

UNCLASSIFIED

**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523**

GUATEMALA

PROJECT PAPER

**SMALL FARMER DIVERSIFICATION SYSTEMS
(Amendment)**

AID/LAC/P-071/1

Project Number: 520-0255A
Loan Number: 520-T-034

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11

Project Authorization

Name of Country: Guatemala
Project: Small Farmer Diversification Systems
Number of Project: 520-0255A

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Farmer Diversification System Project Amendment for Guatemala involving planned obligations of not to exceed ONE MILLION NINETY SIX THOUSAND UNITED STATES DOLLARS IN GRANT FUNDS ("Grant") over a one year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the amended portion of the Small Farmer Diversification Systems Project is two years from the date of initial obligation.

2. The Project ("Project") consists of assistance to the Government of Guatemala to strengthen Public Agricultural Sector capacity to stimulate small farm diversification from basic grains to higher value diversified crops and small livestock of greater labor integrity. The Project will achieve this purpose by financing technical assistance to the Ministry of Agriculture in both research and extension services.

3. The Project Agreement Amendment, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

A. Source and Origin of Goods and Services (Grant)

Goods and services, except for ocean shipping, financed by A.I.D. under the Grant shall have their source and origin in the United States, (A.I.D. Geographic Code 000) or in countries that are members of the Central American Common Market and Honduras, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

B. Covenants (Grant)

(i) The Cooperating Country shall covenant that, unless A.I.D. otherwise agrees in writing, it will annually update its Life of Project

Implementation Plan and Schedule for Loan, Grant, and counterpart activities, and have such update completed and available to support the Ministry of Agriculture's budget submission to the Ministry of Finance by May of each year.



Charles E. Costello
Director
USAID/Guatemala

DATE: 3-20-85

- 1 -

PROJECT PAPER AMENDMENT
520-0255A
SMALL FARMER DIVERSIFICATION

I. Background

On August 28, 1981 USAID/Guatemala signed a \$2.6 million Grant Agreement with the Ministry of Agriculture to provide companion grant funds to a larger \$5.5 million Loan Agreement signed in September 1981. The project is designed to assist about 5,000 small Highland farm families to change from their traditional cropping patterns to the cultivation of high value diversification crops in order to maintain or increase their incomes. Income growth in the Highlands is constrained by small farm size and a high population growth rate which places a heavy demand on the scarce Highland land base available to small farmers. The purpose of the combined loan/grant project was to strengthen public agricultural sector capacity to stimulate small farm diversification from basic grains to higher value diversified crops and small livestock of greater labor intensity. The Grant was to finance long and short-term technical assistance for research, agricultural extension services, project coordination, a nutrition impact evaluation, a farm management survey, and a 4-S rotating fund.

The Grant was partially funded with an initial obligation of \$200,000 in August 1981, a second obligation of \$496,000 in September 1981, and a third obligation of \$1,000,000 in September 1982, for a total obligated value of \$1,696,000, or \$904,000 short of the authorized grant level. A fourth obligation was originally planned for FY83, however, due to a severe reduction in the FY83 OYB the obligation was reprogrammed for FY84. This fourth and final obligation was not made in FY84 due to the restrictive language of the FY84 Continuing Resolution.

Fortunately, \$904,000 was made available under the FY84 OYB to make up the above shortfall, thus completely funding the \$2.6 million originally authorized for the Grant. Nonetheless, additional grant funding is needed in order to lengthen and broaden long-term U.S. and Guatemalan technical assistance, as well as add new types of short-term specialists not previously contemplated in the PP. Expanded technical assistance will provide longer time for monitoring and encouraging small farmers' acceptance of crop diversification models developed under the Project. It will better enable them to cover the present geographic project area which was expanded from 10 to 33 districts in the 1983 reprogramming. Additional time will also allow the consultants to develop a greater variety of models which will cover a greater range of climatic and soil types in the project area. It will also include more sophisticated models, which not only promote various crop mixes, but specify individual crop varieties and promote the technical support and seed production needed to successfully introduce such varieties into Guatemala.

