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FROM - **AID/Washington**
E.O. 11652: **N/A**
SUBJECT - **Evaluation Plan, Loan T-025, Rural Development Program**

DATE SENT
10/17/75

REFERENCE -

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Article 3: Section 3.01(c) requires "a comprehensive evaluation Plan for the Program including, inter alia, sufficient baseline data, overall Program and Project targets, interim progress indicators and discussion of the expected end of project status."

SAN
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For the purpose of keeping the Agency's evaluation records current, and to the extent that the above requirements have been satisfied, the Mission is requested to provide copies of the relevant materials to LA/DP/EB. If the Plan has not yet been completed, please forward it as soon as it becomes available.

MAW

PAGE 1 OF 1 PAGES

DRAFTED BY <i>CS</i> CSchwab:mvw	OFFICE LA/DP/EB	PHONE NO. 21737	DATE 10/14/75	APPROVED BY LA/DP/EB:CSchwab
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LA/CEW:Thoben (info)
LA/DR:EGomez
PFC/DPEB:HTurner (Info)

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PROJECT EVALUATION SUMMARY

1. Mission or AID/W Office Name USAID/Costa Rica			2. Project Number 515-T-025		
3. Project Title Rural Development Program					
4. Key Project Dates (Fiscal Years)				5. Total U.S. Funding Life of Project	
a. Project Agreement Signed 11/74		b. Final Obligation	c. Final Input Delivered		\$7,900,000
6. Evaluation Number as Listed in Eval. Schedule II. 2		7. Period Covered by this Evaluation From: 1/75 To: 6/77 Month/year Month/year		8. Date of this Evaluation Review Aug. 19, 1977 Month/year	
9. Action Decisions Reached at Evaluation Review, including items needing further study (Note--This list does <u>not</u> constitute an action request to AID/W. Use telegrams, airgrams, SPARS, etc., for action)			10. Officer or Unit responsible for follow-up		11. Date action to be completed
1. Goal-Level Evaluation Plan should be prepared			Mission Evaluation Officer		November 1977
2. Logical Framework should be revised			Project Manager and Mission Evaluation Officer		November 1977
3. INFOCOOP credit components to be merged			Project Manager and Controller		October 1977

12. Signatures:

Project Officer

Mission or AID/W Office Director

Signature

James E. Hawes

Signature

Joe J. Sconce

Typed Name James E. Hawes

Typed Name Joe J. Sconce

Date

Date

Clearances: CDO:CRConnelly *CR*
PO/ECON:CAPeasley *CP*

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13. SUMMARY --

As of July, 1977 only 18 percent of the loan's \$7.9 million had been disbursed. This slowness has been due to a number of factors -- procedural delays on the loan's overall evaluation plan, difficulties meeting Conditions Precedent, problems in publishing the MAG's budget in La Gaceta, and delays in acquisition of technical assistance for INFOCOOP.

Loan implementation has accelerated. With assistance from Practical Concepts, Inc. contractor, INFOCOOP is working on the development of subprojects for some \$3 million. The MAG is in the process of budgeting for and planning TA activities financed with loan funds. Eight Projects-by-Campaign have already begun, and USAID is now reviewing plans for eight new projects.

14. EVALUATION METHODOLOGY --

There was no approved Evaluation Plan for the Loan; nor was there an agreed upon Logical Framework. However, going back to the original Loan Agreement, the Mission constructed a Log Frame which served as the basis for this evaluation.

Evaluation meetings were held with officials from MAG and INFOCOOP, and site visits were made by Rural Development Office staff to individual Projects-by-Campaign and cooperative

The following individuals participated in the evaluation:

MAG: Ing. Francisco Servilla, Conductor for Projects-by-Campaign
 Ing. Luis Bolaños, Deputy Coordinator Projects-by-Campaign
INFOCOOP: Lic. Gonzalo Aguilar, Chief, Department of Planning
 Lic. Franklin Piles, Chief, Finance Department
 Lic. Jaime Schmidt, Chief Auditor
USAID: James E. Hawes, Rural Development Officer
 John A. Fasullo, Rural Development Assistant
 Vicky Ramirez, Assistant Capital Development Officer
 Carol A. Peasley, Program Economist

15. Documents to be revised to reflect decisions noted page 1 (other side):

Project Paper (PP) Logical Framework CPI Network Financial Plan
 PIO/T PIO/C PIO/P Project Agreement Other
 This evaluation brought out ideas for a new project --
 a Project Identification Document (PID) will follow.

I. BACKGROUND AND PROGRAM DESCRIPTION

The Ministry of Agriculture and INFOCOOP components of Loan 025 are part of a larger loan program aiming to increase the income and improve the living standard of small farmers. The three loan components total \$7.9 million: Agriculture Services Project (\$1.3 million); Cooperative Development Project (\$3.2 million); and Rural Municipal Development Project (\$3.4 million).

The loan was conceived as a direct follow-on to the earlier Agricultural Development (022) and Municipal Development (023) loans and was designed to address specifically selected aspects of the sector which contribute most directly to servicing the small farmer. As such, it was designed to "...concentrate on improving the institutional capability of key organizations in the selected areas of agricultural services, cooperative development, rural infrastructure, marketing and coordination within the agricultural sector." (Annex I of Loan Agreement, p. 1). More specifically, the two agricultural components of the loan were designed "to improve Ministry of Agriculture (MAG) capability to better serve the agricultural sector with special emphasis on the small farmer and overall sectoral coordination and policy formulation through the National Agricultural Council (CAN)" and "to increase the ability of the Cooperative Institute (INFOCOOP) and the rural cooperatives to provide a wider range of production and marketing services."

II. EVALUATION FINDINGS

A. External Factors

There have been no major changes in external factors or in the basic assumptions made at the time of project design. The Government of Costa Rica is still strongly committed to improving the socio-economic position of the country's small farmers.

However, a number of unanticipated events and problems have resulted in slow project implementation. Both USAID and the GOCR were responsible for these early difficulties: e.g., problems in preparing and negotiating evaluation plans; stringent conditions precedent prior to disbursement of loan funds; failure by the GOCR to request timely publication of its budget in La Gaceta; relative lack of attention to the loan by the previous Minister of Agriculture who was engaged in political campaigning; and changeovers in key GOCR and USAID staff.

Original assumptions relating to coordination of the three project components and the role of the National Agricultural Council (CAN) in project coordination were also unrealistic. The CAN has not

prepared "common annual execution plans for the Program," and is probably in no position to exercise this kind of coordinating authority over the three implementing institutions, MAG, INFOCOOP, and IFAM, each of which has unique interests and objectives beyond those which are held in common. While the Loan will continue to increase project complementarity, the original objective of project coordination was based on an unrealistic assumption and is therefore not achievable in this Program.

B. Goal Level

As stated in the Loan Agreement, the Sector Goal is "to increase the income and improve the living standard of small farmers." Official project documents do not contain any goal-level baseline data, targets, or evaluation plan. However, recognizing the need for Program impact/evaluation capability, the Mission has since FY75 financed several activities (primarily through its Agriculture and Natural Resources Grant Project) which provide the required benchmark data and monitoring capability. First, the Mission contracted with the local consulting firm "La Academia de Centro América" (\$80,000) to do a Target Man Profile. Academia developed the study methodology; contracted with the University of Florida to design a program, match data from the 1973 Agriculture, Population, and Housing Censuses, and tabulate the data; and prepared a final analytic report, Poverty in Costa Rica. This study identifies the Costa Rican population which falls below AID/M's poverty benchmark of \$150 per capita income in 1969 prices, showing geographic concentration and various socio-economic and demographic characteristics of poverty. Secondly, through its agricultural grant project (N°122), the Mission has financed the development of an area frame sample system (\$33,800). Work is still in process, but the completed system should allow the GCCR to improve its estimates of agricultural production and to monitor progress of the rural poor.

Using the above studies, the Mission will prepare a goal-level evaluation plan for subsequent evaluations. Baseline 1973 data will be stated, and targets will be specified to reflect the Mission's range of rural sector activities. Data generated in evaluation of this project will also be used in evaluating planned FY79 and FY80 agricultural sector activities.

