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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

COSTA RICA - RURAL DEVELOPMENT PROGRAM

515-L-022  
515-L-023

AID-DLC/P-2033

UNCLASSIFIED

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

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AID-DLC/P-2033

May 24, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Costa Rica - Rural Development Program

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$7.9 million to the Government of Costa Rica to assist the Costa Rican small farmer to increase his productivity, providing him with better public services, access to more efficient farmer organizations, and an improved rural environment.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee on Friday, May 31 at 10:00 a.m. Room 3524 New State. Please note your concurrence or objection is due at the close of the meeting. If you are a voting member a poll sheet has been enclosed for your response. Please be sure to bring your poll sheet to the meeting.

Development Loan Committee  
Office of Development  
Program Review

ATTACHMENTS:

Summary and Recommendations  
Project Analysis  
ANNEXES

COSTA RICA  
CAPITAL ASSISTANCE PAPER

RURAL DEVELOPMENT PROGRAM

TABLE OF CONTENTS

| <u>VOLUME I BASIC LOAN PAPER</u> | <u>PAGE</u>                             |    |
|----------------------------------|---|----|
| SECTION I                        | SUMMARY AND RECOMMENDATIONS             | 1  |
|                                  | A. Borrower & Implementing Agencies     | 1  |
|                                  | B. Amount and Terms of the Loan         | 1  |
|                                  | C. Purpose                              | 1  |
|                                  | D. Program Description                  | 1  |
|                                  | E. Total Cost of the Program            | 2  |
|                                  | F. Other Sources of Financing           | 4  |
|                                  | G. Views of Country Team                | 4  |
|                                  | H. Statutory Criteria (Annex)           | 4  |
|                                  | I. Recommendation                       | 4  |
|                                  | a. Condition Precedent to Disbursements | 5  |
|                                  | b. Covenants                            | 9  |
| SECTION II                       | MACRO ECONOMIC ANALYSIS                 | 11 |
|                                  | A. Performance of the Economy           | 11 |

|  | <u>PAGE</u> |
|--|-------------|
| B. Growth Prospects for 1974 and Beyond  | 12          |
| C. Problems and Issues Related to the Loan                                       | 17          |
| <b>SECTION III AGRICULTURAL SECTOR OVERVIEW</b>                                  | <b>22</b>   |
| A. GOCR Policies and Program   | 24          |
| B. Economic Factors  | 25          |
| C. Outlook   | 28          |
| D. GOCR Institutional Strengths and Programs                                     | 29          |
| <b>SECTION IV BACKGROUND</b>   | <b>32</b>   |
| A. The Agricultural Development Program (ADP)                                    | 32          |
| B. Evaluations and Special Studies   | 35          |
| C. Assessment  | 38          |
| <b>SECTION V PROGRAM GOALS AND STRATEGY</b>                                      | <b>42</b>   |
| A. Agricultural Services   | 43          |
| B. Cooperative Development   | 44          |
| C. Rural Municipal Development   | 44          |
| <b>SECTION VI THE TARGET MAN</b>   | <b>46</b>   |
| A. Use of Agricultural Inputs and Basic Animal Husbandry and Agronomic Practices | 47          |
| B. Characteristics of the Land Holdings  | 48          |
| C. Principal Institutions Affecting the Rural Family                             | 49          |

|  | <u>PAGE</u> |
|--|-------------|
| D. Income and Economic Status                | 51          |
| E. Facilities Available to the Target Man    | 51          |
| F. Nutritional Status                        | 52          |
| SECTION VII AGRICULTURAL PRODUCT EMPHASES    | 53          |
| SECTION VIII PROJECT SUMMARIES               | 54          |
| A. Agricultural Services                     | 54          |
| B. Cooperative Development                   | 56          |
| C. Rural Municipal Development               | 58          |
| SECTION IX INTERNATIONAL DONOR RELATIONSHIPS | 60          |
| A. Rural Development                         | 60          |
| B. Assistance Programs                       | 60          |
| C. Complementary Projects                    | 60          |
| D. Relationship with IICA                    | 61          |
| E. Relationship with IDB                     | 61          |
| F. Relationship with IBRD                    | 61          |
| G. Relationship with CABEI                   | 62          |
| H. Coordination                              | 62          |
| SECTION X IMPLEMENTATION PLAN                | 63          |
| A. Project Management                        | 63          |
| B. USAID Monitoring Responsibilities         | 63          |

|   | <u>PAGE</u> |
|---|-------------|
| C. Loan Disbursements                               | 63          |
| D. Fiscal Control                                   | 64          |
| E. Reporting  | 64          |
| F. Implementation Schedule                          | 64          |
| SECTION XI EVALUATION PROGRAM                       | 64          |
| A. Introduction                                     | 64          |
| B. Project Level Evaluations                        | 65          |
| C. Sector Level Evaluation                          | 66          |
| D. Special Studies                                  | 66          |
| E. Internal Evaluation - Related Activities         | 66          |
| SECTION XII ENVIRONMENTAL CONSIDERATIONS            | 67          |
| SECTION XIII CAPITAL ASSISTANCE COMMITTEE, USAID/CR | 68          |

ANNEXES

- I - CHECKLIST OF STATUTORY CRITERIA
- II - CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE FOREIGN ASSISTANCE ACT OF 1961 AS AMENDED
- III - LOAN APPLICATION

I. SUMMARY AND RECOMMENDATIONS

A. Borrower and implementing Agencies

The Borrower will be the Government of Costa Rica which will be responsible for overall coordination of the Program and repayment of the Loan. The Program will be implemented by the Ministry of Agriculture (MAG), the National Agricultural Council (CAN), the National Institute for Cooperative Development (INFOCOOP) and the Municipal Development and Training Institute (IFAM).

B. Amount and Terms of the Loan

\$7.9 million repayable over 40 years, with a 10-year grace period on principal repayments. Interest will be payable at the rate of 2% per annum during the grace period and 3% thereafter.

C. Purpose

To assist the Costa Rican small farmer to increase his productivity, and quality of life by providing him with better public services, access to more efficient farmer organizations, and an improved rural environment. This is fully consistent with established GOCR priorities to increase job opportunities, obtain a more equitable income distribution, increase farm production, and raise the standard of living of rural Costa Rica as set forth in the National Development Plan, 1974-1978.

D. Program Description

The loan program represents a continuation and strengthening of the \$20,000,000 sector program authorized by AID in June, 1970 as Loans 515-L-022 (Agriculture Development) and 515-L-023 (Municipal Development). Its purpose is to capitalize on the momentum gained to date in reform of the agriculture sector to more effectively serve the small farmer. Specifically, the program addresses selected aspects of the sector program which contribute most directly to servicing the small farmer. The activities of this loan, therefore, are concerned with how on-farm technical assistance can be improved, the extent to which farmer cooperative organizations can increase small farmer income prospects, and the degree of municipal infrastructure and public serv-

ices he can expect. In other words, the success of the institutional changes now in place as a result of efforts under the sector program will depend on whether or not they foster better services. The inter-relationship of agricultural services, cooperative development, rural infrastructure, and marketing is based on the realization that, treated separately, none of these services or assistance vehicles are sufficient to transform the low level of productivity of the small farmer into a dynamic, modern subsector.

Finally, this program is addressed to improving the services provided by key institutions of the sector which directly reach the small farmer target group. Each of these institutions appear ready to move rapidly into the second phase of the sector program to focus on delivery systems. Loan funds, therefore, are aimed at (a) improved Ministry of Agriculture management and execution of crop and livestock field service projects, (b) increased ability of the Cooperative Institute (INFOCOOP) and the rural cooperatives to provide a wider array of production and marketing services and, (c) Municipal Institute (IFAM) programs of development of rural community infrastructure and services which encourage technification of small farm enterprises.

The program will continue to be coordinated and monitored by the National Agricultural Council (CAN) in basically the same manner as was established under the sector program in 1970.

E. Total Cost of the Program

The total cost of this program is estimated to be the equivalent of \$15 million, which the AID loan contributes \$7.9 million. The GOCR, and its autonomous institutions will contribute the equivalent of \$7.1 million as counterpart. Program costs will be shared approximately as shown below:

COST OF PROGRAM

(Thousands of Dollars)

|                             | <u>AID Loan</u> | <u>GOCR</u>    | <u>TOTAL</u>    |
|-----------------------------|-----------------|----------------|-----------------|
| Agricultural Services       | <u>\$1,300</u>  | <u>\$2,350</u> | <u>\$3,650</u>  |
| Cooperative Development     | <u>3,200</u>    | <u>2,750</u>   | <u>5,950</u>    |
| Credit                      | 2,700           | 2,600          | 5,300           |
| T.A. & Training             | 500             | 150            | 650             |
| Rural Municipal Development | <u>3,400</u>    | <u>2,000</u>   | <u>5,400</u>    |
| Credit                      | 3,000           | 2,000          | 5,000           |
| T.A. & Training             | 400             | N/A            | 400             |
|                             | <u>\$7,900</u>  | <u>\$7,100</u> | <u>\$15,000</u> |

DISBURSEMENT SCHEDULE

(Thousands of Dollars)

|                             | <u>1974</u> | <u>1975</u>  | <u>1976</u>  | <u>1977</u>  | <u>TOTAL</u> |
|-----------------------------|-------------|--------------|--------------|--------------|--------------|
| Agricultural Services       | <u>--</u>   | <u>1,180</u> | <u>1,170</u> | <u>1,300</u> | <u>3,650</u> |
| AID                         | --          | 480          | 420          | 400          | 1,300        |
| Counterpart                 | --          | 700          | 750          | 900          | 2,350        |
| Cooperative Development     | <u>--</u>   | <u>975</u>   | <u>2,250</u> | <u>2,725</u> | <u>5,950</u> |
| AID                         | --          | 575          | 1,250        | 1,375        | 3,200        |
| Counterpart                 | --          | 400          | 1,000        | 1,350        | 2,750        |
| Rural Municipal Development | <u>331</u>  | <u>2,285</u> | <u>1,918</u> | <u>866</u>   | <u>5,400</u> |
| AID                         | 25          | 1,200        | 1,625        | 550          | 3,400        |
| Counterpart                 | <u>306</u>  | <u>1,085</u> | <u>293</u>   | <u>316</u>   | <u>2,000</u> |
|                             | 331         | 4,440        | 5,338        | 4,891        | 15,000       |

F. Other Sources of Financing

The Export-Import Bank, IBRD and IDB have all stated that they are not interested in financing this program.

G. Views of Country Team

The country team considers the program to be a key element in the United States assistance program in Costa Rica, especially as it fully supports the newly installed Government's very strong interest in rural development, and urges program authorization at the earliest possible moment.

H. Statutory Criteria

All statutory criteria as set forth in Annex I of this CAP have been met.

I. Recommendation

On the basis of the conclusion of the Capital Assistance Committee that the Program is technically, economically and financially justified, it is recommended that a loan to the Government of Costa Rica for an amount not to exceed \$7,900.000 be authorized on the following term and conditions:

TERMS

Amortization: 40 years from the date of first disbursement.

Grace Period: 10 years on repayment of principal.

Interest: Two percent (2%) per annum during the grace period and three percent (3%) thereafter.

Repayment: U.S. Dollars.

CONDITIONS AND COVENANTS

In addition to the standard conditions and covenants, the loan shall be subject to the following:

a. Conditions Precedent to Disbursements

1. Agricultural Services Project:

a) As a condition precedent (CP) to initial disbursement of AID loan funds for the Agriculture Services Project, the GOCR must have included in the 1975 budget for the Ministry of Agriculture (MAG) both AID loan and counterpart funds necessary to carry out the project during 1975.

b) As a CP to initial disbursement of AID funds for the vehicle maintenance program of the Agriculture Services Project, the MAG must have established a vehicle maintenance policy and operational plan acceptable to A.I.D.

c) As a CP to initial disbursement of AID loan funds for the projects-by-campaign program of the Agriculture Services Project, the MAG must have established a mechanism for the control and disbursement of funds allocated to projects-by-campaign satisfactory to A.I.D. In addition, disbursement by MAG for each project-by-campaign will require an appropriate written plan and budget.

2. Cooperative Development Project:

a) As CPs to first disbursement of A.I.D. loan funds

under the Cooperatives Project:

1) All funds in the Cooperatives Project of Loan 022 shall have been committed.

2) INFOCOOP shall prepare to the satisfaction of A.I.D. an Implementation Plan for carrying out this project. Such plan shall include but not be limited to:

(a) An estimated schedule of disbursements for the first calendar year of the project, by general category of activity.

(b) A statement of INFOCOOP's lending policies for both loan and counterpart project funds.

(c) Provisions for monitoring and coordinating activities under the project, to promote most effective utilization of project funds.

b) As CP to any disbursement to or for the benefit of FEDECREDITO, INFOCOOP shall:

1) Demonstrate to the satisfaction of A.I.D. the technical and financial capability of FEDECREDITO to carry out effectively both its counterpart-financed production credit program and such marketing or other activity as it might wish to finance under the loan.

c) As CP to any disbursement to or for the benefit of FEDEAGRO, INFOCOOP shall:

1) Present an agreement with ITCO sufficient to permit accomplishment of those purposes of this loan that are sought to be accomplished by or through FEDEAGRO.

2) Present a plan satisfactory to A.I.D. for the institutional and operational development of FEDEAGRO to the point where it can effectively fulfill its functions as a federation.

d) As CP to any disbursement to or for the benefit of La Unión, INFOCOOP shall:

1) Demonstrate to the satisfaction of A.I.D. the technical and financial capability of La Union to carry out effectively the marketing and other activities planned to be implemented by La Union.

e) As CP to any disbursement to any individual coop, primary or secondary including those set forth above, related to an activity the cost of which will be in excess of ¢300,000 (approx. \$35,000), INFCCOOP shall furnish to the satisfaction of A.I.D.:

1) Approval of the activity by the new national marketing commission of the CAN.

2) Appropriate loan analysis demonstrating the technical, financial and economic feasibility and environmental impact of the proposed activity.

3) Evidence demonstrating the capability of the organization or organizations that are to carry out and/or administer the activity to fulfill their planned functions in a satisfactory manner.

### 3. Rural Municipal Development:

a) As CPs to first disbursement under the IFAM Project:

1) IFAM shall select and negotiate a contract(s) with a firm or individuals acceptable to A.I.D. to provide the technical assistance to be financed under the loan.

