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USAID/COSTA RICA

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COMMODITY SYSTEMS PROJECT
LOAN 515-T-027
USAID/COSTA RICA

EXECUTIVE SUMMARY

Introduction

The purpose of the Commodity Systems Project is to introduce an integrated "commodity systems" approach into the Ministry of Agriculture development program; and to increase the profitability of small farmers' enterprises and employment opportunities in five geographic areas of Costa Rica. An integrated "commodity systems" approach is one which considers all constraints of the total production/processing/marketing system of each individual commodity or enterprise from the preparations for planting through consumption of the product. This 4-year, \$11.0 million project is financed by AID Loan No. 515-T-027 for up to \$5.5 million of AID loan funds; \$1.2 million of Government of Costa Rica funds; and \$4.3 million of National Bank System funds. The loan agreement was signed on March 15, 1978.

Scope

The purpose of the review was to assess the project results to date, and determine if management of the project is effective and if AID funds are being used according to Agency policies and procedures.

Audit Conclusions

We found limited progress in the accomplishment of project goals intended to bring about an institutional change in the Ministry of Agriculture. None of the purposes of the project have been fulfilled: (a) to introduce an integrated "commodity systems" approach into the Ministry's development program; (b) to increase the profitability of small farmers' enterprises in selected regions; and (c) to increase employment opportunities in the five geographic areas previously selected for this project by the Ministry of Agriculture.

Because of limited project progress, therefore, we could not assess the main objective of the project. It is premature to determine whether small farmers possessing less than 20 hectares of land have increased their income as a result of the project.

The project has suffered administrative delays: (a) because of excessive delays in meeting conditions precedent prior to disbursement of loan funds; (b) because of lack of adequate counterpart funds to meet project obligations; and (c) because the Ministry of Agriculture failed to provide adequate staff to have a full complement of qualified persons at all the levels of the subproject activities. Evidence of these problems is presented below in summary fashion under appropriate sub-topic headings. The Report presents these problems in greater detail.

-- Farm Management. This subactivity is the centerpiece of the project effort. Through the accomplishments of the Farm Management component, the Ministry of Agriculture hopes to improve farm management techniques in the non-traditional and improved traditional crop and product enterprises of 4,000 participating small farmers. However, several problems have impeded project

implementation. There have not been enough technical personnel to properly implement the program, counterpart budget for the Agricultural Regional Centers has been insufficient, transportation has been inadequate, and an adequate control system for counterpart expenses has not been set up (see page 4-7).

-- Research. The Research element of the project is the second most important subactivity. It will involve the introduction of large quantities of improved plant materials for diversification. Variety trials and demonstrations will be conducted in at least five regions of the country. A number of other experimental research and development activities will be attempted. To date, not much Research activity has been undertaken and it may be another year before any accomplishments can be measured. As of August 1, 1980, the Directorate of Research had four staff members versus a need for nine. The work plans of the Research element have not been undertaken for the most part. Budget constraints brought on by the Government of Costa Rica's austerity program and late approval of the budget on June 3, 1980, are the principal causes. As a result, much of the implementation planned for in 1980 will have to be reprogrammed in 1981 (see page 7-11).

-- Credit. Short-term and medium-term credit to small farmers totaling \$6,485,000 has been programmed but actual lending has just begun. There were two causes delaying implementation of the credit activity, as well as other phases of the project: First the Government of Costa Rica's austerity program which started in January 1979; and second the slowness of the Government of Costa Rica in approving budgets. The project has already been extended one year, and another year or more may be required for completion. Thus the project may run until December 1983 or longer (see page 11-12).

-- Implementation and Marketing Units. The key implementing organization for loan activities is the Ministry of Agriculture's Implementation Unit. This unit will provide overall project coordination, planning, implementation, monitoring, and evaluation; and oversee all financial, technical, and administrative aspects of the project. The Marketing Unit will provide a broad range of marketing information and technology to farmers throughout Costa Rica, with particular emphasis on the needs of small farmers. Staffing of both the Implementation and Marketing Units has been slow and has resulted in, or contributed to, delayed implementation of the project. Other areas needing improvement: the Implementation Unit requires better coordination with other project units, and the Marketing Unit has suffered from a lack of office space and transportation. Since completion of our field work in August 1980, much of the problem has been resolved by Mission efforts (see page 12-15).

-- Training and Technical Assistance. The Government of Costa Rica's Ministry of Agriculture had not established a realistic approach to expedite scholarships for long-term training for project participants. There was a substantial lag in scheduling long-term training; therefore, the benefits to be derived from participant training will not be timely and in the long run may prove detrimental to the project (see page 15-16).

-- Procurement. Some vehicles and spare parts will not be purchased from counterpart funds because of the Government of Costa Rica's austerity program. Other budgeted purchases have not been made. Unless the Implementation Unit

sets up a firm plan to effect needed procurements, the project will be disorganized because of lack of physical inputs to the program (see page 17).

-- Project Monitoring. Monitoring of loan activities could be improved. The first project evaluation was begun on November 3, 1980. Financial monitoring of Government of Costa Rica counterpart funds has been inadequate. Better coordination of Government of Costa Rica project components is needed (see page 17-18).

Recommendations

As a result of our audit, we presented USAID/Costa Rica with eleven recommendations in our draft report. These recommendations dealt with providing qualified technical personnel and training, and improving project management and accountability. Because of actions taken by the Mission since completion of our field work, we were able to drop seven recommendations from the final report.