While unable in this evaluation Report to show specific progress towards improving the incomes and living standards of the target group -- primarily because of no baseline data -- the project has nonetheless focussed on the small farmer target group. The Projects-by-Campaign cover small farmer crops; the majority of agricultural cooperative members are small farmers; and IFAM sub-loans are going to rural periphery areas in which small farmers form the nucleus of the population.

C. Purpose-Level

Looking first at the Agricultural Services Component, the project purpose is "to improve the Ministry of Agriculture's (MAG) capability to serve the agricultural sector with special emphasis on the small farmer and overall sectoral coordination and policy formulation through the National Agricultural Council (CAN)."

Progress towards individual End of Project Indicators has been as follows:

1. The capacity of MAG in planning and developing Projects-by-Campaign has improved to the point that it can program and implement more than 19 projects throughout the country.

Design and implementation of Projects-by-Campaign have been slow, although a system has evolved. Plans for the Projects-by-Campaign are initiated at the local level in response to problems experienced by small farmers in the region. The specific project plans are developed by CARs passed to MAG and USAID for approval and then returned to the CARs for implementation.

The MAG CARs which are responsible for project design and implementation are assisted by both administrative and technical staff, some of whom are Extension Service personnel. In most cases, demonstration projects are conducted by farmers in their own fields, although farmers' land is rented for fruit tree nurseries. The farmers who own these lands, however, are involved in the nursery operations, and it is anticipated that following project completion, these farmers will continue operating the nurseries for themselves and neighboring farmers.

While eight Projects-by-Campaign have begun, implementation has been slow. Much of the delay has been due to the GOCR's cumbersome financial management system and the particular problems of disbursing funds to the CARs. These problems relate primarily to the need for prior budget publication in La Gaceta, to poor prior budgeting by some CARs, and to generally slow reimbursement from MAG central offices to the regional headquarters. There have also been delays in Project-by-Campaign activities because of some technical problems in the original sub-project designs. These problems delayed approval by MAG and USAID. (More specific information on the eight existing Projects-by-Campaign follows in Section II.D of this Report.)

The original Loan Agreement envisaged "survey, analysis, and evaluation inputs "as an important part of the MAG's capacity to

program and implement Projects-by-Campaign. Regular project reports submitted by the CARs are scheduled to begin in August. Those reports that have been submitted to MAG in the past have not contained any analyses or evaluations of the individual projects. However, this situation should change once the reports are submitted in a regular basis beginning in August. The MAG Director of Projects-by-Campaign has expressed a strong interest in evaluation and efforts will be made to assess all Projects-by-Campaign, especially with regard to the appropriateness of new technology packages for small farmers.

2. Program budgeting techniques are being used at national and regional levels.

The Ministry of Agriculture, along with all other GOCR ministries, is using basic program budgeting techniques. In order to improve its budgeting, during Summer 1976 the MAG contracted with Practical Concepts, Inc. to conduct a 9-week training course on program budgeting for approximately 50 persons.

While program budgeting is a useful tool in rationalizing the overall budget process, the GOCR's complex financial management system still results in serious problems. Due to budgetary inflexibility, any lapse in timely action causes even longer delays in the complex chain of events required to obtain budget funding for project implementation. For example, annual budgets are officially published in December for the next calendar year. If any Ministry fails to publish its development budget needs (donor funding) in La Gaceta, the donor funds cannot be used. This could result in a long delay -- i.e., until an extraordinary budget publication in La Gaceta.

However, even assuming prompt publication of the Ministry's complete budget, there are a series of 33 'trámites' (steps) required for approval of funds use. The approval process to purchase commodities, execute contracts, hire laborers, or simply spend any funds may require up to three months. This system provides good control but extremely poor flexibility in fund use. Considering the clumsiness of the system, it is amazing that any funds are expended.

Therefore, it appears that the efficient implementation of MAG projects requires far more than "program budgeting." This EOP is, in fact, probably only the first step needed in rationalizing the GOCR's budgetary/financial management system.

3. The relationship between fixed and variable costs in the MAG budget has improved from an 80:20 ratio in 1974 to 70:30 at the end of the project.

Because of confusion concerning what was originally meant by "fixed" and "operating" costs and because of extremely variable total budgets for the Ministry of Agriculture (primarily due to varying capital transfers -- \$10.8 million in 1975, \$33.7 million in 1976, and a planned \$1.5 million in 1977), it is difficult to assess progress toward the stated objective of a 70:30 budget ratio. However, looking only at personal services costs, the MAG's position is about the same as other Central Government ministries -- personal service costs for the MAG increased by 114 percent and for the entire Central Government by 116 percent between 1973 and 1976. (It should be noted that much of this increase was due to higher wages, not increased numbers of people.)

AID funds are being used for operating as opposed to fixed costs. Therefore, Loan 025 is helping the MAG reduce the proportion of personnel or fixed costs -- but no significant changes have yet taken place and continued USAID attention will need to be devoted to this issue.

4. Procedures and controls for preventative maintenance of vehicles have been established and an effective system exists for identifying needs and planning replacement of parts and vehicles.

A new transportation unit has been established in San José. A contract employee has been hired to develop a car control inventory system on parts. There have, however, been problems in hiring and retaining other qualified personnel. A sizeable inventory of parts for USAID procured vehicles has already been created, and the International Harvester Dealer in Costa Rica has also imported a large quantity of parts which are available for purchase by MAG as needed. Bids have recently been issued in the United States and Costa Rica for purchase of approximately \$80,000 of shop tools and equipment. Upon purchase of these items, the MAG's capability to maintain vehicles will be considerably strengthened. While the ECP has not yet been achieved, considerable progress has been made.

5. Qualitative improvements in MAG Planning Office capabilities have take place, including (a) the establishment of a marketing information system, (b) the establishment of a sectoral analysis and planning capability, and (c) the introduction of a ministry-wide system of project evaluation.

At present there is no marketing information service within the MAG, nor is there likely to be one by the completion of this project. The Statistical Bureau does not yet have either personnel or budget to conduct such a service. The only unit within MAG working on marketing problems is the marketing unit within OPSA (Office of Sectoral Planning) which serves as the secretariat for the CAN on marketing policy issues. Because of its other responsibilities, OPSA is unable to perform day to day implementation duties of gathering, compiling, analyzing, and publishing data on prices and availability of produce. The OPSA marketing unit is doing a series of marketing studies and planning new marketing activities, but it is not able to provide daily data for a true market information system.

The MAG's sectoral analysis and planning capability has been substantially improved during the past two years. This was due to Executive Decree N°5147-A-P of August 20, 1975 which created the Agricultural Sector Planning System (SIPSA). This system consists of the CAN, OPSA, and COTEPSA (The Technical Committee for Agricultural Sector Planning).

The CAN is chaired by the Minister of Agriculture with Ministers of the National Planning Office, Ministry of Economy, Ministry of the Presidency, and Executive Presidents of the National Production Council, Central Bank, and Land Colonization Institute. This Committee meets once a month to discuss agricultural policy and to approve programs of an agricultural nature which might involve other sector institutions in addition to those of MAG.

The OPSA is the main planning body of the MAG. It has approximately 40 technicians who conduct special studies and reviews of all sector programs to ensure conformity to the National Agricultural Plan which it prepares for approval by the CAN.

The COTEPSA is composed of the Executive Director of OPSA, an OFIPLAN representative, and the heads of the planning offices of each agricultural sector institution. Its role is to obtain funding for implementation of programs approved by the CAN. It also monitors and evaluates the programs which are implemented by each agency.

In brief, OPSA proposes, CAN approves, and COTEPSA disposes. This past year's cotton crop is an example of how the system ideally works. One year ago, OPSA decided that cotton would be a good crop in Guanacaste. They developed a program and presented it to the CAN, which approved it. COTEPSA then met and assigned responsibility for various aspects of the program (credit, seeds, TA, marketing). The cotton was planted on more than 3,000 hectares.

With regard to the introduction of a ministry-wide evaluation system, a formal system does not yet exist. Monthly meetings of CAR directors are held to review project details, plans, progress, and problems. A reporting system has been developed which includes a written record of project performance in each CAR area. These systems will form the basis of a larger evaluation effort.

6. MAG training unit exists which is (a) carrying out mid-career management programs for MAG personnel (especially field extension personnel in production techniques and on-farm assistance methods) and (b) providing support to the CAR client training system.

