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FROM - **ROCAP/Guatemala**

SUBJECT - **NONCAPITAL PROJECT PAPER (PROP)**

REFERENCE - **Project Title: Agricultural Planning**
Project Activity: Regional Agricultural Planning-SIECA

Country: ROCAP Project No. 596-11-140-026.1

Submission Date: January, 1968 Original X Revision No. _____

U.S. Obligation Span: FY 1968 through FY 1971
Implementation Span: FY 1968 through FY 1972

Gross Life of Project Financial Requirements:

U.S. Dollars.....\$116,000

Cooperating Country Cash Contribution.....\$100,000

Other Donor..... -

Total \$216,000

75W

OTHER AGENCY

AGRK

State

CIA

PAGE 1 OF 14 PAGES

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A. Summary

The Central American integration movement has achieved notable results in stimulating economic development within the region. Substantial progress has been made in increasing intraregional trade, developing industries and implementing a regional infrastructure network. By contrast, the integration movement has had relatively little impact on the agricultural sector. Although agriculture contributes roughly 33% of the region's GNP, and although Central American industrialization is heavily dependent upon the increased productivity and buying power of the agricultural sector, there have been few concrete, substantive measures at the regional level to accelerate the development of traditional and commercial agriculture.

The Permanent Secretariat for the General Treaty for Central American Economic Integration (SIECA) is the primary regional organization responsible for administering the Common Market and for coordinating national economic development programs within regional guidelines and priorities. SIECA also will serve as the secretariat to the Central American Agricultural Council, which is composed of the Ministers of Agriculture of the Common Market countries. Recognizing the urgent need to develop regional policies and programs for accelerated agricultural development, SIECA has requested the assistance of ROCAP to provide technical guidance and to expand its agricultural staff. ROCAP has agreed to provide such assistance over a four year period. This assistance will consist of salary support for four positions within SIECA's expanded agricultural staff for two years; specialized U.S. short-term advisors on specific problems over a four year period; and the partial financing of communications costs for a market price reporting system. Total allocations by ROCAP for the four-year program are estimated at about \$116,000.

By assuming the salary costs of the new positions and the price-reporting communication costs after two years of ROCAP support, SIECA will contribute directly about \$76,000 to this project. Other indirect costs to SIECA such as office space, secretarial services and administrative support are estimated at about \$24,000 over the four year period.

As a result of this assistance, ROCAP believes that SIECA will help to develop regional programs contributing to an annual increase of about 5% in agricultural production. More specifically, we look to SIECA's leadership in creating a market information service; in formulating regional proposals for land and agricultural export taxes; in establishing a regional commercial agricultural production incentives program; in establishing a regional grain storage system; and in reducing the area's dependence on coffee exports.

ROCAP/Grants - CAPRO CIRC A 151

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

Table 1
Page 1 of 2
COUNTRY: ROCAP

Project Title: Agricultural Planning
Project Activity: Regional Agricultural Planning - SIECA
Project No.: 596-11-140-025.1

PROP DATE January 1968
Original X
Rev. No. -

Fiscal Years	AP	L/G	Total	Cont	Personnel Serv.			Participants		Commodities		Other Costs	
					AID	PASA	CONT	U.S. Ag.	CONT	Dir US Ag.	CONT	DIR & US Ag	CONT
Prior through Act. FY <u>67</u>	-	-											
Oper. FY <u>68</u>	AG	G	38	-								38	
Budg. FY <u>69</u>	AG	G	43	10			8					33	2
B + 1 FY <u>70</u>	AG	G	15	15			12						3
B + 2 FY <u>71</u>	AG	G	15	15			12						3
B + 3 FY _____													
All Subs.													
Total Life	AG	G	116	40			32					76	8

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Table 1
 Page 2 of 2

Exchg rate \$1 = 1 CA Peso

Project No. 596-11-140-026.1

Fiscal Years	Other Cash Contribution Cooperating Country (SIECA)	Other Donor Funds (\$ Equivalent)
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Prior through
 Act. FY 67

Oper. FY 68

6

Budg. FY 69

6

B + 1 FY 70

44

B + 2 FY 71

44

B + 3 FY _____

All Subs.

Total Life

100

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B. Setting

The agricultural sector in Central America has not yet been significantly affected by the establishment of the Common Market. While regional trade in agricultural products has increased from about \$16 million in 1960 to roughly \$41 million in 1966, agricultural trade as a percentage of total regional trade actually decreased from about 48% in 1960 to less than 25% in 1966. The thrust of the CACM to date has been directed at industrialization, particularly import-substitution in assembly and light manufacturing industries. However, the CACM has not implemented concrete measures for increasing the productivity and purchasing power of the roughly 50% of the region's population involved in domestic agriculture. Therefore, about half of the Central American population is unable to serve as an effective market for increased industrial production.