Extra grant funding will also fill gaps in the design of the project as it has evolved through implementation. For example, additional funding will finance a long-term marketing specialist who will research the present U.S. market thrust of the project. This specialist was not included in the original project design since at that time the Project was to rely on traditional CACM markets, most of which have since collapsed. Also, such funding would allow for an administrative specialist to expedite project vouchering, procurement and resolution of other implementation bottlenecks.

\$1,096,000 available from the FY84 Supplemental OYB will help address the above needs. Further, such funding will also host diversified cropping in the Highlands area, thus stimulating production of fruits and vegetables for processing and export under the \$12.5 million Agricultural Development Project (520-0276). This latter project is expected to strengthening small farmers' demand for infrastructure improvements available under the Highlands Agricultural Development Project (520-0274). As such the additional grant funds will assist the Mission achieve the economic growth goal established by the National Bipartisan Commission on Central America (NBCCA). A detailed description of the distribution of the additional funding is contained in Section II.

II. Project Description

The goal of the Project is to improve the well-being of rural Guatemalans living in the Western Highlands. The sub-goal is to improve small farm management and increase the return to factors of production of the small farm enterprise. The purpose of the Project is to strengthen public agricultural sector capacity to stimulate small farm diversification from basic grains to higher value diversified crops and small livestock of greater labor intensity.

The \$1,096,000 Grant add-on will finance a continuation and expansion of activities originally planned under the project. These additional funds will be used to finance four phases of project activities as follows: 1) project coordination (\$36,000), 2) an expansion and extension of the existing PASA technical assistance team (\$834,000), 3) an expansion and extension of the Guatemalan technical assistance team (\$120,000), and 4) additional administrative support to the technical assistance team (\$58,000). Each phase is described separately below. In addition a contingency fund of \$48,000 will be established.

A. Project Coordination Unit (\$36,000)

Within the original project grant funds of \$231,000 were budgeted to establish a special project coordinating unit within the Ministry of Agriculture to facilitate project implementation and ensure achievement of project objectives. This unit, established in June 1982, is responsible for overall project coordination as well as project procurement and reporting requirements. Currently the unit consists of one coordinator, one accountant and one secretary. Analysis has indicated that documentation flows, reporting requirements, and project procurement has been slower than originally planned. In order to strengthen the capacity of this unit, grant funds will finance an administrative assistant for two years (April 1, 1985 through March 31, 1987) to assist in eliminating bottlenecks.

B. International Technical Assistance (\$834,000)

As originally envisioned in the 1981 Project Paper, long and short-term research and extension technical assistance was to be provided to the Ministry of Agriculture from the Grant. In total \$2,042,000 in Grant funds was to have financed U.S. Department of Agriculture (USDA) long and short-term experts under a PASA arrangement as detailed in Table I.

TABLE I ORIGINAL DESIGN OF USDA TECHNICAL ASSISTANCE

A. <u>Research (Long-Term)</u>	
1. Vegetable Expert	3 person-years
2. Fruit Expert	3 person-years
3. Animal Husbandry	3 person-years
4. Agricultural Economist	1 person-year
5. Sociologist	1 person-year
B. <u>Extension (Long-Term)</u>	
1. Crop Protection Specialist	3 person-years
2. Livestock Management	3 person-years
3. Soil and Irrigation Specialist	3 person-years
C. <u>Short-Term</u> (specialties determined as needed)	<u>2 person-years</u>
Total	22 person-years

However, during project negotiations with the Ministry of Agriculture in 1982 and 1983 regarding project technical assistance requirements, it was determined by all parties that Guatemalans should be included on the technical assistance team to assure an in-depth transfer of technology to Guatemalans who could continue to be available to the Ministry after the completion of the AID-financed portion of the Project. As a result of this decision, the composition of the team was changed by increasing the total amount of person-years of combined long-term U.S. and Guatemalan technical assistance to be provided within the original budget but at the same time reducing the length of service and types of long-term USDA experts. Part of the reduction in long-term U.S. technical assistance was to be replaced by the provision of more short-term technical assistance (an increase from two to three personyears). Table II illustrates the reprogrammed technical assistance requirements.