BACKGROUND

A Project Loan Agreement for an amount not to exceed \$5.5 million to assist the Government of Costa Rica (GOCR) in financing the Agricultural Commodity Systems Project was signed on March 15, 1978. The Loan will be repayable in dollars within 20 years, including an initial grace period of 5 years at an interest of 3 percent per annum.

Over a 4-year period the project budget plans for the use of up to \$5.5 million of AID loan funds; \$1.2 million of GOCR counterpart funds; and \$4.3 million of National Banking System (SBN) funds, a total of \$11.0 million:

The project goal is to increase the income of the poor. Studies indicate that the bulk of poverty in Costa Rica lies among farmers and landless workers whose future income and employment opportunities cannot be raised through increased production of either basic grains or traditional export crops. This project is intended to bring about an institutional change in the Ministry of Agriculture's (MAG) approach to this target group, and make an immediate impact on a portion of that group.

The project purpose is three-fold: (1) to introduce an integrated "commodity systems" approach into the MAG development program; (2) to increase the profitability of small farmers' enterprises in selected regions; and (3) to increase employment opportunities in the five geographic areas previously selected for this project by the MAG. An integrated "commodity systems" approach is one which considers all constraints of the total production/processing/marketing system of each individual commodity or enterprise from the preparations for planting through consumption of the product.

To accomplish the goal and purposes, the project has been divided into four major elements. The financial plan and funding of each subactivity is as follows:

	<u>AID</u>	<u>GOCR</u>	<u>TOTAL</u>
MAG Training	\$ 633	\$ 40	\$ 673
Farm Management	584	465	1,049
Research	1,583	210	1,793
Credit	2,200	4,285*	6,485
Contingency and Inflation	<u>500</u>	<u>500</u>	<u>1,000</u>
Total	<u>\$5,500</u>	<u>\$5,500</u>	<u>\$11,000</u>

*National Banking System (SBN) funds

1. Farm Management - A systems approach will be used in the development of farm plans for approximately 4,000 target farmers. Technical assistance and training will be given to farmers through field days, meetings, short courses, and promotional activities.

2. Research - Four types of research are included in the project:

(a) Improved Plant Materials - At least three regional experimental stations will be established or strengthened. Improved plant materials for diversification will be introduced to the experimental stations for testing and multiplication for future use by farmers.

(b) Field Days and Demonstrations - Variety trials and demonstrations will be carried out on cooperating farmers' fields in support of the regional outreach program.

(c) General Research and Development - Specific problems and constraints identified in the commodity systems will be addressed in research under contracts with individuals and institutions.

(d) Farmer Group Pilot Projects - A series of specific marketing activities will focus on reduced post-harvest losses, improved product quality, and improved linkages between production and marketing opportunities. In addition, experimental activities implemented by farmer groups will address given constraints at specific points within commodity systems.

3. MAG Training - The Ministry of Agriculture will set up a Systems Committee (Implementation Unit) for overall project coordination, planning, implementation, monitoring, and evaluation; and a Marketing Unit to provide a broad range of marketing information and technology to farmers throughout Costa Rica, with particular emphasis on the needs of the smaller farmer. A variety of training for MAG staff is included, ranging from on-the-job to advanced academic training.

4. Credit - A total of about \$6.5 million (AID Loan \$2.2 million and the National Banking System about \$4.3 million) is allocated for lending purposes. Loan funds will move through the National Banking System (SBN) via constituent banks as short-term and medium-term credit to small farmers, individual or groups, participating in the integrated system approach. Two principal criteria will be used:
(a) family income of less than \$2,941 (¢ 25,000 at 8.5 to US\$1.00) per year, and
(b) farmer land holdings not to exceed 20 hectares.

The SBN will maintain close liaison with MAG technicians assisting farmers with farm plans to assure minimum delays in credit analysis, loan closing, and loan disbursements.

Purpose and Scope

The audit purpose was to assess the results to date of the Commodity Systems Project Loan No. 515-T-027, whose objective is to increase the income of those farmers possessing less than 20 hectares of land. Our aim was to determine whether the various sub-project activities were effectively and efficiently managed and to ascertain whether AID funds were expended properly and in compliance with AID's policies and procedures.

Sub-project activities selected for detailed review were based on a survey made of the overall project. The survey disclosed that limited progress was being achieved for a multitude of reasons. These are covered in the Findings, Conclusions and Recommendations section of our report. This is the initial audit of the project. The field work was done from June 23rd to August 6, 1980.

Our audit included a review of project records and correspondence files maintained by USAID/Costa Rica as well as selected records kept by the host country's Ministry of Agriculture. We discussed the project, problems, implementation status, and possible solutions to the various problems with USAID/Costa Rica, host country, and implementing organization officials. We visited four of the five Agricultural Regional Centers, and discussed the status of the project with responsible officials.

A copy of this report (in draft) was provided to USAID/Costa Rica for review and comment. Their response was received on November 18, 1980, and our report was changed and updated, as appropriate.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

On January 5, 1979, the President of Costa Rica announced the adoption of an austerity program, which included a hiring freeze on all public positions. The Mission supports these and other economic stabilization measures being taken by the GOCR; and considers them necessary if Costa Rica is to continue to make economic progress. Budget cuts and the hiring freeze made it difficult but not impossible to staff the various subsectors of this project. In fact, the Mission believes that the austerity program may work to the benefit of the project. Budget cuts in the Ministry of Agriculture have made the loan funds more important and the abolition of civil service positions in the Ministry should release personnel to fill the positions of the project.

No doubt the GOCR austerity program will be a long-term problem for the AID programs in Costa Rica, including Loan 027. The Mission reports that GOCR expenditures for infrastructure and social programs in the last several years have been expanding at a rate one-third faster than Gross Domestic Product. Public programs had to be cut back, made more efficient, or paid for through productivity in agriculture and industry.