MAG has created two specific training units within the Division of Rural Development under Ing. Gilberto Campos. One unit has conducted training of personnel in extension methodology, project development and program planning. This training is medium term and on-the-job in nature. The other training unit has conducted a series of short-term training activities of MAG personnel, extension agents, home-economic agents, farmers, farmer women and 4-S Club members in production technology, farm activities and farm living. No AID funds from this project have yet been used for this activity.

Throughout all divisions of MAG, scholarships are offered to and accepted by MAG technicians for long and short term training in various academic fields. Because of opportunities provided by other donors, AID loan resources have not been used for this type of training. Also, the Costa Rica University system is able to provide for long-term academic training of many agricultural technicians.

7. CAN's role in the sector strengthened through (a) a more active role in sector policy formulation and coordination of national and regional levels; (b) a more active role of the CAJECOS; and (c) the participation of CAN in marketing policy formulation and execution.

As stated above (II.C.5), the CAN system has been strengthened through SPSA legislation. CAN is now serving as the true coordination and policy unit for the Agriculture Sector.

The CAnCitos on the other hand have not been effective and are recognized by MAG officials and others as unwieldy, ineffective, and non-functional.

Also, as stated above, the CAN through OPSA is participating in the formulation of marketing policy.

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The purpose of the INFOCCOOP component of Loan 025 is "to strengthen the capacity of the cooperative movement to respond to the needs of its members, particularly those of small farmers." Specific end of project indicators would be (1) an increase to \$5.3 million of credit going to cooperatives made up principally of small farmers; (2) improved financial viability of cooperatives and federation of cooperatives; and (3) increased volume of business conducted by the cooperatives.

1. Credit going to cooperatives made up principally of small farmers increased to \$5.3 million.

INFOCCOOP has \$5.3 million available for agricultural production, marketing and processing credit, but the drawdown of funds has been slow. As of June 1977 only 14 percent of the \$2.7 million AID funds for production, marketing, and processing credit had been disbursed. New sub-loans have been identified and this disbursement should increase significantly in the near future.

Cooperative membership in 69 agricultural coops totals approximately 3,500 persons, of whom 80 percent are small farmers. These people are the major beneficiaries of coop activities financed under INFOCCOOP credit.

2. The financial viability of cooperatives and federation of cooperatives is improved.

In general, member agricultural cooperatives are improving their financial viability through INFOCCOOP loans for acquisition of new processing plants, new equipment for processing agricultural products, marketing facilities, and increased capital to cover operating costs. With their own financial resources and technical, financial and administrative assistance from INFOCCOOP, these cooperatives are becoming more viable and business-like organizations.

The Milk Cooperative in San Isidro de Coronado is an outstanding example of improved coop viability. Four years ago this cooperative was just getting started. Now it is a financially strong cooperative producing a wide variety of milk products, and buying inputs for sale to its coop members. It has expanded its processing facilities and retail sales outlets, and is building a new retail store on recently purchased land. It is expanding its activities through several INFESCOOP loans, one of which is financing the importation of 285 improved heifers for sale to coop members in order to improve herd quality.

3. Increased volume of business conducted by member cooperatives -- including increased sale of inputs to coop members and increased volume of products marketed by coops.

Cooperatives which have received loans have increased their sales of inputs to coop members significantly, providing a wide range of products (such as fertilizers, tools, vaccines, animal feeds, seeds, sprayers, work clothes, equipment and a variety of consumer goods). Cooperatives receiving marketing and processing loans have built new processing plants, purchased new equipment, improved the quality of products, and increased sales of their products.

D. Output-Level

Looking at progress toward individual output targets for the Agricultural Services Component of Loan 025:

1. 18 Projects-by-Campaign in operation by the end of 1977.

Two tree nursery Projects-by-Campaign were initiated in 1976 in Puriscal and Esparza. Eight additional Projects were developed by the CARs, approved by MAG and USAID, and started in 1977. These eight Projects are as follows:

- (1) Cartago, (Meseta Central Oriental), \$46,377 "Production of improved potato seed."
- (2) Esparza (Pacífico Central), \$26,444 "Develop the production of tropical fruits and selected tree plants as a small farmer activity."
- (3) Grecia (M.C. Occidental), \$25,309 "Improve/increase dairy cattle production."
- (4) Limón (Zona Atlántica), \$33,597 "Increase corn yield."

- (5) Liberia (Pacífico Seco), \$43,051 "Increase corn yield."
- (6) Pérez Zeledón (Pacífico Sur), \$40,319 "Increase corn and bean yields."
- (7) Puriscal (Meseta Central), \$26,504 "Promote reforestation."
- (8) San Carlos (Zona Norte), \$39,101 "Increase area of yuca production."

Eight additional Projects are planned to begin before the end of 1977. Plans for these projects have been reviewed by the MAG and informally received by USAID. Per the Loan Agreement, program budgeting is being used for all Projects-by-Campaign.

2. In-depth analysis of all MAG programs in conjunction with the Technical Council.

This is being done as part of the SIPSA by COTEPSA which coordinates funding and implementation of all sector programs.

OFIPLAN has been impressed with the sophistication of the pre-project analysis done for MAG programs. Again, much of this is due to the new Ag Sector Planning System (SIPSA), to OPSA and to the local level planning capabilities of the CARs.

3. Reporting system to monitor project progress and to keep all MAG officials informed of activities.

A new reporting system is expected to begin in August of 1977. These reports will be prepared by CARs and submitted to MAG central headquarters (Division of Rural Development). These reports will contain information on Projects-by-Campaign, administrative problems, production, crops, weather, incidence of crop pests, status of overall program implementation, training, field days, conferences and a host of other activities specific for each CAR.

4. Statisticians and economists of MAG participating in sectoral data development.

The entire staff of OPSA is participating in the compilation and utilization of agricultural data. Two MAG technicians also serve on the national committee for the RCCAP sponsored PIADIC Project which is gathering a broad range of sectoral data.

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5. Annual sample surveys in each region for selected agricultural products.

With MAG and OPSA participation, the GOCR Bureau of Census, with assistance from the USDA, has developed an Area Frame Sample and questionnaire for the Pacifico Seco area. This activity will continue for approximately one additional year. By that time, Frame Samples and questionnaires will have been developed for all regions of the country. OPSA also has done a series of special studies and gathered data on some selected agricultural products and technology levels employed. Annual surveys are expected to begin one year from this date.

6. Crop forecasting program developed for use as a source of regular, dependable information.

Once all Sample Frames Areas and related questionnaires are put into operation by the Bureau of Census and MAG (approximately one year), the GOCR will have the beginnings of an effective nation-wide crop forecasting program. Most information will pertain to crop yields and areas in certain crops, but this will be used to estimate annual production.

7. Transportation Unit established in the Administrative Division of MAG.

The recent establishment of a new Transportation Unit and an improved management system for parts and control of gasoline and oil have resolved many of the transportation problems of MAG personnel. Major repairs are done in San José in the MAG Transportation Unit, and minor repairs costing less than ₡1,500 are done in the field. In most cases, parts are made available to CAR Directors for such repairs.

8. MAG Training Unit in operation.

MAG has created two specific training units within the Ministry. One conducts training of personnel in extension methodology, project and program planning. The other unit trains MAG personnel, extension agents, farmers and 4-5 club members in crop production and live-stock production technology. No Loan 025 funds have been used to date.

9. Regional plans at CANcito level.

The idea of regional CANcito plans, as originally conceptualized in Loan 022 of FY70, has proved to be impractical. At best, CANcitos have helped to focus GOCR efforts on local level development problems. At worst, they have done nothing. They have been unable to perform a planning role for several reasons: (a) CANcito representatives

from various GOCR agencies unable to make commitments for their organizations; (b) high turnover of representatives to the CAnCitos; and (c) non-assignment of GOCR personnel (other than MAG) to field offices in cantons.

The MAG Regional Agricultural Centers (CARs), staffed by directors and technicians, have instead been created to develop regional agricultural plans. These regional plans are done annually by the CARs and put together to form the national MAG program.

