

ACTION MEMORANDUM FOR THE DIRECTOR

THROUGH: Stephen Wingert, Deputy Director <sup>SW.</sup>

FROM: Don Boyd, Chief/PDSO <sup>R.S. fa</sup>

SUBJECT: Project Amendment: Highlands Agricultural Development Project, Phase III, (520-0274)

ACTION: Your approval is requested for a grant of \$7.0 million from Section 103 Agriculture, Rural Development and Nutrition funds for the subject project. It is planned that a total of \$3.5 million will be obligated in FY 90.

The resulting funding, with this \$7.0 million amendment, will be \$13.5 million in loan funds and \$24.1 million in grant funds, for a total LOP funding of US\$37.6 million.

DISCUSSION: The project's goal is to enable the rural sector to make a greater contribution to national economic growth. The purpose of the amendment is to enhance the sustainability of rural agricultural productivity and commercial crop diversification.

This amendment creates one new component, Environment and Natural Resources Management (which is comprised of two sub-components: Watershed Management and Institutional strengthening of the Plant Protection Division, Sanidad Vegetal, SV), and adds resources to two existing components of the HAD Phase II Project: Adaptive Research and Marketing. The components to be supported by this amendment are described below.

Component I: Environment and Natural Resources (\$4.0 Million) comprised of Watershed Management, and Institutional Strengthening of SV.

Watershed Management (\$2.5 Million AID input; \$369,000 counterpart plus a Peace Corps input of \$381,000.)

This Cooperative Agreement with CARE will provide technical and organization skills in watershed management to farmers in HAD Project irrigation areas. Improved soil and water resource management will contribute to sustainable agricultural production in the Project irrigation sites. Through a continuation of CARE's successful collaborative arrangements with both the GOG's forestry directorate (DIGEBOS) and the Peace Corps, reforestation and agro-forestry activities will provide direct, sustainable benefits to farmers in the middle

and upper watershed areas. Training and strengthening of extension capabilities of DIGESA/DIGEBOS promoters will also be supported by the sub-component. Disbursements, or advances, for this project will be made on the basis of an annual implementation plan approved by AID.

Institutional Strengthening of the Plant Protection Division, Sanidad Vegetal (SV) (\$1.5 Million AID input; \$1.1 Million counterpart)

This sub-component will provide support to the Plant Protection Division of the Ministry of Agriculture to enhance SV's ability to guarantee the safety and compliance with pesticide regulations of all agricultural produce in Guatemala. The sub-component will develop the capability of Sanidad Vegetal to effectively monitor the distribution and field use of all pesticide and agro-chemical materials throughout the country. The field pest diagnosis and extension services of SV will be strengthened to improve post and pesticide management practices by producers in Guatemala. These activities will enhance export agricultural production by permitting certification of compliance with internationally required pesticide and agro-chemical safety standards.

Sanidad Vegetal will be further supported by long-term TA financed under the Phase II amendment. In addition, a local accounting firm contracted under that amendment, will develop and monitor a financial tracking system for the HADS project, including the SV component.

The project has a strong Project Management Unit (PMU), also formed under Phase II, which will provide any additional management or technical support required. Finally, as indicated in the PPS, The Guatemalan Agrochemical Manufacturers Guild (GREPAGRO) has signed an agreement with MAGA to provide gasoline and maintenance for SV's vehicles as well as per diems for SV's five field inspectors. Tightened U.S. pesticide regulations have made the local agrochemical producers realize that it is good business to assure proper uses of their products to avoid rejection in the United States and the concomitant negative reaction here.

A recent audit of DIGESA, SV's mother agency, came up with four recommendations which are being responded to. Furthermore, periodic monitoring will assure that all these inputs are having the desired effect, or will flag areas that need further attention.

Component II: Research Fund for Non-Traditional Agricultural Exports (\$1.0 Million AID input; \$715,000 counterpart)

As Guatemala's production of Non-Traditional export crops has increased over the last ten years, so have the problems of production, post-harvest handling, processing and marketing. Often, technological solutions to these problems are either not available or have not been adapted to the special conditions of Guatemala. Although some larger producers are privately active in production and post-harvest research, the closely-held results are not available to the growing numbers of small farmers attempting to enter the NTAE market. This component will increase the quantity, quality, range and access of NTAE-related research through a matching-fund research grant mechanism to be administered by a Research Advisory Council established by the Non-Traditional Products Exporter's Guild, the Gremial.

Because of the interrelationship of international marketing regulations and phytosanitary and pest residue concerns, the inclusion of the Gremial is directly responsive to the HAD Phase II EIA. Because of concern for the acceptability of Guatemalan produce into U.S. markets, the Gremial has taken the initiative in organizing producers to regulate agro-chemical use in compliance with U. S. EPA and FDA regulations, and has actively promoted Integrated Pest Management-oriented research to identify alternative control methods for pests and disease.