The project goal is to increase the incomes of the poor (mostly farmers and landless workers) by bringing about an institutional change in the Ministry of Agriculture's (MAG) approach to this target group. The purposes of the project are: (a) to introduce an integrated "commodity systems" approach into the MAG development program; (b) to increase the profitability of small farmer's enterprises in selected regions; and (c) to increase employment opportunities in the five geographic areas previously selected for this project by the MAG. We found that project implementation had not advanced sufficiently to make it practicable to measure progress toward the accomplishment of goals and purposes.

Because of limited project progress, therefore, we could not assess the main objective of the project. It is premature to determine whether small farmers possessing less than 20 hectares of land have increased their income as a result of the project.

The project has suffered administrative delays because of excessive delays in meeting conditions precedent prior to disbursement of loan funds; lack of adequate counterpart funds to meet project obligations; and because the Ministry of Agriculture failed to provide adequate staff to have a full complement of qualified persons at all levels of the subproject activities -- Farm Management, Research program, MAG training, and the establishment of credit to small farmers.

These and other findings are discussed below in the appropriate subtopics:

Farm Management

Numerous corrective actions are needed to properly implement the Farm Management subsector of the project. For example, the GOCR should: (a) employ additional technical personnel to fill vacant positions in order to be properly staffed and commence effectively to implement the program; (b) provide adequate counterpart budget to the Agricultural Regional Centers to fund needed operational

costs; (c) furnish all the transportation needed and planned for this activity; and (d) exercise strict control over project costs, and report on the financial status of the project periodically.

According to the provisions of the loan agreement and project paper, the Farm Management subactivity is the centerpiece of the project effort. It is through the accomplishments of this component that the Ministry of Agriculture hopes to improve farm management techniques in the non-traditional and improved traditional crop and product enterprises of 4,000 participating small farmers.

The Agricultural Regional Centers (five centers located in diverse areas of Costa Rica) will be responsible for developing farm plans. They will decide upon the appropriate crops to be promoted, the commodity problems to be solved, and the specific types of participating farmers. The Centers, with technical assistance, will form groups of farmers interested in one commodity, and will develop and disseminate technical information to these farmer groups. Experts in farm management food technology, marketing, agro-industry, engineering, animal feeds, forest products, and crop specialists will be needed.

We visited four of the five Agricultural Regional Centers, and discussed project progress with responsible Ministry of Agriculture officials. We found that:

1. Agricultural Regional Centers -- Cartago, Puriscal, San Carlos, and San Isidro -- were not fully mobilized to implement the project. The GOCR's austerity program, which started in January 1979, is impeding progress. The GOCR budget for 1980 was only approved on June 3rd, and did not provide adequate counterpart funds for Farm Management Services to employ required personnel and fund operational expenditures. The Mission said this problem will be overcome soon now that the GOCR budget has been approved and counterpart funds are available.

2. Agricultural Regional Center officials had not received MAG instructions on National Banking System (SBN) policies to be followed with respect to the use of credit for small farmers. Specifically, responsible officials did not know: (a) the guidelines to be followed for short-term and medium-term credit use; (b) the minimum loan amounts; and (c) loan terms, interest rates, and grace periods.

During our discussions with SBN officials, we learned that policies had been formulated. However, credit information had not been distributed pending approval from the Controller General of Costa Rica to implement these credit policies. In response to our draft report, USAID/Costa Rica said that during October 1980 the five Agricultural Regional Centers participating in the project received instructions from the MAG specifically outlining eligibility criteria.

3. Procurement of vehicles has been very limited because of the GOCR austerity program. During our field visits to Agricultural Regional Centers, we were told that transportation vehicles are urgently needed. Farm Management officials were hampered in identifying qualified small farmers needing credit assistance, or coordinating demonstrations to train farmers in non-traditional product cultivation. In addition, the Ministry of Agriculture will be hiring more personnel in August.

Ministry of Agriculture officials informed us that seven motorcycles were purchased in lieu of 4-wheel vehicles. None of the motorcycles had been

distributed to the Agricultural Regional Centers that we visited. We checked and found that all of them were still in San Jose because the Implementation Unit had not issued distribution instructions.

4. According to the Loan Agreement, field trials of a planned 100 variety trials and demonstrations are to be carried out on cooperating farmers' fields in five regions of Costa Rica. Meetings, farmer training, and other extension activities are to help and motivate small farmers.

We found that, with the exception of some controlled planting of fruit tree seedlings in the Cartago region demonstration farm, no field trials or demonstrations had been carried out. Responsible regional center officials told us that possibly some work in this area may start in 1981 when credit will be available to farmers.

In Puriscal, the Center has had no opportunity to conduct field trials because there are no seeds or transport available yet. Three employees have been hired to implement loan activities. The Mission feels this is a good start. The Mission also believes that the late approval of the Costa Rican budget on June 3, 1980, was a major factor in causing delays. Our audit verification showed this to be true. The Mission advised us in their response to our draft report that field trials now were being carried out in all but one of the Agricultural Regional Centers. In addition to Cartago, Perez Zeledon was making field trials on peanuts and coastal beans; Puriscal recently began trials on mangoes; and the Dry Pacific Center has established a fruit nursery.

5. The Farm Management budget calls for about \$1.0 million expenditures (\$584,000 from loan funds and \$465,000 from counterpart funds). We requested financial status reports from the Ministry of Agriculture. However, the GOCR's project management needs to set up an adequate control system for counterpart expenses. After considerable effort the Implementation Unit of the Ministry was able to give us only partial information about 1979 and 1980 expenditures.

