

FEB 25 1980

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR (LAC)

FROM: LAC/DR, Marshall D. Brown *B*

SUBJECT: Authorization Amendment for Nicaragua Rural Development Sector Loan (524-T-031)

Your approval is required for an amendment of the Authorization for the Nicaragua Rural Development Sector Loan to permit the reprogramming of funds described below.

Discussion: The Rural Development Sector Loan (\$14 million) was authorized by the Administrator on June 30, 1975. The purposes of the loan are: (a) to support the plan of the Government of Nicaragua (now the GRN) for organizing agricultural public sector institutions in Nicaragua and (b) to assist the GRN to develop and operate the Institute for Campesino Development (INVIERNO) and thus provide an operational instrument for reaching increasing numbers of rural poor who have had limited or no access to development resources and services.

Since August 1979, the new government has twice reorganized the Ministry of Agriculture (MOA) and INVIERNO. Initially the functions of the MOA were reduced, i.e., basically limited to regulatory, plant and animal disease control, and agricultural research functions. Simultaneously, INVIERNO was renamed PROCAMPOS and placed under the auspices of the Instituto Nicaraguense de Reforma Agraria (INRA). Major responsibility for sector planning, coordination, and information was also shifted to INRA. Subsequently, in late 1979, the GRN cabinet was reorganized and INRA made a dependency of the MOA. As a result, sector planning, coordination, and information functions have been shifted back to the MOA. Neither of these shifts has altered the GRN's rural development objectives, and the Mission has determined that the objectives and plans of the MOA and INRA are consistent with the original goal and purpose of the AID Rural Development Sector Loan.

The previous Authorization Amendments, dated November 23, 1976, and January 24, 1980, did the following: (a) transferred \$900,000 from technical assistance to integrated agricultural development activities; (b) shifted implementation responsibility for the rural small enterprises program from the National Bank of Nicaragua (BNN) to INVIERNO; (c) substituted an Advisory Council for the Executive Council required by the Loan Authorization for implementing Rural Municipal Development operations; and (d) deleted certain covenant requirements that had either been met or are no longer applicable.

The Mission is now requesting that the Loan Authorization be amended to permit the shift of \$800,000 in loan funds budgeted for Rural Municipal Development activities to the Integrated Agricultural Development Component and to clarify that the Agriculture Sector Planning, Coordination, and Training Component will be implemented by the MOA. The shift exceeds the Mission's authority to increase funding for any program activity which is limited to 15%. INRA wishes to use the \$800,000 for additional agricultural credit, one of the most successful of the INVIERNO/PROCAMPOS programs. More than 29,450 loans totaling approximately \$6 million have been approved. The proposed shift in funds will provide credit for an estimated 2,050 rural farmers at an average of \$400 per loan. These loans will be used to finance basic agricultural inputs, as well as capital investments in pumps, oxen and other farm implements. The proposed program changes, in financial terms, are as follows (only AID funds shown):

Original Budget	Orig. Loan Auth. 6/75 (US \$000)	First Amend. Changes (US \$000)	Amount Disbursed (US \$000)	Proposed Second Amend. (US \$000)
Agriculture Sector Planning, Coordination and Training	2,000	2,000	1,000	2,000
Creation of PROCAMPOS (INVIERNO)	3,000	2,200	1,050	2,200
Integrated Agricul- ture Development	5,800	6,700	5,375	7,500
Access Roads	1,300	1,300	0	1,300
Rural Municipal Development	900	900	100	100
Rural Small Enter- prise Development	<u>1,000</u>	<u>900</u>	<u>346</u>	<u>900</u>
Total	14,000	14,000	7,871	14,000

We have reviewed the Mission's request and believe that the requested changes are necessary in light of the current situation in Nicaragua. The LAC Bureau intends to continue monitoring this loan closely and will request that the Mission advise us if further major changes are made. Although the Administrator signed the Authorization and previous amendments, because this amendment is not viewed as a substantive change you have the authority to sign the Authorization amendment.

Recommendation: That you sign the attached Loan Authorization.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

LOAN AUTHORIZATION
(Amendment No. 3)

Name of Country: Nicaragua
Name of Project: Rural Development Sector Loan
Number of Project: 524-0118
Number of Loan: 524-1-031

Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Rural Development Sector Loan for Nicaragua was authorized on June 30, 1975, and amended on November 23, 1976, and on January 24, 1980 (hereinafter, as so amended, the "Loan Authorization"). The Loan Authorization is hereby amended as follows:

1. The Preamble to the Loan Authorization is hereby amended by (i) inserting the phrase "in a restructured Ministry of Agriculture" after the phrase "training mechanism", (ii) deleting the figure "\$6,700,000" after "Integrated Agricultural Development" and substituting the figure "\$7,500,000" therefor and (iii) deleting the figure "\$900,000" after "Rural Municipal Development" and substituting the figure "\$100,000" therefor.

2. Except as expressly amended hereby, the Loan Authorization remains in full force and effect.

Edward W. Coy
Acting Assistant Administrator
Bureau for Latin America
and the Caribbean

Feb 27 1980
Date

Clearances:

GC/LAC:JLKessler JLK date 1/26/80
LAC/CEN:RGomez RG date 2/15/80
LAC/DR:CPeasley CP date 1/25/80
LAC/DR:ILevy IL date 2/21/80
LAC/DR:MBrown MB date 2/11/80

Drafted:GC/LAC:GMWin GMW:ckg:2/21/80:ext:29183