10. Annual agency work plans developed in coordination with plans of other sector institutions.

The SIPSA Law and CAN-OPSA-COTEPSA mechanism have considerably improved overall sector coordination. While each entity, including MAG, develops its own annual work plan corresponding to its annual budget, the SIPSA system provides for review of each agency's plan against the National Development Program and the plans of other agencies. While meaningful coordination of agencies within Loan 025 has not taken place, there are examples of good coordination and cooperation between sector agencies: e.g. the Basic Grains Program and the Soybean Project. The strength and respect of the present Minister of Agriculture, Dr. Rodolfo Quirós, as the Director of CAN, has contributed significantly to sectoral coordination and cooperation.

11. National Marketing Commission to (a) prepare a national agricultural marketing strategy and investment program and (b) plan and construct a wholesale market near San José.

The functions of the National Marketing Commission (formerly PIMA) have officially been transferred to the CAN which, with OPSA serving as its Executive Secretariat, will be responsible for national marketing strategy and program development and implementation. OPSA is currently engaged in a series of marketing studies which will assist in development of the long term marketing strategy. IFAM, rather than MAG, will be responsible for construction and supervision of the Central Wholesale Market in the outskirts of San José. IFAM has already drawn up the initial plans, and financing has been obtained from CABEI for the first stage of development and construction of the market on 42 hectares of land near the Panamerican Highway east of San José. Ground breaking for the market is planned for the fall of 1977.

Looking at progress toward individual output targets for the INFOCOOP Component of Loan 025:

1. Disbursement of \$1,500,000, in production credit to cooperatives.

INFOCOOP reporting shows that no AID funds have been disbursed for production credit, although INFOCOOP has made loans for the purchase of fertilizer and other inputs. USAID has recommended to INFOCOOP that it mix the loan's production credit with marketing/processing and working capital credit in order to simplify accounting and disbursement procedures.

2. Disbursement of \$3,200,000 to cooperatives for marketing and processing activities.

As of June 1977, thirteen loans totalling \$791,596 (\$5,991,635) have been provided to cooperatives with Program funds. Eight additional loans (\$304,084 total) using Program funds have been approved, but not yet formalized. With assistance from the 5-person PCI contract team, INFOCOOP is now developing an additional 33 sub-project loans totalling some \$3 million. (Approved projects are listed in Annex I.)

Because of the slowness of identifying sub-projects, only \$341,550 of Loan 025's marketing/processing credit had actually been disbursed by June 1977.

While concerned about the slowness of disbursement, we feel that the technical assistance now being provided to INFOCOOP by PCI has largely corrected INFOCOOP's inability to generate sub-projects and get money flowing.

3. Working capital of \$600,000 provided to cooperatives.

INFOCOOP reporting does not identify AID funds being used for this purpose. Nevertheless, if the production, marketing/processing, and working capital components are mixed, it is expected that INFOCOOP will finance the purchase of fertilizer. Items such as mortgage payments, salaries of managers, payments of old debts, uncollectible accounts, real property, etc. should not be eligible for Loan financing.

4. System of monthly reports established to evaluate the progress of INFOCOOP members.

A formal reporting system has not yet been established. PCI contract personnel will, however, help to develop a system which determines the status of on-going INFOCOOP project activities on a regular basis. A rough ad hoc information system does exist, but it depends upon INFOCOOP staff gathering information on their periodic visits to coops which have received loans.

5. System established to help cooperatives and federations develop projects and loan proposals.

INFOCOOP provides a broad range of services to coops in project development, including technical advice, reviewing details of projects, assisting in economic analysis of projects, and analyzing the financial status of coops. It prepares projects for review by the INFOCOOP Board of Directors and recommends approval when warranted.

Agricultural cooperatives have thus far developed 70 project proposals, many with INFOCOOP assistance. Of these, 44 have already received preliminary endorsement of viability and 11 approved for immediate implementation.

It should be noted that INFOCOOP is somewhat conservative in approving projects. It does not wish cooperatives to incur high risks and considers the adequacy of cooperatives to manage projects (both financial and administrative management) to be a key issue in the coop loan approval process.

6. System to provide assistance to cooperatives in management, planning, budget, accounting, contract development, loan analysis, general administration, inventory and personnel management.

INFOCOOP has been providing only limited technical assistance to weak cooperatives although its services are now increasing. Its 1976 Annual Report shows that technical assistance was provided to 131 different cooperatives of all kinds. Loan 025 includes \$200,000 for INFOCOOP to assist weaker agricultural cooperatives. A plan is now being drawn up to use these funds.

7. System to provide assistance to cooperatives in marketing their products, including grades and standard pre-processing and transport.

While INFOCCOP does provide Technical Assistance in marketing, processing, grades and standards and transport, these are implementation functions that the cooperatives themselves largely assume. When technical assistance is needed, it is available from a variety of sources, such as external donors, the University of Costa Rica, MAG, and private sector individuals and companies. The need for TA is therefore being met through INFOCCOP and other sources of expertise.

E. Unplanned Effects

There have been no major unplanned effects relating to social structure or the environmental, technical, or economic situations in Costa Rica.

III. RECOMMENDED CHANGES IN DESIGN OR PROJECT EXECUTION

1. The Logical Framework will be revised to reflect the new role of the CAN and the CARs. Although the CAN is a coordinating body for the sector, we cannot ignore that the three implementing agencies for this project (MAG, INFOCCOP, and IFAM) have independent objectives and that not all activities can be coordinated under the rubric of "the small farmer."

2. In order to simplify INFOCCOP's accounting procedures, the three credit components (production, marketing/processing, and working capital) will be merged. AID will, however, provide INFOCCOP a representative list of costs that would not be financeable as working capital.

3. In order to assure a more rapid project execution in the next Costa Rican fiscal year (CY78), the Mission will work closely with the Ministry of Agriculture, INFOCCOP, and IFAM as they prepare their new budgets. The AID-funded activities should be included in the GOCR's ordinary Budget.

IV. LESSONS LEARNED

1. Loan agreements should be structured to allow for institutional technical assistance prior to compliance with Conditions Precedent relating to capital or credit transfers. We feel that the slow identification of sub-loans and consequent slow disbursement of the

INFOCOOP portion of Loan 025 is due in great part to the delay in obtaining TA for INFOCOOP -- a delay caused by difficulties in meeting Conditions Precedent.

2. The existing GOCR financial management system does not function effectively for programs (such as "Projects-by-Campaign") which are characterized by many small-scale decentralized operations. The system is established and required by law. It was designed to provide maximum control and thus prevent misuse of funds. It is not an obstacle to large capital projects with long lead times. However, a system with greater flexibility and more rapid response capability is necessary for the type of projects AID usually finances, i.e., provision of assistance and services to small farmers when and where they are needed. The formal financial management system cannot cope with the flow of new plans being cranked out by the planners, much less such fundamentals as planting seasons and weather conditions. AID should analyze the aptness of the financial system prior to the loan, and if not apt, should explore other financial mechanisms with the GOCR. A precedent exists in CCIS, an appendage of the Ministry of Health, created by decree to permit rapid disbursement of funds for special requirements. The legal rationale for CCIS is that the Ministry of Health frequently must deal with emergency situations, and therefore requires a more flexible financial system than that provided by the Law of Financial Administration. We will consult with the GOCR to see if an analog to CCIS could be created for certain kinds of programs in the agricultural sector. It is unlikely that this can occur before the 1978 elections, however, because the Government would not wish to invite criticism that it is seeking to circumvent its financial management law, which Costa Ricans consider protection against waste and corruption.

3. In preparing Loan 025, the Mission perceived (or perhaps assumed) that the three implementing agencies had a confluence of interests and objectives. However, we did not sufficiently try to explore or generate this confluence prior to the loan. Rather, we were too quick to see "linkages," some of which were artificially created by the need to have a single loan package.

