

CAPITAL ASSISTANCE PAPER

PANAMA - AGRICULTURAL DEVELOPMENT SERVICE 1968



UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington 25, D. C.

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AID-LA/P-58
October 7, 1964

MEMORANDUM FOR THE ADMINISTRATOR

SUBJECT: PANAMA - Agricultural Development

The attached Capital Assistance Paper sets forth recommendations for authorization of a loan not to exceed two million four hundred thousand (\$2,400,000) dollars to assist the Government of Panama in financing the costs of a project for agricultural development in Panama.

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Deputy U.S. Coordinator

- Attachments
- Summary and Recommendations
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PANAMA - AGRICULTURAL DEVELOPMENT SUPPORT LOAN

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PANAMA - AGRICULTURAL DEVELOPMENT SUPPORT LOAN

SUMMARY AND RECOMMENDATIONS

1. APPLICANT: The Government of Panama (GOP). Loan proceeds will be made available to the Ministry of Agriculture, Commerce and Industries (MACI), which will administer the project. It is anticipated that MACI will utilize the services of the GOP agricultural credit agency the Instituto de Fomento Economico (IFE) to implement those portions of the project involving relending. Coordination of the functions of MACI and IFE, as well as those of the Agrarian Reform Commission (CRA), which will be involved in intimately related activities, will be effected by the Minister of Agriculture, who presides over all three agencies.
2. AMOUNT AND TERMS: An amount not to exceed \$2,400,000; amortization over 40 years inclusive of a 10-year grace period, with interest at 3/4% per annum for the first 10 years and 2% thereafter.

3. TOTAL COST OF PROJECT - THREE YEARS' ACTIVITIES:

	<u>LOAN</u>
a. Support facilities for agricultural extension and related services in six priority areas:	
(1) Building construction (offices; warehouse, repair and maintenance units; living quarters; marketing sheds)	\$ 425,000
(2) Lab and office equipment and furniture for above	320,000
(3) Vehicles (jeeps, pickups, etc.)	215,000
(4) Machinery and equipment for a pilot custom farm machinery center; seeds	200,000
Total support facilities	<u>\$1,160,000</u>
b. Machinery and equipment for the Agricultural Training and Research Center at Divisa	70,000
c. Supervised agricultural credit for livestock improvement	940,000
d. Technical advisory services	125,000
Total	<u>\$2,295,000</u>
Contingency	100,000
Grand Total	<u>\$2,395,000</u>

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Planned GOP input, via MACI, IFE and CRA, toward supporting the facilities provided under the loan during FY 1965-67: \$6,770,000.

4. DESCRIPTION OF ACTIVITY: The project is designed to improve agricultural and livestock production by providing the buildings and equipment necessary to carry out a more extensive technical assistance program in specific underdeveloped rural areas in Panama; and by providing funds for supervised credit to livestock producers. Specifically, the loan will be used to finance:
- a. The provision of building and equipment facilities in six areas, selected by the Panamanian Government for intensive coordinated economic and social development, to carry out agricultural extension and related activities.
 - b. 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.
 - c. The purchase of additional equipment for the National Agricultural School and Experimental Station located at Divisa.
 - d. The establishment of a special fund for supervised credit to livestock producers following coordinated livestock and pasture management plans to finance the purchase of quality breeding bulls, artificial insemination, pasture improvement and supplemental feeding, and stock water development.
 - e. The provision of three U.S. experts to serve as general field advisors, with particular reference to supervised credit.

The US AID/Panama direct-hire staff will advise the GOP in preparation of detailed plans for implementation and will monitor performance.

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5. PURPOSE OF THE ACTIVITY: The primary purpose of the loan is to finance an expansion of the extension service of the Ministry of Agriculture. This expansion is necessary because of the rural development program which has been initiated in six priority areas of Panama (see map, ANNEX I). These areas are mostly populated by subsistence farmers. It is a prime aim of the rural development program to raise living standards of Panama's subsistence farmers, who roughly account for two-thirds of all farmers in the country. The rural development program is made up of several elements, including: (a) the regularization of land ownership; (b) the provision of infrastructure facilities, i.e. roads, schools, water, etc.; (c) credit and (d) technical assistance. Each of these elements is essential, and the loan finance is directed to the last element. A recent loan to Panama by A.I.D. for a rural cadastral survey and natural resources inventory, is directed to the first element.

A second prime aim of the rural development program is to increase the availability of beef and milk in Panama, and a portion of the loan (\$940,000) will be relented to serve the needs of the small livestock farmer.

Thus, the activity of the loan is specifically directed to the subsistence farmer within the priority development areas and to the small livestock farmer, both within and outside of the priority areas.

6. BACKGROUND OF THE ACTIVITY

In previous years the United States has aided the research and extension service in Panama, and the service has been brought to a point where the dissemination of knowledge more than the development of research is a prerequisite to rural progress. Obstacles to the dissemination of knowledge have been varied, but chief among these is the lack of funds and facilities by the Ministry of Agriculture for the new priority rural development areas of Panama. To remedy this lack the Ministry submitted a loan application to A.I.D. in October 1963, to finance new facilities, but consideration of the loan was postponed by the disruption of diplomatic relations in January 1964.

With the resumption of diplomatic relations last April and a gradual easing of tensions between Panama and the United States, consideration of the rural development loan application was renewed. President-elect Robles, who was carried to victory by the rural areas of the country (offsetting his electoral weakness in the urban centers), has pledged himself to a dynamic program of rural development. He has expressed the hope that a loan agreement be accomplished on the day of his inauguration, October 1.

7. EXIMBANK INTEREST: Eximbank officially confirmed on September 29, 1964, that it is not interested in this project.
8. MISSION VIEWS: Since this Program is top priority in the "Plan Robles," also since increased agricultural production and rural security are such important goals, the Country Team strongly recommends approval of this loan.
9. STATUTORY CRITERIA: All statutory criteria have been or will be met. (See ANNEX K.)
10. PROBLEM:

The activities specifically related to the six development areas, covered in items a and b of section 4 above, are intended to provide the facilities for technical assistance to farmers as component parts of integrated rural development programs in the areas. The areas selected are now in varying stages of development. While the Alanje area is already relatively well developed; for example, others are only sparsely settled and lack basic facilities such as roads, water, etc. It is intended that the technical assistance facilities for the six areas financed under this loan shall be accompanied by parallel development in land settlement and ownership, basic infrastructure and credit facilities, and that implementation of this project for any given area shall not be initiated until there is satisfactory evidence that the concomitant facilities will be forthcoming on a timely basis. A special condition precedent is recommended to cover this matter.

11. RECOMMENDATIONS: Authorization of a loan in the amount of \$2,400,000 to the Government of Panama, with loan proceeds to be made available to the Ministry of Agriculture, Commerce and Industries, subject to terms and conditions as described below:

- A. Interest and Terms of Repayment. Borrower shall repay the loan to 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 three-quarters of one (3/4 of 1) percent per annum during the grace period and two (2) percent per annum thereafter.
- B. Other Terms and Conditions:
- (a) Equipment, materials and services (except marine insurance and technical assistance services) financed under the loan shall be procured from the United States of America or Panama.
 - (b) United States dollars utilized under the loan to finance local costs shall be made available to the Borrower or its designee through appropriate procedures and shall be used only for procurement in the United States (excepting marine insurance).
 - (c) Prior to first disbursement for costs of Extension Services in each of the six geographic areas, Borrower shall furnish to A.I.D. a time-phased analysis of its entire rural development program for the area concerned, including a schedule for the carrying out of activities complementary to this loan, including land settlement, road and water development, agricultural credit, and other required activities, together with a plan for timely financing and implementation of such scheduled activities. Except as A.I.D. may otherwise agree in writing, adherence to such schedule and plan shall constitute a continuing condition to disbursement for costs of Extension Services.

- (d) Prior to first disbursement for costs of Divisa, Borrower shall furnish assurances that necessary rehabilitation of certain buildings at Divisa will be undertaken by Borrower with resources other than the proceeds of this loan.
- (e) Procedures and terms and conditions on which Agricultural Credit is made available shall be subject to the approval of A.I.D.
- (f) Except as A.I.D. may otherwise agree in writing, income to the Borrower generated through the use of loan proceeds shall be utilized solely for purposes of the Project.
- (g) A.I.D. shall have the right to approve all construction sites for the Project.
- (h) Borrower shall provide adequate resources to complete the Project, and such resources as are required to carry out the activities contemplated after disbursement of loan proceeds.
- (i) Borrower shall covenant to provide an effective coordination of rural development activities in Panama through such organizational changes in Borrower as may be deemed necessary by Borrower and A.I.D. on the basis of agreement between them. Borrower shall report to A.I.D. no later than one year following signature of the Loan Agreement, on its progress in carrying out such measures.
- (j) Borrower shall covenant to conduct with A.I.D. a critical review of its agricultural price support policies and procedures.
- (k) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Loan Team:

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A. HISTORY AND BACKGROUND

Over the past year and a half, Panamanian ministries and agencies have collaborated with the National Planning Department to develop an over-all program for Panama's development, with particular emphasis on the rural sector, and to determine its implications in terms of GOP budget adjustments and requirements for external financing. As a major part of this process, nine GOP agencies have worked together in spelling out the objectives, targets and requirements for an "integrated program of rural development, concentrated in priority areas."

When the Cooperative Agricultural Service was phased into the Ministry of Agriculture, planning for a coordinated rural development program began. It was decided to concentrate available resources in priority areas. A series of meetings were held and all public and autonomous agencies concerned with rural programs participated. Six priority areas were selected, and each agency agreed to direct its efforts in a coordinated manner to these areas.^{/1} The areas selected cover some 577,000 hectares of which 53% are classified as "agricultural lands." About 23,000 families occupy these lands and the value of their agricultural production in 1961 was estimated at \$12,000,000. It is hoped to double this production value by 1969 through the above-described process of integrated rural development.

More recently, President-elect Robles has indicated that he intends to give top priority to the program of coordinated rural development, and that he is prepared to mobilize the resources necessary to make it successful.^{/2}

/1 - See Annex I (Map)

/2 - See the "Plan Robles," Annex A

The whole package of rural development includes several major interrelated elements - all of which must be planned and activated in order to achieve the impact which the next Administration is seeking. Briefly, these elements are described as follows:/1

1. Basic Studies

This work is being directed by the Comision de Reforma Agraria (CRA) under the leadership of the highly respected Sr. Porfirio Gomez. It will include serial photography, map making and various studies to serve a multiplicity of purposes for all other interested agencies. A major feature will be the cadastral survey, covering nearly 9 million acres and most of the rural population. This survey will delineate, map and identify all individual properties. Thus, it will provide a basis for sale of lands, for adjudication of titles and for land value appraisals, on which to base tax reforms. Other studies or inventories of soils, water resources, forests and minerals will provide a basis for adjustments in land use and ownership, for conservation of natural resources, for wise exploitation of forests and minerals, for irrigation and drainage projects, etc.

Comment: This element appears to be adequately financed for the next few years. Some time ago, the map making facilities of the Direccion de Cartografia were improved by a \$1,000,000 A.I.D. Grant. More recently a \$2,400,000 A.I.D. loan was approved, to help finance the above-described work. CRA, as an autonomous agency (of which the Minister of Agriculture is President of the Board) plans a budget of \$895,000 for 1965 (excluding loan funds) and this amount should increase in future years, as revenues increase.

CRA expects to establish 12,000 titles in the six priority areas in the course of the next two years.

/1 - The Loan Team Comments, shown below, are for information only. Recommendations made by the Team do not represent decisions made by A.I.D.

2. Transportation and Power

The importance of roads and electrification in any comprehensive rural development program does not require elaboration. Panama is well advanced in its program to provide the major national networks of roads and electricity facilities. Responsibility within the GOP for these programs is vested in Caminos, Aeropuertos y Muelles (CAM), a part of the Ministerio de Obras Publicas (for roads) and in the Instituto de Recursos Hidraulicos y Electrificacion (IRHE), with respect to electrification. Extension of these facilities into the various high priority rural areas has begun but much of the total job remains to be accomplished.

The national investment calculations show \$16,326,000 on road building for the 2 years of 1965 and 1966, and \$5,752,000 on electric power development for the same period; including relatively minor shares for the rural areas in question.

Comments: It is concluded, therefore, that further studies for penetration and feeder roads within the development areas are required on an urgent basis. These studies may be financed from a part of the \$2,000,000 A.I.D. loan for feasibility studies.

The problem of electric power is one of rural electrification; it appears that A.I.D. should make use of its contract with the National Rural Electric Cooperative Association (NRECA) in Washington. Under terms of this contract a task order should be issued to NRECA, calling for a series of consultants to work with IRHE officials in Panama in planning and scheduling the solution to this problem, in adequate detail. Although the organization of rural electric cooperatives may be a feature of this study, it should be secondary to the more general question of producing power and getting it to the farmer.

3. Land Reclamation and Improvement

In all of the selected areas there are certain major improvements to be made that are normally beyond the powers of individual farmers. These include such public works or large scale operations as irrigation and drainage, land clearing, soil and forest conservation measures, etc.