Much improvement is needed in GOCR financial management. Without strict control over expenses, the cooperating country will suffer unnecessary expenses. We estimate the extra cost to the Government to exceed \$2.0 million in counterpart funds because the project is already two years behind schedule. We found lack of financial control over GOCR counterpart funds in every operating unit of the project.

In our draft report, we made three recommendations in this section. Since the USAID/Costa Rica response showed satisfactory compliance, we have included the recommendations along with the Mission's comments for the reader's information only:

Recommendation: USAID/Costa Rica should play a more active role in encouraging the GOCR to employ additional personnel needed for the Ministry of Agriculture's Farm Management program.

Mission Comments: "The MAG recently assigned five agronomists to work at the Agricultural Regional Center level on activities exclusively related to Farm Management and Credit. The appointment of these additional personnel should greatly enhance progress toward project implementation at the field level".

Recommendation: USAID/Costa Rica should see that transportation needs of the five Agricultural Regional Centers are immediately furnished, and adequate counterpart budget is established to fund needed operational costs.

Mission Comments: "The seven motorcycles referred to in the draft have now been distributed to the Agricultural Regional Centers. The Mission and the Implementation Unit have discussed buying even more motorcycles because the GOCR recently established regulations which prohibit the importation of vehicles having engines with more than 1,200 cubic centimeters displacement. The principal operating cost constraint is the gasoline allotment and the use of motorcycles, as opposed to 4-wheel drive vehicles, will allow existing gasoline allotments to go further. The Mission has communicated its concern that Agricultural Regional Centers urgently need transportation in a letter dated October 31, 1980. The Mission will continue to closely monitor the transportation and Agricultural Regional Center operating cost situation".

Recommendation: USAID/Costa Rica should require the GOCR's Ministry of Agriculture (Project Implementation Unit) to establish strict control over costs, and report the financial status of the project periodically.

Mission Comments: "The Mission project manager expressed his concern in writing to the MAG and emphasized the need for strict control over project expenses, including both loan and counterpart funds. In a meeting held October 28, 1980, the Mission Director also expressed his concern directly to the MAG Minister. The Minister assured that steps would be taken to set up an adequate control system for project expenses. Furthermore, by November 1980 the Implementation Unit promised to submit a complete financial status report covering all loan expenditures".

Research

Not much of the Research element of the project has been implemented. Perhaps it will take another year of operations before any measurable accomplishments can be made.

The Loan Agreement shows that the Research element will be implemented by the MAG through the Directorate of Research which has been in existence for many years. This organization is expected to coordinate the execution of loan research activities with the Implementation Unit.

The Research element of the project is the second most important subactivity. It will involve the introduction of large quantities of improved plant materials for diversification. Different species, varieties, clones and populations will be collected to form foundation plantings for observation, testing and multiplication in appropriate ecological areas of Costa Rica.

In support of the regional outreach program and to motivate small farmers, 100 variety trials and demonstrations will be done in each of at least five regions. A variety of problems identified in the integrated systems approach will be addressed through this subelement. The trials and demonstration will be held on cooperating farmers' fields and will serve as the location for field days, meetings, farmer training, short courses, or other extension activities.

A series of specific marketing activities is to take place to increase the value added to agricultural output at the farm level and/or reduce the value lost between farm and market. The subactivity was to be completed within 18 months of the signing of the loan agreement.

Besides the specific marketing subproject activity, a number of other experimental research and development activities will be attempted. While subactivities will be implemented largely by farmer groups, continued technical assistance and guidance will be provided by Agricultural Regional Center technicians during the life of the subproject.

The project budget calls for AID loan funds to provide the Research element with a total of \$1,583,000. In addition, a total of \$210 thousand is shown as being provided from GOCR counterpart funds: \$167 thousand for personnel costs, utilities, and material and supplies for three experiment stations; and \$43 thousand for salaries and operating costs of Ministry of Agriculture personnel in reviewing, approving, and implementing pilot marketing activities.

As of June 30, 1980, no costs had been reimbursed from AID Loan funds except for an advance of ₡ 100,000 (\$11,765 at ₡ 8.5 to US\$1.00). USAID/Costa Rica has advised us that in August \$25,000 was reimbursed to the MAG. Also, according to MAG estimates, research funds of about \$375,000 were reserved for specific project expenditures. The principal reason why very few research funds were disbursed is because the MAG's 1980 budget was not approved until early June 1980.

Our review of GOCR counterpart expenditures disclosed that ₡ 46,162 (\$5,431 at ₡ 8.5 to US\$1.00) has been spent in the first six months of 1980 for salaries, special services, and travel of research personnel. Prior year expenditures were ₡48,425 (\$5,697 at ₡ 8.5 to US\$1.00). The problems of accounting and reporting of counterpart funds have been reported elsewhere in this report.

1. Staffing

Budget constraints resulting from the GOCR's austerity program have hampered hiring in the MAG's Directorate of Research. As of August 1, 1980, the Directorate of Research had four staff members versus a need for nine. Approval was obtained recently to fill the five vacancies, and the people have been selected but not yet hired.

2. Status of Implementation

The work plans of the Research element, as incorporated in the "Work Plan for 1980", have not been undertaken for the most part. Budget constraints brought on by the GOCR's austerity program and late approval of the GOCR budget on June 3, 1980, are the principal causes. As a result, much of the implementation planned for in 1980 will have to be reprogrammed in 1981.

