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FROM - Managua

SUBJECT - NONCAPITAL PROJECT PAPER (PROP)

REFERENCE -

Project Title: Agricultural Reform and Development
(Production and Diversification)

Country: NICARAGUA Project No.: 524-11-110-57.3

Submission Date: February 1968 Original 1 Revision No. _____

U.S. Obligation Span: FY-1968 through FY-1971

Physical Implementation Span: FY-1968 through FY-1972

Gross Life of Project Financial Requirements:

U.S. Dollars	\$ 710,000
Cooperating Country Cash Contribution	(in-kind)
Other Donor	- -

TOTAL \$ 710,000

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A. Summary

It is urgent that Nicaragua take the necessary measures required to increase food production. An expanded program of applied research is essential in this undertaking. Such an activity will strengthen the expanded rural credit, irrigation, land titling, and other agricultural programs now in progress.

The applied research program will assist Nicaragua in achieving increased food production at the rate of about five percent per annum over the short run, reduce import requirements and contribute to diversification. This will reduce the dependence of the economy on two principal export crops, cotton and coffee. Applied research will be initiated in FY-1968 that will contribute to the expansion of rice production on large tracts of land believed to be well suited for this purpose. Corn, sorghum, forage crops, pork and milk production will also receive intensive attention. Forage improvement is vital to improving the efficiency of beef and milk production, both important elements of the economy. Furthermore, the by-products of the expanded rice industry together with expanded corn and sorghum production will contribute to improving pork, poultry and milk production.

Funding shown in Table I will be used to finance resident contract technicians, backstopping and support costs, short-term consultants, and participant training. Total USAID allocations over the four year period amount to \$710,000. It is anticipated that three resident technicians will be required for the first two years and that the number will be reduced in the third and fourth years. Exact phasing will be determined on the basis of initial experience.

The Ministry of Agriculture budget for 1968 contains \$658,000 for its research and experiment section, about \$165,000 of which is estimated to be in direct support of this project. The GOV will be expected to increase its budget for research activity by approximately \$200,000 per year, so that at the end of the project ~~the support~~ will be ~~double~~ double of what it was at the beginning.
this budget

6 TABLE 1
 Page 1
 Country: NICARAGUA

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

PROP Type Feb. 1968
 Original X
 Rev. No. _____
 Project No. 524-11-110-057.3

3 Project Title: Agricultural Reform & Rural Development
 Project Activity: (Production & Diversification)

Fiscal Years	Personnel Serv.				Participants			Commodities		Other Costs	
	AP	L /G	TOTAL	CONT	AID PASA	CONT	US Ag	CONT	Direct US Ag	CONT	Direct & CONT
UNCLASSIFIED Prior through Actual FY <u>67</u>	--	--	--	--	--	--	--	--	--	--	--
Oper. <u>FY-68</u>	AG	G	210	200		120	10		10		70
Budget <u>1Y-69</u>	AG	G	210	200		120	10		10		70
Budget <u>1 FY-70</u>	AG	G	160	150		100	10		5		45
Budget <u>2 FY-71</u>	AG	G	130	120		75	10				45
Budget <u>3 FY-72</u>											
All Subs.											
Total Life	AG	G	710	670		415	40		25		230

285

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MANAGUA

B. Setting

As is common through Central America, the agricultural sector has been the most important factor in Nicaragua's economy. In 1966 this sector employed 57% of the work force, produced 30% of the GDP and 67% of export earnings.

There is however, a distinct technological dualism in Nicaragua's agricultural sector. The cultivation of export crops, particularly cotton, is based on modern production practices and is highly productive. For example, in 1966, 85% of the mechanical power, 96% of the insecticides and 53% of the fertilizer used in the country was devoted to the production of cotton. In contrast, exceedingly small holdings, primitive cultivation, and soil management methods, and therefore very low productivity, characterize operations of the approximately 75,000 subsistence farmers, who ~~account~~ account for the bulk of food production.

As a result, Nicaragua is presently experiencing a period where domestic demand is exceeding the rate of increase of food crop production, resulting in requirements to import considerable quantities of rice, corn and beans. A similar situation exists for Central America as a whole. The production of food crops must be expanded not only for the purpose of providing more adequate diets for the increasing population but also for export, since the outlook for further increases in exports of cotton and coffee, which have provided the chief impetus for recent economic growth, are not bright.

