayments shall be used solely for further sublending to the same target group of farm families to be assisted under this program.
2. Borrower agrees to maintain the facilities constructed and equipment procured under this program.
3. Borrower agrees to review with A.I.D. the recommendation contained in the studies funded under this Loan, with objective being to implement such recommendations.

4. Borrower agrees to make funds available in accordance with the estimated disbursement schedule, to make up any short-fall in scheduled "rollover" funds and to fund any other shortage that may occur in the carrying out of the project, all such funds to be provided on a timely basis as needed.
5. Borrower agrees to provide the resources and manpower as may be necessary to continue this program with the target group for a period of seven (7) years commencing with the completion of this project. The activities to be continued shall be agreed to between A.I.D. and MACI within one (1) year prior to the completion of the Project.

Minutes of CAEC Meeting - April 18, 1968

(LA-CAEC/M-68/40)

1. PANAMA - Agricultural Development Loan - IRR (LA-CAEC/P-68/58)

The tenor of the meeting indicated general concern with the lack of specificity of the proposed program and its relation to the agricultural situation in Panama.

The CAEC approved the IRR indicating that the loan paper should be specific in defining the objectives of the loan and the ways in which it will affect small farmers.

The loan paper should provide a detailed review and explanation of why the covenant by the GOP in loan 010 to undertake a price study was not met. There was agreement that such a study should be carried out during the first year of the proposed loan.

Technical comments of LA/CD should be conveyed to USAID to be considered during the intensive review.

Attachment:

Memo to CAEC - April 9, 1968

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Attachment to CAEC Minutes -
Meeting of April 18, 1968

LA-CAEC/P-68/58/1
April 9, 1968

MEMORANDUM FOR THE CAPITAL ASSISTANCE EXECUTIVE COMMITTEE

FROM: LA/CD, Jerome Levinson

SUBJECT: Panama - Agricultural Development Loan - IRR

The Office of Capital Development has reviewed subject IRR and recommends its approval subject to the following suggestions:

1. Of the four components, it appears that only supervised agricultural credit will be exclusively utilized by the small farmers. In view of the fact that the primary goal of the loan will be to increase the production and productivity of the small farmer, should not all of the components of this proposed program be specifically directed towards the small farmer?
2. An analysis of Panama's farm pricing policies was a covenant in Loan 525-L-010. However, the GOP stated that it did not have any funds to make the study and consequently no analysis was made. It is recommended that such a price study be made a condition of the proposed loan with a specific time schedule. If necessary the loan paper should recommend that funds from the loan may be used to finance such a study.
3. The tentative AID disbursement schedule covers a three year period. The GOP financing indicated for the fourth and fifth years should be excluded and the total GOP contribution should be correspondingly reduced.
4. Describe the precise nature of the GOP contributions. Will these contributions represent net additions to on-going expenses? Is the GOP owned land included in the estimate of GOP contributions?
5. In view of the large percentage of local currency costs in the loan, the CAEC should decide whether AID should require more than the minimum requirements set forth in the special letter of credit memorandum.
6. The loan paper should include consideration of Title IX opportunities under the program. For example, it may be possible to stimulate the development of cooperatives and village associations through the supervised credit program and through specific inputs in adult education and training.

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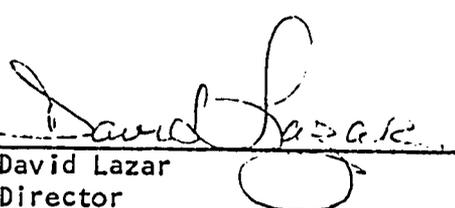
CERTIFICATION PURSUANT TO SECTION 611(e)
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, David Lazar, the principal officer of the Agency for International Development in Panama, having taken into account, among other things, the maintenance and utilization of projects in Panama previously financed or assisted by the United States, do hereby certify that in my judgment Panama has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, Small Farmer Improvement Project.

This judgment is based on the Mission's experience with MACI on previously financed AID Agricultural Development projects. One loan project and a number of grant projects have been completed during the period of AID assistance in Panama. Most significant of these was the AID development loan project N° 525-L-010. This loan project was designed to improve agricultural and livestock production by providing the buildings and equipment necessary to carry out a more intensive technical assistance program in specific underdeveloped rural areas in Panama; and by providing funds for supervised credit to small livestock producers.

The MACI has direct responsibility for the operation and maintenance of this program and the physical facilities contained therein. Also, the responsibility of the MACI for the buildings constructed and the equipment purchased does not end with the completion of construction and the acquisition of equipment; they provide continued maintenance.

The Mission's experience and audit reports confirm that the MACI has the financial and human resources and is effectively applying these inputs in the continuing conduct and maintenance of this and their other programs.



David Lazar
Director
USAID/Panama

June 17, 1969

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.

The growth in agricultural production in Panama is among the highest in Latin America. Improvement in food storage and distribution has been satisfactory. The loan will help to finance improvement in both areas.