In 1966, agriculture accounted for one-third of the Central American GNP and produced about 95% of all the goods exported from the region. This reveals little change in the historical importance of agriculture in the Central American economy since in 1950, for example, agriculture represented 37% of GNP and about 99% of exports to the rest of the world.

The outlook for commercial agriculture, which has played a central role in the development of the region, is not particularly optimistic. Coffee production is the largest industry in Central America and the single largest employer. This extreme dependency on coffee is dangerous at a time when the region as a whole is producing more coffee than it is allowed to export under the International Coffee Agreement. Central America can anticipate no substantial increase in export earnings from coffee over the next several years and continued investment in the coffee sector is economically a dead-end street. Moreover, it also may lead to such a production surplus that the countries will be tempted to export above their quota and the delicate coffee price structure, which is built on the ICA quota system, may fall considerably. While the problem of coffee over-production is immediate there is no satisfactory resolution in sight. In competition for coffee quotas, the individual countries are extremely reluctant to take measures to cut back on production. There is some possibility,

however, that constructive measures aimed at reducing coffee production could be initiated on a regional basis with the cooperation of all members of the CACM.

Market projections for the other major Central American export crop, cotton, are equally pessimistic. The cotton boom that began in the middle 1950's has already slowed down substantially as Central American production costs have increased tremendously in the last few years. Most export projections agree that Central America can not anticipate major growth in this area.

Export market studies for non-traditional agricultural export crops show that, while foreign exchange earnings from the export of these crops could not replace the sharp decline of coffee and cotton, there is considerable potential for export that could, over a long-term, place the commercial agricultural economy on a much more stable basis. While much remains to be done in the identification of these new markets, the basic problem is the lack of incentives for investment in these crops. Due to its low production cost, coffee is still a lucrative investment for the individual farmer who can hope to increase his share of the market in competition with other farmers. On the other hand, investment in non-traditional crops appears very risky. The market is still undetermined as compared to coffee, cotton or bananas; production techniques are not so familiar; and credit is not readily accessible in the absence of any crop insurance system. While each of the national governments is sponsoring at least a token diversification program, there has not been a frontal attack by public authorities in the region to meet this problem.

The basis for a broad, regional program aimed at the diversification of agricultural exports does exist in the recently-formed Coordinating Committee for Agricultural Research. This Committee, with SIECA as its Secretariat, could undertake coordinated programs of investigation into agricultural diversification, and could work with CABEI to establish a financing mechanism for an incentives system to coordinate and backstop national diversification efforts. These incentives could include: (a) crop insurance to guarantee the farmer against the loss of his inputs in the event of crop failure from uncontrollable natural causes and to make private sector credit more readily available for such new enterprises; (b) price guarantees

for the new commodities; (c) associated agro-industries to supply the necessary inputs and to provide post-harvest facilities for storage and processing for market and for the industrialization of by-products; and (d) marketing assistance through studies of potential markets and information as to grades, standards and most efficient shipping arrangements.

The basis also exists for a regionally coordinated program for increased production and distribution of non-export agricultural commodities, especially food products. The highly pronounced seasonal and year to year variations in prices from which non-export farmers traditionally suffer are a crucial factor in discouraging traditional sector farmers from investing in improved methods of production. There is solid evidence to indicate that farmers will respond favorably to marketing assistance such as price supports since historically good prices for traditional crops one year have been followed almost invariably by substantially increased harvests the next year.

The Special Protocol of Grains (see CAPTO Circular A-147 of February 21, 1966) now has been ratified by and is in effect for four countries - Guatemala, El Salvador, Honduras and Nicaragua. This Protocol obligates the governments to "formulate and execute national programs for the production and supply level". The key provision of the Protocol is that each national grain board must give first priority, in meeting shortfalls, to imports from other Central American countries. Imports from outside the region can be made only after consultation with other countries. In the past, such imports from outside the region have been made almost exclusively by the national grain boards which have been exempt from the payment of duties. Under the Special Protocol, imports from outside the region now will have to pay a duty equal to the difference between the import price and the official internal support price. Since almost all tariffs and other quantitative barriers on trade in grains in the region were eliminated last year, the effect of the protocol is to provide a major incentive to the production of grains.

The Special Protocol establishes the Coordinating Commission for Marketing and Price Stabilization as the regional organization to carry out the provisions of the Protocol. SIECA serves as the secretariat for this body.

In addition to these two technical committees - the Coordinating Committee for Agricultural Research and the Coordinating Commission for Marketing and Price Stabilization - the Central American Ministers of Agriculture have recently been designated as the Agricultural Council of ODECA which will work across the board in seeking common, regional approaches to problems of agricultural development. SIECA also serves as the working secretariat for this body.