The various GON agencies concerned with the agricultural sector are steadily increasing their capacity to provide land titling, extension, credit, marketing, and storage services. However, there is an acute shortage of highly qualified skilled agricultural technicians, and the capacity to supply technical assistance and credit to farmers is rapidly surpassing the rate of development of new techniques designed to improve the efficiency of food production. There is a need to intensify and expand applied research related to improved animal nutrition, varietal improvement, rate and kind of fertilizer application, insect and pest control. This is essential in order to expand the production of food and feed beyond the rate of population growth. A more complete description of the agricultural sector may be found in the FY-1969 Program Memorandum, pages 13 to 31.

C. Strategy

With the partial exception of extension services, the recent expansion of agricultural services has been carried out almost exclusively by autonomous governmental agencies - ~~XXX~~ the National Bank, INFONAC, the Agrarian Reform Institute, INCEI, and even the Central Bank. The budget and scale of activities of the Ministry of Agriculture have remained stagnant. As a result, the role of the Ministry as the central, coordinating body for the agricultural sector has been weakened, and those areas for which it has primary responsibility, such as applied research, have become bottlenecks to faster agricultural development.

This project will be used to expand the applied research activities of the Ministry of Agriculture, improve its organizational structure and administrative capacity and train Nicaraguan technicians in the conduct of applied agricultural research aimed at overcoming many of the shortcomings now hampering production.

The Ministry of Agriculture, which has a small staff of agriculturists presently working on similar programs is a logical location for activities of this nature. The need is for personnel with broad experience to advise, guide and provide new ideas and modern techniques that will result in a more rapid agricultural growth. Expanded programs to be designed and implemented will be aimed at resolving the principal food production problems confronting the producers.

The project will complement and enhance the effectiveness of the related programs of Institutional Development and Irrigation Development that the Ministry of Agriculture is carrying out with AID assistance. It will also complement our assistance to IAN and the National Bank as well as financial and technical assistance being provided the agricultural sector by the IDB, FAO, and other sources.

D. Targets

The objective of this activity is to assist the Ministry of Agriculture to expand and upgrade the quality of applied research work being undertaken on the major food crops and livestock produced in Nicaragua for both internal consumption and export. This work will be carried out on existing ~~experiment~~ experiment stations and on cooperating farms in areas where the greatest potential for expanding food production exists. Efforts will be concentrated on expanding the production of rice, corn, sorghum, pork, milk and forage. New methods and techniques will be developed and made available in such a way that agricultural extension agents and credit supervisors can get the newly developed information to the farmers in the shortest period of time possible. Recommendations will be developed on ways to improve the production of these commodities and techniques for doing so under the conditions existing in the various climatic and soil conditions throughout the country.

These efforts will contribute to making food production more profitable and should serve to decrease interest in the glamour crops consisting of cotton and coffee. Likewise, if successful, these activities will shorten the period required for Nicaragua to produce its internal food requirements, improve levels of nutrition, increase employment opportunity, and have considerable quantities of food ~~XXXX~~ products to sell to its Central American neighbors as well as abroad.

Efforts will also be intensified to develop new crops and animal rations adapted to production and use in Central America for which there is an active demand for both internal and external use.

An important long-range target is to strengthen the role of the Ministry of Agriculture through increasing the capacity and capabilities of its staff of technical personnel. This would more adequately equip them to continue the program on a continuing basis.

E. Course of Action

Assistance provided through this project will make it possible for the Ministry of Agriculture to enter into an agreement with a US university from which the desired technical services can be obtained. This will involve a Project Agreement between USAID and the Ministry of Agriculture in the amount of \$200,000 of FY-1968 funds to cover the costs of three resident personnel (two agronomists and one animal scientist) for the first twelve months of the contract period together with backstopping, short-term specialists and support costs.

Preliminary discussions have been held between the Ministry of Agriculture, USAID and Louisiana State University. LSU has stated that it has the capacity and is interested in assisting the Ministry in this undertaking. Furthermore, the GON has requested that LSU be contacted to assist it with expanding its food production. It is anticipated that a project agreement will be signed between the Ministry of Agriculture and AID during the month of February and that a contract between the Ministry of Agriculture and LSU will be consummated in March. This should make it possible for LSU resident technicians to arrive in Nicaragua by late April, and be able to start to work immediately. This will enable them to get work underway for the 1968 crop year and have the results of their experience ready for release to farmers before they plant their 1969 crop.

Three to five years will be required for this program to have a lasting impact on Nicaraguan agriculture. This period of time will contribute to training a larger number of Nicaraguans in their respective specialties, increase their capacity for carrying out applied agricultural research and improve research techniques. Research activities of the nature envisioned, to be effective, must be carried out on a continuing basis over a period of years. Furthermore, this period of time will make it possible to improve the organization and administration aspects of the agricultural research program.

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