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

The climate for foreign and domestic private enterprise and investment has been satisfactory as evidenced by the very high rate of increase in private investment over the past several years. Part Two, Section I, D.

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

Increased participation in the developmental process is being encouraged through this and other AID and GOP programs.

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

During 1960-67 period, public sector real investment amounted to about \$185 million, or 17% of estimated total expenditures (\$1,079 million).

(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.)

Panama's expenditures for military purposes have historically been a very small percentage of total government expenditures and Panama has not intervened in the affairs of other free and independent nations. There have been no indications of substantial changes from these traditional policies.

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

MACI's contribution to this project is substantial, being over 43% of total estimated project costs.

(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.

Panama has made substantial progress in social, economic and political reforms. Panama has reformed her tax laws and has improved tax administration substantially. As a result 1967 income tax receipts totaled \$34.5 million, more than twice the 1963 total of \$15.5 million. The GOP efforts in Agrarian Reform have been accelerating and the new administration is moving ahead with a program designed to resolve tenure problems of one-fourth of the approximately 16,000 squatter families located on about 90,000 acres of private land by the end of 1969. The GOP is also working to improve its allocation of resources by improving its National Economic Planning Capability.

Although there is press censorship and a significant number of political prisoners and exiles under the provisional government, the government is moving in the direction of restoring constitutional rights, and free elections are promised for 1970. The provisional government has emphasized the concepts of self-help and individual initiative in its civic action programs and has given support to private enterprise.

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

Panama is adhering to the principles of the Act of Bogota and is working to achieve the objectives of the Charter of Punta del Este. In practically every category Panama is ahead of the targets set by the charter or has programs underway which will bring her performance up to the target levels.

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

Capital repatriation is not a problem in Panama at the present time.

(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.

See answer to (6) above.

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

Yes

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?

Panama is not known to be so in default on any debt to a U.S. citizen.

3. FAA §.620(e) (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?

Panama is not known to have taken such action.

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4. App. §.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?

Panama is not known to have taken such action.

5. FAA §.620(o); 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,

Panama is not known to have taken such action.

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

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

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?

Not applicable.

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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.

Adequate measures by Panama have been and are being taken.
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?

Panama has signed and instituted such an agreement.
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?

Panama is not in default on any A.I.D. loan.
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?

Panama has not severed diplomatic relations.
11. FAA §.620.(u). 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?

Panama's U.N. obligations are not in default or in arrears.

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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. No.
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. Yes.
14. FAA §.620(f), App. §.109. Does recipient country have a communist government. 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. 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? No.

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

State/AID in consultation with the inter-agency advisory committee concerned with the implementation of Section 620(s)(the Symington Amendment) of the Foreign Assistance Act of 1961, as amended, has determined (a) that Panama's resources are not being diverted to unnecessary military expenditures to a degree which materially interferes with its development, and (b) that neither U.S. development assistance nor PL 480 sales are diverted by Panama to military purposes. Among the principal factors in this determination are the following:

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

1. Defense expenditures as a percent of GNP for 1966-67 were .1%, well below the median of 1.47% for the 16 small countries of the Latin American region, and the trend of this share has been stable;
2. Defense expenditures as a percent of central government expenditures in the 1969 govt. budget are .86%, also well below the median for the same 16 countries, of 9.68%, and the trend of this share has also been relatively stable.
3. While data are rough, foreign exchange spent for defense as a percent of imports of goods and services for 1966-1967 appears to have been close to zero.
4. There is no evidence that Panama is making substantial acquisitions of major military investment items which would significantly affect future budgetary requirements.
5. The country team has reported that there is no evidence of U.S. development assistance (or PL480 sales) being diverted to military expenditures.

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.)

There is no evidence to indicate that Panama has purchased sophisticated weapons systems since January 2, 1968, and none to indicate that she will in the near future.

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.

The terms of the loan and for relending under the supervised credit program are both legal and reasonable.

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

The project is economically and technically sound. This is discussed in Sections II, C. and D.

An application dated May 12, 1969 for this loan has been submitted by the GOP.

funds together with assurances to indicate that funds will be used in an economically and technically sound manner.

21. FAA §.251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
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? Yes.
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 purposes of loan? Borrower's application dated May 12, 1969 states that borrowing authority has been requested from the cabinet council. Prior experience indicates that this authority will be timely granted.
24. FAA §.611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project? Yes.
25. FAA §.251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States. Financing from other free-world sources, including private U.S. sources, is not available. See Section I. C.