Comments: Much of the basic data needed to carry out such improvements is expected to be collected under the Rural Cadastre and Natural Resource Survey project. Specific additional studies required can be financed under the recently authorized Feasibility Studies loan.

4. Agricultural Development Services

This element covers what also might be described, for the most part, as the technical assistance inputs of the rural development program. It relates to the education of agricultural technicians, short course training of farmers, in-service training, applied research with emphasis on farm management problems, extension and information services, special crop or livestock campaigns, etc. The training and research components are already being carried out in the National Agricultural School and Experimental Station at Divisa. The extension component is addressed in the subject project.

The new Minister of Agriculture, Ruben Carles, will actually control the three agencies of most vital importance to this program. These are the Ministry (MACI), the Agrarian Reform Agency (CRA), and IFE, the National Agricultural Credit Agency. It is planned to increase and improve the technical staffs of these three agencies and to coordinate their activities so as to achieve good team work and concentration of efforts.

5. Agricultural Credit

Instituto de Fomento Economico (IFE) is the GOP agency with major responsibility for agricultural credit. An autonomous institution created in 1953, it has recently undergone major reorganization with technical assistance provided by the IDB in connection with its \$2.9 million loan signed in 1962.

IFE's basic resources are land properties allocated to it at the time of its establishment. It has also received periodic appropriation in the national budget. Credit operations in 1964 are expected to total about \$2.5 million, financed in part with the proceeds of the \$2.9 million IDB loan. (Initial disbursement of the loan, which is for fixed capital, was delayed pending the reorganization of IFE as a condition precedent to disbursement. With the accomplishment of the required changes in the spring of 1963, disbursements have been proceeding as scheduled and as of July 1, 1964, IFE loans out of the IDB loan proceeds totaled \$1.0 million.)

While IFE in recent years has shown a tendency to increase the number of small loans to the smaller producers, IFE operations as a whole tend to be directed toward the larger and better established producers. Its ability to adequately address the needs of the very small farmer has been hampered by both the small farmer's lack of land title and the lack of GOP technical facilities for supervised credit. With the land settlement and rural development programs now scheduled, the expanding need for, and the increased capacity to absorb, supervised credit will in turn give rise to increased needs for loan capital.

Comments: There seems little question that additional funds will be needed to provide adequate credit facilities for the six development areas. There still remain of course close to a \$2 million undisbursed balance of the IDB loan, and about \$700,000 of this are planned for use in the six areas to meet initial needs for credit for fixed capital. The present loan will provide \$940,000 for supervised credit for specific purposes for the smaller livestock producers. Still not provided for, however, are the supervised loans to crop farmers and any additional needs of the smaller livestock producers. Apparently designed to meet this gap is a \$1.25 million loan request by IFE now under consideration for financing by the Social Progress Trust Fund. The material presented however is incomplete and A.I.D. has requested additional information from IDB, including clarification of the relationship of the \$1.25 million request (submitted in November 1963) to a proposed application for \$3.5 million for supervised agricultural credit now being reviewed within Panamanian Government circles. It has also recommended, given the date of the request, that IDB check with the present Panamanian Government to ensure that the proposed loan project reflects current GOP planning with special attention to the credit needs of the six development areas.

It is also clear that the technical staff for carrying out the "supervision" aspect of the credit for the six areas is in need of both improvement and expansion. Plans are already underway both for hiring additional staff and for better utilization of the resources that do exist by pooling the manpower resources of MACI, CRA, IFE, and perhaps other agencies, and reassigning the agents to different areas on a priority basis. In addition, the subject loan will provide funds for the technical services of two rural area development advisors and a specialist in supervised agricultural credit.

A.I.D. will also study the possibilities for establishing local credit cooperatives as a channel for loan funds to the smaller farmers, with particular attention to cooperatives developed along the production credit association format, utilizing the formal structure of a credit union. Exploration will be made to determine the extent to which the facilities and personnel presently provided from grant funds (Contract AID/csd-236, Task Order No. 4) can be utilized to assess the possibilities, and assist in establishing such cooperatives.

6. Public Health and Education

There are three GOP agencies involved here, that have planned rural activities - all of which are subject to review, appraisal and modifications. The Ministerio de Salud Publica has submitted a loan request for \$1,098,000 for the construction of small public health centers and for well drilling and provision of water to rural communities. At the same time an autonomous agency, Instituto de Acueductos y Alcantarillados Nacional (IDAAN), has planned aqueduct systems for rural communities and the Ministry of Education has made plans to meet the need for rural primary schools.

All of these activities will be reviewed and coordinated --to achieve more concentration, to encourage more "self help" and to determine their priority position in the whole list of public investments.

7. Housing

Rural housing on the small farms generally is inadequate and substandard. A limited amount of attention has been devoted to this problem by the Extension Service and IVU (Instituto de Vivienda y Urbanizacion) through the development of self-help home improvement practices. However, additional study is required.

8. Rural Industries

In the GOP planning to date, very little thought has been given to this subject with specific reference to the six priority areas for rural development. Numerous possibilities come to mind (food preservation, mixed livestock feeds, handicrafts, rice drying and milling, etc.) but there is a need for further study.

It is expected that the new Development Bank (DISA), supported by a \$5,100,000 A.I.D. loan, will cooperate with respect to this important element.

9. Community Action

In the preceding description there have been repeated references to this important element of community action or "self help." No particular financial requirement is foreseen at this time, except with reference to other above-described elements. However, it must be recognized that the ultimate success of this program will depend on the ability of various communities or local groups to help themselves.

The organization of cooperatives should be of prime importance in this process; especially with respect to electrification, marketing and the use of credit on a group basis.

10. Organization and Management

It is apparent that administrative changes are required in order to achieve the necessary coordination and tight management of this program. The new GOP administration is aware of this need and is taking necessary steps (See Section H.2).

To facilitate this process a request has already gone forward to A.I.D. to send in a qualified team that would cooperate with a complementary Panamanian task force in working out the necessary details.

B. BORROWER AND EXECUTING AGENCY

1. Borrower

The Government of Panama (GOP).

2. Executing Agency: The Ministry of Agriculture, Commerce and Industries.

A governmental agency to deal with problems in agriculture was established well over fifty years ago as a section of the Secretariat of Development which later became the Secretariat of Public Works. Recognition of the increasing importance of agriculture was given in 1932 with the substitution of the name Secretariat of Agriculture and Public Works.

In 1936, the agricultural program was transferred to the Secretariat of Education the name of which was then changed to Secretariat of Education and Agriculture.

Four years later a new cabinet department was created with the main responsibility for developments in the field of agriculture. The original name of Secretariat of Agriculture and Commerce (created by law of September 1940) was changed a year later to Ministry of Agriculture and Commerce. The present name, Ministry of Agriculture, Commerce and Industries was adopted by Legislative Decree in June 1945.

The principal purpose of the Ministry of Agriculture, Commerce and Industries 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.

Organization charts of the Executive Branch of the Government and of the Ministry of Agriculture, Commerce and Industries along with a list of the top staff members of the Ministry are attached. (See ANNEX F.)

The agricultural credit portion of this loan will be administered by MACI, with the Instituto de Fomento Economico (IFE) acting as financial agent.

IFE is an autonomous agency of the GOP created in 1953. Its most important current activities are the granting of loans to farmers (it is the official agricultural credit agency of the GOP), the administration of the agricultural price support program, and the rental of agricultural machinery and equipment. Its resources are derived from interest on loans, income on investments and direct support from the GOP. As noted, it presently has a loan of \$2.9 million from the IDB and is requesting another loan in the amount of \$1.25 million.

IFE in 1963 completed a reorganization of its credit operations with the technical guidance of the IDB. The IDB states that, while disbursements under its loan lagged behind schedule during the period of reorganization, they have increased substantially during 1964.

In the opinion of the survey team, IFE is capable of performing satisfactorily the operations envisioned under this loan.

C. THE PROJECT

The project consists essentially of providing facilities for a more extensive technical assistance program in the underdeveloped rural areas in Panama, and providing funds for supervised credit to livestock producers. A.I.D. loan funds will be used to cover the costs of needed construction, equipment and seed, credit for a livestock improvement program, and U.S. technical advice. The Panamanian Government is expected to contribute \$6,770,000 for carrying out the extension and related activities made possible by the project, in the first three years of the program's operations.

1. Equipment for the National Agricultural School and Experimental Station at Divisa. \$70,000 will be provided to procure a Caterpillar tractor, dairy and poultry equipment, and miscellaneous laboratory and shop equipment and instruments for the school and experimental station at Divisa, the country's center for agricultural research and training.

2. Extension and other Facilities in the Six Priority Areas Selected for Intensive Rural Development. The six priority areas which have been selected for intensive development are: Alanje, Tonosi, Santa Rita, Sardinilla, Montijo and Toabre (See Map - Annex I). At the present time, most of these areas are sparsely settled and cultivated only in very primitive fashion. They have been selected as the agricultural areas of Panama having the most potential for rapid development. The U.S. A.I.D. and the Loan Team concur with the judgment of the GOP that these are the areas for priority attention. The extension program, of which this loan project is a part, is designed to result in an extensive increase of production in the areas indicated; the program will also comprise a model which may be extended at a later date to other agricultural areas which need such assistance.

The loan will finance the following:

(a) Extension centers. Sixteen small office buildings to be constructed in the six areas to provide headquarters and field offices for the technical assistance activities of the Ministry, the credit activities of IFE, and the land settlement activities of the Agrarian Reform Commission. Attached to these centers will also be six warehouses, repair and maintenance units, and six living-quarter units for bachelor staff.

(b) Equipment and furnishings for the extension centers. The purchase of furniture and equipment for the offices and living quarters, laboratory equipment and apparatus, and agricultural machinery, equipment and tools, needed to equip the extension centers; the procurement of automotive vehicles (jeeps, pickups, etc.) needed for the field extension work; and the purchase of improved seed for testing and distribution to the farmers as part of the extension activities.

(c) Accessory facilities. The construction of marketing sheds for collecting, grading and processing needed in three of the areas; and the procurement of agricultural machinery and equipment for custom work by MACI personnel in land preparation and the harvesting of crops.

3. Supervised credit for livestock improvement. The livestock improvement program will be handled as a relending operation under the joint administration of IFE and MACI. The funds will finance the costs to farmers of quality bulls, artificial insemination, pasture improvement, provisions of supplementary feed, wells and water tanks. Most of these funds are expected to be used in the six development areas, but will also be available for programs in other parts of Panama.

4. Technical assistance. Funds earmarked for technical aid will finance the costs of three United States technicians: a supervised agricultural credit specialist to be assigned to the IFE, who will concentrate on the development of procedures and the training of Panamanians; and two generalist rural area development advisors, who will work with key Panamanian technicians in the field.

(Full descriptive details of project components are given in Annex B.)

It is noted that the Borrower's original application also included \$55,000 for the rehabilitation of physical plant at Divisa, including work on some twenty-odd buildings; \$50,000 for the upgrading of citrus orchards; \$40,000 for the establishment and equipping of field experiment stations; and about \$160,000 for constructing and equipping family living quarters for GOP personnel. These items have been deleted either as unsuitable for A.I.D. financing or as non-essential at this time. However, inasmuch as the rehabilitation of the physical plant at Divisa is essential to the efficient operation of the Panamanian extension service, as well as the effective utilization of the A.I.D.-financed equipment to be used at Divisa, A.I.D. will require as a condition precedent to disbursement of funds under the loan, that satisfactory evidence be provided that provision has been made for the needed repairs and renovations.

D. ENGINEERING ANALYSIS

1. Engineering Plan for Execution of Project

Preparation of plans, specifications and bid documents, analysis of bids and supervision of construction for buildings to be provided under the Project will be performed by the Department of Agricultural Engineering of the Ministry of Agriculture, Commerce and Industry. The Department of Agricultural Engineering has a present total of eighteen technical personnel including seven engineers, four surveyors, four draftsmen and three assistants. Provisions for two additional engineers are included in the Department's current budgetary request. Preliminary plans and specifications are available, and construction drawings for the buildings are presently about fifty percent complete. The Department is considered to have the capability to complete them as required to conform to the proposed construction schedule. Some of the engineers and surveyors now assigned to field offices of the Department will be utilized for site layout work and supervision of construction of the buildings as these services are required.

Construction of buildings to be provided under the Project will be by public competitive bids. Qualified contractors from Panama and the United States will be eligible to submit bids. The buildings are of relatively simple single-story type consisting of Administrative Centers, Bachelors' Quarters, Warehouses, and Marketing Sheds. These types are similar to housing, school, and light industry construction for which there are presently a number of competent Panamanian construction firms.

2. Technical Feasibility

The Project will initiate a coordinated rural development program for Panama with the establishment of six development areas, one in each of six different provinces.

Statistical and economic analysis of the six areas has been made, including population, number of families and farm units, value and kind of agricultural production, farm input cost, and net yield to farmers, at present and after completion of the

project. Information related to topography, soils, hydrography, climate, road systems and markets has been investigated and compiled for each of the six areas, together with information on land distribution and tenure.