Four types of research are included in the project:
(a) development of improved plant materials; (b) field trials and demonstrations;
(c) farmer group pilot projects; and (d) general research and development.
Field trials and demonstrations are funded under the Farm Management element of

the project and implementation status is covered there. The status of the other three types of research is as follows:

a. Development of Improved Plant Materials

None of the estimated \$200 thousand for the purchase of equipment (such as tractors and seed cleaners) had been spent. Tractors and other equipment were urgently needed to implement the Field Trials and Demonstrations element of the project. The Implementation Unit was preparing invitations-for-bid on some tractors and other equipment. On September 11, 1980, the MAG received more than \$75,000 of bids for the purchase of tractors, irrigation equipment, and other machinery.

The estimated \$200 thousand for planned improvements or construction of three experimental station facilities (such as buildings, water systems, and fences) had begun. The three stations called for by Implementation Letter No. 11 have been established. Also, the Implementation Unit contracted with Arinsa, S.A. on June 19, 1980, to prepare plans and specifications for two greenhouses, three warehouses, and three nurseries for multiplying rootstocks.

The purchase of an estimated \$85 thousand of seed trees, bed-wood, root stock, etc. had not begun. The collection of different species of plants, varieties, clones, and population to form foundation plantings for observation, testing, and multiplication in appropriate ecological areas of Costa Rica had not begun.

The search for improved plant materials on a world-wide basis, particular in those countries with environments similar to Costa Rica, had not begun. When these activities will get underway is indefinite according to the MAG's Directorate of Research.

There have been no requests received by the USAID/Costa Rica Controller to reimburse the GOCR for any operating costs of the experiment stations. The project budget called for AID to finance an estimated \$156 thousand for such costs.

In response to our draft report, the Mission provided some additional information. "For example, MAG used counterpart funds to support loan project activities at two experiment stations, Sanatorio Duran (vegetables) and Enrique Jimenez Nuñez (mango, papaya, and citricos) while awaiting GOCR approval of the entire 027 budget. The fact that no reimbursement requests have been submitted to AID resulted because approval of experiment station expenditures has still not been obtained by MAG from the GOCR's Controller General's office and is not yet published in the official government newspaper as required by Costa Rican law. This approval process, regardless of how small the amount, normally requires 3-4 months to complete. This loan expenditure approval process applies, with the exception of SEPSA funds, to all project costs and causes a lag between the time MAG makes expenditures and then bills them to the USAID."

b. General Research and Development

An estimated \$425 thousand has been planned for institutional contracts. There are two such contracts for a total cost of \$77,570 going through the approval process at the GOCR's Controller General Office. An institutional contract with the Research Center for Food Technology in the amount of \$109,915 was signed on January 30, 1980, to develop two models of agro-industries in central Costa Rica, and to start a model of agro-industries in the Chorotega region. Contracts with other institutions mentioned in the Loan Agreement (CARIE, CIGRAS, Tropical Science Center, and Tropical Wood Products Laboratory) are under review by the Implementation Unit.

None of the estimated \$44 thousand for 22 person/months of personal services contracts had been spent as of June 30, 1980. USAID/Costa Rica has advised us that since then approximately \$30,000 has been disbursed for personal service contracts for market, crop, and administrative studies.

c. Farmer Group Pilot Projects

The 10 pilot marketing activities planned at a cost of \$160 thousand have not been started. These were supposed to be completed within the first 18 months of the project. Two projects, of the 10 planned, have been approved and are in the process of being established. They are a Fruit Processing Plant in Oretina and a Wood Processing Plant in Turrialba.

As stated in the Project Paper, 60 subprojects at an estimated cost of \$313 thousand were planned for implementation in at least five regions of the country during the last three years of the project. The activity had not been started. In their response to our draft report, USAID/Costa Rica said, "Since the entire project is delayed there is no reason to believe that this particular activity will proceed as scheduled".

Recommendation No. 1

USAID/Costa Rica should request the Ministry of Agriculture's Implementation Unit, in cooperation with the Directorate of Research, to prepare a definite plan for implementing the Research element of the Project, with particular emphasis on those activities not yet begun.

In our draft report, we recommended that USAID/Costa Rica should request the Ministry of Agriculture's Implementation Unit to expedite procurement of tractors and other equipment urgently needed for field trials and demonstrations. In a letter dated October 31, 1980, the Mission requested the Implementation Unit to expedite procurement of tractors and other agricultural equipment urgently needed for trials and demonstrations. The Implementation Unit recently informed USAID/Costa Rica that a number of bids for the purchase of agricultural equipment and machinery were submitted to the GOCCR's National Procurement office. Therefore, we have deleted this recommendation.

Credit

The largest element of the project in terms of dollars programmed is the \$6,485,000 to provide short-term and medium-term credit to small farmers. From this amount the Government of Costa Rica is to contribute counterpart funds in the amount of \$2,285,000. The National Banking System is to contribute \$2,000,000, and the AID Loan No. 515-T-027 in dollar funds \$2,000,000. Because Condition Precedent 5.2, which deals with disbursements for credit operations, has only been recently met (July 16, 1980), this activity has been limited.

The National Banking System (SBN) consists of a central bank, four GOCCR-owned commercial banks, one GOCCR-owned savings and loan bank, and four private banks. The SBN is under the control and direction of the central bank.

There were two causes delaying implementation of the credit activity, as well as other phases of the project: First the GOCCR austerity program which started in January 1979; and second the slowness of the GOCCR in approving budgets. The results have been extensive delays to the program. The project has already been extended one year, and it was anticipated that another year or more would be required for completion. Thus, the project will run until December 1983 or longer.

