

AGRICULTURAL SERVICES MODERNIZATION PROGRAM

(PN-0032)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: The Republic of Panama

EXECUTING AGENCY: The Ministry of Agricultural Development (MIDA)

AMOUNT AND SOURCE:

IDB:	US\$33.6 million (OC)
Local counterpart funding:	US\$14.4 million
Total:	US\$48.0 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	20 years
Disbursement period:	5 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%

OBJECTIVE: The objective of the program is to improve the profitability and productivity of the agricultural sector and the quality of its products, and to facilitate the adaptation of Panamanian farmers to a more competitive economic system by modernizing the national services for the generation and transfer of technology, plant and animal health, market information, and the land titling. The program supports the institutional upgrading of MIDA and promotes participation by the private sector in the execution and financing of the activities. The program will: (i) increase the output of agricultural products for export and competitive domestic consumption; (ii) reduce losses from pests and diseases and gain greater access to international markets; (iii) improve the efficiency and reliability of market information; and (iv) expand land titling coverage.

DESCRIPTION: The program has been structured in four subprograms: (i) technology generation and transfer, (ii) plant and animal health, (iii) market information; and (iv) land titling.

1. Technology generation and transfer subprogram, aimed at making production more diversified, improving yields and quality, and reducing production costs, through two components:

Technology generation component, to generate broad-impact agricultural technologies to be considered government property, under the responsibility of Instituto de Investigación Agropecuaria de Panamá [Agricultural Research Institute of Panama] (IDIAP) and Dirección Nacional de Acuicultura [National Directorate for Aquaculture] (DINAC), and to fund research projects based on open competition between the public and private entities that constitute the national research system. Emphasis will be on studies with practical results for immediate commercial application, especially in competitive lines of production.

Technology transfer component, to restructure MIDA's current public extension system as it refers to this program with services to be performed by the private sector, cofinanced by the program and the farmers, under two arrangements: a plan to provide business-related technical assistance to small-scale farmers (PATEP), aimed at operators of small farms with productive potential; and Panamanian agricultural technology transfer groups (GTAPs), geared to operators of medium-sized farms, organized in groups and by agroecological areas.

2. Plant and animal health subprogram, to improve the quality of the services of MIDA's Dirección Nacional de Sanidad Animal [National Directorate for Animal Health] (DNSA) and Dirección Nacional de Sanidad Vegetal [National Directorate for Animal Health] (DNSV), so that they may, in conjunction with the private sector, help minimize losses from pests and diseases, and facilitate marketing. It has four components:

Animal health component: to preserve the national livestock population and ensure the sanitary condition of the products. It includes intensification of epidemiological surveillance; expansion of the veterinary laboratory facilities; the establishment of a laboratory to examine toxic residues; the structuring of the Animal Health Registry Department; the organization of campaigns for the control of brucellosis and bovine rabies; and the introduction of technology for the care of other diseases of economic importance.

Plant Health component: to protect the plant health situation, improve diagnostic capabilities, and strengthen campaigns by: updating the plant health surveillance system; setting up surveillance laboratories and units; registering and analyzing

pesticides; reinforcing the campaigns to control Mediterranean fruit flies and the tristeza virus of citrus fruits; and implementing measures for the management of pesticides and inspection of nurseries and exports.

Agricultural quarantine component: to prevent the entry of exotic health problems and the spread of those already present by upgrading the livestock quarantine station and setting up and equipping control posts.

Institutional strengthening component: to support the plant and animal health operations by: providing sanitary education for farmers and the general public; expanding the information and communication network; and training personnel. To support those efforts, the organizational structure would be consolidated, plant and animal health legislation would be modernized, and field and laboratory operations would be coordinated with farmers and public agencies.

3. Market information services subprogram, to assist in the decision-making of farmers, agroindustrial processors, and the public sector by providing efficient, reliable market information. This will be accomplished by setting up a system (SIPAN) for the management and dissemination of trade information of economic importance in the public domain. SIPAN will supply the basic trade information needed for the project to support services to agribusiness investors, presented for consideration by the Multilateral Investment Fund for parallel financing (US\$1.8 million).