The general purpose of the Project is to increase both total agricultural production and productivity, in terms of yield per hectare and per person employed. The population active in the agriculture sector has the lowest rate of economic growth. However, it is the sector of the economy that shows the greatest absolute increase of the labor force. In 1960 there was a total of 155,690 persons economically active in agriculture, which is 57 percent of the total labor force in the country. For the six areas involved in the Project it is expected that at the end of five years the production will have increased from a present gross value of \$12 million to \$22.5 million, an increase of 86 percent, while the net yield to farmers will increase from a present value of \$2.1 million to \$5.8 million, for a net gain of \$3.7 million, an increase of 170 percent.

The Project is essentially of a service nature and does not include large construction works. Construction items consist of service types of buildings and living quarters for bachelors. (Housing for married persons is available in towns adjacent to the areas where extension work will be carried on.) Procurement will include agricultural machinery and equipment, vehicles, seed, furniture, office and laboratory equipment. A special credit fund will provide for financing procurement of high quality bulls and other livestock improvements. The Project also provides for technical advisory assistance for 18 months.

The estimate of cost for buildings is based on the unit cost per square meter of similar type construction in Panama as follows: covered areas, \$80/M²; open areas, \$40/M²; warehouses and marketing shed, covered areas, \$60/M². An additional allowance was included for utility connections to the buildings. Land for the buildings will be provided by the borrower. Specific sites within the areas have not yet been selected. A.I.D. will concur in the building sites before disbursement of funds for construction.

Detailed equipment lists have been submitted by the borrower, and equipment costs indicated in the loan paper were based on specified unit costs.

The Project requirements in terms of technical manpower buildings, equipment and vehicles needed and estimate of costs result from review by a Rural Development Advisory Team provided by A.I.D. to review the Project as presented in the loan application of the Government of Panama. The team concluded that sufficient trained staff is available at present to initiate the program. Additional trained staff can be made available to augment the presently available personnel as required.

It is considered that necessary substantive technical and financial planning for the Project have been completed and a reasonable firm estimate of cost of the Project to the United States has been obtained, thus complying with the applicable provisions of FAA Sec. 611.

The cost of no one installation to be constructed under the loan will exceed \$100,000.

E. ECONOMIC ANALYSIS

1. Place of Project in Program

This project is a strategic component of Panama's national development plan. It will contribute substantially to increasing agricultural productivity and improving the level of living of a substantial segment of the rural population. The impact will extend much beyond the agricultural sector in its expected impact upon the availability and prices of food products and by bringing substantial numbers of rural families into the national market economy.

In the face of slow progress made in rural development in Panama in recent years and with a shortage of resources, both financial and technical, the Government of Panama in 1963 selected six areas in which to initiate a comprehensive rural area development program. The objective is not only to increase agricultural production and improve the level of living of the rural family, but also to demonstrate the efficacy of the approach.

The steps involved in the proposed activity are:

- a. Regularization of land ownership.
- b. The application of technical assistance and credit.
- c. The development of necessary support services - transportation, marketing, education, and public health.

This integrated approach, it is estimated, will result in a doubling of agricultural and livestock production in the pilot areas in five years.

Previous programs of the Government of Panama and AID have laid the groundwork for this activity. Programs in agricultural extension, participant training, agricultural education and agricultural research have developed a group of capable technicians who are in a position to assist in this activity. The AID-IBRD road program has developed major

access roads for the areas selected for intensive development activity. The IDB agricultural credit activities have made available funds for lending and assisted in reorganization of the major agricultural credit agency. The A.I.D. loan for a rural cadastral and natural resources survey will contribute valuable information for purposes of establishing property rights and planning. The A.I.D. loan authorized for feasibility studies will make available resources for planning development activities in vital segments of the rural development program, particularly in feeder roads, irrigation, and agricultural marketing.

The present loan will provide the financing for:

- a. Improvement of facilities for research, vocational training and adult education.
- b. Providing necessary facilities and equipment for the activities of the key government agencies working in the six priority areas.
- c. A revolving fund for financing key inputs required in livestock improvement.
- d. Technical assistance in rural area development.

2. Project's Contribution to Country's Economic Development

This project will enable the Ministry of Agriculture to provide the required technical supporting services for the rural area development project. The assistance made available will be used to construct and equip the extension and research facilities required for this purpose; to provide a revolving fund for the provision of credit for strategic development inputs; and to provide the necessary external technical assistance required for the initiation of this activity. This assistance will complement the efforts of the Ministry and enable it to carry out successfully its mission.

3. Program Background

Panama's gross national product has been increasing by over 5 percent annually over the past decade; its per capita GNP, by somewhat less than 2.5 percent. In the past five or six years, the trend has been even higher, reflecting an average annual per capita increase of over 3 percent. In absolute terms, per capita output in 1962 was valued at about \$450, putting Panama at a level well above the countries of Central America.

Overall growth statistics, however, obscure the fact that income is in large measure at a subsistence level. The gap between the urban areas and the rural areas has widened over the last decade. Agriculture, while growing absolutely, lagged behind the other major sectors. An increase of 42 percent in agricultural output compares unfavorably with other major sectors (industry, commerce and services), which achieved increases which amounted on an average to nearly 55 percent. About one-half of Panama's population derives its livelihood from agriculture and this one-half of the population continues to receive about one-fourth of the national income.

The expansion of the economy over the last decade has been the result of rapidly increasing invisible income from the Canal and inputs of foreign capital. The availability of income from the Canal and the inflow of foreign capital have diminished the incentive to mobilize domestic resources for investment, both government and private. Easy access to investment abroad and to foreign exchange to finance imports, combined with the uneconomic size of the Panama market, have reduced the incentive to develop domestic industry. In the government sector, Panama's mobilization of tax revenues has remained significantly unchanged over the last decade. Receipts from taxes as a percent of the national income amounted to 11.1 percent in 1951 and to 11.7 percent in 1961. The limitations of the tax structure include exemption of taxes on interest and dividends and on income originating abroad, low income tax rates and modest real estate taxes plus inadequate tax enforcement and assessment measures.

To help achieve more balanced growth, it would be desirable to mobilize Panama's domestic resources for domestic investment and try to turn Panama more towards Central America and the common

market. Panama, by virtue of customs duties and import quotas and its higher standard of living, has built up an internal cost structure which it believes is too high for effective competition with the countries of Central America. On the other hand, Panama, like the countries of Central America, cannot grow sufficiently by reliance on the home market and for the sake of its own longer term development should associate itself with the Central America Common Market.

Within the context of the foregoing, U.S. assistance is directed toward the following goals: (a) agrarian reform and rural development, to bring into the national economy the rural half of the population which is now of little or no economic importance; (b) the growth of Panamanian domestic industry, again to broaden the base of the economy, reduce reliance on imports, and provide a vehicle for channeling more domestic investment in Panama; (c) the development of Panamanian credit institutions to accelerate agricultural development, industrialization and housing, and to help mobilize domestic resources through the stimulation of private investment; (d) a broad program of fiscal and tax reform and the improvement of manpower skills and administrative practices, both government and private, to provide the resources necessary to support the desired development.

4. Panama - Current Economic Situation

Between 1945 and 1960, the Panamanian economy underwent important structural changes. The military deactivation of the Canal Zone at the close of the Second World War was an important cause leading to an absolute contraction in the GDP, per capita income and employment level. As a result of these structural transformations, what had amounted practically to overemployment between 1944 and 1947 deteriorated to the extent that by 1950 8% of the economically active population was unemployed. After 1950, the urban commercial features characterizing the national economy became accentuated. The active population employed in commerce, transport, warehousing, communications and services increased from 26% in 1950 to 29% in 1960; in other words, contractions occurred in the employment level for agriculture and the Canal Zone, which were reflected in employment increases

in commerce and services and a rise in the unemployment level from 8% in 1950 to 9.4% in 1960. In 1962, the per capita GDP of Panama was 444 balboas (1950 value) the highest figure in Central America and more than double the regional average. During the 1950-1960 period, the country recorded the highest growth rate in the region (4.6%), which continued to rise, to 8.1% in 1961 and to 9.7% in 1962 (both rates computed on previous year).

This accelerated growth is largely due to the import and re-export trade of the Colon Free Zone, sales to the Canal Zone of goods and services, and to direct foreign investment in plantation farming (bananas, citrus fruits, oil palm), as well as to activities linked to the Canal economy; for example, the construction of a large petroleum refinery. The dynamic activity of the construction industry has also been a decisive factor in such expansion. Noteworthy among these activities have been the construction of a modern hotel, the Bridge of the Americas, the IVU housing developments, etc. However, the growth figures conceal certain structural problems, including the spiraling development of the construction industry and the rather modest growth of agriculture with industry as a whole exhibiting intermediate growth. As a result, only 34% of the Panamanian GDP is generated by commodity producing sectors, while commerce, banking, housing ownership, public administration and service generate 48% of the GDP. Gross investment in Panama in 1955 was 9.9% of GDP and 15.7% in 1961. Construction absorbed most of the total investment; in 1955, this sector accounted for 68% and in 1960, 69% of the total. The purchase of capital goods represented only 3.2% of GDP in 1955 and 4.9% in 1961.

Agricultural productivity in Panama is very low; the 47% of the active population engaged in agriculture accounted for 23% of the GDP in 1960. This limited development is due to the grade of land, the structure of rural ownership as characterized by dwarf holdings and the farmer's lack of ownership deeds. A large part of the rural population is nomadic, with a two-year cycle of migration that diminishes or annuls agricultural expansion in the alternate years. In addition, there is a substantial flow of migrants in quest of better lands. Forty-six percent (46%) of existing farms are less than five hectares in size, and 51% are occupied by deedless farmers.

The influence of these factors is reflected in the scant use of credit and the failure to increase unit production. Furthermore, the structure of marketing systems, the price-support policy and the lack of financial assistance adversely affect this sector of the economy. The limited development of agriculture prevents it from satisfying domestic consumer needs and leads to the importation of locally producible commodities.

Panamanian industry is poorly developed and is concentrated in the vicinity of the capital. According to the 1960 Census, there were 792 industrial enterprises, chiefly engaged in the production of foodstuffs, beverages and apparel. New industries have been established since 1956 to manufacture polyethylene, batteries, vegetable oils, sanitary appliances, windows, etc. The market is limited by the small population and the concentration of income in the hands of urban consumers with a marked propensity to consume imported goods. Electric power generation has risen substantially from 147 KWH annually per capita in 1952 to 225 KWH in 1959. However, the ratio of installed capacity (58 watts per capita) to output indicates limited utilization of the output.

Panama has no monetary authority or autonomous monetary system. Under the agreement signed with the United States Government in 1904, Panama undertook to maintain the value of Panamanian currency, denominated in balboas, on a par with the dollar and to limit its currency issues of silver coinage. The Panamanian monetary system functions as part of the United States system. Between 1955 and 1961, credit to the private sector more than doubled; contractions in foreign assets and increases in sight and savings deposits partially financed this increase, but the credit expansion has not been significantly oriented towards the development of production.

The central government budget includes revenue from State monopolies, public utilities services, the national lottery, the hippodrome and the casino, as well as tax receipts. Between 1955 and 1962, current government receipts rose by close to 50%, while total expenditures went up by nearly 70%. Service on the public debt climbed from 7.4 million balboas in 1955 to 16.4 million in 1961, or more than 100%. In 1962, such service absorbed

9.5 million balboas, or 14% of ordinary revenue. Total expenditures were drawn from ordinary resources and from loan proceeds. The deficit for the 1955-61 period exceeds 61 million balboas.

Between 1961 and 1962, the value of exports rose from \$30.3 million to \$48.0 million reflecting mainly exports of petroleum products from the newly established refinery. In previous years exports had averaged about \$30.0 million with bananas accounting for about 60%, and shrimp, 15-20%, of the total. Panama's balance of payments is characterized by a large deficit in merchandise trade, offset by receipts from the Canal Zone, tourism and the inflow of foreign capital. Loans received by the public sector have been an important factor in financing a portion of the balance-of-trade deficit in recent years.

5. Panama - Foreign Debt and Debt Service Capacity

Panama's public debt has risen rapidly in the past few years, and further increases are expected as a result of the financing of the development program. The OAS Committee of Nine has estimated that if the program it has recommended for 1964-66 is carried out, the external debt would increase from \$85.1 million at the end of 1964 to \$110.8 million at the end of 1966, and the internal debt (excluding the floating debt) from \$74.8 million to \$87.3 million. It further estimates that the servicing of external debt would not exceed 4.2% of the receipts from exports of goods and services in any of these years, and that the servicing of the total debt would take about 11.0% of estimated total current revenues of the public sector, and about 3.0% of the gross domestic product. It should be noted, however, that the OAS estimates of government revenue are projected on the basis of increases in tax rates and improved tax administration and enforcement. The incoming Robles administration has announced its intention to begin these reforms immediately after taking office, and to limit ordinary expenditures to current ordinary receipts.

F. FINANCIAL ANALYSIS

1. Financial Plan

The National Planning Commission of the GOP has reviewed this activity and given it top priority from the standpoint of need and GOP repayment capacity.