2) IFAM and the National University of Heredia will sign an agreement satisfactory to A.I.D. laying out their 3-year joint program for training of IFAM and municipal employees.

b) As CPs to first disbursement for credit under the IFAM Project: The GOCR shall provide guarantees satisfactory

to A.I.D. that IFAM shall receive at least the following amounts of funding from the Land Tax for the stated purposes as counterpart to the IFAM Project:

| <u>YEAR</u> | <u>-1-<br/>TOTAL AMOUNT</u> | <u>-2-<br/>OPERATING COSTS</u> | <u>-3-<br/>CAPITAL FOR<br/>COUNTERPART</u> |
|-------------|-----------------------------|--------------------------------|--|
| 1974        | 4,790,000                   | 2,180,000                      | 2,610,000                                  |
| 1975        | 5,020,000                   | 2,370,000                      | 2,650,000                                  |
| 1976        | 5,260,000                   | 2,760,000                      | 2,500,000                                  |
| 1977        | 5,510,000                   | 2,810,000                      | 2,700,000                                  |
|             | <u>20,580,000</u>           | <u>10,120,000</u>              | <u>10,460,000</u>                          |

If the total amount received by IFAM from the Land Tax for any year is less than these total projected figures (Column 1) the GOCCR will provide the difference to IFAM from other GOCCR fund sources.

c) As CP to disbursement of more than \$1.8 million of A.I.D. funds for relending under the IFAM Project, the GOCCR either shall have provided to IFAM as a capital contribution on a grant basis at least \$775,000 equivalent in addition to the sums referred to in CP G-2. above or shall agree to provide said funds on a pari passu basis with disbursements of the final \$1.2 million of A.I.D. funds.

d) As CP to first disbursement on any subloan by IFAM, IFAM will obtain the prior approval of A.I.D. for the subloan project.

4. Prior to the issuance of any commitment document or to any disbursement for the Program, the Borrower shall furnish in form and substance satisfactory to AID a comprehensive evaluation plan that includes specific targets (progress indicator and end-of-project status).

b. Covenants:

1. Unless AID and Borrower otherwise agree in writing, loan funds and their rollovers for all Projects under this loan will only be used throughout the repayment period of the loan for activities of the nature covered by the projects, as further defined by each institution's lending policy.

2. INFOCOOP shall prepare annual plans and schedules for each subsequent project year.

3. INFOCOOP shall execute at the appropriate time with each institution to which it plans to make loans for sub/lending AID-approved sub-loan agreements covering the types of sub-loans to be made including the following conditions precedent to disbursement to each recipient institution:

- a) Approved copies of each institution's lending policy for the loan funds; and
- b) Disbursement schedule of loan funds for the first-year period.

4. Unless AID and Borrower otherwise agree in writing, the approved lending policies of the recipient institutions will be adhered to throughout the project period.

5. The Central Bank of Costa Rica shall extend to INFOCOOP the same beneficial treatment for agricultural production loans to small farmers as is extended to the National Bank System, i.e, direct Central Bank loans to INFOCOOP at 2% per annum for agricultural production relending to small farmers.

6. The Central Bank agrees to determine whether or not it can extend to INFOCOOP medium term agricultural and marketing cooperative credit for small farmers on the same terms and conditions as short term agricultural credit. Such a determination will be made during the first year of the loan program.

7. It is understood and agreed that within three (3) months of the ratification of the loan agreement, a mechanism will be established between INFOCOOP and the CAN whereby cooperatives marketing investments will be reviewed and coordinated in conjunction with the

national marketing commission of the CAN.

8. The GOCR agrees to undertake a study to determine, within 6 months of the ratification of the loan agreement, an appropriate policy and source of financing of the down payments needed by small farmer buyer groups who wish to purchase farms under the ITCO sponsored Land Sale Guaranty Program.

9. The GOCR agrees to establish a study commission to review land tax rates and assessment policies with an aim to their reform. The commission will also study the feasibility of transferring the administration and collection of the land tax to IFAM. The commission's final report, and the subsequent policy decision by the GOCR will be completed within one full year from the time the loan agreement is ratified.

10. The GOCR agrees to review the organizational and operations relationship between the National Office of Community Development (NOCD) and IFAM toward determining, during the first year of the loan program, the most appropriate method of coordinating their activities -- whether by formal consolidation, working agreement, or other mechanism.

## II. MACRO ECONOMIC ANALYSIS:

### A. Performance of the Economy

#### 1. Overall Output

Over the past several years the Costa Rican economy has been growing at about 6% per year in real terms. After expanding at about 5.5% during 1969 and 1970 the economy suffered a setback in 1971 as GDP grew by less than 4% due essentially to a decline in agricultural output. With a strong recovery in commercial export agriculture the real growth rate doubled in 1972 reaching almost 8%, dropping in 1973 to about 6%, the same as the average for the previous four years.

With an annual rate of population increase of 3.0% (1968-1973), the above growth trends were translated into per capita growth rates of about 3% per year through 1970, less than 1% during 1971 and somewhat over 3% during the 1972-73 period. Although most 1972 and 1973 data are still preliminary, it appears that Costa Rica's record of growth of real per capita GDP is favorable when compared to neighboring countries which have not yet experienced the declines in population growth rates registered by Costa Rica over the last 12 years. <sup>a/</sup>

#### 2. Agricultural Output

The performance of the agricultural sector has been a key factor governing the pace and course of Costa Rica's economic development. Although agriculture's percentage of overall output has declined somewhat (from 24% of GDP in 1968 to an estimated 20% in 1973) it is still the cornerstone of the economy, providing direct employment for about half of the labor force and earning about 75% of total annual export earnings. When one considers that no less than one-third of the industrial inputs originate in the agricultural sector, the performance of the agricultural sector assumes an even greater role in determining the pace of economic growth.

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a/ For a detailed comparison of Costa Rica's performance as compared to other countries in the region see CAPTO A-150 of November 28, 1973.

After growing about 10% in both 1969 and 1970 (in current prices) agricultural production fell by almost 5.5% in 1971, owing to a 12% drop in crop agriculture, which in turn was attributable to a sharp decline in prices of Costa Rica's two main exports - bananas and coffee. <sup>a/</sup> As prices for these two products rebounded sharply in 1972, overall agricultural production increased by 13%. The upward trend continued in 1973 and total agricultural production is estimated to have grown by 13%.

#### B. Growth Prospects for 1974 and Beyond

Since the performance of the agricultural sector --especially traditional export crops-- seems to be the most important factor influencing the overall growth rate one should look to the agricultural sector for indications of future growth. In this respect the short run forecasts are favorable. <sup>b/</sup> For 1974 expectations are that exports of the major products (coffee, bananas, beef, and sugar) will exceed the 1973 levels. Other favorable economic indicators include a continuation of the moderate construction boom and strong growth in industrial production and industrial electric power consumption. However, the tempo of this activity could be constrained somewhat by selective shortages in construction materials and some industrial and agricultural inputs. Consumer demand appears to be strong. A survey of major retail trade outlets, conducted late in 1973, revealed sales on the average running over 27% higher in value as compared with a year earlier. A development of disturbing significance is a recent upsurge in the value of imports of agricultural raw materials and capital goods (for the first nine months of 1973 the increase was 19% and 24% respectively). <sup>c/</sup> Although normally a favorable development, spiraling import prices mean a reduced volume of imports and a possible adverse effect on output. Tractor prices for example are now 100% above a year ago, and fertilizer prices have displayed similar increases.

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a/ The export price index for coffee (1963=100) fell from 128 in 1970 to 112 in 1971. The index for bananas fell from 71 to 61. International Financial Statistics, April 1974, p. 106.

b/ See, for example, the report of the Agricultural Attaché entitled: Costa Rica: Agricultural Situation, Foreign Agricultural Service, February 6, 1974.

c/ Central Bank, Información Económica Semanal, March 1, 1974.

Although predictions are risky, it would appear that the overall growth in 1974 will continue at about the same rate as that experienced in 1973 and provide a favorable atmosphere for the implementation of the loan. However, this forecast excludes two important and related variables which have now become primary factors determining Costa Rica's longer run economic environment. The balance of payments and inflation.

1. The Balance of Payments

Balance of payments projections for 1974 and beyond range from "not so bad" to "terrible" depending upon the particular set of assumptions one adopts. Prior to the petroleum crisis the trend was favorable. <sup>a/</sup> The combined balance of payments of the five Central American countries showed a deficit of \$46 million in 1966, which was progressively converted into a surplus of \$112 million in 1972. Costa Rica recorded a \$6 million increase in international reserves in 1972 although remaining weakest in terms of absolute reserves for the region. However, in view of the petroleum crisis and spiraling costs of essential imports, the region will move from an estimated 1973 surplus of \$127 million to a 1974 deficit of \$187 million. For Costa Rica the petroleum crisis and related import costs mean an abrupt shift from a modest and hard fought for 1973 surplus of almost \$20 million to a debilitating 1974 deficit of \$59 million. If this deficit materializes it will wipe out Costa Rica's accumulated reserves (\$41.0 million on January 1, 1974). It is clear that some corrective action must be taken if reserves are not to disappear before the end of 1974.

The advent of a new government early in 1974 provides the atmosphere for development of a plan to lessen balance of payments and monetary difficulties. The GOCR has undertaken a monetary stabilization program which includes unification of the dual exchange system - i.e. effective devaluation of about 10%, measures to encourage the expansion of non-traditional exports, and a mechanism to channel increased revenues (a part of export windfall) into the Treasury to reduce or finance the 1974 Central Government budget deficit without resorting to the printing press --a practice which brought about much of Costa Rica's 1972 balance of payments problems.

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a/ See, for example, CAPTO A-150, page 35.

The partial improvement in the fiscal situation, expected to be realized from the selective adoption of export taxes will facilitate the preparation of a modest credit program, which could provide credit to the private sector to finance the sharp rise in oil and other imports without immediately plunging the country into economic crisis. <sup>a/</sup> Although there are lots of unknowns involved which would require continual adjustment and fine tuning, the prospects are "fair" rather than "terrible" that Costa Rica can finish 1974 without serious balance of payment losses. Of considerably more importance for the longer run health of the economy is the hope that monetary authorities will be willing to back away somewhat from easy monetary policies which here are translated into immediate balance of payments problems.

## 2. Inflation

Inflation has been much more of a problem in Costa Rica than in other Central American countries. As measured by the average yearly wholesale price index (the only continuous price indicator available in Costa Rica) inflation increased from an annual rate of 4% in 1969 to 6.5% in both 1970 and 1971. The acceleration stemmed almost entirely from the price behavior of domestic goods and may have been spurred by the liberal credit policy pursued in those years. In 1972 prices of imported goods accelerated sharply to a rate of 7.5% partially as a result of the effective devaluation of the colon. Although price increases for domestic goods were held to 5%, the overall index in 1972 rose 5.5%. In 1973 the situation deteriorated rapidly and by the end of the third quarter the rate of increase reached 16%. Preliminary estimates for the rate of increase in 1974 range as high as 30%.

The crucial question is how will the Costa Rican economy respond to this rate of inflation and how will it affect the economic environment in which the loan will be disbursed. Price increases attributable to the energy crisis and the devaluation of the colon are now for the most part behind us. Hence, these two pressure points should be alleviated as these forces expend themselves. Next, the prices of important export products have also risen enough to partly offset the

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a/ Still, deficit financing of the budget seems unavoidable for the GOCR, especially with major salary increases to be added to the budget in mid-1974.

increased prices of imported goods. Costa Rica's terms of trade have deteriorated over the last four years as the value of Costa Rican exports has increased 14% while the value of imports has risen by 23%.

On the negative side, the country is not accustomed to inflation and does not have established mechanisms for dealing with it (e.g. variable interest rates and wage agreements with escalator clauses). Inflation tends to hit hardest those groups who have the least bargaining power i.e. wage earners and the urban and rural poor. To the extent that these distortions result in strikes or social problems, one can anticipate an adverse effect on overall outputs and growth rates. Further substantial wage increases to moderate social problems, may set off an even greater inflationary spiral which would take years to run its course.

The effect of inflation on our target man is still difficult to assess with available data, but the bulk of the evidence indicates that it will not be helpful. The prospects suggest that crop prices probably will not keep pace with the cost of imported materials the farmers need. From 1973 to 1974 bean prices increased 27%, corn prices were up 44%, and rice increased 31%. However, these compare poorly with a 75% increase in fertilizer costs and a doubling of machinery costs. Further, the IMF estimates that the wholesale price index for domestically produced goods rose 24% in 1973. A study done by Academia de Centro America, a local consulting firm, indicates that the prices of all goods consumed by medium and low income consumers in the Meseta Central increased by 11% in 1973.

Although these data are not conclusive, it is likely that our target man has been under pressure to keep pace with larger and more efficient farm entrepreneurs. However, to the extent he is a wage earner, there is evidence indicating he is a loser, since wages have not kept pace with increases in costs. The following chart, prepared by Academia, indicates that there is a growing gap between the increase in prices paid by medium and low income families and the increase in the minimum wage typically received by the same group.

Salaries/Price Relationship

|         | <u>Salary Index</u> | <u>Price Index</u> |
|---------|---------------------|--------------------|
| 1964/66 | 100                 | 100                |
| 1966/68 | 105                 | 107                |
| 1968/70 | 110                 | 124                |
| 1970/72 | 123                 | 134                |
| 1972/74 | 127                 | N.A.               |

Source: Academia de Centro America

Note: Salaries are the legal minimum for farm laborers in coffee, banana and cattle industries.

3. Inflation Prospects for 1974 and Beyond

The prospects for a return to relative price stability are not encouraging. With the current rate running as high as 30% and a new government taking office (new governments in Costa Rica have a history of starting with a big splash) one could safely project continued pressure on prices stemming from treasury borrowing through the remainder of 1974 and into 1975. One key indicator to watch will be the extent of commercial borrowings by the new GOCR. Although the external debt picture is still a manageable one, debt maturities have been shortened with some significant repayments to occur in the 1975-1980 period.

There will also be pressure on wages and this will take time to work its way through the system. Unless the balance of payments is kept under control there could be another defacto devaluation which would set off another spiral of price increases. Because Costa Rica is a very open economy (imports equivalent to 42% of GNP in 1973), price increases in traded commodities would be quickly translated into domestic price increases. In the final analysis, one is forced

to conclude that inflation will not subside for several years. Costa Rica's ability to weather the storm will depend on how quickly she can accelerate production to more than make up for the inflation, and how its leaders and planners cope with recent internal monetary, fiscal, and wage problems.

C. Problems and Issues Related to the Loan

1. Employment & Migration

According to the recently released national plan (Diagnóstico, p. 69 ff) the growth of employment in the last decade was generally favorable. Expansion of agricultural employment, especially in bananas, helped forestall migration to the cities which would be expected since the long run growth in agricultural employment of 2.2% is much less than the growth of the rural population. Conversely, the annual growth of manufacturing employment was 5.2% compared to the 3.5% increase in the labor force. However, in recent years there have been some disturbing developments due to changes in patterns of cultivation. In an outlying province (Guanacaste) the 1973 census revealed that about 10% of the economically active population was unemployed due to the substitution of cattle grazing for labor intensive grain and cotton production. Indications are that this trend is continuing with higher meat prices inducing land holders to get out of the labor intensive dairy business and into the beef business. Although a recent drop in the U.S. export price may slow this movement, the rural unemployment and consequent pressure on urban areas are problems which the proposed loan intends to address.

Although hard data upon which to assess the employment and migration effects are not yet available, the 1974-1978 Development Plan hopes to have the agricultural sector provide 22,961 jobs between 1973 and 1978, or an annual rate of about equal to the 2.2% rate recorded between 1963 and 1972 (Table 9 of Strategy and Table 26 of Diagnóstico). To maintain this growth rate will require significant increases in agricultural sector investment and output and it is to this end which the proposed loan will contribute.