To service the three regional groups described above and to administer the other common market agreements that affect the agricultural sector, SIECA currently has only seven professional employees in this entire area. Five of these are located in the Agricultural Development Section of the Development Division which is composed of the former OAS-IDB-ECLA-supported Joint Planning Mission. This section works with the Agricultural Council and the other regional groups discussed above and helps to develop regional programs in specific areas of agriculture including livestock, dairy, basic grains and fisheries. The two professional employees in the Agricultural Section of SIECA's major division, the Common Market Division, are responsible for implementing the free trade and common tariff agreements that affect the agricultural sector. SIECA requires increased manpower and technical assistance to improve its capacity in all these areas and especially to work with the newly formed regional committees to establish mechanisms at the regional level to stimulate agricultural development in the region.

C. Strategy

As noted earlier in this paper, the integration movement has not yet had a favorable impact on the agricultural sector of the region. In their drive toward accelerated industrialization through the creation of a common market, the Central Americans have largely ignored the critical importance of rapid improvements in the agricultural sector. Recently, however, there has been a more wide-spread recognition that further industrialization depends on increased purchasing power of the large proportion of the region's population now engaged in agriculture, and that the economic base of the region will continue for some years to be the commercial agricultural exports area which is stagnating for the lack of diversification efforts. With this has also come an awareness of the opportunity to accomplish on a regional scale that which is

difficult to undertake on a separate, country-by-country basis. From this has come the creation of the three regional groups discussed above.

SIECA, as the Secretariat for these groups, is the logical regional organization on which to concentrate technical and financial assistance in this field. While CABEI is in the process of organizing an Agricultural Department, its activities will be limited to loans for diversification incentives and infrastructure, such as grain storage silos. While it will be expected to coordinate its activities with SIECA, it is the latter that will develop the regional policy guidelines for approval by the Agricultural and Executive Councils, within which CABEI will develop its agricultural lending policies.

The IICA Northern Zone Office is providing some assistance to some of the regional groups, such as the Research and Agrarian Reform Commissions, by developing regional studies as a part of its overall program for improving agricultural education, research and extension. It is not a CACM organization, however, and has no legal standing in the CACM bureaucracy; it is not capable of nor does it want the responsibility for overall regional agricultural development.

The FAO regional group is similarly helpful in making studies for the Marketing and Price Stabilization Commission and by collaborating with the Planning section of SIECA. Here again, however, its function is limited to technical assistance and it has no administrative responsibility within the CACM.

ICAITI and INCAP both have an interest and some activities in the agricultural field, but because they are strictly research institutions and their fields of interest are limited, they are not indicated for overall agricultural planning responsibility. This project will be closely coordinated with the activities of these organizations, particularly with the food technology research being carried out by ICAITI to find new food processing techniques and to develop new export products. The assistance being provided through this project will help to assure better coordination among all the groups active in agricultural planning.

While SIECA is the regional institution that can and should take the leadership in this field, it has not yet been given sufficient resources to meet this responsibility. SIECA needs external assistance to expand its activities to make the regional Commissions and the Agricultural Council effective instruments for dynamic agricultural development on a regional basis. This is a complex and continuing problem which will require the full-time effort of qualified and experienced Central American personnel. It is not a problem which can be resolved through the provision of foreign advisors on a full-time basis. On the other hand, SIECA simply does not have the funds to undertake a coordinated attack on the problem. The major contribution that ROCAP and other external assistance agencies can make toward its achievement is to help develop local capacity for this purpose. In view of SIECA's limited budget, ROCAP has agreed to provide budget support to SIECA to meet salary costs of carefully selected new positions for a two year period. This support will be combined with short-term technical assistance in specific fields, and some communications assistance. Our experience to date has shown this to be a very successful strategy. On the one hand, it provides vitally needed resources to SIECA, and, by requiring that SIECA assume all salary costs after only two years of ROCAP support, it assures the development of a permanent capacity.

D. Targets

The primary objective of this activity is to assist SIECA to develop a permanent institutional capacity to carry out its responsibilities in the development of activities in the agricultural sector to accelerate food production and distribution and commercial agricultural diversification. This external assistance is needed to permit SIECA to undertake programs and urgent studies relating to the participation of the Central American agricultural sector in the proposed Latin American economic integration movement; the development of a regional system for the interchange of food marketing information; studies about possible incentives for agricultural diversification, coordination of agricultural research, and guidelines for the development of a regional agricultural policy. It is impossible precisely to quantify specific targets for this type of activity; however, it will be considered successful if it upgrades SIECA's ability to contribute to specific proposals and activities in the agricultural field toward the achievement of these goals.