A.I.D. funds in the amount of some \$1,500,000 will be used for the foreign exchange costs of procurement of U.S. equipment, materials, vehicles and contractual services required in the execution of the project, and some \$900,000 will be used for local costs for the project. A breakdown of the \$2,400,000 A.I.D. loan as to local and foreign exchange costs is given below:

PANAMA--RURAL DEVELOPMENT PROGRAM

Loan Funds Breakdown

<u>Items</u>	<u>Foreign Exchange Costs</u>	<u>Local Costs</u>	<u>Total Loan</u>
Building Construction	\$ 42,500	\$ 382,500	\$ 425,000
<u>Divisa</u>			
Equipment	65,000	5,000	70,000
Area Facilities--office furn. & equip., lab. equip, ag. equip., etc.	304,000	16,000	320,000
Vehicles	215,000	-	215,000
Ag.machinery & equip. for custom work; seed	195,000	5,000	200,000
<u>Livestock Improvement</u>			
Bulls - purchase	300,000	180,000	480,000
Pasture Imp. & Feeding	50,000	110,000	160,000
Water Facilities	100,000	200,000	300,000
Technical Assistance	125,000	-	125,000
Subtotal	\$1,396,500	\$ 898,500	\$2,295,000
Contingency			100,000
Grand Total			<u>\$2,395,000</u>

2. Action by Eximbank and International Institutions

Eximbank officially confirmed on September 29, 1964, that it is not interested in this project.

G. IMPACT ON U. S. ECONOMY

1. Source/Origin and Procurement of Goods and Services

Procurement of goods and services under this loan is restricted to Panama and the United States.

2. Competition with Private Enterprise

The project will not compete with U. S. private enterprise.

3. Effect on U.S. Economy

Such impact as this loan will have on the U.S. economy and balance of payments will be favorable. Items to be procured from the United States under the loan will react favorably on the U.S. balance of payments. In addition, to the extent that GOP revenues are increased as a result of this project, additional trade with and procurement from the United States should be brought about.

H. IMPLEMENTATION PLAN

Major responsibility for the new Rural Development Program is being centralized by GOP President Robles into the next Minister of Agriculture, Sr. Ruben Carles. Sr. Carles is a career employee of the Chase Manhattan Bank, on leave to accept this important GOP post, and he is generally esteemed as being competent, honest, dynamic, and extremely anxious to make a good record. He is an economist by training and is a professor of economics at the National University. In his work with the Chase Manhattan Bank, he has participated in the development and operation of a unique livestock credit lending program which has been quite successful. This has provided him with an excellent insight into the problems of rural development in Panama. In considering implementation it is noteworthy that the Minister of Agriculture also presides over the boards of IFE (National Agriculture Credit Institute) and CRA (Agrarian Reform Commission), and these three agencies (MACI, IFE and CRA) will constitute the bulwark of the new rural development program.

President-elect Robles has indicated that this program has high priority and a strong determination to take whatever steps are necessary, in order to effectuate proper coordination with the several other GOP agencies (Ministries of Public Health and Education, Housing Institute, Water Resources and Electrification Institute, National Highway Department, etc.) that have a stake in this Program. (See Annex A.)

1. Technical Advisory Services

This loan provides for needed foreign technical assistance, i.e. three advisors for 18 months each who will be recruited and contracted within three to four months from the date of signing the loan.

US AID/Panama now plans to maintain a Rural Development staff of five direct-hire technicians, whose major function will be that of facilitating and monitoring this Program, including previous loans (such as the \$2.4 million for cadastral surveys) and possibly such future loans relating directly to this activity in the six priority areas as public health centers, feeder road building, rural electrification, etc.

2. Organization and Planning

A number of activities are contemplated under this subject, which should be completed in the course of the first three months after signing the loan.

a. Government Organization and Coordination

A GOP request has been transmitted to AID/W for a special team, to spend about one month in Panama, to advise the Minister of Agriculture on organizational and administrative changes, with a particular view to facilitating implementation of the rural development program. Recruitment and arrival of this team is quite urgent since the questions of reorganization and coordination are high on the GOP's list of priority actions to be taken. The GOP is especially anxious to create an administrative mechanism to streamline and expedite the numerous details involved with disbursements, procurement, construction, recruitment, etc.

b. Preparation of Building Plans and Specifications

The Ministry of Agriculture has been engaged in the preliminaries of this task during the past two years. Preliminary plans and specifications examined by the Loan Team satisfy FAA 611. The plans and specifications required for bids on construction contracts are scheduled for completion by January 1965.

c. Preparation of Furniture, Equipment and Supplies Lists

As with the preceding task, much of the preliminary work has already been done by MACI and final lists, adequate for procurement, will be completed before January 1965. Preparation of equipment lists is, however, well advanced and data presented to the Loan Team are adequate for purposes of FAA 611.

d. Preparation of Plans and Projects for Integrated Rural Development

MACI, IFE and CRA, in cooperation with other GOP agencies and with US AID advisory assistance will place special emphasis on this task during the last quarter of 1964. This will include:

- (1) A more detailed scheduling of the work by CRA, in the six areas, with respect to cadastral and natural resource surveys, delineation and sale of properties, title adjudication, etc. The A.I.D. Loan Team was given specific assurances by both the incoming Minister of Agriculture and the Director of CRA that the CRA program of title adjudication, natural resource inventory and cadastral work would be conducted so as to mesh with the requirements of the Agricultural Development Support Program being financed by this loan.
- (2) A detailed realistic estimate of credit requirements in the six areas, geared to the schedules developed by CRA and the needs for credit by farmers, and plans to meet these requirements; and a review by the GOP of its present and prospective loan agreements with IDB, with a view to providing effective service of the credit needs.
- (3) Provision for improved utilization of the manpower resources for supervision of credit available in MACI, CRA, and IFE. (The Minister of Agriculture will request short-term advisors from A.I.D. and/or IDB to assist in preparing the necessary new regulations and operating procedures.)
- (4) Detailed action programs for MACI for research and extension activities with respect to the various agricultural enterprises in the six priority areas. These plans, in turn, must be coordinated with those of CRA and IFE.
- (5) Detailed plans by the other agencies (feeder roads, schools, health centers, public water supply, housing, rural electrification, etc.), again with relation to the work of MACI, IFE and CRA in the six priority areas.

- (6) Detailed schedules for recruitments and/or transfers and training of technical and supporting personnel in accordance with above described work plans.

3. Planning for Feasibility Studies

A number of activities cannot be initiated on an adequate scale until regular feasibility studies are made, with financing out of the \$2,000,000 feasibility loan by A.I.D., and other sources. Plans must be made and contracts let for the following studies:

- a. Plans for construction and maintenance of an adequate "feeder" road system in each priority area.
- b. A plan for construction or provision of adequate marketing facilities and services, with particular reference to the six areas but including needs for facilities in Panama City and other marketing centers; also including export market outlooks.
- c. More detailed studies on the feasibility of various proposed irrigation/drainage projects.
- d. Studies of rural electrification in the priority rural areas.

4. Staffing

a. Panamanian Technical Staff

Staffing requirements of MACI, CRA and IFE have been carefully analyzed by these agencies, as summarized in the following table:

PERSONNEL AND RELATED OPERATING COSTS OF MACI, CRA and IFE

with direct reference to

Rural Development Program in Panama

<u>Requirements</u>	<u>Agency</u>	<u>First Year</u>	<u>Second Year</u>	<u>Fourth Year</u>
		<u>1965</u>	<u>1966</u>	<u>1968</u>
		<u>No.</u>	<u>No.</u>	<u>No.</u>
<u>A. Department heads and various subject matter specialists who plan and supervise various project activities -</u>				
1. Program & Planning	MACI	5	5	6
2. Animal Sciences	"	36	42	59
3. Plant Sciences	"	28	31	53
4. Ag. Economists	"	13	16	26
5. Ag. Engineering	"	11	14	16
6. Nat'l Extension Service	"	12	13	15
7. Agrarian Reform Super- visors & Surveyors	CRA	25	27	33
8. Ag. Credit Supervision	IFE	17	17	20
<u>B. Area Development Staff assigned to various field offices, with emphasis on six priority areas -</u>				
1. Area Coordinators and Admin. Assistants	MACI	6	12	12
2. Ag. Credit Agents	IFE	23	26	30
3. Land Settlement Agents	CRA	6	6	8
4. Extension agents, rural youth & home improve- ment agents	MACI	112	120	126
<u>TOTALS</u>		<u>294</u>	<u>329</u>	<u>404</u>
C. Salary Costs		\$ 896,700	\$1,004,000	\$1,260,800
D. Other Estimated Operating Costs at 125% of Technician Salaries		\$1,120,900	\$1,255,000	\$1,576,000
E. Total GOP Costs		\$2,017,600	\$2,259,000	\$2,836,800
F. Estimated GOP Contribution - for 3 years of 1965, 66 & 67 ----				\$6,777,000

Staffing patterns for the rural development program were submitted to the Loan Team and are considered satisfactory. The Loan Team has also been satisfied that sufficient trained personnel can be available to staff the program.

The necessary reassignments, transfers and new recruitments and training courses will be organized in accordance with plans described above under "Organization and Planning."

b. Foreign Advisors

U.S. and other foreign advisors will be provided as described above under "Technical Assistance." The A.I.D. direct-hire staff for rural development and the three contract consultants to be financed from this loan will be required on an urgent basis. Consideration also should be given to the financing of a Land-Grant College Contract to provide necessary technical backstopping in agricultural education, research and extension for the longer term.

5. Construction Schedules

(See Engineering Analysis.)

Construction contracts will be let beginning in the first months of 1965.

6. Procurement

A special administrative office will be used to receive loan funds and to handle all details with relation to the purchases or procurement of furniture, office equipment and supplies, laboratory equipment, vehicles, agricultural machinery and equipment, seeds, frozen semen and miscellaneous supplies. One such office already exists, in CRA, with authority to handle this procurement function, free of normal government restrictions and red tape. The "organization" study, described above, should result in a new administrative set up to serve MACI, with authority similar to that already granted to CRA.

The schedule on procurements will coincide closely with the construction schedules.

7. Supervised Livestock Credit

It is anticipated that the livestock credit recommended in this paper will be disbursed through IFE, which will handle the banking aspects, pursuant to farm plans worked out and supervised by Ministry of Agricultural technicians. The possibility for establishing producer credit associations as an intermediary channel between IFE and the ultimate borrower will also be explored.

With respect to the supervision aspect of the credit, there are already capable Panamanian technicians located in the field who can be made immediately available for transfer to the project. Advisory U.S. services will be provided by US AID personnel and the three U. S. experts proposed for financing under the loan.

* * * * *

The diffuse nature of the project, as well as the geographic dispersity of its physical elements, will consume considerably more man-hours than more usual loan projects. As noted, the US AID plans to have adequate staff for this purpose. The US AID feels that the priority nature of this project adequately justifies this additional cost input from A.I.D.

I. PROBLEM

1. The rural development program being financed through this loan is a part of a complex of interrelated rural development activities. These activities include construction of feeder roads, water supply facilities, land titling (a necessary precursor to agricultural credit), provision of sufficient agricultural credit, provision of health facilities, etc.

A.I.D. is convinced that necessary parallel developments can be conducted in the six areas at a pace which will allow effective utilization of this loan. However, as provided by a condition precedent recommended, A.I.D. will not be prepared to disburse funds for use in any one area until such time as the GOP has presented satisfactory evidence that the other development projects in that area actually will be implemented in timely fashion to meet the needs of the present project.

Projects which are closely related to the present project are as follows:

Feeder Roads

Principal roads already exist leading into all the geographic areas to be developed under this loan project. However, the essential feeder roads which are necessary for adequate development are lacking in some of the areas. The Government of Panama plans to provide the necessary roads. Specifically, an early use planned by the GOP for the A.I.D. Feasibility Loan will be the financing of feasibility studies for feeder roads.

Agricultural Credit

Agricultural credit is absolutely essential to rural development. Through funds supplied by a recent IDB loan of \$2.9 million, IFE still has approximately \$2 million undisbursed. These funds will provide needed fixed agricultural capital in the six areas for approximately a two to three-year period. In addition, the IDB is presently considering a loan to IFE for provision of working and fixed capital to farmers, in the amount of \$1.25 million.

The IDB has indicated to A.I.D., both through their field representative in Panama, as well as through the head office in Washington, that the Bank will be prepared to consider further lending to Panama for agricultural purposes. It should also be pointed out that A.I.D. may be prepared to consider lending to Panama for agricultural credit.

Water Development

Farmers already living in the six areas have, of course, already developed water sources in elemental fashion. Therefore, further immediate development of water resources is not a sine qua non of the present project. However, there is a tremendous amount of work to be done in the field of further rural water resource development, and as noted the GOP is presently formulating plans through IDAAN and Salud Publica for such development.

Cadastral Survey

Normally, land title is a prerequisite to the granting of agricultural credit by any lending institution. The cadastral survey work presently being carried out in Panama will produce clear land titles in the six areas. In the meantime, however, CRA is issuing to farmers who do not yet possess title, a provisional document called a "Certificate of Option" which IFE will accept as a basis for extending credit. Therefore, the pace of the cadastral survey is not essentially linked to the disbursement pace of this loan.