A related aspect, but more difficult to analyze, is the effect of the loan on urban/rural migration. Although it is probably not desirable to stop internal migration which accompanies development

almost everywhere, the loan aims at rationalizing this movement by: (a) placing emphasis on rural town infrastructure development to improve the environment of municipalities in predominately rural areas. This will tend to keep pressure off of the capital, as more surplus labor moves to urban areas closer to home which can provide the same amenities as the "big city", i.e. roads, water, electricity, etc. (b) It will slow the migration process by providing on-the-farm employment for at least some of the increase in rural population; (c) by encouraging the location of agro-industrial activities in rural municipalities it will provide non-farm employment in areas outside the capital for some of the surplus labor discussed in (a) above.

## 2. Income Distribution

Closely related to the employment question is the impact of the loan on income distribution. Although income distribution data is incomplete it gives a clear picture of the wide and probably growing disparity between incomes in the urban and rural sectors. Data in the National Plan (Table 23 of Diagnóstico) indicates that country-wide, the participation of the poorest 20% of the population in family income fell from 6% in 1961 to 5.4% in 1971. The proportion received by the richest 20% also fell (from 60% to 50%), while that of the middle 60% increased from 34 to 44%. Also, for any given percentile group the income in the San Jose metropolitan area is twice that of the rural area (see Cuadro No. 10 -- Límite de Clase). Available productivity data tend to support the alarmingly low productivity of the rural sector. In 1973, the average output of an employed worker in the agricultural sector was 5,943 colones (1960 prices) while his counterpart in the manufacturing sector produced 16,671 colones in output (Table 7 of Strategy). To narrow the gap between the income of the urban and rural worker as well as between small and larger farmers is one of the major objectives of the agricultural strategy as articulated in the 1974-1978 National Plan (see page 1 in Productive Sectors). By increasing both the productivity of the farmer and of the rural sector in general, the proposed loan will support the Plan's objectives of raising rural incomes. Further by increasing the dispersal of marketing and processing activities, the loan also aims at providing employment opportunities in rural areas.

### 3. Debt Service Capacity

The loan being proposed will be for \$7.9 million, repayable in 40 years including a 10-year grace period with an interest rate of 2% during the grace period and 3% thereafter. Assuming a three year disbursement schedule, this would mean that the debt repayment requirements for the loan would be \$52,000 in CY 1975, \$104,000 in CY 1976 and \$156,000 for each year from CY 1977 through CY 1984. In 1985 amortization payments would begin which would increase the annual requirement to about \$400,000. The issue, thus, is the effect of these payments on Costa Rica's debt carrying capacity. According to the IMF, outstanding external public sector debt <sup>a/</sup> rose rapidly from \$146 million in 1968 to an estimated \$297.0 million at the end of 1973. Beginning in 1971 the maturity structure of the debt began to deteriorate. Before 1970, over 80% of the debt had maturities exceeding 10 years. This ratio fell to 74% in 1972 and was expected to fall to 68% in 1973. Stated differently, about half (\$143 million) of the public debt outstanding at the end of 1973 had to be repaid within the following five years. The average interest rate on the debt is also rising, from about 5% during the 1968-72 period to about 6.5% in 1973. In summary, as a result of higher interest rates, commissions on undisbursed loans, and shorter maturities, Costa Rica's debt service payments were estimated to have risen by 66% between 1968 and 1973, with most of the increase occurring during the last two years. In spite of this growth the debt service burden has remained at a manageable level and absorbed 14.5% of receipts of goods and services exported in 1973 (about \$62.3 million) down somewhat from the 17% figure in 1968 and 15.5% in 1969.

In view of the above, the very small payments on the proposed loan over the next five years will have a negligible effect on the debt servicing burden. In fact, because the loan carries a low interest rate, a 10 year grace period, and a long repayment term, it will actually improve the maturity structure of the debt.

### 4. Counterpart requirements and the GOCR Budget

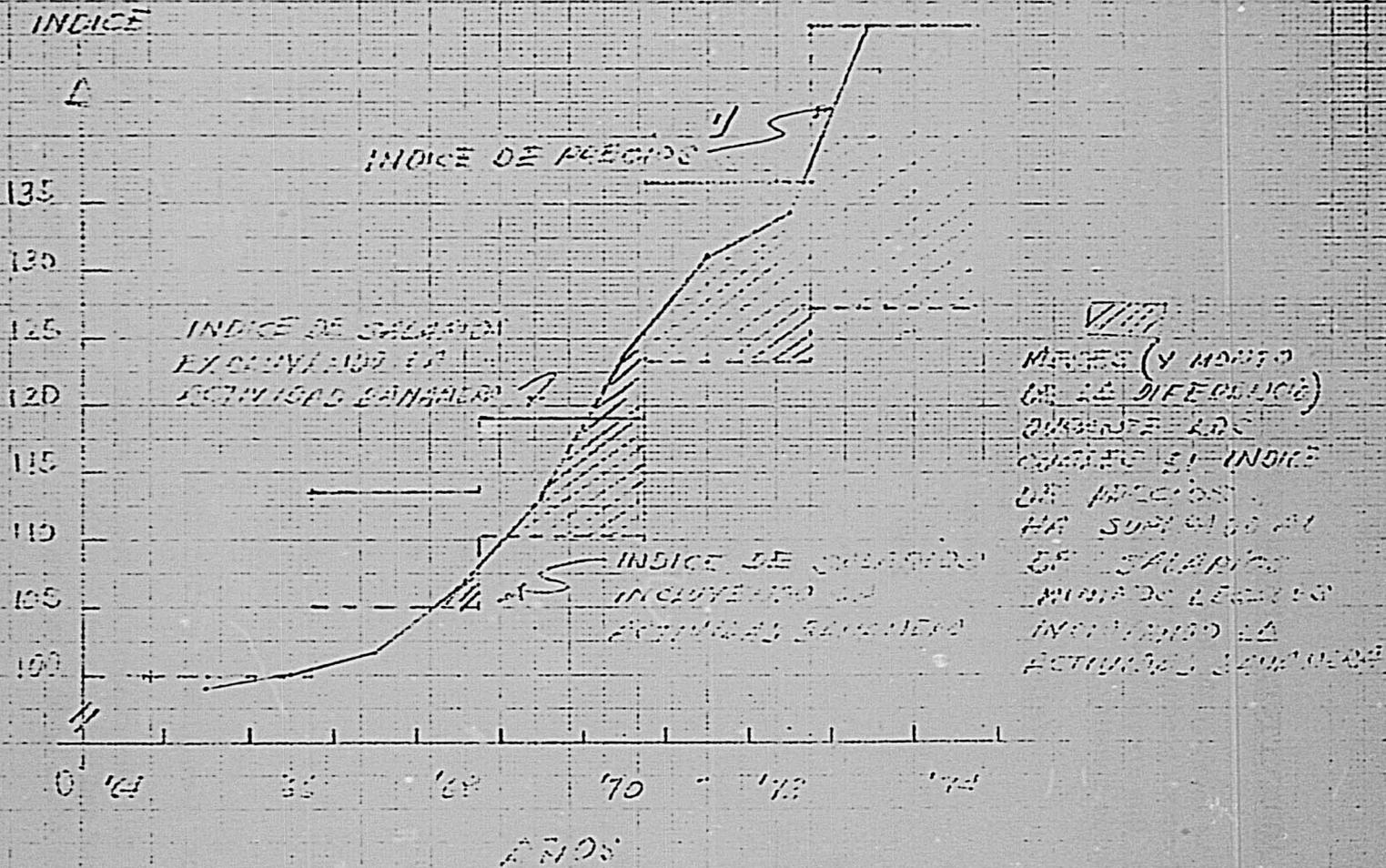
The proposed loan will require local currency counterpart financing of 61 million colones (\$7.10million) over the three

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<sup>a/</sup> Public sector and government guaranteed debt.

year project, or about 20 million colones annually. Although the details of public sector financing during the period of the National Development Plan are not available, it is estimated that revenues of the Central Government (IMF definition) were about 2,400 million colones in 1973, more than a 25% increase over 1972. Although expenditures registered a similar increase, the prospects are for a continued increase in revenues in 1974 and beyond which will maintain a deficit but manageable budget. Since the counterpart requirement for this loan is such an insignificant part of public sector revenue, and since the agricultural sector enjoys such high priority in the 1974-1978 national plan we foresee that the GOCR will be willing to provide all necessary counterpart financing, although preference will be given to alternatives other than from already strained Central Government resources.

# Grafico N° 1



1.- Para el calculo de ingresos recibidos y gastos de este centro.  
 Fuente: Cuadro N° 3 e indice de recibos de la  
 DIRECCION GENERAL DE ESTADISTICA

### III. AGRICULTURAL SECTOR OVERVIEW

As shown in the following table output of the principal agricultural crop and livestock products has maintained a steady rate of growth although generally, this growth has been attributable to commercial export crops and the beef cattle industry.

VALUE OF AGRICULTURAL PRODUCTION  
(Millions of Colones)  
(Constant 1965 Prices)

|         | <u>1967</u> | <u>1968</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> | <u>1972</u> |
|---------|-------------|-------------|-------------|-------------|-------------|-------------|
| Coffee  | 379         | 351         | 404         | 366         | 426         | 373         |
| Bananas | 220         | 312         | 396         | 454         | 497         | 535         |
| Sugar   | 68          | 71          | 86          | 86          | 88          | 91          |
| Beef    | 162         | 176         | 188         | 193         | 213         | 228         |
| Cotton  | 15          | 11          | 5           | 1           | -           | -           |
| Tobacco | 7           | 7           | 6           | 7           | 8           | 8           |
| Beans   | 17          | 12          | 17          | 11          | 7           | 6           |
| Corn    | 37          | 37          | 35          | 20          | 22          | 18          |
| Rice    | 69          | 73          | 61          | 64          | 74          | 63          |
| Hogs    | 17          | 18          | 29          | 24          | 24          | 24          |
| Milk    | 136         | 142         | 149         | 185         | 188         | 192         |
| Eggs    | 62          | 66          | 70          | 92          | 100         | 108         |

Source: Central Bank of Costa Rica.

Even though there has been substantial growth in the industrial, commercial and service sectors of the economy, agriculture is still the "key-stone" of the Costa Rican economy. The agricultural sector alone provides

employment for half the labor force and earns about 75% of the foreign exchange. Much of the activity in other sectors relates to agricultural production or the processing and marketing of agricultural commodities.

During the period 1968-73, the average annual increase in the gross value of agricultural production, was 9.3% when measured in current colones. According to preliminary estimates for 1973, the increase over 1972 was 13% as compared to the 1971-72 increase of 18% which was due to the sharp recovery of prices of bananas and coffee. Even when these figures are examined in terms of constant dollar values, the 1972-73 growth rate is a respectable 6%. However, much of that rapid growth has been derived from the major export commodities: coffee, bananas, beef, and sugar.

Coffee was the leading export commodity, closely followed by bananas, until 1971 when the banana "boom" pushed that crop into first place. Then, upward movement in world markets for beef and sugar created conditions under which Costa Rica expanded the number of its basic export commodities to four from its previous reliance on just coffee and bananas. The value of exports for 1973 was reported by the GOCR to be \$340.2 million. About 71% of the total consisted of four major export crops as follows: coffee \$92.8 million, bananas \$93.8 million, beef \$38.9 million and sugar \$17.5 million.

This concentration of growth in the export sector has been a mixed blessing. Although increased production and marketing of export commodities creates many job opportunities and provides needed foreign exchange, and even though a large proportion of the sugar and coffee are produced by small farmers, it is primarily the larger farmers who are the principal entrepreneurs and the major direct beneficiaries of growth in the sector.

Small farmers producing for domestic consumption mostly use traditional production methods and have correspondingly less access; to credit, technical assistance and efficient markets. Although small farm operators have traditionally produced basic grains, the production of basic grains, which was virtually sufficient to meet domestic requirements until 1967, has decreased in recent years, caused in part by adverse weather conditions, but also by shifts to other crops which offer better income prospects in view of relatively high Costa Rican labor costs. Deficits in basic grains with the

exception of rice are made up by imports, principally from CACM neighbors, who have comparative advantage particularly in the production of corn and beans. The gradual shift of small farm production to diversified crops has been inhibited by marketing problems. Thus, perishable commodities for the domestic market are some times in oversupply and some times scarce indicating the need for market organization to respond effectively to generally increasing domestic demand resulting from population growth and increasing per capita income.

The inefficiencies in production of food for the domestic market contribute to the continuation of the uneven distribution to the rural areas of the benefits of overall economic growth.

A. GOCR Policies and Program

The natural trend for the future will be to continue the dichotomy between the export-oriented and the domestic-oriented producers. Nevertheless, GOCR programs and policies are aimed at providing conditions which will induce private enterprise to further diversify the production and sale of export commodities, at the same time that more favorable conditions are created for small farm operators who produce mainly for the domestic market.

The need to maintain foreign exchange earnings which are so heavily dependent on the export of traditional commodities to world markets will cause the GOCR to continue to give high priority to this agricultural subsector. A second priority facing the GOCR is the need to increase the efficiency of production and distribution of food for the domestic market. Supplies of fruits, vegetables, and staple foods are frequently not in consonance with demand. In contrast, the competition of international markets for beef has created shortages of beef and milk in the domestic market which the government has not yet been able to resolve. The effects of this problem have caused public institutions increasingly to be called upon to mediate between producers and consumers, to walk that "tightrope" of action and policy in the marketing system which tries to establish equitable prices for essential commodities.

In addition, GOCR policies and programs will have to be de-

signed to solve the problems posed by the challenges of exotic diseases and parasites. Private enterprise must depend upon the public agencies to detect, contain and eliminate these threats to production and commerce. The Government must also have a response capability to alleviate problems caused by natural disasters: flood, drought, earthquake, etc.

B. Economic Factors

Traditional production of commodities for the domestic market by small farm operators means low productivity, low income and low standards of living in rural areas. The capacity of this group of farmers to contribute to agricultural production and share in the growth of the economy is highly dependent upon the public institutional capacity to encourage and support them, and to provide them with conditions comparable to those available to the larger farmers who produce and market coffee, bananas, sugar and beef. Principal among these conditions are: access to credit, to technical assistance, to production inputs and to efficient competitive markets.

1. Credit

Approximately 50% of credit outstanding is related to agriculture. At the end of August 1970 agricultural credit outstanding stood at ₡599.5 million, an increase of 14% over the previous year. This expansion continued during 1971 to reach a total of ₡786.3 million or an increase of 31%. This high rate of credit expansion occurred in other sectors of the economy as well which forced the GOCR to reduce the rate of growth of agricultural credit to 10%. At the end of August 1973 (latest available data) agricultural credit outstanding stood at ₡1,033.2 million, or an increase of 18% over the previous year. The following table illustrates the rapid overall growth of agricultural credit and highlights the increasing proportion of total credit being devoted to livestock. While total crop credit has grown slightly over 23% in the last four years, livestock credit has increased by nearly 144%. Of total crop credit, coffee alone accounts for 42%, with the bulk of the remainder accounted for by bananas, sugar and rice.