4. Land titling subprogram, to facilitate access to technology, greater use of credit, and the increase of investment, by affording greater security of tenure, and to encourage the development of a responsive, transparent land market. The operations will be carried out in the province of Veraguas. It consists of the following components:

Rural cadastral survey component: a massive survey and mapping effort will be conducted, by digital methods for efficiency in the field work, for which the geodesic network will be expanded, aerial photographs taken, cadastral maps compiled for 41 corregimientos, and surveys conducted for the collection of property information.

Cadastral updating component: the cadastral survey

will be kept up to date by using a geographic information system (GIS) and strengthening the ongoing land title registry service.

Titling of public lands component: based on the field survey and supported by the GIS, to make the granting and deeding service efficient and facilitate the process for settling current disputes.

Institutional strengthening component: for the training of the personnel of Dirección Nacional de Reforma Agraria [National Directorate for Land Reform] (DINRA) and to monitor the subprogram.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of December 7, 1994, classified this as a Category III operation.

BENEFITS:

The management of research activities will facilitate a reallocation of resources to products with a greater competitive advantage. Strengthening technology transfer and the reduction of losses from diseases and pests will increase the volume of agricultural production; efficient services and higher quality will be reflected in an increased presence of producers on external markets and higher incomes for them. Rational use of agrochemicals will help preserve the environment. The price and market information will make it easier to make the right decisions and reduce transaction costs. The titling of lands will foster better preservation of soils and make for increased capital investment.

RISKS:

The levels of tariff protection negotiated in the framework of the WTO are regarded as high and will be gradually lowered over an extended period. While the economy will be stimulated as a result, the effectiveness of technology generation and transfer of some products could be reduced to some extent, because farmers will lack any incentive to convert to more competitive products. However, the agreements reached for the second disbursement from the second tranche of the economic recovery loan will further open up the economy and so make it easier to identify the most competitive and promising products on markets. Moreover, the Bank and the executing agency will hold yearly meetings to review progress based on reports of what was done in the preceding year and the targets set for the next, which will help make the necessary adjustments.

It is proposed to gradually withdraw MIDA from the execution and financing of extension activities and

to transfer this service to the private sector. While the program is in execution MIDA's extension workers could feel uncertain about entering the private sector. Also, the private sector could be slow in making the services available either by not offering them in full response to the demand or because of the lack of appeal of the technological changes. In regard to financing, though farmers have expressed a readiness to gradually assume the costs, their acceptance will depend on the quality of the services provided. Any of these circumstances would slow down execution of the program. To reduce these risks, a substantial component of training for extension workers has been provided. Moreover, the activities of the program's Consultative Council, on which all groups involved will be represented, will make it possible to review program execution and take corrective steps to keep progress on schedule.

There is a limited supply of bank credit for the agricultural sector in Panama, especially for operators of small and medium-sized farms, and this could reduce their ability to adopt the technology to be offered them. This risk could be partly offset by titling their lands, which would give them more access to bank credit, by financing from input suppliers, and by the organization of small farmers into production enterprises and the provision of business management training for them. Moreover, generating competitive, high-profit product lines will make access to credit more attractive.

**POVERTY-TARGETED
INVESTMENT:**

Beneficiaries have been identified who, prior to participating in the program, fall below the low-income threshold as defined for Panama using the reference monthly income of US\$50 per capita for 1995. Nevertheless, in accordance with the criteria of the Eighth General Increase in the Resources of the Bank, the program is not considered to be aimed at low-income groups inasmuch as the weighted index of resources from the financing targeted at low-income groups is 29%.

PROCUREMENT:

The amounts above which procurement under the program will require international competitive bidding will be US\$250,000 for goods and services, and US\$1.5 million for works.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy in Panama is to: (i) intensify the program of economic and sector reforms (deregulation and privatization); (ii) enhance the efficiency of public spending and support the modernization of the State; (iii) make social

spending more efficient and target it more at the poor; (iv) rehabilitate and expand the country's basic infrastructure and revise the regulatory frameworks to encourage participation by the private sector; (v) identify options for development in the interoceanic region. The proposed operation is consistent with the Bank's strategy of promoting comprehensive reform of the agricultural sector that will make it more competitive in the production, pricing and exportation of agricultural products. The modernization of key services will stimulate the private sector to participate by increasing activities in the production of commodities for competitive export and domestic consumption. In addition, services should become substantially more efficient as they will be the responsibility of the private sector operating in a situation free competition.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The borrower, acting through MIDA, must present, to the Bank's satisfaction:

As a condition precedent to the first disbursement under the program, evidence that: (a) the central coordination unit (CCU) and technical support units (TSUs) have been set up and the personnel they require has been appointed (paragraph 3.20); (b) the program's Consultative Council has been formed and taken up its duties (paragraph 3.20); and (c) an agreement with IICA for administration of the program resources has been signed (paragraph 3.16).