We visited the National Banking System (SBN) offices and discussed the status of the credit activity with responsible officials. We were informed that the SBN had completed the required policy to provide short-term and medium-term credit to farmers participating in the project. The policy statement and instructions were awaiting Controller General of Costa Rica approval. In response to our draft report, USAID/Costa Rica informed us that it has been determined by the Controller General that its ratification was not required. Credit disbursement to small farmers thus can begin immediately.

SBN agreed to provide the GOCCR's portion of counterpart funds (\$2,285,000). According to the central bank's legal department, such an agreement requires ratification by the National Legislative Assembly. After ratification, the total counterpart funds of \$4,285,000 will be set up in a special account for Loan 515-T-027 project credit activity. Banking officials estimated that funds would be available for lending to farmers by August 1980.

We discussed the availability and actual placing of credit for the 1980 planting season with various Ministry of Agriculture and USAID/Costa Rica officials. The responses to our questions clearly indicated that probably only a few loans will be made during the current year. The concensus of the parties involved is that the credit element will begin in earnest starting early in 1981. This is contingent upon: (a) advertising of the availability of credit; (b) selection of the farmers to participate in non-traditional farm production; and (c) desire of the farmers to enter into long-term cultivation.

The SBN, in our opinion, has good capability to implement the credit aspects of the project. This banking system has had adequate prior experience in handling agricultural loans. World Bank, IDB, and other foreign national loans have been channeled through SBN.

We feel, however, that much more should be done by the Implementation Unit of the Ministry of Agriculture and USAID/Costa Rica. Close coordination and monitoring of the program is essential. Selection of participating farmers and granting of credit to farmers should be closely monitored.

In our draft report, we recommended that USAID/Costa Rica should assist the Ministry of Agriculture Implementation Unit: (a) in the coordination of the multiple project activities; and (b) in establishing a system for the proper selection of participating farmers and the monitoring of credit. The Mission's response to the draft report documents a number of positive events that have occurred recently to justify dropping this recommendation.

The response said, "MAG and AID contracted for the services of a farm management specialist who is providing technical assistance to MAG personnel in the preparation of farm plans which will be used as a basis for obtaining credit under the loan project; (b) a project coordinating committee, with representatives from the central bank, the participating commercial banks, AID and MAG, was formed on October 20 to serve as a steering group for project implementation; (c) AID and MAG met with representatives from the National Bank of Costa Rica's regional office to discuss eligibility criteria for credit to small farmers. Similar meetings with other participating commercial banks are also planned; (d) the MAG recently appointed one agronomist in each of the five project regions to deal with credit and farm management matters; and (e) each of the commercial banks received copies of instructional guidelines to be used in the disbursement of credit funds to small farmers."

Implementation and Marketing Units

The key implementing organization for Loan 515-T-027 activities is the Ministry of Agriculture's (MAG) Implementation Unit. It is to provide overall project coordination, planning, implementation, monitoring, and evaluation; and oversee all financial, technical, and administrative aspects of the project. It will also be responsible for contracting specialists to work in new crops and other areas of assistance.

Some specific functions of the Implementation Unit are: (a) authorizing agreements or contracts with regional and national institutions or individuals to assist in various planning, investigatory, or implementation phases; (b) reviewing and approving plans for subproject activities developed at the local level; (c) planning and overseeing the making of a baseline study for the project to be used in the evaluation plan; and participating in the annual and final evaluations of the project; and (d) preparing all required reports for other GOOCR offices and for AID.

The Marketing Unit is to provide a broad range of marketing information and technology to farmers throughout Costa Rica, with particular emphasis on the needs of small farmers. This unit will: (a) plan and develop market activities; (b) develop training materials; (c) provide training to MAG technicians; and (d) provide general backstopping to MAG personnel in marketing technology. Within the unit will be a Market Information Subunit which will gather, analyze, and disseminate daily information on availability and prices of major agricultural commodities.

1. Staffing

Staffing of both the Implementation and Marketing Units has been slow and has resulted in, or contributed to, delayed implementation of the project. However, it is expected that this problem will be resolved shortly. As of August 1, 1980, the staffing was:

	<u>Planned</u>	<u>Actual</u>
Implementation Unit	11	6
Marketing Unit	8	4

Until recently the GOOCR austerity program, which began in January 1979 and included a general hiring freeze, has made it difficult to staff the Implementation and Marketing Units. Both these units were established as one of the Project's conditions precedent. To alleviate the hiring freeze the Mission approved the use of loan funds to finance personnel costs on a one-year basis. However, GOOCR regulations prevented this solution from taking place. Until recently, these regulations imposed restrictions on the spending of loan funds as well as counterpart funds to hire new personnel. But now the GOOCR has declared that the hiring prohibition does not apply to additional staff assigned to work on Loan 515-T-027 activities.

2. Implementation Unit

As of August 1, 1980, the Implementation Unit was only about half staffed. Six of 11 planned positions were filled. It had been planned that all positions would be filled by August 1st., but this was not accomplished. The five additional people had been selected but approval was needed from both the GOOCR Ministry of Finance and the Controller General. Approval was expected soon.

The Implementation Unit began operations in November 1979, when the Director of the unit was hired. The major problem of this unit, besides staffing, has been one of coordination. Better coordination with the other project units is needed. We believe that much of the problem can be attributed to the

formation of a new organization and the difficulties associated with beginning new activities. Nevertheless the lack of coordination has undoubtedly been the cause of some delayed implementation.