COSTA RICA - NATIONAL BANKING SYSTEM  
(Loans outstanding on Aug. 31, in millions of current colones)

|                     | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> |
|---------------------|-------------|-------------|-------------|-------------|
| Total Credit        | 1,114.3     | 1,500.7     | 1,751.9     | 2,035.9     |
| Agricultural Credit | 599.5       | 786.3       | 871.4       | 1,033.2     |
| Crops               | 353.8       | 432.8       | 430.1       | 433.8       |
| Livestock           | 245.7       | 353.5       | 441.3       | 599.4       |

Source: Banco Central de Costa Rica--Crédito y Cuentas Monetarias. Aug. 1973, page 10.

2. Technical Assistance

The provision of technical assistance to small farm operators requires: (1) the existence of a "package" of technology suitable for use by small farmers, which will result in a high return to capital investment. The package should take into account the amount and type of power available to the farmer in relation to the amount and characteristics of his land resources, the most probable market conditions at the time the crop is ready for harvest, the effects on soil conservation, and the degree of risk involved in production, harvesting and marketing, and (2) an efficient delivery system.

The Ministry of Agriculture Research Division has to provide and maintain a relevant package of production technology for a wide range of crop and livestock enterprises to provide a reliable flow of information to extension agents, banks and other sector agencies. Market specialists must attain the capability of accurate prediction of market conditions and keep sector agencies informed. Extensionists have to organize farmers into groups so they can be effective producers.

The larger, export-oriented, commercial farmers seek out and develop this information on their own initiative. The public sector

has to take the initiative to provide these advantages to the small farmers because they are not "self-starters".

3. Production Inputs

Small farmers, organized in cooperative groups, can better assure themselves of an adequate supply of the proper production inputs at appropriate times by combining their individual purchasing power. Although there are some areas which are not adequately supplied, in general essential production inputs are available in Costa Rica, with the exception of improved seeds and animal feed concentrates. Effective extension work plus credit availability could increase the effective demand for modern production inputs to the point where temporary shortages of agricultural chemicals would exist until agro-industry could respond by increasing production, by imports, or by re-direction of existing supplies.

4. Markets

The primary characteristic of the Costa Rican domestic market for agricultural products is its small size complicated by its regional focus. The government is beginning to overcome these problems in basic grains through the stabilization program. However, bank and Ministry of Agriculture personnel need to have reliable estimates of market demand and production intentions, so that small farmer groups can be motivated to produce the commodities which have the least market risk. Development of a national wholesale marketing system for fruits and vegetables should stabilize domestic market conditions and permit expansion of production of relatively perishable commodities for export diversification. The recent PIMA (Integrated Agricultural Marketing Project) study of agricultural marketing elaborates on the significance of these factors in the sector, and is the basis for future development of Costa Rican marketing policy.

5. Effects on Employment

Small farmers who use traditional methods are underemployed in many cases because climate, soils and rainfall limit them to one crop per year in a cycle which takes six months or less to complete. This

is particularly true of basic grains and coffee farmers. More intensive traditional crops such as bananas and sugar, however, are full-time employers. In any event, seasonal variations and the significant under utilization of many farms represent an underemployment pattern which can largely be alleviated by the introduction of animal production or the addition of more intensive crops such as fruits and vegetables. The salient characteristic of these alternatives is that they utilize crop residues or peripheral land which otherwise is wasted. These additional investments also are attractive in helping to spread the production and marketing risks entailed by single crop enterprise. In some cases, these alternative investments will replace the traditional crops once farmers have efficiently introduced them. For Costa Rica, this may occur most significantly as alternatives to basic grains and low quality coffee farms.

Employment should be stimulated by multi-purpose farms where planting and harvest seasons do not coincide. At the same time, improved farm technology which provides higher returns to labor already employed should attract additional farm employment.

#### 6. Income Distribution

The hypothesis behind much of the AID-supported GOCR efforts in the small farm sub-sector has been that public institutional assistance, to make small farm operators more productive and to provide them with a fair bargaining position in the market place, should result in a more equitable distribution of income in the rural areas.

#### C. Outlook

The potential for Costa Rican agriculture is bright. Livestock and exportable fruits and vegetables hold great promise given their income potential, the education level and receptive-to-change attitude of small farmers and favorable climatic conditions. Over the long haul Costa Rica will need to stress diversified farm investments since it fits the country's most likely future trading pattern and reflects the high cost of production and consequent high grain prices vis-a-vis its CACM partners. Nevertheless, the transformation of traditional agriculture will require patience and

perseverance and will necessitate continued production of basic grains until the viability of more intensive crops and animal operations is demonstrated. To support this strategy, the GOCR will need to concentrate its energy on improving marketing channels, on farm technical services, farm organization, and credit availability.

D. GOCR Institutional Strengths and Programs

The Agricultural Development Program, which started in 1971, has taken the initial steps required to modify traditional structures so that public services can be provided more effectively and equitably in rural communities. Progress has included: the establishment of the National Agricultural Council (CAN) and six cooperating regional councils where sector agencies can identify agricultural investments and coordinate agricultural and rural development programs; the regionalization of Ministry of Agriculture extension and research services; the expansion of credit to small farm operators and cooperatives to include many new borrowers; greater use of crop insurance and commodity price stabilization programs to reduce production risks; land titling to enhance the security of land tenure for small farm operators; the enactment of a series of laws related to land tenure and titling, grain and seed quality and cooperative organization; and the expansion of training of middle management agricultural technicians.

The Agricultural Development Program has created a national consensus on rural needs, and the sector's importance to national development which includes incentives and resources which are required to mobilize effort. The GOCR, however, recognizes the deep-seated problems in carrying out rural modernization; that what has occurred so far is only a beginning. There are nagging coordination problems within and between sectoral institutions, and efficient programs -- from applied research to production and farm income increases -- are not yet functioning properly. The regional orientation to agricultural investment decision-making also is in its formative stage with major implementational changes still to come.

The most difficult task which faces agricultural sector agencies is to learn how to work together towards establishing and achieving common goals. Human and financial resources are increasingly available to this end,

although much more will need to be done to mobilize sufficient efforts. The CAN, its Secretariat and regional councils have been operational for about two years. Through its influence on the planning and evaluation process in the implementation of the Agricultural Development Program, financed by the AID loan, it has been able to achieve a degree of success. It does not yet have all the legal basis, technical skill, nor influence to achieve its full purpose; but it is gaining prestige and managerial ability.

Institutions within the sector run the gamut from efficient and well-financed to poorly organized and archaic structures in urgent need of overhaul or elimination. Most appear to be conscientious and willing to modernize operations; at the same time, many lack managerial talent and are unable to respond to simple requests for cooperation. The overhaul and modern methodology process, nevertheless, has begun.

AID and GOCR objectives and priorities have coincided at the point where public institutions need to provide encouragement and support to small farm operators to increase their productivity and their relative share in social and economic progress; and to accomplish the efficient production and distribution of food for the domestic market. Larger commercial enterprises and private sector agro-industrial initiative have been vigorous contributors to the sector's health and are largely assisted by the IFI's.

The AID program seeks institutional reform and reorganization combined with improved management of resources. The reasoning is that better managed and coordinated institutions will be capable of sector analysis, establishing production goals, planning production programs and providing essential services. We are concerned with the GOCR ability to adapt to changing conditions as they occur. Therefore, specific commodity production goals are set by the GOCR and have not been expressed as specific AID program objectives.

From a longer-range standpoint, the program recognizes the importance of sustaining rural employment and creating alternatives to migration to metropolitan areas until such time as major cities can handle the inexorable trend toward urban living, which for Costa Rica is, perhaps, 6-8 years off as a significant occurrence. The GOCR capability to provide

necessary services and stimulus to farm production and income will largely determine the success of the program. Critical to its chances for success will be the development of alternatives to basic grains production, which, for the most part, is no longer a reasonable focus for most small farmers. Increased livestock utilization and more intensive, if not exotic, crops appear to have potential.

The Agricultural Development Program, begun in 1970 contains seven coordinated, complementary and distinct projects: Agricultural Services, Agricultural Education, Credit, Cooperatives, Marketing, Land Tenure and Community Organization/Municipal Development. Although these projects were designed with the small farmer in mind, and indeed some of them (e. g. Credit, Cooperatives, Marketing, Land Tenure) benefit the target group exclusively, the entire agricultural sector is the beneficiary of the program because the remainder of the projects do not have discriminate effects.

The process of education of and assistance to the small farm operator should lead to: (1) a change from traditional to modern production techniques in the production of basic grain crops to obtain higher yields, and therefore a better return for his labor; (2) appropriate diversification into other crop and livestock enterprises which utilize land and labor more intensively than basic grain crops; (3) a reduction in the risk of production by crop insurance to protect his investment against individually unavoidable hazards, by price stabilization to assure him a minimum price for his produce, and by water control to reduce weather risks from drought or flooding and to facilitate intensive land utilization; (4) modifications in the marketing system to create a fair bargaining position in the sale of produce; and (5) organization to take part in community political processes to assure participation in the benefits of social and economic progress.

The GOCR has adopted this small farmer program as its principal effort in the sector, consistent with its populist focus and concern for the "little guy". This priority interest is being sustained by new administration. The 1974-1978 National Development Plan gives top priority to the agricultural sector especially the need to close the gap between Costa Rica's "Haves" and "Have Nots".

IV. BACKGROUND:

A. The Agricultural Development Program (ADP)

This proposed loan package is a continuation and strengthening of a sector loan program (515-L-022) authorized in 1970, and should be analyzed consistent with the planning and implementation of that program to date.

1. Program Development

The Costa Rican Agricultural Development Program (ADP), supported by AID Loan 515-L-022, was generated over a one-year period of intensive study of the agricultural sector by a group of Costa Rican and U. S. economists, agriculturists, program planners and managers. This group reviewed existing studies of many aspects of the agricultural sector and commissioned additional studies and reviews by other Costa Rican professionals. In the process, the group became acquainted with the strengths and weaknesses of the rural sector and its social organization and with the institutions which serve it. It encountered a statistical base inadequate for rigorous analysis and, generally, uneven performance and inequities among sector programs, institutions and agricultural producers. Forced by circumstances to perform an assessment rather than an analysis, the group was still able to arrive at a reasonable consensus on targets, priorities and programs.

In their assessment, the group concluded that the sector, led by a strong export component, was growing strongly. However, small farmers who produced largely for the domestic market were making very limited progress. Centralized policy-making, program planning and direction tended to favor the more affluent and influential farmers, who were also less dependent on public services for delivery of information, farm assistance and technical inputs required for efficient production at the farm level. In order for the small farmer to participate effectively in the growth of the sector he required more effective guidance on modern technology and management methods and better access to credit, productive inputs, problem solving services, market information, transportation and reliable market conditions. This also required strengthening the performance of the public institutions on which he must rely for these elements, emphasizing their restructuring and decentralization to make them more accessible and more responsive in delivering their services to the small farmer.

The program which emerged from this assessment sought selective improvement of sector institutions within these guidelines in accordance with their significance, potential, absorptive capacity and interest. The package of projects that made up the initial program had to cope with a highly complex set of conditions and relationships which had developed over time. The program included all of the primary agencies essential to small farm development, coordinated centrally, but recognizing a high degree of variability among them in interest and capacity. Some institutions needed to open themselves to collaboration with others, while a few basically needed an infusion of capital. Program plans and recommended approaches for some high priority areas, e.g., marketing, were not sufficiently developed, while other desirable but lower-priority programs were ready to go. In most cases, the objective was to make an existing institution more effective by providing resources and creating structures and attitudes which would permit more effective operations. Nevertheless, in a few cases, new institutions were created. The result was a collection of sixteen different activities, executed by seven sector institutions, all of which were independently managed but loosely coordinated through their participation in the National Agricultural Council and a network of six Regional Agricultural Councils.

## 2. Program Status

The Agricultural Development Program was authorized by AID on 6/30/70 and ratified by the Legislative Assembly on 12/3/70. Conditions precedent to disbursement were met on 3/16/71. As of April 30, 1974, \$8,517,117 (52%) had been disbursed. There are no apparent problems which prevent remaining disbursements to occur as planned during 1974-1975.

We expect disbursement for some Activities to continue through 1975. Two Activities are primarily responsible for this delayed disbursement: (1) funds could not be disbursed for CNP grain handling equipment and seed processing plant construction until completion and review of an extensive management study of CNP operations, and (2) almost two years passed before a satisfactory technical assistance contract was negotiated by the University of Costa Rica.

At this point, projects can be grouped into three categories:

Investment Program Essentially Completed. These projects

are operational and require no further AID capital assistance for their continued contribution to the ADP

|                               |   |
|-------------------------------|---|
| Seed and Grain Laboratory     | UCR   |
| Food Technology Laboratory    | UCR   |
| General Credit                | NBS   |
| CNP Management Study          | CNP   |
| Agricultural Technical School | (Grant funded but considered a vital part of the ADP program) |

II. Investment Program Incomplete. No further assistance planned. These projects are operating satisfactorily. No direct loan assistance beyond authorized amounts are believed at this time to be required for their continued satisfactory contribution to the ADP.

|   |          |
|---|----------|
| Agricultural Education                  | UCR      |
| Agricultural Census                     | DGEC     |
| Incentive Guaranty Fund                 | BNCR     |
| Grain Handling and Processing Equipment | CNP      |
| Seed Plant Construction and Equipment   | CNP      |
| Land Titling                            | ITCO     |
| Land Sale Guaranty Fund                 | ITCO     |
| Community Development                   | DINADECO |

III. Investment Program to be Reinforced. Progress within these projects has been satisfactory, but more needs to be done to create the level and intensity of impact on the rural sector and its small-farmer population to generate the kind of development hoped for under the ADP.

|                               |          |
|-------------------------------|----------|
| Coordination and Evaluation * | CAN      |
| Regionalization *             | MAG      |
| Central Office *              | MAG      |
| Cooperative Development       | INFOCOOP |
| Rural Municipal Development   | IFAM     |

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\* These comprise the Agricultural Services of Loan 025.

The Municipal Development program was initially proposed as a part of the ADP. However, it was segregated from the ADP by AID since a major new intermediate credit institution, the Instituto de Fomento y Asesoría Municipal (IFAM) was being created and its ultimate contribution to rural development was uncertain. IFAM is now an established and effective institution and plays a significant role in the ADP and the development of the rural sector. It is incorporated in the CAN and its regional councils, and is also integrated into the new marketing commission of the CAN.

B. Evaluations and Special Studies

The Costa Rica ADP was unique in its approach to agricultural sector development, in the way in which it was developed, in its focus on small farmer's well being rather than national production, in its institutional rather than operational orientation.

These unique features have led to an unusual number of formal and informal studies, evaluations and related research efforts. These have included two evaluations of the entire program sponsored by CAN; an in-depth evaluation of the Agricultural Services and Agricultural Credit activities sponsored by USAID for MAG; a comparative study of sector programming approaches (The Hutchinson Team Report); a traditional audit; and a management and policy audit. IICA, under an AID/W contract, conducted a management study in 1972 which provided a baseline for improved management and operations of the MAG and other service agencies. AITEC conducted a survey of rural and urban residents and community organizations for DINADECO, while the USAID has sponsored baseline surveys and three special regional planning resource studies. In addition, a great many inspections have been conducted by AID/W and ROCAP staff.

