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INFORMATION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LA)

FROM: LA/DR, John R. Breen

DEC 19 1974

SUBJECT: Issues Paper - Bolivia Agriculture Sector Loan CAP

A DAEC meeting has been scheduled for Friday, December 20 at 9:30 a.m. to discuss the $9.2 million Bolivia Agriculture Sector Loan CAP. The Government of Bolivia (GOB) will be the Borrower. The executing agent will be the Ministry of Campesino Affairs and Agriculture (MACAG) and four other public institutional will participate in implementation: the National Community Development Service (NCDS), the Bolivian Agricultural Bank (BAB), and the public universities of both Cochabamba and Santa Cruz.

The project will strengthen delivery of agricultural research and extension to small farmers, and increase small farmer use of modern production technology through the development, expansion and decentralization of essential public services in the high valleys and newly developing lowlands where one-third of Bolivia's rural population is located. The loan will finance: (1) improved agriculture sectoral management ($600 thousand); (2) technological development ($3.93 million); (3) agricultural credit ($4.4 million); and (4) agricultural education and training ($200 thousand).

The loan and its complementary grant ($4.614 million approved in November 1974) are described on page 22 of the FY 1975 Congressional Presentation. Congressional Notification will be required due to the increase in loan amount from $8 to $9.2 million and the extension in disbursement period from 3 to 5 years.

The GOB contribution will be approximately 38% of the total project cost, thus exceeding the 25% minimum established in FAA Section 110 (a). An estimated 56% of the loan will be used to meet local currency requirements of the project.

The DAEC will consider the following issues:

1. GOB Policy

The IRR cable identified several constraints posed by GOB policy, such as controlled low agricultural prices, negative interest rates for agricultural credit,

and relatively low commitment of budgetary resources to the agriculture sector. What policy changes are expected as a direct or indirect result of this loan?

2. Credit Allocation

(a) Do the proposed Conditions and Covenants adequately take into account continuing and future credit requirements in the rest of the agriculture sector?

(b) What other key constraints to increasing small farmer production and income should be addressed, beyond the present absence of agricultural credit for this group?

3. Credit Delivery Mechanisms

Effective credit demand and ability to meet it (including securing commercially imported inputs, e.g. fertilizer) appear to be critically dependent on (a) the ability of some 80 MACAG extension agents (one-half of these yet to be recruited and trained) to generate something over 18,000 loan applications among farmers with little or no credit experience, and (b) on the ability of regional credit committees and BAB offices to review and approve a minimum of 334 loans per month in the first year, increasing to 759 loans per month in the fourth year. Granted that processing successive applications of second and third-time borrowers should be facilitated by previous review:

(a) Will the proposed technical assistance to BAB be adequate to insure that this untried credit mechanism can handle a workload of this magnitude, and

(b) Since BAB has an admittedly "poor track record," why was this entity selected as the loan's primary credit channel; and

(c) Did the July, 1974, BAB reorganization decree satisfy other donors who have been actively promoting reforms in BAB structure and procedure;

(d) Should BAB be restricted to a maximum delinquency rate on repayment of sub-loans to avoid approval of questionable applications; and

(e) Is there any way to insure that small farmer borrowers will, in fact, use the credit for planting basic food crops, rather than going into

more lucrative non-food crops?

4. Outreach Capability

Some 80 extension agents are expected to provide an average of 2500 rural inhabitants each with links to credit, training, and modern technology financed by this loan. This is to be done to some extent through unidentified "groups" of farmers:

(a) Is the number of extension agents adequate in terms of number of target persons which can realistically be reached, and the probable frequency and quality of such contacts;

(b) In a country where agricultural cooperatives are largely undeveloped, what other "groups" are readily utilizeable as contact points;

(c) How will prospective rural participants be identified so as to avoid diffusing the training effort too broadly;

(d) What are the actual mechanisms proposed for insuring that results of new research reach, and are applied by, the target farmer; and

(e) How will all other activities be monitored to insure the anticipated benefits are being utilized?

5. Geographic Areas

Given USAID's decision to focus on three main geographic areas:

(a) How has the GOB indicated that it also regards these as priority areas for small farmer assistance;

(b) Are these areas sufficiently similar to the remaining 1/3 of the rural population not affected by this loan or other donor activities (i.e. other than the Altiplano) to say with reasonable certainty that experience under this project will be transferable?

(c) What regional development disparities may result from the geographic concentration of this loan?

6. Coca Production

Is there any essential difference between the CAP statement on coca crop substitution eligibility under

this loan and the guidance provided on that subject per the IRR cable?

7. Soybeans

The CAP proposes to finance soybean production for domestic consumption only, and to help reduce the deficit in Bolivia's internal production of edible oils. Will a waiver be required?

No Rpt/Req.

8. Marketing Constraints

Of the 90% of excess small farmer production which is now marketed through local fairs, only 50% is marketed directly after harvest. The CAP implies that present storage facilities are just barely adequate. If production in the target areas increases by the projected 30%:

(a) What is the basis for the judgment that local markets can absorb the additional production, and still generate higher returns for the small producer;

(b) What is the probability that increased production will go to other markets through the existing trucker/middleman system, thus increasing the middleman's income, rather than that of the target farmer;

(c) What additional storage facilities may be necessary, and how will they be provided?

9. Disbursement Schedule

What is the basis for USAID's judgment that the first disbursement can be made within 4 months of signature of the loan agreement?

10. Appropriateness of Components

(a) Is it appropriate for USAID to lend MACAG direct, unreimbursed assistance in meeting Condition (iv) calling for design and installation of a new internal accounting/budgeting/auditing system?

(b) What internal problems might result within the two universities involved by "topping off" the salaries of certain members of the agricultural facilities?

11. Evaluation Plan

Given the complexity of the physical, economic and cultural relationships within and outside of the project area bearing upon the project, does the Evaluation Plan (pages 87 and 88) provide a sufficient mechanism to identify those factors and the magnitude of those factors which contribute directly and indirectly to the optimization of (1) project inputs, (2) provide a basis for project redesign, if such should become necessary, and (3) provide a basis for Agricultural Loan II.