A recent review of the Project by the Ministry of Agriculture and AID identified the need to increase both the length and types of technical assistance to ensure a lasting transfer of technology and meet current small farmer

crop diversification requirements. Thus, some of the additional funds will be used to finance the extension and expansion of both the USDA/PASA long and short-term technical assistance. Additional time will allow the consultants to work longer with local farmers and GOG officials in encouraging acceptance of agricultural diversification models under the Project. It will also allow the experts to develop and promote other, more sophisticated models in different farming environments in the Highlands. This additional technical assistance is further described below.

1. Long-term extension (\$240,000). Three of the five USDA technicians are financed through mid-June 1986 with the team leader financed until April 1986. Additional time for the long-term technical assistance team is needed to complete the transfer of technology originally contemplated under the Project. In order to provide this higher level of technical assistance during the remaining months prior to the PACD of March 31, 1987, an additional \$240,000 is programmed to finance an additional 30 person-months of PASA long-term assistance. (Team Leader for 12 months, and Vegetable, Fruit and Farm Management technicians for 6 months each). This would permit the existing PASA team to remain at least until December 1986, with the Team Leader until March 1986. It is also anticipated that any cost savings which may occur would be reprogrammed for extensions to individual team member contracts up to the PACD.

2. Long-term expansion (\$440,000). The following two additional long-term PASA team members will be hired for two years each (April 1, 1985 to March 31, 1987):

a. Irrigation/Water Use Specialist (24 person-months): The original project design contemplated three years of technical assistance for a soil and water management specialist to assist the Ministry of Agriculture agricultural extension agents to provide guidance on the efficient uses of the small-scale irrigation systems to be built with loan funds. However, this technical assistance was not financed because of the higher priority placed on a joint US/Guatemalan consulting team and the need to reprogram funds for this purpose. However, small-scale irrigation systems continue to be built with loan funds and are being used by small farmers who lack sufficient knowledge to take greatest advantage of their investment. Therefore, a long-term irrigation/water use specialist will be financed for the remaining life of the Project to develop mechanisms for the improved transfer of irrigation management technology to small farmers.

b. Domestic/International Marketing Specialist (24 person-months): This Project was designed to produce for local and export consumption various non-traditional products such as snow peas, cabbage, strawberries, apples, Brussels sprouts and broccoli. The assumption under the Project was that the Small Farmer Marketing Project (520-0238) would provide the infrastructure for exporting and the Central American Common Market (CACM) would absorb the increased production. This assumption proved to be wrong due to a downturn in CACM trade brought about by regional economic and social disruptions as well as the shortcomings of the 520-0238 Project. For this

reason a marketing specialist is required to assist in the identification of alternative markets in the United States, the Caribbean and Europe and assist small diversified farmer groups in marketing non-traditional produce.

The marketing specialist will be an individual who knows the demands of the U.S., Caribbean and European markets and can work within the project area to transfer these demands into markets for Guatemalan production. The marketing specialist will first relay to other technicians and to the producing farmers, the varieties and qualities of produce which the U.S., Caribbean and European markets demand. The specialist will then encourage farmers and farm organizations to produce at the proper time and to achieve appropriate quality to meet market demands. The specialist will also provide advice on proper post-harvest handling, cleaning, cooling, transportation and shipping. In addition he will work to improve local markets for these non-traditional products to absorb the produce not acceptable in the U.S. and international markets.

TABLE II REPROGRAMMED TECHNICAL ASSISTANCE REQUIREMENTS

	Contract Person Months	Contract Initia tion	Contract Termina- tion
<u>A. Long-Term USDA/PASA Technical Assistance</u>			
1. Team Leader-Technical Assistance Coordinator (Agricultural Economist/ Agricultural Administrator)	30	11/83	4/86
2. Vegetable Research-Promotion Advisor	24	6/84	6/86
3. Fruit Research-Promotion Advisor*	24	Vacant	(4/85-3/87)
4. Livestock Research-Promotion Advisor	24	6/84	6/86
5. Farm Management-Production Systems Advisor	24	6/84	6/86
Sub-total	<u>126</u>		
<u>B. Short-term USDA/PASA Technical Assistance Requirements</u>			
1. Plant Protection (Entomology-Phytopathology)	8		
2. Agrostology and Animal Nutrition (Ruminants and Monogastrics)	8		
3. Animal Production and Husbandry (cows, sheep, goats)	8		
4. Animal Production and Husbandry (hogs, poultry, rabbits, and bees)	<u>12</u>		
Sub-total	<u>36</u>		