In the final analysis, each of these reviews has confirmed the validity of the basic program concept and accepted (some have praised) the realistic approach to program definition in the absence of more reliable data. The absence of specific targets and benchmarks continues to be a source of initial concern but all investigators ultimately accept the USAID contention that these must be defined and accepted by Costa Rica's program managers if they are to have validity as obtainable objectives. Nevertheless, as a result of benchmark data already collected and availability of basic material from the 1973 census, more precise projections and small farm conditions have been used

to design this second stage of the ADP.

Persistent criticisms of the program revolve around the following points: (1) continued limitations of availability of quantitative material, (2) inability to date to measure the program impact at the farm level, (3) excessive expectations, and (4) inadequacies of available production technology.

1. Continued Limitations on the Availability of Quantitative Material

This is as vexatious to the USAID as to the evaluators. It is being overcome, but it is a long-term effort. Some of the more significant accomplishments include:

- Enumeration and compilation of the 1973 census.
- A baseline survey of small farm credit clients of the national banking system.
- A baseline survey of cooperative membership.
- A comparative survey of rural and urban residents and community organizations.
- A survey of farm conditions, needs and attitudes in Pacifico Sur.
- A nationwide income and consumer survey.
- A survey of program management characteristics in Pacifico Seco.
- Slow but progressive improvement in institutional progress reporting.
- Regional studies of General Valley, Nicoya Peninsula and Atlantic Coast.

2. Inability to Measure Program Impact at the Farm Level

Program management has been generally good and inputs have usually been delivered in accordance with need and consistent with good management practice. There has been a consistent and notable improvement in the attitudes of institutional staffs, in the capacity of these staffs to perform, and in their willingness to collaborate with other agencies in the program. A coordinating mechanism has been established, and planning has improved, but neither is functioning optimally. However, in only a few cases has it been possible to measure definitive changes in individual small farmer well-being and attribute those changes directly to an ADP input. Whether

realistic attribution can ever be gauged will depend on a set of as yet unknown variables. Still, we suspect one problem, encountered in 1972, arises when setbacks occur and managers are leery of admitting them. This event was the serious drought in 1972 which caused heavy losses to small farmers and all but wiped out the significance of 1971 gains.

It is improbable that such changes will show up in national production statistics, since (1) small farmers make too limited contributions to these somewhat insensitive categories, and (2) a large amount of basic grains production does not enter the national marketing system and thereby goes untabulated. Repetitions of the baseline surveys can demonstrate changes which have taken place among the more restricted client populations. Even here, the problem of attribution is severe, since these client populations are impacted by other aspects of the ADP and by non-ADP activities as well. More precise measurement and attribution is possible only in a situation of reasonable uniformity and traceable causality. We expect to be able to unite these conditions in the local pilot activities proposed under the Agricultural Services Project, where careful planning, close supervision and uniformity of identified target groups provide more promising conditions.

3. Excessive Expectations

Evaluations have repeatedly called attention to the fact that neither the transformation process nor the intermediate institutional goals could be met in the near term given the disparities in capability among the different institutions and the size of the task confronting them all. Certainly, the intent of the ADP was not to achieve the transformation of the small-farm subsector in a four-year time frame, but to start a process of institutional transformation which would make possible the longer-term goal. There has been some remarkable success in this institutional improvement, but major weaknesses remain in several of the more important institutions, particularly in planning and management. The weakness is most pronounced in MAG, which has the most important role to play in the program. Improving the performance of MAG is the major new initiative in the Agricultural Services Project.

4. Inadequacies of Available Production Technology

Costa Rican agricultural conditions vary widely from one

ecological zone to another. Production systems, techniques and materials must be adapted to these conditions. In most production regions, and for most crops, the best commercial cultural practices produce yields well above the average, indicating ample opportunity for improvement. Even so, extension agents frequently lack adequate knowledge of the most economically desirable packages to recommend under local conditions, and are unable to explain adequately some of the factors which continue to limit production. In planning the Agricultural Services Project, considerable attention has been given to integrating region specific/commodity specific research and services into pilot development activities.

C. Assessment

1. Accomplishments

Progress during the first three years of the program has been less than hoped for, but extraordinary, nevertheless, when considering the positive changes which have occurred and the level at which change began. Some of the more significant accomplishments are the following:

a. Institutional Development

All of the agencies involved in the agricultural sector program have undergone significant changes in their programs and operations, many stimulated or made possible by the loan. Other changes in policy or structure, not directly related to the loan, have been made by the institution as it has adjusted the use of its own resources to conform with what must have seemed to them a desirable goal in itself: to improve its ability to serve the small farmer. The significance of these changes can be observed in the volume and accessibility of the services which these agencies now offer:

Volume of Services

|   | 1/70 - 12/70 | 7/72 - 6/73 |
|---|--------------|-------------|
| Credit to small farmer<br>(in millions of colones)    | 83.2         | 186.2       |
| Amount of guaranty of CNP<br>(in millions of colones) | 4.8          | 16.4        |
| Agents of DINADECO (at end of period)                 | 9            | 31          |
| Agents & Technicians of MAG<br>(at end of period)     | 105          | 148         |
| Titles given by ITCO (at end of period)               | 86           | 6,079       |

Access to Services

|                                    | December 1970 | June 1973 |
|------------------------------------|---------------|-----------|
| Bank Agencies                      | 75            | 89        |
| Cooperatives with DAPC             | 4             | 30        |
| Agencies and Offices of MAG        | 49            | 72        |
| Agricultural Delegations of CNP    | 29            | 44        |
| Community Development Associations | 150           | 231       |

b. Coordination

All parts of the coordination structure (CAN, CARs and Cantonal Agricultural Committees) are now functional. Coordination among the institutions is much improved, as are interinstitutional relationships. There is still too great a tendency to rely on the formal structure, a complex diversity among client groups, and inadequate joint planning, as well as differences in the capacity of individual institutions.

c. Regionalization

The concept of regionalization has been accepted by all institutions even when not practiced effectively. All of the institutions now accept common regional boundaries, but only the Agricultural Extension Service, DINADECO and ITCO have achieved a high degree of hierachization of their organizational structure along regional lines.

d. Decentralization

The National Banking System, through its commercial banks, has made significant progress in the transfer of resources, responsibility and authority to its field offices. Individual agents now have a greater degree of flexibility within an effective system of guidelines and supervision. Other institutions have demonstrated interest in decentralization but have difficulty in carrying through. Even the MAG, which has been

the leader in regionalizing its extension services, has been unable to decentralize its operating budget, procurement function and equipment repair.

2. Weaknesses

In addition to the more generalized problems noted in the previous section, the following bottlenecks of the ADP can be identified:

a. Management

Management deficiencies in program planning, implementation, control and evaluation are persistent. The importance of their resolution is just beginning to be accepted. These deficiencies are evident throughout the sector, but are particularly noticeable in the MAG. A breakthrough in improved management practices by MAG, such as is sought through the Agricultural Services Project, should result in considerable improvement in MAG's performance, and with it, the performance of related agencies.

b. Lack of Multiple Channels

The value of opening up additional competitive channels for small farmer credit within the national banking system has been clearly demonstrated. However, farmers still need additional competitive channels for credit, for technical assistance, for inputs and for product marketing. A multiplicity of channels expand the number of service opportunities and stimulate better and more economical services. A strengthened cooperative movement, such as we seek through the Cooperative Development Project should accelerate the process of access to channels while, at the same time, stimulating organizations of small-farmer groups who increasingly will depend on such association to compete in the market place.

c. Market Inefficiencies

The market system is extremely ineffective in transmitting price, supply and demand information to producers and in collecting, sorting, transporting and selling agricultural produce. Three different approaches are being used to get at this problem. First, strengthening the cooperative movement through the Cooperative Development Project which provides a farmer-owned organizational base for joint marketing efforts.

Second, the grant-funded Project for Integration of Agricultural Marketing (PIMA) provides technical assistance for planning a central market structure and for research on other general marketing and marketing investment strategy. Third, IFAM finances a wide variety of municipal projects (including improved local and regional markets) which strengthen municipal infrastructure in rural areas to support agricultural development and viable regional growth.

With these experience factors in mind, the USAID and GOCR began the analysis and identification of the second phase of the ADP in the summer of 1973. Of paramount consideration was the assumption that the institutional framework was in place, that a shift in focus to more direct assistance to the rural sector and its small farmer population was now a viable objective which could be entertained. This assumption was reinforced by institutional performance during 1970-74 and a more substantial awareness of the mix of direct services which were most needed by small farmers. In addition, the program which has resulted was basically prepared by those staffs of the institutions which will be primary recipients of the new loan, thereby better assuring enthusiasm and a level of commitment from the bureaucracy which heretofore was lacking.

V. PROGRAM GOALS AND STRATEGY

The Agricultural Development Program seeks to increase the income and improve the living standard of small farmers by helping them to utilize modern farm production techniques and management and marketing practices. There are sufficient experience factors to believe that small farmers will make rational management decisions and improve their well being if provided with adequate information and with reasonable access to credit, productive inputs and markets. Provision of these elements requires the strengthening of services provided by public institutions and farmer organizations. This requires (1) inculcating the staffs of these public institutions with a concern for small farmer welfare, and (2) the availability of multiple channels through which small farmers may exercise their choices for goods, services and markets. Finally, these services must be coordinated sufficiently to assure that all necessary elements become available to farmers in adequate amounts at the proper time.

The basic concepts, goals and strategy of the Agricultural Development Program remain valid. The social and economic setting of the rural sector and the characteristics of its small farmers and rural population which led to the conceptualization of these goals and their conditions which determined assistance strategy under the ADP -- are essentially unchanged. The loan package herein presented should be seen as an extension and continuation of the strategy outlined in CAP AID-DLC/P-916, but seeking to build on past accomplishments and overcoming weak points in order to achieve the same basic long term goals.

Chapter III, BACKGROUND, summarizes the status of the ADP, the evaluations and studies which have been conducted, and the principal accomplishments and weaknesses in the first three years of program operations. USAID/Costa Rica believes that the strategy utilized to date has been appropriate and realistic, and has resulted in substantial progress in strengthening the institutions serving small farmers and in directing staff energies and attention to such service,

At the same time, the experience under the ADP has provided us with a much clearer picture of the possibilities and pitfalls in small farmer development programs. We have a great deal more knowledge of the nature and underlying causes of problems, and a better appreciation of the rapidity with which change may be expected to occur in concepts and administrative practices as well as in farmer adoption of new practices.

The ADP is ready for the second phase of operational strategy and technique. The novelty of the ADP and its associated mystique are showing signs of wear. This negative factor is balanced by the more professional approaches being taken by GOOCR institutions to the solution of sectoral problems. These institutions are beginning to recognize the need to find ways to "make things happen" and to plan and manage for results rather than rely on a continuous expansion of resources along traditional input lines.

USAID, in proposing this second phase of the ADP, is shifting its approach to meet these changing conditions without altering the basic strategy of the ADP. In essence, we will encourage continued self improvement by all sector institutions. All will continue to be included in monitoring, reporting and evaluation; but only a few will receive additional capital assistance.

New AID resources will be concentrated on a limited number of high priority institutions whose hopes for improvement in providing small farmer services will sustain the momentum and progress initiated with the ADP.

#### A. Agricultural Services

Improvement of MAG's program planning, management and operations analysis will not only improve the quality and effectiveness of its services, but will permit MAG to more effectively coordinate the efforts of all sector institutions. The method for bringing about this improvement will be the development and implementation of a set of carefully selected projects which can provide a pattern for integrated planning and execution within MAG and which are sufficiently well-focused to assure a traceable causality of

their effects. We are primarily concerned with the need to develop "vertical" region-specific, commodity-specific activities with their corresponding organizational changes which assure the availability of an appropriate technological package, the means for its delivery and the necessary supporting services, including MAG staff training development. We will also assist "horizontal" programs, such as an improved vehicle management program which will improve the efficiency of MAG supportive services.

B. Cooperative Development

Improving the capacity of farmer cooperative organizations will expand alternative channels for credit, technical assistance, inputs and marketing. The economies of scale possible through joint effort should improve the economic competitiveness of small farmers. Under the AEP, assistance was provided to the cooperative movement in the form of technical assistance, directed agricultural production credit and loans to individual cooperatives for investment in their own productive enterprises. Last year, the Department of Cooperatives of the Banco Nacional de Costa Rica was spun off and reconstituted as a new private Cooperative Institute (INFOCOOP), directed and controlled by the cooperative movement.

The proposed program builds on past progress. It includes needed capital resources to be channeled through INFOCOOP to rural cooperatives and their federations. These funds will permit expansion of the agricultural production credit programs but will also emphasize credit for cooperative marketing facilities, feed mixing plants, input handling and similar investments. The program also will strengthen INFOCOOP as a service institution for the cooperative movement, providing a solid base for its organization, education and training, and promotional activities.

C. Rural Municipal Development

Better agricultural services and corresponding production and income gains by small farmers alone will not create an environment sufficient to assure the viability of small farmers and their desire to remain farmers in rural areas. Rural infrastructure

development and related community services are critical elements in the task of building a dynamic small farm agriculture base. This program, therefore, includes assistance to IFAM to assist county governments and rural communities in developing the infrastructure and public services which serve the small farmer.

The strategy set forth in this second phase of the ADP will be oriented toward services of institutions and specific target groups rather than the institutions themselves. It will focus on concrete projects and activities in an effort to "make things happen". And, the strategy should create more productive target planning within the sector given the use of specific input-output operations as the focal point.

## VI. THE TARGET MAN

In spite of accelerating urbanization which is now taking place in Costa Rica, especially in the Meseta Central area, more than 50% of the Costa Rican population continues to live in rural areas, and an even higher percentage continues to derive its livelihood directly or indirectly from agriculture. Until recently, the agricultural sector was viewed as a kind of residual storage tank in which the bulk of the labor force (or potential labor force) could find some sort of subsistence until sufficient economic development occurred to provide employment in the urban-based industrial sector.

This transformation of the employment base probably will not develop as rapidly or to the degree that will give the excess rural population an opportunity to find gainful employment in urban areas. In fact, current estimates show employment growing at an average 2.7% during 1970-1980 but with the labor force growing at 3.4%. The unemployment problem which this suggests for the future has been given top priority by the GOCR in the new National Development Plan. Therefore, the strategy of this loan emphasizes increased rural income generation and increased employment opportunities for the low income, underemployed rural person, recognizing that the foundation of the Costa Rican economy will remain agriculturally oriented.

According to the criteria adopted in 1970 for the Loan 022 the target man was defined as the small farmer whose net annual income did not exceed ₡25,000, which at current exchange rates is equivalent to \$3,000. For purposes of the credit activity of that loan, a maximum subloan of approximately \$12,000 was set. In practice, however, subloans averaged only \$500 each and net incomes of the target group have averaged considerably less than \$3,000. This new loan program focuses even more sharply on the small farmers in the outlying areas of Costa Rica where average annual family incomes have been determined to be only \$500. A definition based on income avoids a characterization based largely on size of holdings. The principal problem with this type of classification is that farmers that fall within this range differ substantially when it comes to receptivity to change.