As a condition precedent to the first disbursement under the technology generation and transfer subprogram, evidence that the Administrative Committee for Agricultural Research Support has been formed and begun working (paragraph 3.20).

Within six months following the date on which the loan becomes eligible for disbursement, evidence that: (a) the directorate of the market information system (SIPAN) has been established in the IMA (paragraph 3.32); (b) the timetable for the hiring of the consultants and their terms of reference for execution of the program have been presented as agreed upon with the Bank (paragraph 3.40); (c) the entity that will administer the Research Support Resources has been contracted, the account for those resources has been opened in a bank, and the Operating Regulations for those resources have been put into effect (paragraph 3.26); and (d) the consulting firm or specialized agency that will execute the technology transfer component has been

hired (paragraph 3.28).

Within the 12 months following the effective date of the loan contract, evidence that: (a) the laws on animal health and plant health have been put into effect (paragraph 3.31); (b) agreements have been signed with: (i) the Ministry of Health (MINSA), for it to coordinate with the executing agency for the exchange of information on activities the latter undertakes in terms of oversight, control and registration of plants processing agricultural, pharmaceutical, biological, and pest-control products, and for it to assist the executing agency with training (paragraph 3.31); (ii) the Instituto Especializado de Análisis [Specialized Analysis Institute] (IEA), for the analysis of pharmaceuticals and personnel training (paragraph 3.31); and (iii) the Instituto de Recursos Naturales Renovables [Institute of Renewable Natural Resources] (INRENARE) for the coordination of environmental matters (paragraph 3.44); (c) DINRA and the Public Registry Directorate of the Ministry of Government and Justice have signed an agreement for registration of the deeds issued (paragraph 3.35); and (d) the engineering consultancies needed to draw up the final designs for the works to be built have been contracted in accordance with terms of reference acceptable to the Bank (paragraph 3.37).

Within the 24 months following the effective date of the loan contract, evidence must be produced that: (a) the regulations for the use and handling of pesticides, the operating manuals for laboratories, surveillance, input registration and control, and inspection and quarantine have been issued (paragraph 3.31); (b) the Environmental Unit has been established directly under the Office of the Minister (paragraph 3.44).

Before July 31 every year during execution of the program, MIDA must present to the Bank the consolidated annual work plan (AWP) for the following year. On the basis of this AWP, MIDA and the Bank will jointly determine the adjustments to be made in the execution of the program (paragraph 3.23).

The loan contract will also include the Bank's standard clauses regarding, *inter alia*, auditing, progress reports, inspection, loan evaluation, and procurement.

Maintenance: The borrower, through the executing agency, will: (a) make sure that the works and

equipment called for under the program are operated and maintained properly in keeping with generally accepted technical standards; (b) submit a report during execution of the program and for five years following its termination, on the maintenance carried out during the preceding year; and (c) submit, during the useful life of the program works and equipment, evidence that a sufficient amount has been included in MIDA's annual budget to cover the cost of such maintenance (paragraph 3.38).

**COMPLIANCE WITH
THE MANDATE OF
THE EIGHTH
REPLENISHMENT:**

The program is consistent with the objectives of the Eighth Replenishment as follows: modernization of the State, by solving problems in MIDA's services; poverty relief, by generating employment; and environmental protection, through the design of measures that will mitigate any possible adverse environmental impact of the program. The gender issue is dealt with by facilitating access to services and furthering the economic stability of the family unit.

Specifically, the program will help modernize the agricultural sector and facilitate and diversify exports of farm products that offer competitive advantages (paragraphs 1.17 and 1.30 of the Report on the Eighth Replenishment). In addition, it places special emphasis on projects that increase the production of small farmers (paragraph 2.14 of the report). Lastly, the report notes the importance of agricultural programs designed to facilitate access to new technologies through applied research and extension services, and to enhance efficiency in the production and marketing of agricultural products (paragraph 2.35 of the report).

**EXCEPTION TO THE
BANK'S POLICIES:**

It is recommended that IICA be contracted to administer the resources of the program for the reasons stated in paragraph 3.16 of the loan proposal.