PRESIDENT-ELECT MARGO A. ROBLES STATEMENT ON RURAL DEVELOPMENTINTRODUCTION

In carrying out the "Plan Robles" during the next four years Panama's rural sector, or rural sector, will receive top priority consideration by my administration. We shall analyze the problems of all regions and we shall give particular attention to the most pressing needs. In other words, we have taken a fresh look at the big question of rural development and we have decided on a new approach which, I am satisfied, will pay big dividends in terms of national security and prosperity.

Although we already have much information about rural conditions and problems and although we know generally what needs to be done, our plans have to be developed in more detail in order to be more precise and specific. The Government now has available for this purpose, the proceeds of two loans which have been approved by the Agency for International Development (AID). These are the Cofecolca loan of \$2,400,000 for the Comisión de Reforma Agraria and a loan of \$2,000,000 for the preparation of feasibility studies on various specific projects. This project is approved and awaiting signature.

Other loans are being considered; including one to improve facilities and services of the Ministerio de Agricultura. At my request, AID has brought a special team of advisors to Panamá, to review a number of proposals - all related to rural development - with particular reference to technical services of the Ministry of Agriculture.

The economic development of Panamá is being hampered by relatively poor production in the rural sector of our country. Increases in agricultural production will keep pace with the rate of commercial and industrial growth in the cities.

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the increase in population, new demands and aspirations of our people, and the necessity of improving living conditions. Panamá continues to import large quantities of foodstuffs while much of its fertile soil remains untilled. A large majority of the more than 100,000 families, or approximately one half of Panamá's total population, who live on the farms and in the villages, continue to be denied the full benefits of our expanding economy. These people need better schools and health centers, more employment opportunities and assistance in increasing their production of livestock and crops, which is so vital to the needs of Panamá.

We must as a nation find ways and means to extend the techniques of modern agriculture to our rural areas. We must provide the facilities and knowledge for more efficient production and marketing to agricultural products. We have to expand the production of basic commodities presently in short supply such as rice, corn and beans. It is necessary to produce locally some items that we presently are importing and could be producing locally under satisfactory conditions. We have to accelerate the process of import substitution and expand our exports in order to improve the balance of payments and employment. We have to increase the efficiency and production of our farmers and cattlemen in order to improve their position in the external market and provide local consumers the benefits of better quality and lower prices. And finally, we must stimulate the use of industrial products by our farmers. I know the attainment of these objectives and the solutions to these problems are complex but I am confident that through a determined and coordinated effort on the part of our farmers, assisted by both governmental and private agencies, we can and will succeed.

Integrated Rural Development Program

A new Program is now being prepared, that will be designed to mobilize all available resources both domestic and foreign, and apply them in a logical, orderly manner to obtain rapid and sustained rural development. In this Program, a number of agencies of this Government will work as a team to provide many strategic benefits or services, so as to place each priority area in a position to prosper. This will result in greater security, increased production, higher incomes, improved health, better housing and many other benefits. The results of our efforts in each selected area should point the way to the extension of similar activities throughout Panamá. Other Latin American countries also will be interested in observing this Panama approach to rural development on an integrated, pilot area basis.

Cadastral Survey

The logical, initial phase of rural development is being carried out by the Comisión de Reforma Agraria (CRA). We refer to the national cadastral survey, which will cover 35,000 square kilometers or practically all of the populated and accessible parts of the country in the next three years. This project will provide aerial photos, mosaics and large-scale maps that will be of great utility to numerous agencies. It will provide cadastral maps and record, identifying all properties and farmers or occupants. Also it will include inventories of our natural resources (soils, water, vegetation, minerals, etc.) as a basis for determining the use capabilities of the land, the possibilities of forest or mineral exploitation, etc.

Besides the regular budget for CRA, the Cadastral is being financed by the \$2,400,000 loan from AID. The Dirección de Cartografía and other agencies will cooperate closely with CRA in this project.

Settlement

A second step in the Rural Development process, also to be managed by the Comisión de Reforma Agraria, will be the actual distribution and sale of lands to settlers, along with the granting of titles and the provision of other minimum essential services. During the next two years it is proposed to benefit 12,000 families in this way.

Most of the funds necessary for this phase of the Rural Development process can be provided through the regular budget of the Comisión de Reforma Agraria.

Land Reclamation and Improvement

In all of the priority areas being considered for this Program there are certain major improvements to be made that are beyond the normal powers of individual farmers or local groups. We have in mind such improvements as the construction of irrigation and drainage facilities, land clearing operations, soil and forest conservation, etc. Such activities usually are basic to any program aimed at increased agricultural productivity.

This phase of the total job requires further detailed studies, for which the funds fortunately will soon be available under the feasibility study loan. These studies of irrigation, drainage and other land improvement - are of most urgent importance in order to prepare the necessary plans and specifications as a basis for awarding construction contracts:

Road Building

The areas already indicated for priority attention have been selected partly on the basis of being accessible to the major marketing centers. This does not mean that the problem of roads is solved. Within each area many kilometers of roads must be planned, designed, built and maintained in order to provide year-round access to and from all farms.

This aspect of the development process will be expensive. Therefore, we are looking for adequate roads at the cheapest possible cost. In this light we shall insist on local participation through the organization of road building and maintenance units in each area and on a maximum contribution of labor from the settlers and from local community groups.

The department of CAM of the Ministerio de Obras Públicas, has tentatively designated a number of connecting - or feeder - roads to be built in six priority areas - at an estimated cost of \$4,000,000. This will require external financial assistance and a loan application is being prepared. As a first step, another feasibility study will be made, on an urgent basis, to assist CAM in preparing more detailed plans for roads in the six priority areas, which will include a large measure of "self help" by the various local communities.

Rural Electrification

The advantages of electrification to stimulate rural development are quite obvious.

In accordance with the National Economic Development Program, the Instituto de Recursos Hidráulicos y Electrificación (IRHE) will support this Rural Development

Program by concentrating its rural electrification efforts in the selected areas, insofar as possible. We are asking IRHE officials to work closely with the Minister of Agriculture and others in developing a plan to conform with the Rural Development objectives.

In addition, it is planned to contract for one or more highly qualified consultants to work with IRHE in the development of its program in these areas.

Agricultural Development Services

The Ministry of Agriculture will reorient all of its technical services and direct them forward the integrated rural development program. Technicians will be adequately supported with funds, facilities and equipment to enable them to accomplish their goal.

-A loan application, to provide financing for those Ministry facilities and services which must be improved in order to provide adequate technical assistance to farmers in the priority areas, has been submitted to AID. A number of inter-related project activities have been included in this proposal and each is important to assuring success of the whole Rural Development program. Very briefly, the Ministry of Agriculture proposal includes:

1. Improvement of the facilities at the Divisa Agricultural School and Research Center for training Peritos Agrícolas, and conducting short courses as well as conducting agricultural research.
2. New facilities, equipment, and additional well-trained personnel, for the expansion and improvement of Extension Services.
3. Credit and technical assistance activities aimed at the smaller farmer with respect to (a) livestock development (b) increased production of such basic food crops as corn, rice and beans and (c) improvements in the production of fruits and vegetables.
4. Major attention to the very important problems of marketing.
5. A special effort to encourage mechanized farming.

Agricultural Credit

In any program of this kind the importance of credit and of a good credit institution

like the Instituto de Fomento Económico (IFE) is obvious. Most of the farmers to be aided by this Program have never had access to credit - or at least they have never had credit in adequate amounts, at reasonable interest rates and on a long term basis, where necessary. Therefore, the role of IFE (as well as other loaning agencies, such as private banks) will be of crucial and central importance.

IFE now has a growing agricultural credit operation, which is receiving much helpful assistance from the Banco Interamericano de Desarrollo (BID). In addition to the first loan of \$2,900,000 from BID, a second loan of \$1,250,000 has been requested.

The new rural development program, however, will place a heavy strain on the severely limited capital resources of IFE. Moreover, the very nature of this new Program will necessitate certain modifications in the rules and regulations under which IFE now operates, in cooperation with IDB. Essentially, the problem is one of being in a position to offer ample credit and technical assistance to the thousands of settlers who will be receiving titles and other benefits from the Agrarian Reform Commission. These settlers will require a special type of carefully supervised credit. Thus, we may find the need to establish a separate department in IFE for Agrarian Reform Commission clients, who would later graduate to become clients of IFE's regular credit department.

Likewise, the Ministry of Agriculture, in its loan application to AID, is requesting special credit funds to finance the purchase and distribution of high quality bulls to many small ranchers. These funds also may be handled by IFE, under separate rules and regulations.

Because of the above considerations the ~~new~~ Minister of Agriculture, who also

will preside over the Boards of CRA and IFE is being requested to give this problem high priority attention. He will prepare a plan to accomplish whatever reorganization that may be necessary in IFE to satisfy the requirements of all agencies in carrying out the integrated rural development program.

Other Elements of Rural Development

A truly integrated program of this kind, necessitates many other activities or services, which will involve cooperation from several other Panamanian agencies. For example: the Ministry of Education is considering the problem of rural education. In a similar sense, the Ministry of Salud Pública (Public Health) has planned the needs for small rural health centers and sanitation facilities; the IDAAN has estimated the requirements for rural aqueducts, and the Instituto de Vivienda (IVU) has considered the problem of rural housing.

In all of these other activities, external financing will be required to supplement the Government's funds to be made available for such purposes.

Rural Industries

A truly integrated development program in the rural area implies a need for another special activity that is often referred to as "vertical diversification of agriculture". This might cover a long list of small industrial enterprise or it could include such a large new enterprise as the abattoir in David.

It is necessary only to think of the major agricultural activities to be reminded of many opportunities. Some examples that come to mind are:

1. Conservation of fruits and vegetables
2. Manufacture of dairy products
3. Mixed feed for livestock

4. Commercial feed production
5. Rice drying and milling
6. Sawmills and wood utilization, and so on. Handcraft or cottage industries also should be considered.

Local Community Action

It is apparent that progress and success in an ambitious program of this kind will depend on the action taken by the local community groups to help themselves. For this reason, extraordinary efforts will be exerted to provide technical, and financial assistance in the organization of credit unions, cooperatives and other forms of group action. Local "self-help" will be of great importance with respect to such activities as building roads, constructing schools or health centers, marketing of farm products and the use of credit for certain types of land improvements.

It is necessary that the efforts of the government and its agencies be supplemented by the communities participating in the program. Only through proper cooperation can we attain the basic objective of stimulating the interest and enthusiasm of the population. The will to progress, the sense that a higher standard of living is a necessity is a fundamental requirement of any development program and the best way to generate this spirit is by asking the population to participate and cooperate in our program.

Coordination and Management

I cannot state too strongly my conviction that some sort of new administrative mechanism is needed to accomplish the necessary coordination and to provide tight management of the program being undertaken. Beside the local groups and various private agencies, at least nine important Government of Panama agencies will have a stake in this program. Add to this the need to relate Panamanian

efforts with those of such international agencies as AID, BID, IARD, UN Special Fund, and the OAS. This preoccupation has caused me to request the advisory assistance of AID and other Alliance for Progress agencies to join with a special Panamanian Task Force in studying this problem of coordination and management and to make detailed recommendations for its solution. The success of this program requires a closely knit integration between the basic agencies:

Ministry of Agriculture

Comisión de Reforma Agraria

Instituto de Fomento Económico

We need an identification of purpose and unity of action. In order to reach this objective, I have instructed the new Minister of Agriculture to weld these instrumentalities together to obtain, under his leadership, the goals set forth in the program.

Priority Areas

A great deal of thought and study has gone into the selection of six priority areas in which a major part of the total rural development program will be concentrated during the coming four years. These have been identified as Alanja, Fonosí, Santa Rita, Sardinilla, Montijo and Toabré. All together, these six areas cover 577,000 hectares of which some 308,000 hectares are suitable for crop production or grazing. About 23,000 families now occupy the agricultural areas and their annual value of production in 1961 was estimated at \$12,100,000. Most of these families are under-employed. They use only a part of their lands. Their farming methods are rudimentary and their living conditions are poor.

The opportunities for improvement are great. The efforts of the Agrarian Reform Commission - to give each eligible family a legal title to a well-defined parcel

of land - are of fundamental importance. With this title, the farmer becomes eligible for credit from IFE. Having access to credit, the farmer can take better advantage of the various services offered by the Ministry of Agriculture. With more opportunity to progress, the farmer has a stronger voice in obtaining such other public services as roads, electricity schools, health centers, aqueducts, etc.

We hope, during the next few years, to speed up this rural development process and to demonstrate how it can be made to work effectively with a well-integrated program. In this way, Panamá will accomplish one of the major goals of the Alliance for Progress, to improve the standard of living of all its people.