We have, therefore, separated small farmers into two groups; the advantaged and the disadvantaged, remembering that neither farmer has very much, and that this is only a relative classification.

The difference between the advantaged and the disadvantaged farmer is that the former can accept some risk. He can afford to invest in inputs which may be unprofitable in occasional years, if the long-term averages are good. The disadvantaged farmer is less able to offset bad years with good. He is concerned more with minimums than averages. He prefers year-to-year stability at modest production levels over higher averages which involve more risk and fluctuation.

As a result of a recent field survey<sup>1/</sup> of 1,488 persons in 109 communities from 20 districts of the country which were located outside of the Central Valley, as well as preliminary 1973 census data, the following information characterizes the target man. The term "rural" as used below refers to the regions of the country outside of the Central Valley.

A. Use of Agricultural Inputs and Basic Animal Husbandry and Agronomic Practices

Only twenty-four percent of all the farmers in rural areas use some or all of these seven inputs or management techniques: 1) chemical fertilizers, 2) insecticides, 3) herbicides, 4) improved seeds, 5) crop rotation, 6) parasite control, and 7) vaccinations of livestock.

Nationwide, the five most widely used practices by all farmers are: 1) herbicides 39.7%, 2) chemical fertilizers 29.2%, 3) livestock vaccinations 28.7%, 4) insecticides 22.8%, and 5) parasite control 21.7%. The most common sources of learning about these agricultural practices are relatives and/or friends, the agricultural extension service and work experience on other farms.

From the above information, we can hypothesize that the disadvantaged subsistence farmer probably uses very little of the above agricultural management techniques. Thus, we assume that the

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<sup>1/</sup>  
DINADECO/AITEC, etc.

disadvantaged farmer has at his disposal less productive land, less capital but essentially the same amount of family labor as the advantaged small farmer. Because of this imbalance between availability of land at his disposal and labor, the disadvantaged farmer is typically more underemployed.

One of the greatest needs of the disadvantaged farmer is the opportunity to use more fully the one factor of production which is in surplus-family labor. In contrast to capital inputs which could be financed through loans, an investment of additional labor can be made without risk or loss of opportunity, and more important, without mortgaging the future.

#### B. Characteristics of the Land Holdings

In overall numbers, there are 28,000 farms with 1 to 10 manzanas which is 43.2% of total farms in the country.

The survey showed that 67.3% of the heads of households in the rural areas outside the Meseta Central are engaged in agriculture and 62.3% of the farmers stated that they worked their own land ( the national average was 55.2% ). Almost 9% of the farmers rented land.

However, it is important to note that over 20% of the farmers in the outlying areas who work their own or rented land also work as laborers on another's land. This practice would indicate that the returns from one's own land is insufficient for the family subsistence or, at best, seasonal, and that it is necessary to find other sources of income.

To the extent that the Agricultural Development Program reaches the more advantaged farmers with a farming package system it will, in all likelihood, help the disadvantaged subsistence farmer's economic position through increased employment opportunities on neighboring farms, since those packages emphasize cropping mixes which decrease seasonal, cyclic variations and maximize labor utilization possibilities.

In addition, we can anticipate that at least 15 % of the disadvantaged farmers can be reached directly on the basis of MAG and bank experience in incorporating that percentage of the smallest farmers in the ADP to date.

C. Principal Institutions Affecting the Rural Family

The survey showed that of the four public sector institutions that have direct contact with the rural family, the Agricultural Extension Service was by far the most important. Nevertheless, the MAG recognizes that many of these contacts are not highly productive and do not represent the kind of dynamic outreach needed to assist small farmers toward improved productivity and income gains.

**TABLE : KNOWLEDGE OF AND CONTACT WITH VARIOUS INSTITUTIONS**  
**(PERCENTAGE OF HEADS OF HOUSEHOLDS)**

| INSTITUTION   | Atlantic Region | Southern Pacific Region | Northern Pacific Region | Northern Plain | NATION  | Metro-politan Region |
|---|-----------------|-------------------------|-------------------------|----------------|---------|----------------------|
| Institute for Social Assist. Knowledge                      | 13.6            | 21.0                    | 15.0                    | 0.0            | 38.6    | 62.9                 |
| Contact   | 3.2             | 1.4                     | 0.5                     | 0.0            | 5.4     | 9.0                  |
| Institute for Housing and Urbanization Knowledge            | 35.6            | 51.0                    | 46.7                    | 11.0           | 59.1    | 78.4                 |
| Contact   | 8.4             | 3.9                     | 2.6                     | 0.0            | 8.4     | 14.8                 |
| National Of - fice of Com - munity Devel - opment Knowledge | 1.3             | 4.7                     | 4.7                     | 0.0            | 5.4     | 6.3                  |
| Contact   | 0.6             | 4.2                     | 4.2                     | 0.0            | 3.6     | 2.7                  |
| Agricultural Extension Knowledge                            | 25.3            | 28.4                    | 23.4                    | 11.0           | 32.4    | 42.5                 |
| Contact   | 14.6            | 9.7                     | 15.0                    | 2.4            | 10.5    | 8.1                  |
| Number of Individuals                                       | (157)           | (298)                   | (191)                   | (41)           | (1,488) | (511)                |

D. Income and Economic Status

In rural areas, the average family's annual income is approximately \$500 vs. almost \$3,000 in the metropolitan zone of the Meseta Central.

Because families are larger in rural vis a vis the Meseta Central (4.82 children vs. 3.98) the concentration of wealth, expressed in terms of economic resources available per capita is even more severe. The real annual income per capita for the outlying areas is \$722 as opposed to \$4,747 in the Meseta Central.

E. Facilities Available to the Target Man

The target man depends on his local government (canton) to provide him with an array of essential services. He urgently needs roads to take his products to market, electricity to improve his environment and to technify his farm, market facilities, water supply for his farm and home use; and he expects his local community to work with central government institutions to provide his area with health, education, social and recreational facilities and other productive services which he needs so that he and his family are benefited with a higher quality of life in rural areas. His propensity to leave agriculture and rural areas for the city is increasing. A recent study of 3 cantons in the Nicoya Peninsula shows that the population has remained at a constant level between 1963 and 1973 even though population growth has averaged more than 3% in the region during the same period.

1. Electrical Service

Depending upon which rural area one lives in, only between 2.4% and 18.7% of the homes interviewed had electrical service.

2. Water Service

70.5% of families nationally and 97.6% in the Metropolitan Area have water systems, whereas this service is available to only 0 to 40% of the families in the rural areas, depending on which region.

F. Nutritional Status

As a result of a study financed by AID in 1972 with the University of Costa Rica, a nationwide consumer survey (Income Distribution and Food Consumption), was carried out in which 1% of Costa Rican families were interviewed.

The following table shows the difference in consumption per capita in the Urban and Rural Zones.

CONSUMPTION PER CAPITA IN POUNDS

| PRODUCTS       | URBAN | RURAL |
|----------------|-------|-------|
| Rice           | 104   | 106   |
| Corn           | 31    | 79    |
| Beans          | 49    | 63    |
| Beef           | 70    | 33    |
| Pork           | 11    | 3     |
| Chicken        | 11    | 6     |
| Fish           | 13    | 6     |
| Eggs (units)   | 222   | 147   |
| Milk (bottles) | 163   | 119   |

The target man can be reached. The ADP has proven his accessibility and interest in change. However, better focus and qualitative improvement in the mix of services must be provided to increase his productivity and his environment.

## VII. AGRICULTURAL PRODUCT EMPHASES

The agricultural products that will receive the most support from this Program will be the non-traditional, local consumption crops produced in large part by small farmers. As in Loan O22 we are not setting production targets since the program focus is on the farmer and institutions that serve him and not on national production levels. Furthermore, because much work remains to be done to develop area and crop specific technological packages for many of the crops, global production targets cannot be established with any reasonable accuracy. However, yield and production targets will be set for the specific regional production projects to be carried out by the MAG; whose objective will be in large part to develop specific technological packages.

We know that small farmers who could be affected by this Program are producing basic grains, fruits and vegetables, milk products, eggs, beef, hogs, chickens, sugar cane, coffee, cocoa, plantains, etc. They constitute the principal source of supply of the basic food crops consumed in the country; the subsector whose production and marketing systems are the least developed.

We will not be providing specific assistance for the production or marketing of the principal export crops (coffee, sugar cane, bananas and beef) because their production and marketing systems are already relatively well developed. On the other hand, producers of those crops will benefit indirectly from this Program to the extent that the MAG, cooperatives and IFAM are able to strengthen their overall operations and provide greater services to their total clientele.

## VIII. PROJECT SUMMARIES

### A. AGRICULTURAL SERVICES

Evaluation of progress to date under the Agricultural Development Program has revealed that sector institutions have been reaching larger numbers of the small farmer target group, in the form of production credit and on-farm assistance. Also, the sector has been better organized and regionalized to assist the small farmer with significant improvements in the service capacity of sector institutions. Notwithstanding these gains, outreach to small farmers with resulting productivity and income increases have been sporadic and, in large measure, hard to quantify. A key factor explaining the less-than-hoped for level of productivity and income improvement of small farmers appears to be the inadequate application of modern management practices and lack of operational resources of the Ministry of Agriculture (MAG) in its technical assistance and small farmer service program.

The MAG has made substantial progress in building up its professional staff and in improving its facilities and equipment base. However, MAG field service operations need bolstering if it is to influence the utilization by the small farm sub-sector of modern farm practices to achieve high productivity. This loan project, then, supports the introduction of new management and training techniques within the MAG and, concurrently, encourages a better balanced allocation of MAG budget resources to permit its professional staff to plan and carry out a series of regional projects of assistance to small farmer groups. The methodology to be used in improving the quality of MAG services will be to modernize management, policymaking and field operations through a carefully selected program of on-the-job demonstration training programs to be undertaken by MAG central staff and regional offices.

In addition, this project supports the further development of

the National Agricultural Council (CAN) and its secretariat to (a) improve the capacity of its network of regional agricultural councils (CANcitos) to plan and propose sectoral development efforts; (b) coordinate and evaluate Agriculture Development Program activities; and (c) establish sector policies and program priorities, including guidance to its new, permanent national marketing commission and the commission's staff arm (PIMA).

AID will provide \$1,300,000 of loan funds for this project, \$200,000 of which will finance CAN planning, coordination and evaluation responsibilities. For the MAG, \$1,000,000 of AID loan funds are planned to carry out demonstration training and management reform activities. Specifically, AID will contribute \$700,000 to assist in the financing of up to 18 demonstration projects-by-campaign to be carried out as training vehicles through each of MAG's 6 regional offices and to cover primary crops and livestock operations cultivated by the Costa Rican small farmer. \$200,000 of AID loan funds will cover technical assistance inputs to help improve MAG planning efforts and management practices. \$100,000 will be contributed to MAG staff training programs to upgrade technical personnel and to introduce modern farm practices. In addition, \$100,000 of AID loan funds will help finance a preventive vehicle maintenance program to improve use of the MAG's large jeep and auxiliary vehicle fleet which was, in part, originally purchased with prior AID and IDB loan funds. The GOOCR will contribute the equivalent of about \$1,650,000 in increased MAG budget for operating costs as counterpart with the objective of restoring balance in its annual budgets, thereby permitting the MAG to assume full responsibility for carrying out field projects-by-campaign on a continuing basis, beginning in 1978. Furthermore, the GOOCR will contribute as counterpart the financing of the staff of the national marketing commission, and a feasibility study for the establishment of a central wholesale market. The GOOCR will also assume responsibility for financing the construction of the central market; although its costs have not been assigned as a counterpart contribution.

## B. COOPERATIVE DEVELOPMENT

By Latin American standards, the Costa Rican cooperative movement is exceptionally advanced, both in terms of membership and in terms of organization and activities. With AID assistance, the credit union concept has taken hold impressively in Costa Rica over the past decade. To this concept have been added other services which cooperatives can extend to their members, such as the supply of production inputs. Cooperative membership is presently at 87,713 members, representing annual increases averaging 15% over the past three years. Membership is expected to continue to grow at this rate.

The result of extended cooperative organization has been to broaden the objectives of the cooperative movement in Costa Rica. This has been both a cause and an effect of extended membership and stronger organization. Thus credit unions are no longer content to limit themselves to the original savings and loan functions. During the 022 Loan period, the supplying of inputs became a major program in the two largest cooperative federations in Costa Rica UNACCOOP and FEDECREDITO. Although there is still much left to do in this area, cooperatives have become interested in further expanding their activities to embrace marketing, semi-processing and processing functions, thereby becoming "full services" cooperatives. The ability of cooperatives to achieve links of vertical integration in order to complete the farmer-to-market, or farmer-to-processor cycles will greatly enhance their ability to service the small farmer.

The principal objective of the Cooperative Development Program is to encourage the Costa Rican cooperative movement to extend more and better services to more small farmers by adopting a full service approach. A full service approach should begin with helping the farmer to decide what to plant, how to plant it, and where to market it. This may mean setting up marketing contracts in advance and providing transportation links to markets; it may mean providing market news information on a timely basis, that is, prior to planting; it may mean providing storage facilities

to protect products until the market price gives the farmer a fair return on his investment and labor; or it may mean contracting with a private food processor which provides steady, predictable markets for the small farmer.

The marketing structure of Costa Rica will be greatly strengthened by this process. The present system is essentially private, but is not considered to be excessively exploitative by American and local experts who have analyzed the market structure. However, the marketing system does not reach all small farmers. Furthermore, the market is very "thin" for certain products. Thus the present loan will improve the Costa Rican marketing system by identifying the weak links in the present marketing structure and strengthening these links through cooperative initiative. The program will thereby benefit both the small farmer by increasing his income, and the national economy by improving the marketing system.

The Cooperative Development program is composed of two inter-related components: production credit and marketing/processing credit. These will join to become the operational arms of a unified strategy to improve cooperative services to the small farmer in the process of production as well as in the essential process of marketing. Coordinating this effort through cooperatives will serve to strengthen the cooperative movement's ability to service the small farmer.

The over-riding need to provide better marketing services for the small farmer has been amply demonstrated.

The principal component of this project is \$3,200,000 of AID loan funds counterparted by \$2,750,000 of Costa Rican funds to expand credit for agriculture-related cooperatives, for the purposes of production, processing, transport, distribution, and marketing. \$2,700,000 of the AID funds will be relent by the COCR to INFOCOOP at the AID terms.

In addition, \$500,000 of AID loan funds will be made available for technical assistance, on a grant basis from the COCR to INFOCOOP to use

throughout the cooperative movement in such a manner as to most effectively progress in extending full service cooperative support to the small farmer. These funds are fundamental to the success of the program in that they are essential to the development of managerial and technical skills within the cooperative movement.