There are seven major components or elements involved with Loan 515-T-027: Implementation, Marketing, and Farm Management Units; Directorate of Research; the MAG Planning Office (SEPSA); National Banking System (SBN); and USAID/Costa Rica. To date, coordination between these components has been on an informal basis, and relatively infrequent. Most coordination activity has been between the USAID Project Manager and the Director of the Implementation Unit; there has been little coordination between the Implementation Unit and the other components. No regular formal meetings of all components have been held.

In our draft report, we recommended that USAID/Costa Rica should request that the Loan 515-T-027 Implementation Unit schedule regular monthly meetings of all project components to review and report on: Project Status and Implementation Progress; MAG Training Activities for Loan 515-T-027; Problems and Delays; and Proposed Actions.

In a letter dated November 3, 1980, the Mission requested that the Implementation Unit schedule regular monthly meetings which would include representatives from all project components. The Mission said this was also discussed directly with the Minister of Agriculture. Therefore, we have dropped the recommendation from our report.

3. Marketing Unit

The Marketing Unit has not had the personnel to handle the activities assigned. Until June 5, 1980, the unit had two to three people versus eight positions. As of August 1, 1980, four of the positions were filled and a Peace Corps volunteer was also providing assistance. This unit's subdirector told us they expect to hire three additional people soon.

An important task of the Marketing Unit is to collect needed data from field activities for marketing studies and analysis. The Marketing Unit expected to hire 10 surveyors in July on a temporary basis to collect field data. To date this has not been done because of a shortage of qualified personnel.

The Marketing Unit does not have its own office space, although office equipment and furniture have been purchased from counterpart funds. Presently the unit shares office space with other MAG personnel.

The Marketing Unit has no transportation. As a minimum, it has a requirement for two 4-wheel vehicles and three motorcycles. They have requested the Implementation Unit to obtain these vehicles with loan funds. The Implementation Unit was planning to purchase the needed vehicles.

As a result of the general situation in the Marketing Unit, little has been done to focus on the resolution of marketing and processing constraints to small farmer crop development. Unless this unit becomes fully operational, cultivation and processing of non-traditional agricultural products will be hampered in the long term. The Mission's comment was that it believed the Marketing Unit was well underway in beginning to implement the project.

In our draft report, we recommended that USAID/Costa Rica should coordinate with appropriate MAG officials and the Marketing and Implementation Units and request action to resolve the Marketing Units' problems of staffing, office space, and transportation. The Mission advised us that in early September the MAG moved into its own building. As a result, the Marketing Unit obtained its own office space as well as new furniture. Problems of staffing and transportation deficiencies were discussed directly with the Minister by the Mission Director during a meeting held on October 28, 1980. USAID/Costa Rica reports that the Minister assured that every effort would be made to resolve these problems as quickly as possible. The Mission said it would watch closely to ensure that the remaining problems are in fact resolved. Thus, we have dropped this recommendation from our report.

Training and Technical Assistance

The GOCR's Ministry of Agriculture had not established a realistic approach to expedite scholarships for long-term training for project participants. There was a substantial lag in scheduling long-term training; therefore, the benefits to be derived from participant training will not be timely and in the long run this may prove detrimental to the project.

In addition, the Ministry of Agriculture had not established a work plan for training the personnel who will train and assist the small farmers in cultivation of non-traditional products. Unless this is done in a timely manner, delays will occur that may be detrimental to the project.

According to the Loan Agreement, the budget allocated for training and technical assistance is estimated to reach \$673,000 (\$633,000 from loan funds and \$40,000 from counterpart). The implementation of this phase of the project is the responsibility of the Planning Office of the Ministry of Agriculture-Secretaria Ejecutiva de Planificacion Sectorial Agropecuaria y de Recursos Naturales Renovables (SEPSA).

Findings pertaining to these activities are as follows:

1. Training of Ministry of Agriculture personnel was behind schedule. Most of the training should have been done during the first two years of the project. Because of delays in other phases, the technical assistance element of the project has also suffered. The Instituto Interamericano de Ciencias Agrícolas (IICA), under an already existing contract, will conduct the required training. Therefore, it is expected that soon the project will accomplish its intended goal to instruct about 200 Ministry of Agriculture trainees. (IICA has a contract under another AID loan).

2. About \$160,000 of the budget amount was allocated for scholarships--8 Master of Science degrees and 20 Bachelor of Science degrees. The participants will specialize in production, processing, and marketing. At the time of our audit, only seven persons (four for Master of Science degrees and three for Bachelor Degrees) were receiving long-term training. Consequently, much effort is needed to select and facilitate scholarships for long-term training.

3. SEPSA's work plan for training Agricultural Regional Center personnel had not been implemented. Farm management training of selected farmers has also been delayed. Training of trainers was of urgent importance in order to reach the farmers more expeditiously.

4. Significant accomplishments have been made by SEPSA personnel in preparing farm management instructions. The instructional materials will serve as the basis for training participating farmers in producing non-traditional agricultural products. There were 12 such instructional studies, covering 12 agricultural products. These will soon be submitted to USAID/Costa Rica for review and approval prior to publication.

5. SEPSA specialized personnel have also completed eight studies relating to marketing of products and extension training. These were in draft pending USAID/Costa Rica approval.

Recommendation No. 2

USAID/Costa Rica should assist the GOCR's Ministry of Agriculture to expedite scholarships for long-term training for project participants in order that their training will be beneficial to the project.

Mission Comments: "Action on this recommendation is pending. The USAID project manager discussed the training component with the Ministry's project coordinator and proposed that a training schedule covering long-term and short-term training for the remainder of 1980 and 1981 be prepared".