LIST OF INFOCOOP LOANS -- AID AND COUNTERPART FUNDSAPPROVED AND FORMALIZED WITH LOAN 025 AND COUNTERPART FUNDS

COOPETIERRABLANCA R.L.	Q 500,000.00
COOPEFRUTA R.L.	350,000.00
COOPEPROGRESO R.L.	87,000.00
COOPEPROGRESO R.L.	200,000.00
COOPESUR R.L. (025 and counterpart)	858,000.00
COOPECCRONADO R.L.	750,000.00
COOPELECHE R.L.	910,000.00
COOPECOT R.L.	300,000.00
COOPECOT R.L.	576,635.00
COOPETIERRA BLANCA R.L.*	1,000,000.00
COOPESARDINAL R.L.	24,000.00
COOPESARDINAL R.L.	50,000.00
COOPEPARA R.L.	<u>386,000.00</u>
	Q5,991,635.00**

* Production credit

** Q8.54 equals \$1 dollar

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APPROVED UNFORMALIZED
LOAN 025 AND COUNTERPART

COOPESUR R.L.	¢ 92,000.00
COOPEFRUTA R.L.	30,000.00
COOPELECHE R.L.	390,000.00
COOPELECHE R.L.	120,000.00
COOPEJORCO R.L.	250,000.00
COOPECORONADO R.L.	1,275,000.00
URCOPAPA R.L.	250,000.00
COOPEJORCO R.L.	<u>215,500.00</u>
	¢2,622,500.00

PROJECTS WHICH QUALIFY FOR 025 FUNDING

PROJECT:	Industrialización del achiote
Cooperative:	Coopefrutas R.L.
PROJECT:	Comercialización de yuca fresca congelada
Cooperative:	Urcozón R.L.
PROJECT:	Comercialización de frutas
Cooperative:	Coopeaimulpa R.L.
PROJECT:	Adquisición de ganado importado
Cooperative:	Coopecoronado R.L.
PROJECT:	Ampliación de planta
Cooperative:	Coopecoronado R.L.

PROJECT: Centro de acopio de leche en Nicoya
Cooperative: Coopepenin R.L.

PROJECT: Mercado de la papa
Cooperative: Urcopapa R.L.

PROJECT: Industrialización del coco (en etapas)
Cooperative: A organizar

PROJECT: Comercialización de hortalizas y verduras
(Zona Norte Cartago)
Cooperative: Urcopapa R.L.

PROJECT: Apicultura (comercialización de miel y cera)
Cooperative: Cooperativas Península de Nicoya)

PROJECT: Comercialización de conejos (carne y pieles)
Cooperative: Coopehumo - Coopeutaba

PROJECT: Aprovechamiento de recursos forestales Zona Atlántica y
Zona Sur
Cooperative: A organizar

PROJECT: Aprovechamiento de la cebolla
Cooperative: A formarse (existe una asociación de productores de ce-
bolla)

PROJECT: Aprovechamiento de repollo
Cooperative: Coopagrimar R.L.

PROJECT: Fabricación de puros
Cooperative: Coopetabaco R.L.

PROJECT: Mercadeo de flores
Cooperative: A organizar

025

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO COSTA RICA



U.S.A.I.D.
UNITED STATES EMBASSY
SAN JOSE, COSTA RICA

April 29, 1977

MEMORANDUM

TO: Ms. Bernice Goldstein
LA/DP - AID/W

FROM: Carol A. Peasley *C. Peasley*
USAID/Costa Rica Evaluation Officer

SUBJECT: Evaluation Report, IFAM Component of Loan 515-T-025

Attached is the evaluation report for the IFAM component of USAID/Costa Rica's Rural Development Loan (515-T-025). We are currently evaluating the INFOCOOP and Ministry of Agriculture components of the loan and hope to forward the final report by the end of May.

The evaluation was conducted jointly by IFAM and AID, with the final review meeting held on April 28, 1977.

The recent ABS instructions say that all evaluation reports should be sent to the ARC. While I believe that ARC is the AID Reference Center, I cannot find it in the AID/W Telephone Directory. Therefore, I'd appreciate it if you could forward a copy of the report to the appropriate ARC office, as well as any other AID/W offices which should receive copies.

Thanks for your help.

cc: URD:EEButler
AAO:JJSconce
CAP:mce
Enclosure: a/s

RECORD COPY

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AID LOAN 515-T-025

EVALUATION OF IFAM COMPONENT

I. LOAN INFORMATION

- A. Borrower: Government of Costa Rica
- B. Executing Agency: Municipal Development Institute
- C. Date of Authorization: June 6, 1974
- D. Date of Loan Agreement: November 29, 1974
- E. Authorized Amount: \$3,400,000
 - 1. Credit: \$3,000,000
 - 2. Technical Assistance: \$ 175,000
 - 3. Training: \$ 225,000
- F. First Disbursement: March 9, 1976
- G. Total Disbursed (as of March 31, 1977): \$ 852,000
- H. Total Committed (as of March 31, 1977): \$2,223,450
- I. Percent of Loan Disbursed: 25%
- J. Final Date of Disbursements: August 1978

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II. BACKGROUND

The IFAM component of Loan 025 is part of a larger loan program aiming to increase the income and improve the living standard of small farmers. The entire program consists of three components: Agricultural Services Project (\$1,300,000); a Cooperative Development Project (\$3,200,000); and a Rural Municipal Development Project (\$3,400,000).

The loan was conceived as a direct follow-on to the earlier Agricultural Development (022) and Municipal Development (023) loans and was designed to address specifically selected aspects of the sector which contribute most directly to servicing the small farmer. As such, it was designed to "...concentrate on improving the institutional capability of key organizations in the selected areas of agricultural services, cooperative development, rural infrastructure, marketing and coordination within the agricultural sector." (Annex I of Loan Agreement, p. 1).

Through financial assistance for initial capitalization and technical assistance (Loan 023 beginning in 1970), AID assisted the Government of Costa Rica in the establishment of the Instituto de Fomento y Asesoría Municipal (IFAM). By the completion of Loan 023 IFAM had had a substantial impact on municipalities, both in financing infrastructure projects and in strengthening the management capabilities of local government. However, much of this impact was limited to urban or relatively accessible municipalities -- hence Loan 025's emphasis on sixty-five rural agricultural cantons.

III. LOAN DESCRIPTION

The purpose of the IFAM component of Loan 025 is to strengthen and expand IFAM's capacity to help local governments provided services and physical infrastructure to the rural population. Along with the other two components of the loan, the long-term goal will be increased incomes and improved standards of living for small farmers.

IFAM will assist the municipalities with project identification, preparation, presentation, financing, implementation, and maintenance, as well as with general administration and planning. By the end of this project, IFAM should be sufficiently strong to carry on these activities without external financial or technical assistance.

IV. EVALUATION FINDINGS AND RECOMMENDATIONS

This evaluation was carried out as a joint USAID-IFAM effort during the first quarter of 1977. A number of staff meetings were held and field

trips taken to obtain the required information. The evaluation results described herein represent the views of both USAID and IFAM.

This report is based on three levels of project evaluation: (1) Progress toward Specific Outputs planned in the Loan Agreement and articulated by IFAM as part of its original Evaluation Plan; (2) Progress toward achievement of the Project Purpose or the conditions expected at the end of the project; and (3) Progress toward achievement of the total loan's rural sector Goal.

These Goal, Purpose, and Output targets are specified in the Annex I Logical Framework.

A. Specific Outputs

1. Study Commission to review land tax rates and assessment policies (Loan Agreement)

Findings:

In early 1975, a special Land Tax Study Commission was formed with members from IFAM and the Office of Direct Taxation. The Commission studied legal and administrative problems of implementing a land tax, paying particular attention to questions of mechanization and computerization in the Section of Property Registration within the Office of Direct Taxation.

In October 1976, the Commission delivered a report of its findings and recommendations for a contract to design a computerized system of property registration. The estimated cost is Q2.7 million (\$316,000), of which IFAM would finance 68.3%, a sum which is already included in IFAM's 1977 budget. The remainder will need to be financed by the Ministry of Finance, although it appears to have no 1977 funds for this purpose. The Ministry of Finance will include funding in next year's budget, and work should begin shortly thereafter.

The Commission has also recommended changes in the Land Tax Law to improve the collection system and in order to gain greater control over contributors.

Because of the problems encountered concerning the administration of the land tax, the Commission did not study the feasibility of shifting administration of the tax to IFAM. Once the earlier recommendations are fulfilled, the Commission will consider this broader question.

The Mission considers this output, as specified in the Loan Agreement, to have been successfully accomplished. We do, however, hope that more serious consideration will be given to using land taxation as a means of increasing the income resources of IFAM and the individual municipalities.