### C. RURAL MUNICIPAL DEVELOPMENT

Costa Rica has witnessed a growing disparity in the distribution of wealth, resources, and services between its urban and rural populations. Urban areas have a general standard of living which is some 5 to 6 times greater than outlying rural areas; and this condition is reflected in the absence of even the most basic infrastructure and public services in many rural cantons. Part of the problem is the low level of financial resources available to rural municipalities. Likewise, part of the problem is the tendency by the central government to emphasize urban core area investments. In 1970, AID assisted the GOCR in the establishment of the Municipal Development Institute (IFAM) by providing a loan for initial capitalization and technical assistance. IFAM has made impact in financing municipal infrastructure projects and in upgrading the management capability of local governments. Nevertheless, those municipalities which need IFAM assistance the most, i.e. 65 poorer rural, eminently agricultural cantons, have not yet been attended adequately; and it is the purpose of this loan to encourage IFAM to invest financial resources and administrative and planning know-how into these rural cantons. Through such a transfer program, it is expected that resulting inputs of infrastructural and public services will help technify small farm agriculture and thus raise the productivity of these cantonal farming communities, increase their access to markets, and improve the standard of living for the rural poor.

AID will earmark \$3,400,000 to IFAM for this rural-oriented loan project of which \$3,000,000 will be for capital and \$400,000 for technical assistance and training activities. The GOCR will

provide counterpart in the form of annual capital increases for IFAM through new land tax income of approximately \$500,000 a year and a one-time grant of about \$775,000 in bonds.

Both new AID loan and GOCR contributions for capitalization will be used by IFAM to finance high benefit projects in rural areas, exclusively, with preference to the 65 rural cantons now undergoing detailed study. Sub-loans would be for farm-to-market roads, rural water systems, electrification and agribusiness-related projects which, in terms of cost/benefits, have high impact for small farmers. In addition, \$400,000 of the AID loan will finance technical assistance and training to further develop IFAM staff capabilities and its services to all 79 municipal clients. Of these funds, \$75,000 will finance technical services to IFAM's new Research and Planning Department. This Department is currently undertaking baseline studies of 25 of the 65 target rural cantons, and, by September, will complete a priority investment plan for each of them. Studies of the remaining 40 rural cantons are scheduled for 1975. \$100,000 will provide assistance to improve IFAM's own financial management, and \$225,000 will fund a training program for both IFAM staff and municipal personnel under the aegis of the National University of Heredia. The training program will stress community planning, municipal management and services, and project analysis execution.

## IX. INTERNATIONAL DONOR RELATIONSHIPS

A. There are a number of international donor institutions as well as other bilateral assistance missions participating with the GOCR in activities within the rural sector which support projects of this loan proposal and which have been taken into account in the preparation of our strategy. In all cases, duplication of effort has been avoided. We are also satisfied that externally-financed activities are in large measure complementary to the loan program prepared herein.

B. Current or planned external programs for the rural sector include (a) agro-industrial credit programs of LAAD, CABEL, and IBRD; (b) livestock credit programs - IDB; (c) commercial agricultural export credits - IDB and IBRD; (d) general agricultural credit - IBRD; (e) Itiquis and Tempisque irrigation development projects - IDB, UN, FAO; (f) ocean fisheries - IDB; (g) feeder road and secondary highway reconstruction projects - IDB; (h) regional electrification - IDRD.

C. Of special significance to complement our program are (a) a new \$18.8 million agricultural credit loan in the advanced planning stages to be financed by the IBRD which will include sufficient small farmer credits to preclude further consideration by AID of supporting such sectoral needs through the banking system and (b) selected highway development and reconstruction projects of the IDB and CABEL which will afford tie-ins to possible feeder roads which might be financed by IFAM under the AID loan.

These include (1) a new highway, Naranjo-Florencia-Los Chiles, which knifes up through the San Carlos region to the Nicaraguan border -- an area which heretofore has remained agriculturally hampered by lack of transport access; (2) reconstruction of the Carmona-Nicoya highway which currently is in poor condition and adds costs to marketing of produce from central Nicoya Peninsular; (3) the new highway linking Limon-Siquirres-San Jose on the Atlantic side which opens up this vast region for development; (4) a new highway along the Pacific coast that will improve access to markets for important rice and cattle-producing areas; (5) pilot farming programs sponsored by the Taiwanese Government and UNDP provide support to the MAG and ITCO in specific localities of the country as well as demonstrating new cropping and farm management techniques; finally (6) plans for British and CABEL support of a new

post-secondary livestock technical school, patterned along the lines of the AID-financed Agriculture Technical School in Santa Clara, will provide access for training middle-level management personnel for livestock enterprises and public sector institutions.

D. Relationship with IICA:

Direct participation in the ADP and the design of this loan proposal has been provided by IICA management and marketing divisions. Their collaboration in the analysis and field testing stages as part of a CAN, IICA, AID task force has been particularly instrumental in convincing middle-level managers in the MAG of the need for organizational changes and "projects by campaign" as essential ingredients of a new MAG strategy to assist small farmers.

E. Relationship with IDB:

Close coordination was maintained throughout the preparation of this loan proposal. Although the IDB has demonstrated interest in the Agriculture and Marketing Services elements, the IDB believes that (a) Specific AID inputs would not have been provided by the IDB; (b) AID assistance to the MAG will improve prospects for MAG capability to complete IDB-contemplated loans to irrigate the Tempisque and Itiquis Valleys; (c) IDB loan funds for marketing development could be made available in the future on the basis of investment decisions to be taken by the new national marketing commission--but would not be programmed prior to the commission's full study of marketing needs. The IDB also feels, as does the IBRD, that AID plans to assist IFAM and INFOCOOP are appropriate but not possible bank loans since neither of those sector institutions have the type of proven track record which both IDB and IBRD prefer in reviewing assistance programs.

F. Relationship with IBRD:

IBRD officials have informed us that they will concentrate assistance in the rural sector on assuming all needs for national banking system agriculture credit, including credits for small farmers, which is calculated at \$18.8 million. Moreover, the IBRD has indicated serious interest in cooperatives credit programs if and when INFOCOOP demonstrates its ability to handle increasing cooperative investment demands.

G. Relationship with CABEL:

We anticipate that the GOCR will look to CABEL for financing the proposed central wholesale market, other marketing facilities, and/or wholesaler-retailer credit programs. This may be done jointly with the Central Bank and CODESA, or it may be directed exclusively at CABEL. Of particular interest to the GOCR is CABFI financing of the central wholesale market as was provided recently in a parallel case to Guatemala.

H. Coordination:

Close contact is maintained by the USAID with visiting IBRD teams. Also, USAID, IDB, and UN representatives hold monthly meetings to coordinate assistance programs both between agencies and with the GOCR. Beginning with the preparation of the 1973 DAP, this Mission designed its planned follow-on loan to the ADP in concert with IBRD, UN, IDB, and IICA plans and interests.

X. IMPLEMENTATION PLAN

A. PROJECT MANAGEMENT

Overall responsibility for the execution of the Program will be with MAG INFOCOOP and IFAM in coordination with the CAN, for their respective projects .

B. USAID MONITORING RESPONSIBILITIES

The Chief of the Office of Rural Development and his staff will have primary monitoring responsibilities for the Cooperatives and Agricultural Services projects and the Chief of the Office of Institutional Development for the IFAM project. Assistance in monitoring will be provided by USAID contracted technical advisors, the Capital Resources Development Officer and the Controller. There is sufficient expertise in USAID to adequately provide the necessary services .

C. LOAN DISBURSEMENTS

Direct disbursement of funds will be made to MAG, INFOCOOP and IFAM upon due request. Advances of up to three months will be made as needed. The relending of funds will be done in accordance with subloan agreements between IFAM and the municipalities in the case of the IFAM project and between INFOCOOP and the cooperative federation and individual coops, in the case of the Cooperatives project.

Although the majority of the Loan funds will be disbursed in local currency, we anticipate some U.S. dollar expenditures for procurement of office and farm equipment, trucks, and food handling and processing equipment, etc. In these cases, the Capital Project Guidelines would be followed and disbursements would be made through the issuance of letters of commitment.

D. FISCAL CONTROL

MAG, IFAM, and INFOCOOP will be responsible for fiscal control of loan funds for their respective projects. Audit and review activities will be made by both the USAID Controller, the AID Auditor General, and the GOCR General Controller Office.

E. REPORTING

The MAG, INFOCOOP and IFAM will submit periodic (monthly and/or quarterly, depending on requirements) reports to the USAID and CAN covering project progress, financial condition and use made of the AID loan funds. In the case of the Cooperatives Development Project similar reports from FEDECRE-DITO, LA UNION and FEDEAGRO will be submitted to INFOCOOP and USAID.

INFOCOOP and IFAM will submit to USAID copies of their annual financial statements and copies of year-end financial audits performed by independent, qualified auditing firms.

F. IMPLEMENTATION SCHEDULE

Assuming loan authorization by June 30, 1974, we anticipate signing the loan agreement by August 31, and obtaining its ratification by the Legislative Assembly by October 31. The conditions precedent to initial disbursements should be met by January 1, 1975.

XI. EVALUATION PROGRAM

A. INTRODUCTION

The Evaluation Program will include a range of activities from continuing data collection to broad evaluations of the overall program. In terms of evaluations per se there will be Project level evaluations and sector level evaluations. In addition, we will sponsor periodic special analyses or research studies

needed to add to our understanding of a particular aspect of the program. In order to make these evaluations and studies truly productive, an important element of each Project will be a strengthening of the data collection and analysis/planning capability of each implementing agency. The objective of this evaluation program is two-fold: 1) to attempt to measure the impact of the Program on the small farmer and 2) to measure the institutional development gains obtained and attempt to relate them to the change observed in the small farmers' welfare. Our ability to attribute anticipated improvements in the small farmers' condition, which is implied in 1) above, to the Program inputs is not assumed. But attribution will be a subject of continuing interest and inquiry.

The 1973 national population, housing and agriculture census represents a valuable evaluation resource that is readily available to the Program. A large quantity of data will soon be published and available that will in itself be useful. But the published data is just a small part of the data potentially available from the Census. For example, the Census results can be subjected to detailed analysis to obtain a great quantity of information that could contribute significantly to planning, programming and evaluation activities within the sector. We intend to exploit this resource to the maximum for evaluation and research purposes and, by so doing, maintain the Census data current thereby assuring its continuing utility for future programs.

#### B. PROJECT LEVEL EVALUATIONS

Each Project (Agricultural Services, Cooperative Development and Municipal Development) will be evaluated periodically to measure progress attained towards meeting the specific objectives and from which to plan future activities.

The general scope of each will cover the institutional development aspects and, to the extent feasible, measurement of impact on the recipients of the services of those institutions. In those cases where there are several institutional levels through which services

pass to the target man, their performance will also be analyzed. These evaluations will be conducted by the implementing agencies themselves with the professional evaluators' assistance. It is important that these evaluations produce planning inputs to be included in each agency's operating plans.

C. SECTOR LEVEL EVALUATION

The CAN intends to sponsor evaluation of the entire small farmer ADP in 1974/1975 and in 1977 to measure progress obtained on a global basis. The condition of the small farmer will be measured but the evaluation will also cover such topics as inter-agency coordination and sector policy making. Technical assistance provided to the CAN through this loan will help CAN design and perhaps carry out these sector level evaluations; and additional AID funds may be used to contract professional evaluators to perform the evaluations. Other Costa Rican agencies might also participate in sponsoring these sector-wide evaluations or studies such as the Central Bank and the National Planning Office.

D. INTERNAL EVALUATION - RELATED ACTIVITIES

Each implementing agency will be increasing its capacity to perform data collection, research and analysis as a part of their normal activities. Loan funds will be used to provide technical assistance to the MAG's and INFCCOOP's planning departments and

IFAM's investigation department for this purpose. The improvement of these on-going activities will contribute significantly to their ability to evaluate their own performance and will greatly facilitate external evaluation and studies by improving the data base.

In order for USAID to do its part in this evaluation program, we must be able to provide a high level of continuous monitoring and advisory services to keep abreast of significant developments and to identify problems and opportunities that will call for evaluation or research inputs.

Furthermore, to achieve the desired results from this evaluation program, considerable flexibility is required in terms of financing. Consequently, we anticipate using a mixture of counterpart, loan and grant funds.

## XII. ENVIRONMENTAL CONSIDERATIONS

The Program has been reviewed for its environmental aspects. It has been concluded that there will be no significant adverse effects on the environment as a result of the implementation of this project.

XIII. CAPITAL ASSISTANCE COMMITTEE

USAID/CR

|                           |                                     |
|---------------------------|-------------------------------------|
| Chairman                  | Peter M. Kreis, AID Affairs Officer |
| Capital Development       | Robert G. Pratt                     |
| Institutional Development | Thomas A. McKee                     |
| Rural Development         | Milton M. Lau                       |
|                           | James Bleidner                      |
|                           | Pedro Negron                        |
|                           | Robert McColaugh                    |

Other

|                 |                |                                    |
|-----------------|----------------|------------------------------------|
| Paul Wenger     | LA/DR          | Helen Soos, Consultant             |
| Edward Schaefer | LA/DR          | Albert Brown, Consultant           |
| William Feldman | LA/DR          | Pirie Gall, Consultant             |
| Ken Kornher     | PPC            | Academia de Centro America,        |
| Phillip Church  | ROCAP          | Costa Rica                         |
| Edward Costello | ROCAP          | Secretariat, National Agricultural |
| James Murphrey  | ROCAP          | Council, Costa Rica                |
| Robert Meighan  | RLA            | Management Team, IICA, Costa Rica  |
| Robert Davis    | ROCAP          |                                    |
| Charles Leggett | ROCAP          |                                    |
| Tom Bebout      | ROCAP          |                                    |
| William Ross    | USAID/Colombia |                                    |

Drafted by: All above

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1974

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105;  
§ 106; § 107. *Is loan being made*

*a. for agriculture, rural development or nutrition;*

a) Yes. The purpose of the loan is to help the small farmer and improve the quality of life for the rural population.

*b. for population planning or health;*

b) No.

*c. for education, public administration; or human resources development;*

c) Yes. A part of the Loan is for training the fields of municipal Planning and Development, Cooperative Management and strengthening the Ministry of Agriculture.

*d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;*

d) Yes. The Relending program of IFAM will be to Municipalities for such purposes as feeder roads, water systems, electrification and construction of markets.

AID 1240-2 (4-74)

*e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.*

**e) Yes, to the extent that increased agricultural production by small farmers contributes to growth of the overall economy.**

## COUNTRY PERFORMANCE

### Progress Towards Country Goals

2. FAA § 208; §.251(b).

A. Describe extent to which country is:

*(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.*

*(2) Creating a favorable climate for foreign and domestic private enterprise and investment.*

1. A major purpose of this Loan is to increase food production and improve distribution. Agricultural output has maintained a steady rate of growth recently. Preliminary estimates indicate a 13% increase in 1973, although most of that increase has been due to high export crop prices.

2. Costa Rica maintains an excellent climate for investment and private enterprise. It offers political stability, a democratic process, constitutional guaranteed equal rights for foreigners, and incentives to foreign investors.