Recommendation No. 3

USAID/Costa Rica should request the GOCR's Ministry of Agriculture to establish a work plan for training the personnel who will train and assist the small farmers in cultivation of non-traditional products.

Farm Survey

To establish an integral system for planning future project activities, and to accumulate base-line data needed for project evaluation, the Commodity Systems project has allocated \$78,000 for Farm Survey activities. The first evaluation of the Project was scheduled to begin in August 1980, but actually began on November 3, 1980. The responsibility for this subactivity has been undertaken by SEPSA of the Ministry of Agriculture.

At the time of our audit, we found that SEPSA was actively engaged in the Farm Survey activities. Since February 1980, when the surveys started, SEPSA has surveyed about 2,000 farmers of which 970 have been completed and accepted. SEPSA was in the process of publishing the results, and USAID/Costa Rica will soon receive a copy of the report.

Procurement

Vehicles and spare parts costing an estimated \$282,000 (\$200,000 for vehicles and \$82,000 for spare parts) will not be purchased from GOCR counterpart funds because of the austerity program.

As an interim solution to alleviate the transportation problem, the Ministry of Agriculture proposed a program to reimburse personnel 1.87 colones per kilometer for using their own vehicles for project purposes. USAID/Costa Rica approved this plan on April 24, 1980. This idea, however, has not worked very effectively. We verified the shortcomings of the transportation needs during our field visits. We were told that employees of the Ministry of Agriculture were hesitant to use their own vehicles because they were not being reimbursed for mileage. For example, during our visit to Puriscal we found that the Farm Management group was not being reimbursed. Therefore, transportation remains a major problem, and this was hampering implementation of the project.

Approximately \$200,000 was set aside from loan funds to purchase farm equipment and implements (such as tractors, seed cleaners, etc.) in order to assist in the field trials and demonstrations. However, we found that only one tractor was purchased. Lack of timely procurement will also hamper implementation.

About \$85,000 was set aside from loan funds to purchase seed trees, bedwood, root stock, etc., in order to assist in the Research program of the project. Only minimal quantities have been purchased. Unless the Ministry of Agriculture Implementation Unit sets up a firm plan to effect these procurements, the project will be disorganized because of lack of physical inputs to the program.

Recommendation No. 4

USAID/Costa Rica should assist the Ministry of Agriculture Implementation Unit to formulate a definitive plan to procure the required physical inputs to the project.

Mission Comments: "In the October 28 meeting with the MAG personnel, the USAID discussed problems concerning the procurement of commodities. The USAID requested that MAG formulate a definitive plan to procure the required physical inputs for the project. Until the procurement plan is submitted by the MAG, this recommendation should be retained."

Project Monitoring

The USAID/Costa Rica's monitoring of Loan 515-T-027 activities could be improved. As yet there has been no project evaluation, although one is planned to start soon. Financial monitoring of GOCR counterpart funds has been inadequate. Better coordination of GOCR components is needed.

The USAID/Costa Rica's Rural Development Office has primary responsibility for monitoring the project's implementation, assisted by the Loan Office and the Controller. Each of these offices will review procurement proposals, plans and specifications for commodity procurement, and training and technical

assistance. Monthly project status meetings will be held to discuss progress, and to track compliance with the provisions and purposes of the loan agreement.

USAID/Costa Rica's project management has identified and addressed many of the project's significant problem areas. We recognize that the project was slow in getting started for reasons already discussed: difficulties in meeting some Conditions Precedent; the GOCR austerity program and budgetary constraints. Nevertheless the progress and accomplishments in the last six months have moved the project to the point where implementation should accelerate significantly. In particular there were two events, the approval of the GOCR budget on June 3, 1980 (which included Loan 515-T-027), and the approval of the Convenio (Agreement) between the National Banking System and the Ministry of Agriculture regarding the Loan 515-T-027 credit component on July 16, 1980, which should result in marked improvement of the project implementation rate.

Despite the fact that the Mission has made every effort to assist the Ministry of Agriculture, we believe that monitoring can be improved in three areas: (1) project evaluation; (2) financial monitoring of GOCR counterpart funds; and (3) coordination of the several GOCR entities involved in Loan 027 activities. The problem areas of financial monitoring and coordination of project activities were discussed earlier in this report under the Farm Management and Implementation Unit sections, respectively. Appropriate recommendations were made there.

In the matter of project evaluation, we believe that regular evaluations are a key element of the AID management process. They enable management to appraise and measure progress versus established goals and objectives. The Mission told us that an evaluation of the project began on November 3, 1980. This will be the first annual evaluation even though the time elapsed since the signing of the loan agreement on March 15, 1978, was more than 30 months by November 1980. We are making no recommendation since an evaluation has commenced.

LISTING OF RECOMMENDATIONS

Recommendation No. 1

USAID/Costa Rica should request the Ministry of Agriculture's Implementation Unit, in cooperation with the Directorate of Research, to prepare a definite plan for implementing the Research element of the Project, with particular emphasis on those activities not yet begun.
Page No. 10

Recommendation No. 2

USAID/Costa Rica should assist the GOCR's Ministry of Agriculture to expedite scholarships for long-term training for project participants in order that their training will be beneficial to the project.
Page No. 15

Recommendation No. 3

USAID/Costa Rica should request the GOCR's Ministry of Agriculture to establish a work plan for training the personnel who will train and assist the small farmers in cultivation of non-traditional products. Page No. 15

Recommendation No. 4

USAID/Costa Rica should assist the Ministry of Agriculture Implementation Unit to formulate a definitive plan to procure the required physical inputs to the project. Page No. 16

APPENDIX B

LISTING OF REPORT RECIPIENTS

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