Institutional Strengthening of the Non-Traditional Products Exporter's Guild, or Gremial (\$2.0 Million AID input; \$512,000 counterpart)

The Non-Traditional Products Exporter's Guild, a private branch of the Guatemalan Chamber of Industry, is the leading interest group in the country involved in the promotion of Non-Traditional exports. The Gremial's strong leadership, demonstrated ability to influence national export promotion policy, and manifest interest in expanding market information and other services to Non-Traditional exporters led to the Guild's selection for implementation of market information and investment promotion activities under the Agribusiness Development Project (520-0276), initiated in 1985. The marketing services of the Gremial will be continued under the Phase III Amendment to the HAD Project to insure the sustainability of Project-promoted agricultural diversification. The support of Gremial marketing expertise is especially appropriate for inclusion in this Amendment, given the interrelationship of international marketing regulations and phytosanitary and pesticide residue concerns.

As in the other components, the Gremial's activities will be funded on the basis of an AID approved annual implementation plan.

The Gremial has already taken the initiative in addressing the marketing aspects of international phytosanitary and pest residue regulations. Steps have been taken to organize producers to regulate the use of agro-chemicals in compliance with EPA and FDA regulations, and to promote IPM-oriented research to identify alternative methods to control pests and diseases. Export market competition also requires that Guatemala strengthen its market information and promotion efforts, and those activities funded under the Agribusiness Project will be continued under the amendment. The expansion of the Gremial's membership, however, requires that the information system be refined and targeted, so as to support the needs of both "novice" and "expert" producers. Systematization of phytosanitary and pesticide residue information services will also be addressed under this component. The establishment of an acceptable system of grades and standards is also necessary. Export expansion and investment promotion activities will continue as will the Gremial's effective policy analysis and training activities.

The amendment will be obligated through cooperative agreements with CARE and the Gremial and a grant with the GOG for the Sanidad Vegetal component.

JUSTIFICATION TO CONGRESS: A CN was sent to the Congress on December 12, 1989 and expired on December 27, 1989.

RECOMMENDATION: State 381025 (attached) allows you to authorize this amendment once the Bureau Environmental Officer reviews and approves the IEE or Categorical Exclusion for this project. The requisite approval was received on December 26, 1989 in State 408314 (attached). I recommend that you signify your approval of this amendment by signing the attached PDS facesheet and authorization.

Drafter: PDSO, RSteelman R Steelman Date: 12.19.89

<u>Clearances:</u>		
PDSO, DBoyd	<u>D</u>	Date: <u>12/28/89</u>
ORD, GStraub	<u>[Signature]</u>	Date: <u>12/20/89</u>
PRM, DAdams	<u>[Signature]</u>	Date: <u>12/20/89</u>
ck CONT, JHill	<u>[Signature]</u>	Date: <u>12/21/89</u>
DDIR, SWingert	<u>[Signature]</u>	Date: <u>12/22/89</u>

ACTION ROCP INFO AMB DCM ECON AID/5

26-DEC-89

TOR: 17:43  
CN: 33124  
CHRG: ROCP  
DIST: ROCP  
ADD:

AECJSB00JRUGLEYVELSPZDVZCZCGT0575  
RR RUEHGT  
DE RUEHC #8314 3601743  
ZNR UUUUU ZZH  
R 261742Z DEC 89  
FM SECSTATE WASHDC  
TO RUEHGT/AMEMBASSY GUATEMALA 2391  
INFO RUEHSJ/AMEMBASSY SAN JOS 5358  
BT  
UNCLAS STATE 408314

AIDAC GUATEMALA FOR NAKATSUMA, SAN JOSE FOR ROCAP

E.O. 12356: N/A

TAGS:

SUBJECT: ENVIRONMENTAL THRESHOLD DECISION FOR HIGHLANDS  
AGRICULTURAL DEVELOPMENT, PHASE III (HAD III, 520-0274).

FOR ZADROGA

1. LAC DEPUTY ENVIRONMENTAL OFFICER WILSON HAS REVIEWED  
AND HEREBY CONCURS IN MISSION RECOMMENDED THRESHOLD  
DECISION OF A NEGATIVE DETERMINATION FOR HAD III.

2. CONCURRENCE IS CONTINGENT UPON THE USE OF NATIVE  
TREE SPECIES BEING PROMOTED IN ADDITION TO EXOTICS IN  
THE WATERSHED MANAGEMENT COMPONENT. THIS IS IMPORTANT  
BECAUSE THE REPLACEMENT OF NATIVE SPECIES WITH EXOTICS  
CAN HAVE A NEGATIVE EFFECT ON BIODIVERSITY. CONCURRENCE  
GRANTED BECAUSE ALL PROPOSED ACTIVITIES EITHER QUALIFY  
FOR CATEGORICAL EXCLUSIONS (SECTION 213.2(C) OF 22 CFR),  
OR RESPOND DIRECTLY TO MITIGATION MEASURES CONTAINED IN  
THE ENVIRONMENTAL ASSESSMENT OF THE HAD PHASE II  
AMENDMENT.

3. COPY OF IEE IS BEING FAXED TO MISSION, AND ANOTHER  
IS BEING POUCHED FOR INCLUSION IN PROJECT FILES. IEE

NUMBER IS LAC-IEE-90-05. KIMMITT

BT  
#8314

NNNN

UNCLASSIFIED

STATE 408314

ACTION	
USAID	ROCAP
ORD	
INFO	
PDSU	RADU
DUE DATE	
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ACTION TAKEN	
(Date/initials)	

MAIL ROOM  
USAID/GUATEMALA

89 DEC 27 - 8:41

RECEIVED

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