	Contract Person Months	Contract Initia tion	Contract Termina- tion
C. <u>Long-term Guatemalan Technical Assistance</u>			
1. Agricultural Economist	36	3/84	3/87
2. Vegetable Research-Promotion Specialist**	36	Vacant	4/85-3/87
3. Fruit Research-Promotion Specialist	36	3/84	3/87
4. Livestock Research-Promotion Specialist	36	3/84	3/87
5. Farm Management-Production Systems Specialist	30	3/84	9/86
6. Rural Sociologist-Anthropologist	<u>24</u>	8/83	8/85
Sub-total	198		
TOTAL	360	(30 person-years)	

* Position scheduled to be filled in April 1985.

** Position scheduled for 36 pm is to be filled in April 1985 until March 1987 or 24 person-months.

3. Short-term expansion (\$154,000): In addition to the 36 person-months of short-term PASA assistance provided within the original project, the Ministry of Agriculture has requested an increase in short-term expertise. This additional technical assistance is required to develop a more sophisticated array of crop diversification models than originally contained in the PP, thereby broadening the project's impact on production practices in the project area. Further short-term consultants are also needed to expand the collection of baseline data for project evaluation, as well as to provide interim measures of project impact. Performance of these tasks by such experts will free more time for local project coordinators and GOG counterparts to manage the Project and interact with the USDA/PASA team in technical assistance delivery. In order to address this need, grant funds will finance up to 20 person-months of short-term assistance including, but not limited to, the following illustrative list below:

- area frame sampling
- on-farm storage
- fruit pathology
- pest management
- fruit and vegetable grades and standards
- policy studies
- turf propagation

C. Guatemalan Technical Assistance (\$120,000)

Some of the additional funds will be used to finance the extension and expansion of long-term Guatemalan technical assistance as follows:

1. Long-term extension (\$24,000). Four of the existing six Guatemalan specialists on the technical assistance team listed in Table II are financed up to the PACD of March 31, 1987; with the rural sociologist-anthropologist and the farm management-production systems specialist financed through August 1985 and September 1986 respectively. In order to finance these latter two specialists up to the PACD, approximately 24 person-months of funding will be required. Financing for 12 of these months is available under existing agreements through cost savings in the contract for the vegetable advisor. Therefore, a total of \$24,000 in additional funds for the remaining 12 person-months will be required.

2. Long-term expansion (\$96,000). Two additional Guatemalan specialists (irrigation/water use and domestic/international marketing) will be hired to work with the two additional PASA team members with corresponding specializations. Both specialists will be contracted for 24 months each, beginning on April 1, 1985 and ending on March 31, 1987.

D. Administrative Support to the Technical Assistance Team (\$56,000)

In order to support the increase in the PASA and Guatemalan technical assistance team, additional funding is needed to provide more logistical support. Three additional vehicles will be purchased and office and technical equipment will be provided for the expanded technical assistance team for use at its offices in the regional headquarters in Quezaltenango. The equipment and vehicles will be donated to the GOG counterpart agencies when the technical assistance team terminates its contracts in 1987.

TABLE III. PROJECT ILLUSTRATIVE BUDGET INCLUDING ADDITIONAL FUNDS
(\$000)

Item	OBLIGATED TO DATE	PP AMENDMENT	TOTAL
1. Technical Assistance 1,340	834	2,174	
a. Long-Term	(905)	(630)	(1,585)
b. Short-Term (435)	(154)	(589)	
2. Technical Assistance (Guatemalan)	400	120	525
3. Technical Assistance Support (USAID) 315	58	373	
4. Farm Management Survey	85	---	85
5. Nutrition Impact Evaluation	160	---	160
6. 4-S Rotating Fund 82	---	82	
7. Project Coordination 218	36	254	
8. Contingency	---	48	48
Total	2,600	1,096	3,696