To meet the obligations of the Alliance for Progress and provide resources for sustained economic growth, Central America needs to increase its agricultural production by at least 5% per year, considering the rate of population growth. This target appears entirely possible of achievement so far as food production is concerned, and most of the necessary instruments are at hand (e.g., the Special Protocol on Grains), although their effective implementation will require close direction. As regards commercial agriculture for industrial raw materials and for export, the goal is far more difficult and will require substantial efforts to increase and diversify production. SIECA will be expected to make effective contributions toward the development of these programs.

In 1968, SIECA will be urged to press for the ratification by the remaining country (Costa Rica) of the Special Protocol on Basic Grains discussed above in the Setting section. This instrument provides the basis for coordinated programs for increased food production, for developing market news information systems, and for establishing a coordinated price stabilization system, including government-controlled storage silos of adequate capacity. It also formalizes the Coordinating Commission for Marketing and Price Stabilization. Full ratification and implementation of this arrangement will be an important measure of self-help. Also in 1968 SIECA will prepare background information for and serve as the secretariat for the first meeting of the ministerial-level Agricultural Council. This body is expected to formally approve the establishment of the Permanent Commission for the Coordination of Agricultural Research and Extension as well as the priorities of Agricultural Research and Extension as well as the priorities this group has agreed upon at its recent second meeting as to organizational uniformity among the various national programs and the need for regionally coordinated research for expanded food production programs. The establishment of this Agricultural Council as a dynamic, policy-initiating body will be a key benchmark in measuring the success of this project. Trial runs of the proposed regional market news service will be made in 1968 by SIECA with the cooperation of their offices recently established in each country and of the Marketing Commission members, assisted by some ROCAP funds to help defray initial communications costs. These activities, coupled with the establishment of an effective, regionally coordinated price stabilization program, anticipated for 1970, are expected to provide the materials and the incentives

for increased food production and improved distribution of these foods throughout the area.

In the area of diversification of production, SIECA's Agricultural Planning Section has overall studies and proposals nearing completion for regional increases in livestock and oilseeds production and is gathering material for similar studies in other subject-matter areas. The agricultural projects specialist to be funded by this project will, during 1968 and 1969, help translate these overall plans into specific action projects.

E. Course of Action

As described in the Strategy section of this paper, the general nature of the assistance to be provided to SIECA in the area of agricultural planning will be a mix of salary support for carefully selected new positions and the provision of short-term foreign consultants for specific issues. ROCAP will also provide SIECA with funds for part of the communication costs of an Agricultural Market Price Reporting system.

In FY 1968 ROCAP will provide SIECA with a total of \$38,200 of assistance. The bulk of these funds (\$37,200) will be used to establish four, new, full-time positions at SIECA. These include one Agricultural Project Specialist who will work in the Development Planning Division, and two Agricultural Economists and an Agricultural Researcher who will work in the Common Market Division. The remaining \$1,000 will be used to assist in meeting the initial communication costs for the Agricultural Market Reporting system. We have made no provision for the technical assistance of any foreign advisors in this initial year. However, the regional Agricultural Advisor stationed at ROCAP will work closely with SIECA in initiating the activities covered by this project. In the initial year, SIECA will concentrate on recruitment of qualified personnel and the effective establishment of the Agricultural Council, the machinery for the Special Protocol on Grains, and the Coordinating Committee for Agricultural Research. SIECA will also work closely with other organizations in the region active in agricultural planning, especially CABEI, the IICA Northern Zone Office, and the FAO Regional Group (GAPICA).

In FY 1969 ROCAP will extend its financial assistance for the positions described above for a second twelve-month period. Second year funds will also be provided to help support the Market Reporting system. ROCAP has also programmed funds in the second year of this project for a U.S. advisor, probably from the USDA on a PASA basis, to work with SIECA in the area of forest management policy. A second priority for a foreign advisor would be in the area of agricultural pricing and price support arrangement. While an important part of SIECA's activity will be focused on the establishment of a diversification incentive program, the external assistance necessary to develop such a program probably will be provided by ROCAP through a separate agreement with CABEI. The advisory services of ROCAP's direct-hire personnel also will be continued.

In FY 1970 SIECA will assume all salary costs for the four positions previously supported by ROCAP. We anticipate that by FY 1970 the integration movement will have established a special fund for the increased financing of the regional bureaucracy and that SIECA will be able to draw on these increased resources in lieu of external grant assistance. Therefore, we have not programmed any salary support to SIECA under this activity after FY 1969 nor have we programmed any more support for the Agricultural Market Reporting system. The advisory services of ROCAP personnel will be continued and funds have been programmed for short-term consultants in FY 1970 and 1971 to assist SIECA in various problems of agricultural planning on a regional scale.

Although we have not specifically programmed funds for participant training under this activity, we will consider any request from SIECA for graduate level academic or non-academic study of key personnel. We will be particularly interested in financing SIECA participation in some of the special agricultural planning courses offered by various international assistance agencies.

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