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Loan's Relationship to Achievement
of Country and Regional Go

26. FAA §.207; §.251(a). Extent to which assistance 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 country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
- (a) This project will encourage development of democratic, economic, political and social institutions.
- (b) This project involves substantial contribution of resources by the GOP (Section II.E.) and heavy involvement by the target farmer group.
- (c) By providing substantial amounts of technical assistance, this project will improve the skills of a large number of Panamanian farmers.
- (d) Not Applicable.
27. FAA §.209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
- Mission considers that program is more suitable for execution on a national rather than a regional basis.
28. FAA §.251(b) (3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
- The loan is consistent with other development activities and contributes to long range objectives. This is the continuation of a previous activity which was begun under loan 525-L-010 and is complementary to that program.

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29. FAA §.251(b) (7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
- By increasing agricultural productivity the project will contribute to the achievement of self-sustaining growth of Panama.
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.
- The loan will encourage maximum participation of community and local government institutions, through activities of extension agents, adult education courses and expansion of vocational educational facilities for agricultural students. It will foster community organizations concerned with agricultural policies, programs and implementation.
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 institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
- The answer given to Item #30 above is equally applicable to this item.
32. FAA §.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of
- The loan will foster private initiative and encourage community action and individual participation through local groups and cooperatives. It will improve technical efficiency in agriculture.

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cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

33. FAA §.619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
- Not Applicable.
34. FAA §.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.
- This activity is consistent with the findings and recommendations of CIAP. (See Section I. D. 3.).
35. FAA §.251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.
- The Agricultural Credit component of this loan allocated \$300,000 for sub-loans to finance cooperatively owned activities such as grain dryers, warehouses, supply stores, etc.
36. FAA §.209; §.251(b) (8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.
- This project is nationally rather than regionally oriented.

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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.

Effects of this project on the U.S. economy are positive. Both U.S. technicians and equipment will be procured with loan funds. Agricultural production to be aided will not materially impair U.S. markets.

38. FAA §.601(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).

The services of U.S. private trade will be demonstrated by this project promoting the expansion of U.S. private trade and services, through technical services from the U.S. and U.S. equipment purchases for the implementation of the project and the financing of local costs through SLC procedures.

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?

Yes.

40. FAA §.602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

Usual procedures for facilitating U.S. small business participation in AID procurement will be followed.

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41. FAA §.620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

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.

Technical assistance will be provided primarily by private sources. Loan-funded PASA may be employed with USDA because of their particular expertise in marketing, market grades and news.

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.

Total resources of loan funds will be used to finance goods and services from private sources. The production credit component will be for loans to farmers.

Loan's Compliance with Specific Requirements

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

Yes.

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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.
- The loan agreement will include a standard provision for use of excess property where practicable.
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?
- Yes.
47. FAA §.604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
- Procurement under the loan will be by competitive bidding. AID/W control audit procedures will insure against paying above market prices.
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?
- Yes.
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?
- No off-shore procurement of agricultural commodity or product is planned.

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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?
- A benefit-cost analysis has been made. See Section II. D.
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?
- Competitive bidding will be required.
52. FAA §.620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
- The provisions of the loan authorization and agreement will state the limits of loan financing. No loan funds will be used for acquisition of land by GOP.
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.
- MACI will be contributing approximately 55% of the local currency needs of the project.
54. App. §.104. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.

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55. App. §.111. Compliance with requirements for security clearance of U.S. citizen contract personnel. This requirement will be complied with.
56. App. §.112. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? Yes.
57. App. §.114. Will any loan funds be used to pay U.N. assessments? No.
58. App. §.115. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7). This regulation 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 of the United States, or any guaranty of such a transaction? No.
60. App. §.401. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress? No.
61. FAA §.620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million? Not Applicable.

DRAFT

LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds

PANAMA: SMALL FARMER IMPROVEMENT

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, of said Act, to the Government of the Republic of Panama (Borrower) of not to exceed three million five hundred thousand dollars (\$3,500,000) for United States dollar and local cost of goods and services to assist in financing the cost of a participant-oriented program for increasing income among marginal farmers, of which program the major components will be Technological Development Support, Technical Education, Marketing Improvement, Production Credit and Program and Policy Development, this loan to be subject to the following terms and conditions:

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 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 on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions

(a) Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States and Panama. Shipping financed under the loan shall be procured from the United States, and

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marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.

- (b) United States dollars utilized under the loan to finance local costs shall be made available through appropriate procedures and shall be identified with procurement in the United States.

3. Conditions Precedent to Disbursement of Funds

- (a) Prior to the issuance of any commitment document or disbursement under the loan, the Borrower shall submit evidence, satisfactory to A.I.D.:

- i) Of a satisfactory completion of the price support policy study initiated under the Sanderson and Porter/Lopez y Fábrega Associates Marketing Study, pursuant to Section 6.2 of A.I.D. Loan Agreement No. 525-L-010.

- ii) Of a time-phased implementation plan covering each component of this project, showing inter-relationship with and priority relative to other components.

- (b) Prior to the issuance of a commitment document or disbursement for each activity under each component of the project, the Borrower shall submit, satisfactory to A.I.D., an implementation-evaluation plan for that activity.

4. The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator

Date