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FROM: MANAGUA
E.O. 11652: N/A

SUBJECT - Completion Report, AID Loan No. 524-L-022, Basic Crops Production
REFERENCE - M.O. 1264.1

A. Purpose of Loan

1. The purpose of this loan, as set forth in the loan paper, was:

a. To assist the GON/SNN program for more intensive and higher production of basic food, feed and forage crops through financing dollar cost of fertilizer and other agro-chemicals.

b. To induce the GON to establish a comprehensive agricultural program and to assure its execution through improved efficiency of and coordination among public agricultural institutions; and

c. To support the GON action program presented to CIAP sub-committee on Nicaragua on January 15, 1968, which described Nicaraguan intentions to proceed with economic development, based on policies of budget restraint on current expenditures, increased tax revenues and internal price stability. The provisions of this loan assure that the GON will continue its efforts, so far successful, to bear its share of public investment from public savings."

2. The Loan Agreement contains a general statement of the project purpose. In the last paragraph of Section 1.2 the statement of purpose is paraphrased from that stated in the Capital Assistance Paper as follows:

The project will contribute to:

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DRAFTED BY: MHMcLendon/JAAncrette:ibr	OFFICE:	PHONE NO.: 328	DATE: 11/11/74	APPROVED BY: DIR:RECulbertson
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a. Strengthening Borrower's agricultural program through improved coordination and improved effectiveness of technical assistance by Borrower's various agencies, including the Ministry of Agriculture (MAG), the Price Stabilization Agency (INCEI), the Agrarian Institute (IAN), and the Development Institute (INFONAC).

b. Supporting the action program of Borrower submitted to CIAP sub-committee on Nicaragua in January 1968, and

c. Nicaragua's eliminating its national deficit in food grains, developing feed resources and providing some surplus margin for the needs of an expanding economy.

3. Amendment No. 4 to the Loan Agreement, dated March 27, 1973, deleted the purpose as stated above and substituted the following:

"The project will contribute to expanding the availability of production credit for those crops grown by the small farmer, meeting the expanding demand for primary food and feed grains, and supplying basic grain requirements of other Central American countries."

4. Comments:

The purpose, as amended, has substantially been met. For example, in its evaluation of AID Loan No. 524-L-022 dated June 24, 1974, the BNN had this to say:

"III. The Relative Success of Loan Objectives in 1973/74

In 1973/74 the BNN used nearly one third of the total agro-chemical loan funds, at the same time more than doubling the area financed in basic crops in 1972/73. The number of clients more than tripled, the amount loaned nearly doubled in the one year period (see Table III on the next page). The larger increase in clients, outpacing area and the amount of loans would indicate that the increase was concentrated in financing small farmers, which is precisely the fact: 12,008 of the 12,528 farmers financed in basic crops in 1973/74 were small farmers financed by the Rural Credit Division of the BNN."

A summary of Table III from the same report follows:

Table III
Basic Crops

Financing Area and Clients
1972/73 and 1973/74

LOANS		MANZANAS		CLIENTS	
1973/74	1972/73	1973/74	1972/73	1973/74	1972/73
(000 of Cordobas)					
58,128	30,650	119,198	50,747	12,528	3,831

The BNN evaluation further concluded that the productivity of BNN financed farmers was greater than for non-BNN financed farmers.

The volume of production credit available for the production of basic food and feed crops grown by the small farmer will continue to be maintained at a higher level as a result of the loan. Evaluation of the loan was conducted by the BNN, Executing Agent of the Borrower, and evaluation reports dated May 26, 1972, July 28, 1972, and June 25, 1974 were submitted to the USAID.

This loan contained a number of conditions, over which the Executing Agent had little or no control, including level of tax targets and collections and status of the current account surplus which interfered seriously with the utilization of loan funds and the ~~implementation~~ implementation of the basic crops project. When these fiscal provisions, over which the Executing Agent had no control, were removed from the Agreement by Amendment No. 4, the utilization of the loan balance was greatly facilitated.

B. Review of Covenants

All covenants have been substantially met or continued reporting and monitoring will be required as explained in this paragraph and in C below.

1. Section 1.2 The Project

"Borrower will devote funds, equivalent in cordobas to the dollars disbursed under this Loan Agreement for the procurement of fertilizers and other agricultural chemical products, to an increase in the capital of the BNN. The National Bank of Nicaragua agrees to use in the strengthening of its program of agricultural production credit in support of the

basic crops, an amount no less than the increase in its capital resulting from this Agreement."

USAID's review of the BNN audit report dated December 31, 1973, concludes that \$60,857,304 has been recorded by the BNN in accordance with the intent of the capitalization project. According to the Loan Agreement, the increase in the capital of the BNN should be equivalent to the amount of dollars disbursed for the procurement of fertilizers and other agricultural chemical products.

The amount of the capitalization project is estimated as follows:

Total amount disbursed	\$ 9,160,000
Less amount disbursed for technical assistance and related commodities	<u>290,000</u>
Amount disbursed for procurement of agro- chemicals	<u>8,870,000</u>
Amount of capitalization project per loan agreement	8,870,000
Amount of capitalization project recorded at December 31, 1973	<u>8,694,000</u>
Balance of capitalization due in 1974. TDD expired February 22, 1974	<u>176,000</u>

2. Section 4.6 Utilization of Goods and Services

Technical assistance commodities procured with loan proceeds continue to be used for the project.

3. Section 4.9 Maintenance and Audit of Records

Records required by this section shall be maintained for five years from the date of last disbursement, 3/20/74, or until all sums due AID under this Agreement have been paid, whichever date shall first occur.

4. Section 5.1 Budgetary and Other Allocations for Agricultural Credit

Borrower will discuss in detail with AID during the course of implementation the allocations of agricultural credit to the various segments of the agricultural economy. Furthermore, Borrower's Executing Agency, the National Bank of Nicaragua, notwithstanding total disbursement of loan funds following this amendment, will continue on an annual basis to

Increase the volume of credit availability above the level established in Section 3.5 (\$10,000,000), for financing Borrower's producers of eligible crops under this project.

5. In accordance with Section 4.10 of the Loan Agreement, the Bank will be requested to continue to provide AID an annual financial report, a plan for each crop year to include area goals for each eligible crop, quantities of agro-chemicals to be financed, number of clients and amounts of credit expected to be made available for basic crop loans and an annual summary of loans made for eligible basic crops as defined in loan documents.

C. Review of Reporting Requirements - Section 4.10

1. Monthly progress report requirements met.
2. Annual financial report requirements will be satisfied through submission of the BNN's annual financial report for 1974.
3. Quarterly shipping report requirements will be met through submission of a final shipping report.
4. Final project report - the loan evaluation report presented to the USAID on June 25, 1974 by the National Bank of Nicaragua is satisfactory for meeting this requirement.
5. Additional reporting requirements - it is recommended that the BNN continue to provide AID with an annual financial report, a plan for each crop year, including estimates by crops for areas, quantities of agro-chemicals, clients and amounts of credit to be made available for basic crop loans, and an annual summary of loans made for eligible basic crops as defined in loan documents. Such information will be necessary to determine compliance with the covenant contained in Section 5.1 of the Loan Agreement, as amended.

D. Monitoring

Residual monitoring will remain the responsibility of the Rural Development Officer.

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