MACI - RURAL DEVELOPMENT LOAN SUMMARY

<u>Item</u>	<u>Description</u>	<u>Estimated Cost</u> Thous. \$
1	<u>Divisa - National Center for Vocational Training and Research: New equipment</u>	70
2	<u>Area Dev. Construction of buildings for office space, training conference space, warehouses, machinery and equipment repair, vehicle maintenance and marketing</u>	
	a. 16 Offices, 6 Living Quarters (Bachelors)	259
	b. Warehouse, repair and maintenance (6 units)	116
	c. Marketing sheds (3 Units)	50
3	<u>Area Dev. All furniture, office equipment, laboratory equipment and supplies for item 2</u>	320
4	<u>Vehicles: Jeeps, Pick-ups, etc.</u>	215
5	<u>Agric. Machinery and Equipment: For custom work on land preparation/in priority areas and crop harvesting</u>	175
6	<u>Seed: Purchases of seed, equipment and supplies for testing and multiplying improved seed.</u>	25
7	<u>Livestock (mainly Beef) Improvement: Special credit fund to be administered by IFE, with technical assistance of MACI for financing high quality bulls, artificial insemination, pasture improvement, supplementary feed, wells and stock water tanks</u>	940
8	<u>Technical Advisory Assistance: Contracts with 3 foreign advisors for 18 months; including one credit advisor (IFE) and two rural area development advisors (MACI)</u>	125
9	<u>Contingency</u>	100
	<u>TOTAL</u>	<u>2,395</u>

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DETAILED DESCRIPTION OF PROJECT ACTIVITIES

1. DIVISA - National Center for Vocational Training and Research - \$70,000

This National Agricultural School and Research Center covers what is related to the education of agricultural technicians, short course training of adult farmers and housewives, and applied research with emphasis on farm management problems, extension and information services, and special campaigns on crops and livestock improvement practices.

The experimental center has approximately 1400 acres of land, and is the main center of the experimental work carried out in Panama. This center will play a very important role not only in the development of the six priority areas, but also in the rest of the country; it will be the main source of production of the agriculture knowledge and practical down-to-earth "know-how" that is urgently needed to carry out the project.

The physical facilities at the experimental center are in poor condition; there is an urgent need for the restoration and repair of the existing buildings and for the purchase of related new equipment. The GOP, as a condition of the loan, will provide for the needed restoration and repairs. These costs are estimated at \$55,000.

This project supplements previously authorized grant assistance to the school and provides \$70,000 for the specific use of the experimental center, as follows:

Purchase of new equipment \$70,000

Implementation

The following activities will be carried out by the Divisa National Agricultural School and Experimental Center, an institution of the Ministry of Agriculture.

ESTIMATED COST

Purchase of related new equipment

1 DC-6 Caterpillar, soils lab. equipment.
surveying instruments, mechanics tools and
equipment, carpentry shop equipment, animal
nutrition laboratory equipment, milk cooler,
refrigerator, dairy equipment, poultry equip-
ment, grain and storage equipment \$70,000

2. Area Development Construction - \$425,000

Several new paved highways and gravel roads have been built in the country the past few years; these new lines of communication have focused attention on the deplorable condition of a large number of subsistence farm producers in some parts of the country.

The six priority areas covered in this project contain about 577,000 hectares of land; of these 53% are classified as arable land. Approximately 23,000 families occupy these lands, and the value of their agricultural production in 1961 was estimated at \$12,000,000.

Since these areas have just recently been opened, there are no adequate facilities that can be used for office space, warehouse, seed storage, laboratory, and marketing sheds. Therefore, it is absolutely necessary to build all the required facilities at the earliest possible date in order to provide the technical services required. The project provides \$425,000 for the construction of buildings.

- a. Office and living quarters - 22 units \$ 259,000
- b. Warehouse, repair and maintenance - 6 units 116,000
- c. Marketing sheds - 3 units 50,000

Implementation

This activity will be carried out by the Department of Agricultural Engineering of the Ministry of Agriculture. Equipment and facilities financed under this project will be operated and maintained by the Area Development Coordinator in each priority area, according to the following schedule:

1. **Construction:**

a. **Offices and living quarters**

16 units, office - - - - - Jan. 1, 1965 to December 31, 1967
6 units, bachelors' living
quarters - - - - - Jan. 1, 1965 to December 31, 1967

b. **Warehouse, repairs and**

maintenance, 6 units - - - - - Jan. 1, 1965 to December 31, 1967

c. **Marketing sheds, 3 units - - - - - Jan. 1, 1966 to December 31, 1967**

3. Area Development - All furniture, office equipment, laboratory, equipment and supplies for Item 2 - \$320,000

All the furniture used in this project will be identical for all living quarters; it must be sturdy, well-constructed and simple in design. The office desks, chairs, typewriter tables, and filing cabinets will be of metal construction. The bookcases, small tables, and bulletin racks will be made of good quality lumber and simple in design. It is necessary to equip the offices, living quarters, warehouses and laboratories, etc., with adequate amounts of equipment and supplies.

The loan provides \$320,000 for this project, as follows:

- a. Furniture, office equipment, and supplies - - - - - \$160,000.
- b. Laboratory equipment and supplies - - - - - 35,000
- c. Warehouse equipment and supplies - - - - - 30,000
- d. Marketing shed equipment and supplies - - - - - 60,000
- e. Maintenance and repair shop equipment and supplies - 35,000

Implementation

This activity will be carried out by the Ministry of Agriculture.

Equipment and facilities financed under this project will be operated and maintained by the Chief Rural Development officer, of the Ministry of Agriculture, in each priority area. The procurement schedule follows:

- a. Living quarters furniture - - - - - Jan. 1, 1965 to December 31, 1967.
- b. Office equipment and supplies - - - - - Jan. 1, 1965 to December 31, 1967.
- c. Laboratory equipment and supplies - - Jan. 1, 1965 to December 31, 1967.
- d. Warehouse equipment and supplies - Jan. 1, 1965 to December 31, 1967.
- e. Marketing shed equipment and supplies - Jan. 1, 1966 to December 31, 1967.
- f. Maintenance and repair shop equipment and supplies - - - - - Jan. 1, 1965 to December 31, 1967

4. Vehicles - \$215,000

The tool most essential to a rural development agent who works directly with the farmer is adequate transportation. This not only enables each rural worker to reach many more families daily but enables the skills and knowledge badly needed by farmers to be more widely available because of the shortage of trained and qualified rural agents. This loan makes available \$215,000 for the importation from the U.S. ^{of} vehicles specially suited to traversing the poor roads and rugged terrain necessary to reach farm families who in many cases have only occasional contacts with the outside world.

5. Agricultural Machinery and Equipment - \$175,000

Thousands of Panamanian small farmers still follow the primitive and centuries old custom of eking out an existence by "slashing and burning." This laborious and wasteful practice is one whereby the farmer clears a small area of the raw jungle with his machete and then burns the residue. He then hacks out sufficient seedbed between the stumps and partially burned logs barely sufficient to plant basic food crops such as rice, corn, beans, yuca, etc. After about two years the natural soil fertility has been rapidly depleted by heavy rainstorms and the scorching tropical sun and weeds, jungle, insects and diseases begin to close in forcing the defenseless primitive farmer to retreat to a new area and repeat the back-breaking process.

When the more determined decide to stand and establish a permanent homestead the odds for keeping ahead of the onslaught of nature are poor. One of the basic factors is the inability of the farmer to clear land in quantity sufficiently free of stumps, roots and heavy stones to permit the application of proven agriculture techniques such as an adequately prepared seedbed followed by good tillage practices which in turn enables the use of improved seed, fertilizers, herbicides and insecticides under conditions which will insure the maximum return from investments made in these items.

The primitive agriculturist, armed with only a machete, hoe, strong muscles and a stout heart, does a heroic job to keep sufficient acreage under crop to barely feed himself and his family a predominantly starch diet. However, nothing is left to sell for cash to purchase medical care, sufficient clothing, education for his children, etc. While this is a pathetic picture the tragedy is the hopelessness of the farmer breaking out of this vicious cycle.

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As indicated above, the key to increased production by the primitive agriculturist is to have increased acreage producing for him on which modern agriculture practices are followed. Modern equipment to do a thorough job of clearing the jungle and initial seedbed preparation can be a vital factor in achieving this objective. Increased acreage thus obtained, which fortunately in Panama can be made available because of relatively little land scarcity, will then justify concentration of investment in production by the farmer in sufficient volume to allow him to enter the "money economy" by means of surplus production for cash sales.

Farmers who now have progressed to the stage of being small "commercial farmers," in that they have concentrated on crops best suited to their farms such as rice or corn, find it often impossible to justify investment in modern harvesting equipment because of its initial high cost and ability to do a vastly greater volume of work than he requires. The availability of this highly efficient harvesting machinery on a custom basis offers an economical means of breaking the harvesting bottleneck greatly reducing losses from crops standing too long in the fields and enables the preparations for and production of the next crop on schedule with equipment most logical for the acreage under his command.

This loan provides funds for the purchase and import from the U.S. of three crawler tractors with bulldozers, three self-propelled rice combines and two self-propelled corn harvesters. This equipment is to be custom operated by a special section to be set up in the Ministry of Agriculture.

The following are factors important to the effective and efficient utilization of this equipment.

1. The machinery being funded under this loan be used to establish a pilot custom operation but the program not be expanded until operating efficiently.

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- b. The equipment be based at Divisa where machinery is already being used in volume and every attempt made to concentrate services in development areas closest to that base.
- c. Equipment be from leading and recognized companies/^{which} have like equipment already in the country in comparatively high volume.
- d. Purchase awards given only to companies that support their bids with evidence in writing that they are in a position to supply adequate service and spare parts.
- e. Special attention paid to scheduling work of equipment so that minimum distances are traversed between jobs. This is especially true for crawler tractors. Movement of these tractors for distances of more than 5 - 10 miles be done by "Low-Boys" and by contract with other government agencies, private construction contractors, etc.
- f. The program have as a primary objective the establishment of private custom operators as rapidly as possible to take over its activities.
- g. In order to lay the basic groundwork for an attractive business for private custom operators prices charged cover at least cost of operating and maintaining the equipment plus depreciation over a five-year period.
- h. Special attention given to scheduling use of equipment to keep it busy as constant^{ly}/as is feasible.
- i. Operators of equipment be on an incentive arrangement for their pay which will make it to their definite advantage to avoid "down time" of the equipment.

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5. Seed Improvement - \$25,000

Widespread adoption of improved varieties could contribute substantially to increasing agricultural production, particularly that of the staple crops - corn, rice, and beans - and some of the major vegetable crops. For example, rice varieties have to be replaced every four to six years because of a cumulative buildup in susceptibility to disease. The traditional low-yielding corn varieties are grown almost exclusively, and no improved bean varieties have been introduced.

Therefore, the establishment in the Ministry of Agriculture of facilities for the collection, introduction, selection, development, and evaluation of varieties and the production of foundation seed is contemplated.

Implementation Plan

This activity will be carried out by the Research Division of the Ministry of Agriculture at its experimental centers, with headquarters to be located at the National Agricultural Center at Divisa and work to be carried out at Divisa, Sanje, Gualaca. Distribution of the improved seeds to farmers will be made through normal channel, such as IFE's seed program. The Extension Service will promote the use of recommended varieties, and the purchase by farmers will be financed by IFE. Once sufficient quantities of improved seed are available, the use of recommended varieties will be a condition for the granting of agricultural credit.

Equipment and facilities financed under this project will be operated and maintained by the Research Division of the Ministry of Agriculture.

1. Preparation of detailed plans and specifications for facilities and equipment -

March to November, 1964.

2. Import of seeds of improved varieties and collection of genetic seed material - November - December, 1964.

3. Equipment and facilities - January - July, 1965.

Financial Resources

The following personnel, equipment, and supplies will be required to implement this program:

	FINANCING					
	GOP			AID		
	1965	1966	TOTAL	1965	1966	TOTAL
Technical Personnel Salaries	36,600	36,600	73,200	-	-	-
Equipment	-	-	;-	8,000	4,500	12,500
Seeds	-	-	-	3,000	2,000	5,000
Supplies	-	-	-	2,500	2,500	5,000
Other Costs	15,000	15,000	30,000	1,500	1,000	2,500
TOTAL	51,600	51,600	103,200	15,000	10,000	25,000

7. Livestock (Beef and Dairy) Improvement - \$940,000

Livestock production by the smaller farmers or ranchers per unit of area is low in Panama for a number of reasons. Among these are poor quality breeding stock, unimproved pastures, and deficient and antiquated livestock management practices. The usage of preserved forager should be encouraged, and developed to resolve the serious feeding problem in Panama now prevalent during the dry season. The Ministry of Agriculture is proposing a comprehensive, coordinated program involving technical assistance and credit directed to the smaller producer.

Under this program, resources will be made available to establish a special revolving fund in IFE to be administered jointly with the Animal Science Division of the Ministry of Agriculture. This fund will be used to provide credit to small livestock farmers for the purchase of quality bulls, artificial insemination, pasture improvement, provision of supplementary feed, and wells and stock water tanks. Ministry of Agriculture technicians will participate in the selection of bulls to be financed and the conduct of the artificial insemination, pasture improvement, provision of supplementary feed, and wells and stock water tanks. A farmer, to be eligible for participation in the program, must agree to follow a livestock and pasture management plan developed in collaboration with technicians of the Ministry. When wells and stock water tanks are involved, approval of the Engineering Division of the Ministry will be required. More than 50 percent of the credit is expected to go to the six priority development areas. Loans to the farmer will be on terms of 5 years at 7 percent interest, with any interest payments in excess of IFE administrative costs to be applied to the rural development program. Capable technicians to carry out the supervision aspect of the loan are available for immediate transfer to the project.

It is anticipated that disbursements in the first six months of operation will total \$300,000, with total disbursement completed in 18 months.