2. Priority development projects in rural municipalities -- feeder roads, water supply systems, electrification, and agriculture-related projects (Loan Agreement)

The IFAM Evaluation Plan outlined targets as:

- (a) 485.1 km. of feeder roads through 31 projects involving the participation of 18 municipalities and benefitting residents in 64 rural communities;
- (b) Rural aqueducts involving 14 municipalities and benefitting 5,000 homes;
- (c) 151. kms. of rural electrification through 34 projects involving the participation of 7 municipalities, and benefitting 1,343 homes;
- (d) Bridges, road maintenance, and slaughterhouse.

Findings:

(a) The rural feeder roads program was eliminated from the loan in late 1976 for the following reasons:

- (i) The feasibility studies showed that the cost of the roads would be very high, e.g., 70 kms. at a cost of \$3.3 million.
- (ii) The high cost of the program and the lack of sufficient funds, meant that IFAM could not finance the entire program. Rather than face the political difficulties of financing roads in some areas and not others, IFAM decided to postpone the program until sufficient funds were available.
- (iii) The high cost of the program, the relatively short life span of the roads (20 years maximum, and the cost of capital (8% minimum per annum) would make repayments by the municipalities to IFAM extremely difficult. The only way to repay the

loans would be through excessive user charges on the project beneficiaries. An added complication would be the likely objections of the Controller General's Office concerning authorization of the corresponding loan contracts.

- (iv) The high cost of the program would make it impossible to obtain the necessary counterpart contributions from the municipalities (15% minimum).

Subsequent to the decision to eliminate the feeder roads from the AID loan, the Central Government agreed to provide counterpart for each of the planned roads. This counterpart represents 33% of the project's total cost, thereby reducing the cost to the municipalities and making the construction of the feeder roads feasible. The Inter-American Development Bank had now approved a loan with IFAM to finance the Feeder Roads Program. IFAM is now revising the feasibility studies in order to make final selection of roads to be financed.

A large part of the resources originally planned for feeder roads have been used for sub-loans to municipalities for the purchase of machinery and equipment. IFAM estimates that this equipment will construct or maintain approximately 1,365 kms. of feeder roads in various rural cantons of the country, benefitting approximately 109,000 people.

In order to ensure the best use and maintenance of machinery, IFAM approves all sub-loans for machinery sub-loans only after considering the following points:

- Ranking of the road according to priority stated in the earlier feasibility studies;
- Length of the road, type of work to be done, and approximate cost per km.;
- Infrastructure available for the program (workshops, lubrication shops, availability of petroleum, etc.);
- Human resources, e.g., municipal chief of machinery and municipal engineer;
- Presence of machinery operators;
- Funds available for the operation and maintenance of machinery; and
- Amount of municipal financing.

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With regard to the maintenance of machinery, the "invitations for bids" specify the type of maintenance to be provided and guarantee that spare parts will be available.

Recently, a new problem concerning the purchase of machinery has arisen for the municipalities. The Controller General's Office has told IFAM that the "invitations for bids" should not contain detailed specifications on the type of machinery desired, but rather should be very general in order to avoid any possibility of seeming prejudicial. This makes it difficult to evaluate offers, especially in light of AID's requirement that the lowest bidder should be awarded the contract. In many cases, the lowest bid represents inferior machinery. However, without detailed specifications, the purchaser has no objective grounds upon which to reject this lowest cost machinery.

Recommendation:

IFAM should come to an early agreement with the Controller General's Office, reconciling its requirements with those of AID. If required, USAID will call upon the Regional Legal Advisor to assist in resolving the problem. Also, if required, AID will discuss the issue with the Controller General's Office.

(b) IFAM has approved 5 sub-loans for a total of \$13.9 million (\$1.6 million) to finance construction of water aqueducts which will provide potable water to approximately 18,300 persons. In this program, several projects were selected which had been included in an agreement between IFAM and the National Institute of Water & Sewage (A&A) to provide potable water to 14 towns. Unfortunately, IFAM did not receive AID approval before entering into this agreement with A&A. There are now a number of conflicts between this agreement and various clauses and requirements in Loan 025 -- e.g., regarding procedures to be followed in issuing "invitations for bids" for construction; the system of disbursement of sub-loans; the transfer of the aqueducts to A&A; and the transfer of assets and debts to IFAM. The Mission has told IFAM what its minimum requirements are for sub-loans, and IFAM has begun to discuss the issue with A&A. If they are unable to arrive at agreement acceptable to AID, this type of activity in which A&A participates will have to be eliminated from the list of projects eligible for AID financing. This would, in turn, jeopardize the possibilities of fully disbursing the loan prior to the Terminal Disbursement Date since aqueducts represent approximately 50% of the approved budget allocations. It should be noted, however, that AID has no objection to financing aqueducts which are owned and operated by the municipalities themselves. For those municipalities which are unable to operate water systems, we feel that even if IFAM does

not come to an agreement with A&A, some municipalities would proceed with construction of aqueducts, using both technical assistance and financial support from A&A.

Recommendations:

- (1) IFAM should promptly enter into an agreement with A&A.
- (2) If A&A decides not to continue with construction of the aqueducts financed by IFAM, IFAM should enter directly into negotiations with the municipalities to carry on the projects even if this means that IFAM has to grant softer terms.

(c) IFAM has approved 4 sub-loans for a total of \$683,200 (\$80,000) to finance rural electrification. These projects will provide electricity to 1,300 users serving a population of nearly 6,000 people. In selecting these projects, IFAM took into account agreements between the municipalities and the Costa Rican Electricity Corporation (ICE). In these cases, the assets and debts passed to ICE to complete the works.

Because these rural electrification projects are so small and in isolated rural areas and no private firms are interested in them, ICE will be responsible for both construction and administration. ICE is also able to use materials which it has purchased in large quantity for these mini-projects, thereby obtaining lower prices. However, as with A&A, IFAM must ensure that the conditions of agreements between IFAM, ICE, and the municipalities are consistent with the requirements of Loan 025.

Recommendations:

- (1) IFAM should enter promptly into an agreement with ICE concerning construction of rural electrification projects and receive AID approval for this agreement.
- (2) AID will study the possibility of approving the procedures already used by ICE in the construction of small rural electrification projects.

(d) The Rural Window of IFAM has also approved sub-loans for the construction of bridges in the Santa Cruz Cantón of Guanacaste. One wooden bridge has already been constructed at a cost of \$17,000. AID and IFAM are currently reviewing plans for ten more bridges at a cost of \$165,000.

Sub-loans have also been authorized for the construction or repair of a small number of kilometers of feeder roads in Nandayure, Guanacaste and for the construction of a regional slaughterhouse in Turrialba.

Recommendation:

IFAM should accelerate the approval and construction of regional slaughter houses and other projects originally contemplated as part of IFAM's Rural Window.

3. Training programs for employees of IFAM, of municipalities, and of other institutions which have responsibility for local public works and services in a national institution of higher education (Loan Agreement).

Findings:

In April 1976, IFAM entered into a contract with the University of Costa Rica in which the University was to develop a plan for training and research in municipal and local administration. Under this contract, the University is offering six intensive courses for officials from IFAM, other ministries and agencies in the Executive Branch, autonomous and semi-autonomous institutions, and municipalities identified by IFAM. The courses are for a two-week period, with an average of 25 persons per course. The program includes two courses on problems of the Metropolitan Area and two on the improvement and transformation of local governments and their role in national development.

Besides the training program, the University of Costa Rica, through the Research Institute of the Economics Faculty, has committed itself to three research projects with the following themes:

- Study of Municipal Taxes in Costa Rica
- Territorial Administrative Division and its Influence on National and Local Public Administration
- The Sociological, Political, and Legal Operations of the Municipal System in Costa Rica

During the period of this contract (May 1976 to June 1978) the University has also promised to study the possibility of creating a Center for Research and Training in National and Local Public Administration in order to provide services to the Central Government, public institutions, and municipalities.

Also, with funds from Loan 025, IFAM sponsored two seminars in Urban and Regional Development at Texas A&M University attended by a number of IFAM and government officials involved in municipal development. Funds were also used to provide training at Costa Rica's Technological Institute for construction foremen from various municipalities and to finance six IFAM officials who received training at CIAPA. Nearly \$22,000 earmarked for training remains undisbursed. This will be used for the training of people in IFAM's Accounting Department -- for mechanization of the IFAM accounting system.

4. Strengthening of IFAM's Department of Research and Planning (Loan Agreement)

Findings:

At the time Loan 025 was being prepared, the Mission and IFAM felt that it was very important for IFAM to base its work on detailed information from each canton and municipality of the country, especially in the rural zones. This would allow IFAM to focus its financing on the priority needs of the municipalities. With this objective in mind, IFAM's Department of Research and Planning contracted with Acción Internacional Técnica (AITEC) for a 30 month-period (January 1974 to June 1976) to conduct research in Costa Rica's rural cantons. IFAM originally financed this contract with grant funds from AID (\$85,000) and later with funds from AID Loan 515-L-023 (\$42,000). Loan 025 was used to finance the final year of the contract (\$90,000).

During these 2-1/2 years, AITEC conducted studies in 56 rural cantons and published individual reports for each one. These studies contain information on the basic needs of each community (roads, electrification, water, street repairs, sewerage, etc.), as well as information on agricultural and industrial production, employment, migration, education, rural credit, housing, etc.

Nevertheless, upon completion of the contract, the personnel trained by AITEC to conduct the research and scheduled to join IFAM's Department of Research and Planning were dismissed, and IFAM discontinued this type of cantonal level studies.

Furthermore, it appears that the cantonal studies have hardly been used by IFAM in identifying or selecting projects for fi-

nancing. IFAM has explained that the selection of projects should be based on the desires of the municipalities themselves -- that IFAM should respond to their requests. IFAM feels that the studies were based primarily on community interviews and did not adequately consult with the municipality leaders in determining priority needs. Therefore, the AITEC studies do not always reflect the political realities of municipal development. According to IFAM, the studies are useful as general reference, but not in determining credit policy nor in inventorying the priority requirements of individual communities, as had been originally planned. The studies however have received wide distribution in Costa Rica and there is evidence that they have been used by other agencies such as OFIPLAN and DINADECO.

The Planning Division of IFAM has been restructured with additional personnel. In 1977, they will do an analysis of existing resources, and the needs and programming of investments. This will be used to integrate technical and financial aspects of projects.

Recommendations:

- (1) IFAM should conduct the above study before the end of 1977.
- (2) IFAM should re-evaluate the utility of the AITEC cantonal studies. We feel that they could be useful in identifying priority projects in individual municipalities and that they could help IFAM play a more dynamic role in working with municipalities to identify and plan worthy sub-loans.

5. Development of a more efficient accounting system within IFAM (Loan Agreement)

Findings:

The originally planned \$100,000 for this activity has been increased to \$155,000 in order to mechanize the Accounting Department. In addition, \$21,550 of technical assistance funds will be used to train the necessary personnel.

Mechanization of the system will allow IFAM to maintain greater control over its budget, income, expenditures, and sub-loans to municipalities. In order to achieve this objective, IFAM will require technical assistance, especially concerning adaptation of a system to IFAM's needs and equipment requirements.

IFAM has obtained with loan financing the professional services of Ing. Clara Zomer, an expert in mechanized accounting systems, who has already presented a workplan for the computerization of IFAM's accounting system. Ing. Zomer will present a report on mechanization alternatives by the end of May 1977. IFAM would then select its preferred system, followed by a new workplan for further technical assistance covering:

- Contracting and training of personnel
- Bids for required equipment
- Specifications and implementation plan for installing a mechanized system
- Organization of computer services.

Recommendation:

IFAM should accelerate this work in order to ensure mechanization of the Accounting Department before the Terminal Disbursement Date for the project.

B. Purpose

As articulated in the Loan Agreement, the purpose of the IFAM component of Loan 025 is to strengthen and expand IFAM's capacity to effectively reach out and assist Costa Rica's local governments in providing services and facilities to the rural population. Looking at individual conditions originally expected to have been achieved by the end of project, we see the following:

IFAM to be assisting municipalities in project identification, preparation, presentation, financing, execution, and maintenance.

Findings:

IFAM's current organizational structure calls for the concerted action of 3 Divisions to achieve this objective. These are as follows:

- (1) Division of Planification which is to prepare, in consultation with the municipalities, general development plans for each municipality. These plans identify, describe, and quantify basic needs and establish priorities among these needs.

- (ii) Division of Technical Assistance which carries out more detailed investigations on the feasibility of different ideas, consults with municipalities regarding administrative problems, tax rates and collection systems, training requirements, and other municipal matters. Through its training department, this Division also arranges appropriate training for municipal officials.

- (iii) Division of Operations which responds to specific sub-project requests by preparing detailed technical and financial feasibility studies, and prepares or monitors the complete sub-project package through sub-project approval stage. It also assists municipalities in all phases of sub-project execution and monitors construction progress until completion of the sub-project.

With respect to the Rural Window Programs, this system does not appear to be functioning well, manifested by the slow rate of sub-project approvals and execution. An aggressive "out reach" promotion strategy to municipalities, particularly the more isolated rural municipalities is lacking. It is also not clear how useful the broad planning work and training activities are to identifying and preparing sub-projects. Additionally, once projects are identified, effective follow-up in sub-project preparation, approval, bidding, and construction phases is lacking. Possible reasons for this may be the division of project development work among different IFAM Divisions, without sufficient control or coordination. This might be due in part to an insufficient number of persons working on the Rural Window Program.

Recommendations:

IFAM should carefully review its system for developing Rural Window sub-projects and take corrective actions that it feels appropriate in order to ensure a timely and coordinated Program effort.

2. IFAM to have a permanent source of long-term, low-interest financing for rural areas (Loan Agreement).

Findings:

With the financial support of AID's Loan 025 (\$3,000,000) and counterpart from the GOCR (\$2,000,000), IFAM was able to create a Rural Window Program that offers a line of credit to municipalities for financing rural projects. From the beginning of the program until December 31, 1976, IFAM has approved 24 loans for an amount of \$3.4 million, at terms varying from 8 to 20 years, depending on the type of project, the amount of the loan, and the financial capacity of the municipality. The rate of interest varies from 6 to 8 percent.

Using its own resources, IFAM has increased the amount available for the Rural Window Program by \$1.6 million, making a total of \$6.6 million. This will allow for a larger number of projects than originally envisaged, and should ensure completion of those projects still under construction at the time of the Terminal Disbursement Date.

Loan 025 will be repaid to AID directly by the Government of Costa Rica. This means that the repayments of sub-loans will form part of IFAM's working capital, including repayments of both AID and counterpart GOCR funds.

Although no detailed studies have been done, and even though the above repayments will be significant, it is likely that IFAM will need to obtain additional capital resources to cover its commitments over the next two or three years.

Recommendations:

- (1) IFAM should make a detailed study of the flow of repayments due during the next ten years from sub-loans made under Loans 023 and 025 in order to determine resources available to IFAM and requirements for additional capital.
 - (2) The GOCR should enter into one or two loans similar to Loans 023 and 025 and transfer them to IFAM, which would, in turn, contribute the necessary counterpart financing.
 - (3) These loans should be negotiated on the basis of already identified projects in order to avoid the problems of slow disbursements found with Loans 023 and 025.
3. IFAM to be partially decentralized, with permanent offices located in major rural areas and offering total assistance packages in community planning, program execution, and training (Loan Agreement).

Findings:

IFAM has conducted a survey of rural municipality leaders in order to determine their interest in and their views on the need for creating regional IFAM offices in different parts of the country. Besides, because technical assistance from IFAM has been free, it was important to determine whether the municipalities which would be serviced by regional IFAM offices would be willing to contribute to their adminis-

trative support. The municipalities have responded favorably to these ideas, and IFAM has initiated plans for regionalization.

IFAM is planning to begin with one regional office that will serve as a model. Initially they had planned to open this office in Limón, but they may decide that Guanacaste provides better opportunities -- primarily because of an existing League of Municipalities which has offered its offices to IFAM. This first regional office will offer technical assistance to the municipalities in legal, financial, administrative, and engineering matters. It will also offer training, as to be elaborated in collaboration with OFIPLAN's Regional Development Office and its OAS advisors.