Resources Required:

	Number	GOP			AID		
		1965	1966	TOTAL	1965	1966	TOTAL
<u>Technical Assistance</u> (Salaries) <u>1/</u>		\$ 45,000	\$ 55,000	\$100,000	-	-	<u>2/</u>
<u>Credit Funds</u>							
Bull Purchase	800	-	-	-	\$ 250,000	230,000	480,000
Imported	500	-	-	-	150,000	150,000	300,000
Domestic	300	-	-	-	100,000	80,000	180,000
Pasture Improvement and Supplemental Feeding		-	-	-	80,000	80,000	160,000
Stock Water		-	-	-	150,000	150,000	300,000
TOTAL		\$ 45,000	55,000	100,000	\$ 480,000	460,000	<u>940,000</u>

1/ In addition to that provided in the six priority areas.

2/ US A.I.D. Livestock Advisor will advise in project implementation.

8. Technical Advisory Assistance - \$125,000

This loan item has been earmarked for the contract employment, by MACI, of three foreign advisors, for 18 months each, to assist in firmly establishing the Program.

One advisor will be a supervised agricultural credit specialist, assigned to IFE, to concentrate on the development of procedures and the training of key Panamanians, with particular reference to the six rural areas.

The other two might bear the title of rural area development advisors. As the title implies they should be generalists, with training and experience, particularly in the area of farm management, that would enable them to serve as advisors to the Panamanian Area Coordinators and other key technicians in the field.

All three of these advisors must have a good working knowledge of Spanish. A waiver should be given (if necessary) to permit their recruitment from other free world countries as well as from the USA.

Any funds remaining after contracting for services of the three advisors would be used for short term consultants.

TENTATIVE BUDGET

<u>Job</u>	<u>ETA</u>	<u>Annual Base Salary</u> \$	<u>18 mos. budget</u> \$
Supervised Agric. Credit Advisor	Jan. 65	16,000	32,000
Rural Area Development Advisor	Jan. 65	15,000	30,000
Rural Area Development Advisor	Mar. 65	14,000	28,500
Short-Term Consultants 12 to 14 man months	1965 & 1966	-	34,500

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CONSTRUCTION COSTS OF BUILDINGS ^{1/}

		<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>Total</u>
		\$	\$	\$	\$
	Main Centers	99,000			99,000
	Sub-Centers	42,000			42,000
	Warehouses, repair, maintenance	112,000			112,000
6	Bachelors Quarters	77,000			77,000
5	Extension Offices	19,500	6,500	6,500	32,500
3	Marketing Sheds		48,500		48,500
	Sub-total				411,000
	Allowance for Utility Connections				14,000
	Total				425,000

^{1/} Exclusive of \$125,000 estimated for restoring and improving physical plant and equipment of existing Divina Experiment Station.

AGRICULTURAL DEVELOPMENT AND LAND USE CHANGES

For All of Panama

by comparison with
The Six Priority Areas

(In '000 hectares)

<u>Agricultural Land</u> <u>Use Classes</u>	<u>Past Progress</u>		<u>Present</u>	<u>Future</u>
	<u>1950</u>	<u>1960</u>	<u>1964</u>	<u>1968</u>
<u>A. For All of Panama</u>				
Cropland	450	553	604	671
Improved Pasture	427	684	848	1,058
Natural Pasture	125	135	139	145
Other Farmland	157	435	743	1,277
Total	1,159	1,807	2,334	3,161
<u>B. For the Six Priority Areas</u>				
Cropland	-	110	120	137
Improved Pasture	-	111	137	178
Natural Pasture	-	15	16	16
Other Farmland	-	65	112	192
Total	-	301	385	524

NATIONAL AGRICULTURE CREDIT INSTITUTE - IFE

Tentative Credit Program for the Six Rural Areas

Areas	Allocations of Funds by Years (In Thousands of Dollars)					
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Total five years</u>
Alanje	200	225	250	275	300	1,250
Tonosí	45	50	60	70	70	295
Santa Rita	75	90	95	100	120	480
Sardinilla	30	40	45	45	50	210
Montijo	130	150	165	175	200	820
Toabré	65	70	85	90	100	410
All six areas	545	625	700	755	840	3,465 ^{a/}

a/ This total includes use of \$710,000 of IDB loan funds during first three years plus investment and re-investments of local funds. These funds will include both annual (operating) and medium or long term (capital improvement) loans. It is estimated that the funds will be divided about evenly between livestock and crop development.

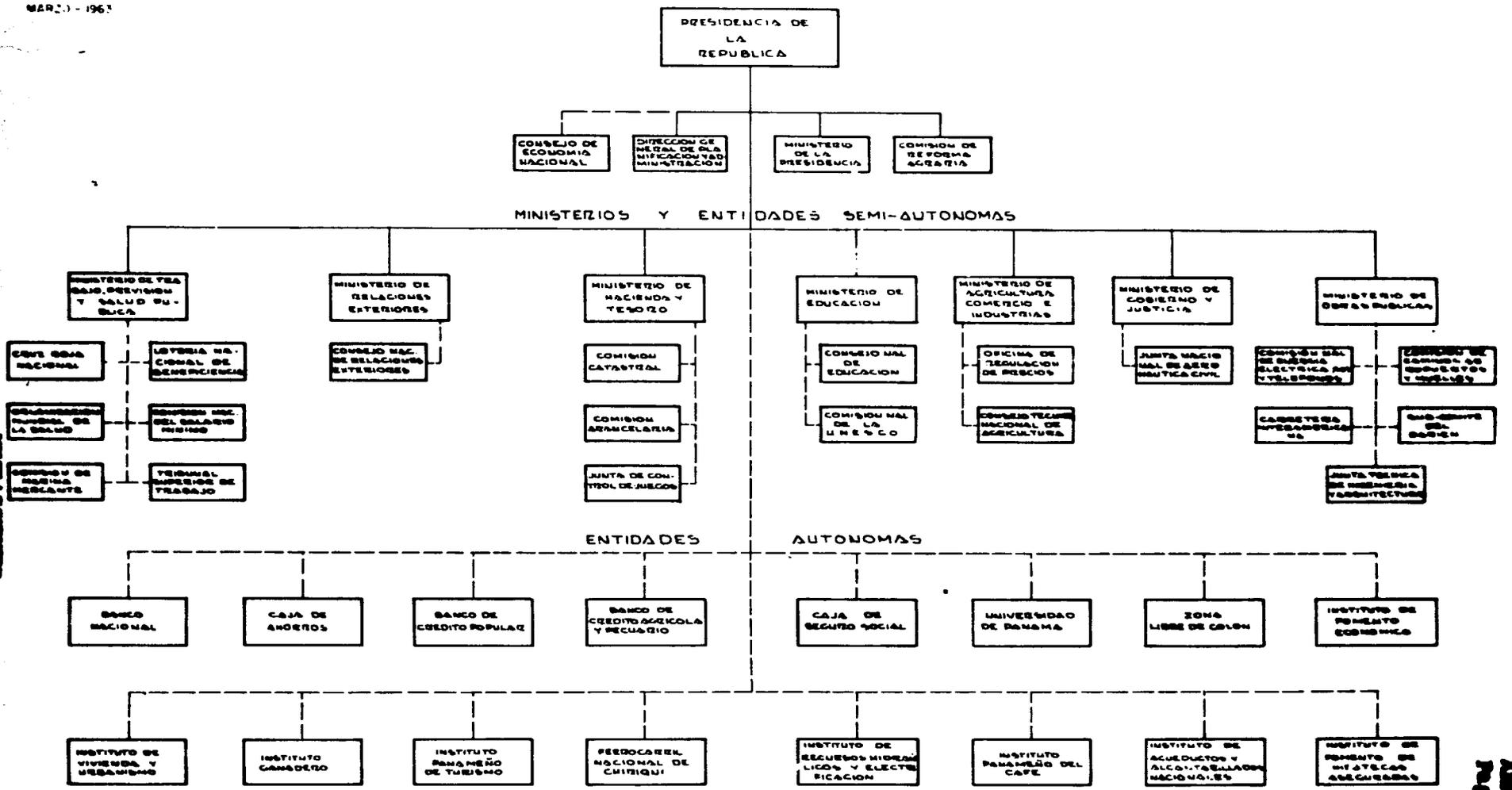
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 AFD/PA/P-58
 ANNEX I
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**ORGANO EJECUTIVO DEL
GOBIERNO DE PANAMA.**

MARZO - 1963



English Translation of Letter from
Panama Foreign Office to USAID/Director

No. DREU 434/1202
Panama Sept. 17, 1964

Mr. Director:

The National Planning Board has sent to the Foreign Office, for transmittal to the Mission of the Agency for International Development in Panama, three copies of a note (with annexes) that was sent by the Programming Department of the Ministry of Agriculture, Commerce and Industry, referring to requests to AID regarding the external financing required for a "Project of Technical Assistance in Agriculture", within the Program of Rural Development for six selected areas, with the objective of facilitating the corresponding negotiations.

I am enclosing, therefore, for your information and use, the referred to documents.

Very truly yours,

Carlos Garay
Ambassador-Director of
Department of Relations with
the United States of America

Mr. James Megellas
Director of the AID Mission
to Panama

English Translation of Letter from
Panama Ministry of Agriculture to
Ing. David Samudio, Director of the National Planning Board

Panama
Sept. 16, 1964

Mr. Director:

By order of the President of the Republic and following the instructions and lines indicated from time to time by the National Planning Board, this Department prepared the project for Technical Assistance in Agriculture (1964-1968) which involved a request for external financial assistance of \$2.3 millions, as a part of the Rural Development Program in six priority areas, and submitted an English version of this in October, 1963. To provide the additional information requested, an "Annex" was prepared and submitted in May, 1964, in which the external finance figure was raised to \$2.5 millions. Because of a recent request for special financial assistance for immediate action proposed by the President Elect, in August, 1964 a "Postscript" was added, at the suggestion of the financing agency, so that this last request for \$1.5 million could also be included in the Rural Development Program.

The three documents to which I have referred were delivered, successively, by the Ministry of Agriculture to the Economic Mission of the United States in Panama, through the normal channels of the Ministry of Foreign Relations.

Messrs. Lyall Peterson, Charles Seckinger, Jarvis Miller and Alfredo Enriquez have been in Panama since August 27, then joined by Mr. George Grande, and later on by Mr. Harold Feldt. They formed a team designated by AID/Washington to advise USAID/Panama in the discussion, evaluation, integration and formal consideration of the requests already mentioned.

After all aspects have been considered, this Department agrees to the changes recommended by the above mentioned Team, which reduced the total of the loan to \$2.5 million, in accordance with the wishes of USAID/Panama, from the amount included in the two Ministry requests, which is equal to the original sum requested for the Technical Assistance Project in six priority areas. We hope that in

the future it may be possible to reopen negotiations for the difference in the amount requested and the amount approved.

For greater clarity I am pleased to attach under separate cover (a) a list of the amounts relating to the Technical Assistance Project in Agriculture for the six rural development areas (Annex A); (b) a list of the amounts first requested for immediate action (Annex B); and (c) a list of the amounts recommended by the special team from AID/Washington (Annex C). 1/

Please confirm to USAID/Panama immediately, through the Ministry of Foreign Relations, our great interest in the rural development projects and the high-priority that the National Government concedes to this area of the Development Program.

Menalco Solis
Director

1/ See Annex - for this document

Statistics on land, population and agriculture in the six priority areas
for rural development

	Areas of Development						Total	Percentage of National Total
	Alanje	Tonosi	Sardi- nilla	Sarta Rita	Montijo	Toabre		
1. Population.....	30,687	3,194	6,289	17,792	31,673	25,377	115,012	30.9
2. Illiteracy (10 years & over).....	6,480	1,000	877	2,085	10,140	4,265	24,847	16.4
3. Housing								
a. Occupied.....	6,423	715	1,383	3,594	6,358	4,465	22,938	10.9
b. Without running water.....	2,869	638	757	1,706	4,960	3,796	14,726	19.4
c. Without drinking water.....	5,215	617	1,094	2,199	4,816	4,227	18,168	20.8
d. With dirt floor.....	4,047	639	564	2,437	5,549	4,158	17,394	21.6
4. Total area.....	100,000	35,467	34,000	58,762	178,562	169,475	576,266	7.6
5. Area in cultivation.....	76,811	20,036	17,305	45,650	103,184	44,790	307,776	17.0
6. Farm operations								
a. 0.5 hectare and over.....	4,883	660	1,017	2,558	5,272	4,447	18,837	19.7
b. Without title for more than 30 years.....	827	45	41	337	262	813	2,325	20.4
c. Without title for 30 years and less.....	2,323	486	705	1,190	2,336	2,522	9,562	19.9
d. Land grants ^{a/}	56	0	14	251	104	106	531	29.2

Source: Agrarian Reform Commission, June 1964.

^{a/} Distributed by Government Agencies prior to Agrarian Reform Code.

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**National Agricultural Institute
Divisa, Panama**

The National Agricultural Institute at Divisa, Panama, which was founded in 1941, is comprised of the principal vocational agricultural secondary school in the country, an adult training center, an agricultural research center, and several hundred hectares of farmlands on which students receive practical experience in growing and marketing crops, livestock and poultry. The campus is composed of buildings for classrooms, laboratories, dormitories, barns, and machinery sheds. There are approximately 20 teachers on the faculty in addition to the technicians available at the research center.