IFAM's regionalization plan is almost completed and will be presented soon for consideration by IFAM's Executive Board, followed by implementation of the plan in the second half of 1977.

Recommendation:

We recommend that regionalization remain a high priority and be executed as soon as possible.

4. IFAM to have a strong research capability which is used to help communities plan projects (Loan Agreement).

Findings:

As discussed in Section IV.A.4 of this Report, the Cantonal studies done by AITEC to help identify and plan projects, were not used as anticipated. The Division of Planning has been re-structured in order to play an active role in the coordination of projects -- not the identification of projects.

IFAM does conduct feasibility studies for such projects as the regional slaughterhouses -- in order to develop selection criteria and to complete financial analysis requirements for projects.

IFAM also conducts ex post evaluations of projects, looking at such variables as the financial status of the municipality before and after the project; financial operation of the project and costs; and changed status of the users before and after the project. These evaluation results are then used to assist in planning similar projects in other municipalities.

Recommendation:

The same as in Section IV.A.4.

C. Goal

The overall goal of Loan 025 is to increase the income and improve the standard of living of small farmers.

Findings:

The beneficiaries have been an important criterion in selecting projects to be financed through the Rural Window. IFAM has given particular weight to those cantons in which more than 70 percent of the population is rural (using Census data). For example, in reviewing proposals for aqueduct projects, IFAM accepts that the systems will in many cases not go to small farms per se, but they will improve the lives of the near-by rural poor, thereby discouraging migration to the cities. IFAM has used similar thinking in justifying rural electrification projects. They feel that the road construction and maintenance equipment sub-loans most directly help the small farmers by increasing their access to markets.

In evaluating the broader impact of Loan 025, USAID needs to develop baseline data and a monitoring system. The basis for this exists in the recently published Poverty Profile financed by AID. This study matches data from the 1973 Agricultural, Population, and Housing censuses -- it therefore provides reasonably complete profiles of family status as of May 1973.

Recommendations:

- (1) That USAID develop a goal-level Evaluation Plan for Loan 025, using baseline data from the Poverty Profile and, to the extent possible, drawing upon information to be generated out of the proposed FY79 Basic Needs Information System Project.
- (2) That increased efforts be made to relate the IFAM component of Project 025 to the MAG and INFOCOOP portions which focus more directly on the small farmer.

D. Special Findings

1. The Loan Agreement says that the "Borrower shall give publicity to the Loan and the Program as a program of United States aid

in furtherance of the Alliance for Progress, identify the Project sites, and mark goods financed under the Loan, as prescribed in Implementation Letters."

The Mission has pointed out to IFAM on numerous occasions that there has been little mention of AID in various newspaper and television accounts of Rural Window projects. Recently, and after various conversations between IFAM and AID, IFAM invited AID to participate in a televised news conference discussing the Rural Window Program and its sources of financing. Also, in recent weeks, AID has been mentioned in IFAM's press reports.

None of the projects financed under this loan have physical markings at the construction site identifying them as part of the AID program in Costa Rica. This is because the majority of the municipal leaders receiving sub-loans simply ignore the required procedures.

Recommendation:

IFAM should require that the municipalities comply with the conditions of the Loan Agreement and that all project sites have signs identifying the project as part of the Rural Window Program with financing from IFAM and AID.

2. The Loan Agreement states that "all contracts financed by the Loan will be approved by AID in writing before execution."

On various occasions, IFAM has entered into contracts using Loan 025 funds without having received prior AID approval. This has created problems and program setbacks, even requiring opinions from AID's Regional Legal Advisor to reach agreements acceptable to AID.

The same has occurred with "invitations for bids" issued by municipalities -- i.e., on numerous occasions they have been issued and approved without AID approval. This happened with the aqueduct project at Palmares. The specifications of the "invitation for bids" were unacceptable to AID, and AID therefore had to say that its Loan 025 funds could not be used for the project. Because of the large size of the project (\$1.5 million), this has created problems for IFAM which now has to search for an alternate funding source.

Recommendation:

IFAM should conform to the contract requirements of the Loan Agreement.

3. There have been significant delays in sub-project approvals, disbursements, and in general project implementation. To date, IFAM has disbursed only \$852,000 or 25% of the total. It is apparent that if approvals and sub-project implementation are not expedited promptly, all available Loan funds will not be utilized prior to Loan Final Disbursement Date (August 1978).

Recommendations:

- (1) IFAM should review its portfolio of approved sub-loans, sub-loans under study, and other possibilities, and the estimated time to complete all sub-project construction in order to ascertain probability of fully disbursing the Loan by August 1978.
- (2) That IFAM prepares a Disbursement Schedule covering the period May 1977 through August 1978. With this information, it can then prepare a new list of "topes" for different categories of projects.
- (3) IFAM should assign one person to dedicate full-time to monitor implementation of the Rural Window Program in order to ensure complete disbursement of loan funds in the most effective manner possible.

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LOAN 025 - IFAM COOPERATIVE

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>GOAL: To increase the income and improve the standard of living of small farmers.</p>	<p>Measures of Goal Achievement to be articulated as part of USAID Goal-Level Evaluation Plan.</p>	<p>To be determined.</p>	<ol style="list-style-type: none"> 1. Coordination of all rural institutions, MAC, INFOCOOP, and IFAM is possible. 2. Small farmers are willing to take advantage of opportunities offered them.
<p>PURPOSE: To strengthen and expand IFAM's capacity to effectively reach out and assist Costa Rica's local governments in providing services and facilities to the rural population.</p>	<ol style="list-style-type: none"> 1. IFAM assisting municipalities in project identification, preparation, presentation, financing, execution, and maintenance. 2. IFAM with a permanent source of long-term, low-interest financing for rural areas. 3. IFAM is partially decentralized, with permanent offices located in the major rural areas and offering total assistance packages in community, planning, program execution, and training. 4. IFAM has a strong research capability to assist communities in planning projects. 	<ol style="list-style-type: none"> 1. Monthly loan reports, IFAM records, and interviews with municipalities. 2. IFAM financial records. 3. IFAM and municipality records. 4. IFAM records, interviews with municipalities and speed at which projects being identified. 	<ol style="list-style-type: none"> 1. Municipalities remain viable, i.e., municipalities able to finance or repay sub-loans. 2. There is still real role for municipalities in providing services to rural population, i.e., especially vis-a-vis roles of ICE & ASA. 3. There is a demand for decentralized IFAM services.
<p>OUTPUTS:</p>	<ol style="list-style-type: none"> 1. To be completed by Dec. 1975 2. a. 485.1 km. of "caminos vecinales" thru 31 projects involving the participation of 18 municipalities and benefitting residents in 64 rural communities. 2. b. 151.7 km. of rural electrification thru 34 projects involving the participation of 7 municipalities and benefitting 1,363 homes. 2. c. Rural aqueducts involving 14 municipalities and benefitting 5,000 homes. 3. Target not quantified, although some courses are to be started by 1977. 4. a. Statement of the priority needs (basic services) of rural Costa Rican communities. 4. b. Assistance to INFOCOOP & MAC in directing their work to priority needs. 5. To be in place by the end of 1977. 	<ol style="list-style-type: none"> 1. IFAM records and monthly loan reports 2. a. IFAM records. 2. b. IFAM records. 2. c. IFAM records. 3. IFAM records and University curriculum. 4. a. IFAM records. 4. b. Monthly loan reports and interviews with INFOCOOP and MAC. 5. IFAM records. 	<ol style="list-style-type: none"> 1. Municipalities have demand for financing and able to identify and develop sub-projects. 2. Role of IFAM's Research Unit will be seen as relevant. 3. Higher education institute willing to sign contract with IFAM. 4. Adequate project management skills exist within IFAM to implement credit fund.
<p>IMPUTS:</p>	<ol style="list-style-type: none"> 1. ODAID <ol style="list-style-type: none"> a. \$3,000,000 credit fund. b. \$175,000 technical assistance fund. c. \$225,000 training fund. 2. OOCR <ol style="list-style-type: none"> a. \$2,000,000 counterpart contribution to credit fund. b. Institutional support costs to IFAM. 		

BEST AVAILABLE DOCUMENT