The enrollment has been as follows:

	<u>Students</u>	<u>Graduates</u>
1957-58	87	27
1958-59	89	24
1959-60	86	19
1960-61	90	31
1961-62	80	21
1962-63	85	25

Present plans are to expand facilities sufficiently to permit the enrollment of 120 students. This expansion is funded with AID FY 1962 Special Assistance funds.

Students receive academic training for half a day and practical training for the balance of the day. The boys work cooperatively, planting, harvesting, sharing machinery and raising poultry and livestock. They form actual cooperatives and receive training in cooperative management. The boys share the earnings.

The research center is very good by Latin American standards and has made many fine contributions to Panamanian agriculture. For example, it has developed strains of tomatoes and onions which can be grown in humid climates and is now working on disease resistant strains of tomatoes, squash and melons.

The AID FY 1962 Special Assistance funds for the expansion of the Institute are obligated as follows:

Construction of buildings

Swine barn	\$ 10,800
Repair of animal nutrition laboratory	2,850
Repair of agronomy building	4,750
Dormitory remodelling	4,550
Dormitory (120-bed) and auditorium (seating 250)	120,600
Engineering services for dormitory and auditorium	6,000
Four farm buildings	5,000
Total construction	<u>\$154,550</u>

Commodities

Laboratory and classroom equipment	\$ 8,000
Farm shop equipment	6,000
Kitchen equipment	2,000
Furnishings for dormitory and auditorium	23,000
Farm machinery	6,750
Total commodities	<u>\$ 45,750</u>

Local labor and materials	13,000
Grand total	<u>\$213,300</u>

The Government of Panama is planning to open the bids for the building construction on October 7, 1964.

This proposed Rural Development loan would provide equipment, valued at \$70,000, for this Institute. The following items would be included:

- 1 - DC-6 Caterpillar
- Soils laboratory equipment
- Surveying instruments
- Mechanical tools and equipment
- Carpentry shop equipment

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Animal nutritional laboratory equipment
Milk cooler
Refrigerator
Dairy equipment
Poultry equipment
Grain and storage equipment.

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CHECK LIST OF STATUTORY CRITERIA (ALLIANCE FOR PROGRESS)

PANAMA - AGRICULTURAL DEVELOPMENT

1. Foreign Assistance Act of 1961, as amended (hereinafter FAA), Section 102. The loan will further the policy of the Act, as stated in this Section. Every possible precaution will be taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary purposes, balance of payments purposes, or military purposes) or any other purpose not essential to the long-range economic development of Panama (See Section E, paras. 1 and 2).
2. FAA Section 201(d). Loan funds are not to be loaned or re-loaned at rates of interest which are excessive or unreasonable for the Borrower, or higher than the applicable legal rate of interest in Panama of 7 per cent (rate applicable to agricultural credit).
3. FAA Section 202(c), Foreign Aid and Related Agencies Appropriation Act of 1964 (hereinafter "App."), Section 117. Funds have been appropriated by Congress for this loan.
4. FAA Section 204. The terms and conditions of the loan are in accordance with standards and criteria established by the Development Loan Committee.
5. FAA Section 251(a). The loan will promote economic development in Panama and will contribute to the welfare of its people. (See Section E, para. 1.)
6. FAA Section 251(b)(1). Account has been taken of the extent to which Panama is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political, and social concerns of its people, and of the extent to which Panama has demonstrated a clear determination to take effective self-help measures. (See Section A).

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7. FAA Section 251(b)(2). The activity to be financed is economically and technically sound. (Refer Sections D and E.)
8. FAA Section 251(b)(3). The activity is consistent with and is intimately related to other development activities being undertaken or planned and will contribute to realizable long-range objectives. (Refer Section A.) The loan fits in very closely with the entire agricultural development program in Panama. (See Authorization, Annex L.)
9. FAA Section 251(b)(4). The loan will have no foreseeable adverse effect on the U.S. economy. (Refer Section G.)
10. FAA Section 251(b). Financing from other Free World sources (including private sources within the United States) on reasonable terms for the project is not available. The Export-Import Bank is not interested in the project (officially confirmed September 29, 1964); further, in A.I.D.'s judgment the infrastructure nature of the project indicates the appropriateness of concessional terms, which cannot be supplied by more conventional types of financing. A.I.D. is financing funds for relending rather than looking to the IDB loan to IFE for these funds since the relending operations contemplated in this loan are intimately related to the extension program and dependent upon it for technical back-stopping. A.I.D. feels that this program should be substantially controlled by MACI, the recipient of the loan rather than by IFE, the Borrower under the IDB loan.
11. FAA Section 251(b). The terms of the loan (interest, year amortization) are reasonable under circumstances affecting the loan and the capacity of Borrower to repay. (See Sections E and F.)
12. FAA Section 251(b). Account has been taken of the extent to which Panama is making reasonable efforts to encourage repatriation of capital invested in other countries by its own citizens. It is found that Panama's continuing endeavors to this end are adequate from the viewpoint of meeting the purpose of this provision.

13. FAA Section 251(b). There are reasonable prospects that the loan will be repaid. (Refer Section E, para. 5.)
14. FAA Section 251(e). An application has been received for this loan which gives sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner.
15. FAA Section 251(g). This project will assist in promoting the cooperative movement in Latin America.
16. FAA Sections 601(b); 621. The loan will be administered in such a manner as to encourage and facilitate participation by private enterprise to the maximum extent practicable. United States private engineering services, and other services of United States private enterprise will be employed whenever practicable. The facilities of other Federal agencies will be utilized only if they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs. Qualified U. S. private consultants will serve as technical advisors on the Project. U. S. contractors will also be eligible for bidding on construction contracts. (See Section D).
17. FAA Section 602. American small business shall be assisted to the maximum extent practicable to participate equitably in the furnishing of goods and services for the project, in accordance with the procedures described in this section of the Act.
18. FAA Section 604(a). Equipment, materials, and services (except Marine Insurance) financed for the project under the loan shall be procured from the United States or Panama. Dollars utilized under the loan to finance procurement in Panama shall be made available through appropriate procedures and, except for Marine Insurance, shall be used only for procurement in the United States.
19. FAA Section 604(b). Any commodities financed by the loan and purchased in bulk will be purchased at prices no higher than prevailing U.S. market prices.

20. FAA Section 604(d). Loan funds shall be available for Marine Insurance on commodities shipped when such insurance is placed on a competitive basis, as specified in this section of the Act. In the event that Panama discriminates against any U.S. marine insurance company, commodities purchased with loan funds shall be insured against marine risk with a U.S. company, as required by this section.
21. FAA Section 611(a)(1). Necessary substantive technical and financial planning for the project has been completed, and a reasonable, firm estimate of cost of the project to the United States has been obtained. (Sections D & H)
22. FAA Section 611(a)(2). Legislation is required, in the form of ratification of the Loan Agreement by the Panamanian Legislature. In view of the GOP's firm commitment to this project (See Section A) ratification of an agreement can be expected to occur within time to permit the orderly accomplishment of the purposes of this loan.
23. FAA Section 611(b), App. Section 101. The project does not involve water or related land resource construction.
24. FAA Section 611(c). Construction contracts to be financed by the loan shall, to the maximum extent practicable, be let on a competitive basis.
25. FAA Section 619. Not applicable. Panama is not a newly independent country.

- * 26. FAA Section 620(a), App. Sections 109(a), 109(b). No assistance will be furnished under this loan to the present government of Cuba, nor does Panama furnish assistance to the present government of Cuba. Panama has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuba trade.
- * 27. FAA Section 620(b). The Secretary of State has determined that Panama is not controlled by the International Communist Movement.
- * 28. FAA Section 620(c). Panama is not indebted to any U. S. citizen for goods or services furnished or ordered, where such a citizen has exhausted available legal remedies or where the debt is not denied or contested by or the indebtedness arises under an unconditional guaranty of payment given by
- * 29. FAA Section 620(d). Loan funds will not finance construction or operation of any productive enterprise which will compete with United States enterprise.
- * 30. FAA Section 620(e). Neither the government of Panama nor any governmental agency or subdivision thereof has, on or after January 1, 1962, nationalized, expropriated, or seized ownership or control of property of any U. S. citizen or firm, taken steps to repudiate or nullify existing contracts with such citizens or firms, or imposed or enforced discriminatory taxation or other exactions or restrictive conditions, or taken other actions having the effect of nationalizing, expropriating or otherwise seizing ownership or control of property owned by U. S. citizens or firms, as specified in this section of the Act, without taking appropriate steps to discharge its obligations, as specified in this section of the Act.
- * 31. FAA Section 620(f), App. Sections 109(a), 109(b). Assistance provided by this loan will not be furnished to any Communist country.
- * 32. FAA Section 620(g). Assistance provided by this loan will not be used to compensate for expropriated or nationalized property, and the Loan Agreement will so provide.

- * 33. FAA Section 620(h). Assistance provided by this loan will not be used in a manner which promotes or assists foreign aid projects or activities of the Communist bloc countries.
- * 34. FAA Section 620(i). The President has not determined that Panama is engaging in or preparing for aggressive military efforts directed against the United States, or any country receiving assistance from the United States, or against any country to which sales are made under PL 480, nor is any basis for such determination known to A.I.D.
- * 35. FAA Section 636(h). The Government of Panama will contribute local currency in the ^{equivalent} amount of \$ 6,777,000 to meet the cost of ^{personnel and} contractual and other services to be rendered in conjunction with the project. Foreign currency owned by the United States will, to the maximum extent possible, be utilized to meet the costs of contractual and other services for the project.
- * 36. App. Section 102. Obligations of funds in excess of \$25,000 for engineering fees to any firms or group of firms financed under the loan will be reported to the committees on appropriations of the Senate and House.
- * 37. App. Section 104. Funds obligated by the loan, and local currency generated thereby, will not be used to pay pensions, annuities, etc., as prohibited in this section.
- * 38. App. Section 111. U. S. personnel to serve under contracts for services financed by the loan shall have security clearance.
- * 39. App. Section 112. Firms which provide ^{construction,} engineering, procurement, and other services financed by the loan for the project, and the terms of their contracts, shall be approved by A.I.D.
- * 40. App. Section 114. Loan funds will not be used to make any payment to the U. N.

LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds

Panama: Agricultural Development

Pursuant to the authority vested in the Deputy U. S. Coordinator Alliance for Progress by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Republic of Panama (Borrower) of not to exceed two million four hundred thousand dollars (\$2,400,000) to assist in financing the costs of a project for agricultural development in Panama, comprised of the following activities: (a) furnishing of equipment and supplies for improvement of the National Agricultural School and Experimental Station at Divisa ("Divisa"); (b) construction and equipping of facilities required for agricultural extension and other related services in six priority areas in Panama ("Extension Services"); (c) furnishing of supervised agricultural credit for purposes of livestock development, and related activities ("Supervised Credit"); (d) such other agricultural development activities of the Borrower as may be agreed upon by Borrower and the Agency for International Development ("A.I.D."); and (e) technical assistance to the Borrower. This loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment. Borrower shall repay the loan to 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 three-quarters of one ($3/4$ of 1) percent per annum during the grace period and two (2) percent per annum thereafter.
2. Other Terms and Conditions:
 - (a) Equipment, materials and services (except marine insurance) financed under the loan shall be procured from the United States of America or Panama.

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- (b) United States dollars utilized under the loan to finance local costs shall be made available to the Borrower or its designee through appropriate procedures and shall be used only for procurement in the United States (excepting marine insurance).
- (c) Prior to first disbursement for costs of Extension Services, Borrower shall furnish to A.I.D. a time-phased analysis of its entire rural development program for the areas concerned, including a schedule for the carrying out of activities complementary to this loan, including land settlement, road and water development, agricultural credit, and other required activities, together with a plan for financing and implementation of such scheduled activities. Except as A.I.D. may otherwise agree in writing, adherence to such schedule and plan shall constitute a continuing condition to disbursement for costs of Extension Services.
- (d) Prior to first disbursement for costs of Divisa, Borrower shall furnish assurances that necessary rehabilitation of certain buildings at Divisa will be undertaken by Borrower with resources other than the proceeds of this loan.
- (e) Procedures and terms and conditions on which Agricultural Credit is made available shall be subject to the approval of A.I.D.
- (f) Except as A.I.D. may otherwise agree in writing, income to the Borrower generated through the use of loan proceeds shall be utilized solely for purposes of the Project.
- (g) A.I.D. shall have the right to approve all construction sites for the Project.
- (h) Borrower shall provide adequate resources to complete the Project, and such resources as are required to carry out the activities contemplated after disbursement of loan proceeds.

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- (i) Borrower shall covenant to provide an effective coordination of rural development activities in Panama through such organizational changes in Borrower as may be deemed necessary by Borrower and A.I.D. on the basis of agreement between them. Borrower shall report to A.I.D. no later than one year following signature of the Loan Agreement, on its progress in carrying out such measures.
- (j) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy United States Coordinator
Alliance for Progress

Date

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