AID. 1240-2 (4-74)

(3) *Increasing the public's role in the developmental process.*

(4) (a) *Allocating available budgetary resources to development.*

(b) *Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)*

(5) *Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*

(6) *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*

3. **The public is encouraged to take an active part in development. This Loan will help to foster and strengthen coops, and provide financing for worthy municipal development projects.**

4a. **Costa Rica has an active democratic system which exacts government responsiveness to social need. The great majority of Government Budget Funds goes for economic and social development.**

4b. **Costa Rica has no Army and does not intervene in the affairs of other countries.**

5. **Substantial progress has been made recently in the area of tax collection and tax fund redistribution. Progress is still being made by IFAM in those areas. The Government has a land-purchase program for tenants supported by a prior AID loan. Basic freedoms and private enterprise are respected.**

6. **Costa Rica does adhere to those principles.**

AID 1240-2 (4-74)

(7) Attempting to repatriate capital invested in other countries by its own citizens.

(8) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

7. Political stability and a government policy encouraging investment in private enterprise is giving an incentive to the repatriation of local capital invested in other countries.

8. Government support of IFAM, as described in the Loan Paper, provides an example as to how the Government is so responding.

B. Are above factors taken into account in the furnishing of the subject assistance?

B. Yes

Treatment of U.S. Citizens by Recipient Country

3. FAA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

3. No

4. FAA § 620(c)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

4. No

AID 2240-2 (4-74)

5. FAA § 620(c); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by A.I.D. Administrator?

5. Costa Rica has not seized or penalized any U.S. Fishing boat for fishing in international waters.

a. Not applicable.

b. Not applicable.

Relations with U.S. Government and Other Nations

7. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

7. No.

AID 1240-2 (4-74)

8. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?
8. Yes.
9. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?
9. This assistance is to rural communities and small farmers. No such productive enterprise is to be financed.
10. FAA § 620(f). Is recipient country a Communist country?
10. No.
11. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?
11. No.
12. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?
12. There has been no mob action in Costa Rica in recent history against U.S. Property.

AID 1240-2 (4-74)

13. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
13. **Costa Rica participates in the investment guarantee program.**
14. FAA § 620(n). *Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?*
14. **No.**
15. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
15. **No.**
16. FAA § 620(t). *Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
16. **Costa Rica has diplomatic relations with the U.S.**
17. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?*
17. **Costa Rica is in arrears with regard to some of its UN obligations, but not to the extent of affecting its voting rights or being granted continued UN assistance.**

AID 1240-2 (4-74)

18. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

18. Costa Rica has taken adequate drug control measures

19. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

19. There are no Military Bases in Costa Rica.

Military Expenditures

20. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

20. Costa Rica has no real military establishment. Negligible amounts of the National Budget and foreign exchange are spent to support the small internal security force.

AID 1240-2 (4-74)

CONDITIONS OF THE LOAN

General Soundness

21. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.
21. The Loan terms are reasonable for the type of activity involved, and legal under the laws of Costa Rica and the U.S.
22. FAA § 251(b)(2); § 251(e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?
22. The Loan is economically and technically sound as detailed in the Loan Paper. A Loan application with assurances has been received.
23. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
23. The terms of the Loan are within the capacity of Costa Rica to repay and there are reasonable prospects of repayment.
24. FAA § 251(b). Information and conclusion on availability of financing from other free world sources, including private sources within the United States.
24. Because of the nature of the projects to be financed, it is determined that other sources of financing are not available on reasonable terms.

AID 1240-2 (4-74)

25. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

25. Yes

26. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?

26. No further legislative action is required.

27. FAA § 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

27. Yes

Loan's Relationship to Achievement of Country and Regional Goals

28. FAA § 207; § 251(a); § 113. Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs;

28. The Loan will improve the administrative ability of the Ministry of Agriculture through the Agricultural Services Project, and through the Coop. Project will assist the cooperative movement. The Rural Municipal development project will also help local governments to provide a better quality of services to their communities. The project will increase food production and distribution in the country. IFAM will conduct (cont'd)

AID 1240-2 (4-74)

(e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or  
(f) integrating women into the recipient country's national economy.

a training program under the loan for its own people and for people with which it works from local communities. This will be designed to improve public administration in the rural communities.

29. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not executed?

29. The Project is local in nature.

30. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

30. This loan will finance follow-on activities of a prior AID loan 515-L-022. It is designed to have a beneficial impact on long range agriculture production.

31. FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

31. The economic analysis in the Loan Paper shows that self sustaining growth will be achieved through improved administration and availability of revolving loan funds.

32. FAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

32. The loan is, by its nature, expected to have a primarily local impact.

AID 1240-2 (4-74)

33. FAA § 251(a); § 111. Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

33. As explained in the Loan Paper, a substantial part of loan funds will go to assist cooperatives by providing credits and technical assistance.

34. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

34. The Loan is consistent with the findings of the latest CIAP Review.

35. FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

35. IFAM, working in cooperation with local government organizations, will assure such participation as explained in the Loan Paper.

36. FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

36. The loan addresses the difficult problem of income distribution between urban and rural areas in Costa Rica. Working through IFAM and the cooperative structure it will give rural dwellers an opportunity to greatly improve the quality of their life and will enhance their economic opportunities. IFAM working with local government will provide those governments and their constituents and opportunity to effect self-help measures.

AID 1240-2 (4-74)

37. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

37. The Loan will foster private initiative in agricultural production, help to strengthen cooperatives, and improve efficiency in the distribution of agricultural products.

38. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

38. Costa Rica is not a newly independent country.

Loan's Effect on U.S. and A.I.D. Program

39. FAA § 251(b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

39. No major effects are foreseen. Procurement will be from Code 941 countries and thus help the U.S. Balance of Payments in the long run.

40. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

40. Most of the funds provided for the cooperative project and for IFAM will be used to procure goods and services from private enterprise .

AID 1240-2 (4-74)

41. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
41. The Loan will not have a large effect on U.S. Trade or Investment.
42. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?
42. Not applicable.
43. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
43. Yes. The Loan Agreement will so provide.
44. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
44. No.
45. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on
45. Technical assistance for the program will be obtained from private enterprise on a contract basis.

whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

46. FAA § 110(a); § 208(e). Has the recipient country provided assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made? **46. Yes**
47. FAA § 112. Will loan be used to finance police training or related program in recipient country? **47. No**
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? **48. No**
49. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? **49. Yes**
50. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? **50. Yes. Procurement will be from Costa Rica and Geographic Code 941 countries.**
51. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? **51. The Loan will not finance commodity procurement in bulk.**

AID 1240-2 (4-74)

52. FAA § 604(d). *If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?* **52. Yes**
53. FAA § 604(e). *If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?* **53. Not applicable.**
54. FAA § 604(f). *If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?* **54. Not applicable.**
55. FAA § 608(a). *Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.* **55. Excess Property will be used if practical. The standard provision will be included in the Loan Agreement.**
56. FAA § 611(b); App. § 101. *If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?* **56. Not applicable.**

AID 1240-2 (4-74)

57. FAA § 611(c). *If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?* **57. The Loan Agreement will so provide.**
58. FAA § 612(b); § 636(h). *Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.* **58. The United State will finance all foreign exchange costs of the project, and the host government is making a substantial contribution to the local costs.**
59. App. § 113. *Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?* **59. No**
60. FAA § 612(d). *Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?* **60. None is owned by the United States.**
61. FAA § 820(a). *What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?* **61. The Loan Agreement will not allow funds to be used for this purpose.**

AID 1240-2 (4-74)

62. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? **62. No**
63. FAA § 656(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction? **63. No**
64. App. § 128. Will any loan funds be used to pay pensions, etc., for military personnel? **64. No**
65. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? **65. Yes**
66. App. § 107. Will any loan funds be used to pay UN assessments? **66. No**
67. App. § 109. Compliance with regulations on employment of U.S. local personnel. (A.I.D. Regulation 7). **67. Yes, it will be required.**

AID 1240-2 (4-74)

68. App. § 110. Will any of loan funds be used to carry out provisions of FAA §§ 809(d) and 251(h)?

68. No

69. App. § 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.

69. This will be done by AID/W by normal procedures.

70. App. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?

70. No

71. MMA § 901.b; FAA § 640C.

71. The Loan Agreement will so provide.

(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

(b) This may be done if appropriate.

CERTIFICATION PURSUANT TO SECTION 611 (e)  
OF THE FOREIGN ASSISTANCE ACT OF 1961  
AS AMENDED

I, Peter M. Kreis, the principal officer of the Agency for International Development in Costa Rica, having taken into account, among other things, the maintenance and utilization of projects in Costa Rica previously financed or assisted by the United States, do herewith certify that in my judgment, Costa Rica has both the financial capability and the human resources capability to maintain and utilize effectively the capital assistance for the second AGRICULTURAL DEVELOPMENT PROGRAM.

This certification is based on, among other factors, a careful review of the financial assistance previously provided to Costa Rica for agricultural programs.



Peter M. Kreis  
AID Affairs Officer

May 10, 1974

Date

TRANSLATION

UNCLASSIFIED  
AID-DLC/P-2033  
ANNEX III  
Page 1 of 9

San José, April 30, 1974

Mr. Peter M. Kreis  
A. I. D. Affairs Officer  
American Embassy  
San José

Dear Sir:

As President Elect of Costa Rica I am pleased to ratify the interest of the new Administration; which will take office May 8, 1974, in the new Loan Agreement being negotiated with AID authorities in Costa Rica. The Loan Agreement, to be signed and ratified by the new Administration, is a continuation of AID Loans 515-L-022 and 515-L-023, which financed the Agricultural Development Program and the Municipal Development Institute, whose completion is scheduled for late 1974.

It is my opinion that the Agricultural Development Program, addressed specifically to the improvement of the small farmer, has been greatly beneficial to the institutional strengthening of the agricultural sector, in the improvement of services to the farmer, and production itself. The IFAM program has been truly important to municipal development in Costa Rica. Logically we expect similar or greater benefits from this new Agreement in which it is hoped to consolidate coordination of actions in the sector, to give greater implementation capability and flexibility to the Ministry of Agriculture, to strengthen rural development through IFAM, strengthen cooperative development through INFOCOOP, and accelerate efforts to establish in Costa Rica, on the short run, an agricultural marketing system.

Hoping that this negotiation will progress in a satisfactory manner, I am pleased to remain,

Sincerely yours,

Daniel Oduber  
President Elect

UNCLASSIFIED

San José, 30 de abril de 1974

Señor  
Peter M. Kreis  
Encargado de Asuntos de  
la AID en Costa Rica  
Embajada Americana  
San José

Estimado señor :

En mi condición de Presidente Electo de Costa Rica tengo el agrado de ratificarle el interés del nuevo Gobierno de la República, que comenzará sus labores el próximo 8 de Mayo, por el nuevo Acuerdo de Préstamo que se ha venido negociando con autoridades de la AID en Costa Rica. Dicho Acuerdo de Préstamo, que deberá ser firmado y ratificado por el nuevo Gobierno, constituye una continuación de los Préstamos AID 515-L-022 y AID #15L-023, que financian el Programa de Desarrollo Agropecuario y el Instituto de Fomento y Asesoría Municipal, cuya conclusión está prevista para fines de 1974.

Considero que el Programa de Desarrollo Agropecuario, dirigido específicamente al mejoramiento del pequeño agricultor, ha producido un gran beneficio en el fortalecimiento institucional del sector agropecuario, en el mejoramiento de los servicios al agricultor y en la producción misma. El Programa de IFAM ha sido verdaderamente importante para el desarrollo municipal en Costa Rica. Lógicamente esperamos similares o mayores beneficios de este nuevo Acuerdo en el que se pretende consolidar la coordinación de las acciones en el sector, darle una mayor capacidad de ejecución y flexibilidad al Ministerio de Agricultura, fortalecer el desarrollo rural por medio del IFAM, robustecer el desarrollo cooperativo por intermedio del INFOCOOP, y acelerar el esfuerzo para establecer a corto plazo en Costa Rica, un sistema nacional de mercadeo agropecuario.

30 de abril de 1974.  
No. 2.  
Sr. Peter Kreis

En espera de que esta tramitación progrese satisfactoriamente,  
me es grato saludarle y suscribirme su atento y seguro servi-  
dor,

Daniel Oduber  
Presidente Electo

DO:rc

TRANSLATION

San José, April 26, 1974

Mr. Peter M. Kreis  
A. I. D. Affairs Officer  
American Embassy  
San José

Dear Sir:

I am pleased to ratify the interest of the Costa Rican Government in the new Loan Agreement which is being negotiated with AID officials in Costa Rica.

The new agreement is a continuation of AID loans 515-L-022 and 515-L-023 which finance the Agricultural Development Plan and the Municipal Development Institute, whose implementation period ends in late 1974. It will finance a rural development program in Costa Rica which will enable the consolidation and coordination of the agricultural sector, it will give the Ministry of Agriculture greater implementation capability and flexibility, it will increase rural development through IFAM, it will strengthen cooperative development through INFOCOOP, and will establish in the short run in Costa Rica a national agricultural marketing system.

In accordance with the above, I am submitting to AID a formal loan request in the amount of \$7.8 million, payable in 40 years, including a 10-year grace period, with annual interest of 2% during the grace period and 3% during the remaining 30 years. The program, whose characteristics will be defined shortly, will have a 3-year duration. The new Agreement will have to be signed by the new Administration which takes office May 8, 1974.

Thanking you for your attention to this request, I remain,

Jorge Rossi Chavarría  
Second Vice-President  
Holding the Office of President of the  
Republic



SEGUNDO VICEPRESIDENTE DE LA REPUBLICA

COSTA RICA

ANNEX III

Page 5 of 9

No. \_\_\_\_\_

San José, 26 de abril de 1974

Señor  
Peter M. Kreis  
Encargado de los Asuntos de  
La AID en Costa Rica  
Embajada Americana  
CIUDAD

Estimado señor:

Me es grato ratificar el interés del Gobierno de Costa Rica por el nuevo Acuerdo de Préstamo que se ha venido negociando con las autoridades de la AID en Costa Rica.

El nuevo Acuerdo es una continuación de los Préstamos AID515-L-022 y AID 515 -L-023, que financia el Programa de Desarrollo Agropecuario y el Instituto de Fomento y Asesoría Municipal, los cuales terminan su vigencia a fines de 1974. Servirá para financiar un programa de desarrollo rural en Costa Rica que permitirá consolidar la coordinación en el sector agropecuario, darle una mayor capacidad de ejecución y flexibilidad al Ministerio de Agricultura, incrementar el desarrollo rural por intermedio del IFAM, fortalecer el desarrollo cooperativo por intermedio del INFOCOOP, y establecer a corto plazo en Costa Rica, un sistema nacional de mercadeo agropecuario.

De acuerdo con lo anterior me permito presentar a la AID una formal solicitud para un préstamo de US\$7.8 millones, por un término de 40 años, incluyendo un período de gracia de 10 años, con interés anual del 2% durante el período de gracia y el 3% durante 30 años restantes. El programa, cuyas características serán acordadas próximamente, tendrá una duración de tres años. El nuevo Acuerdo deberá ser firmado por el nuevo Gobierno que inicia sus labores el próximo 8 de mayo.

Al agradecerle la acogida a la presente solicitud, me complace quedar de Ud. muy atento servidor y amigo,

JORGE ROSSI CHAVARRIA  
Segundo Vicepresidente en ejercicio de la  
Presidencia de la República

TRANSLATION

S-CAN-2138/74  
April 29, 1974

Mr. Peter M. Kreis  
A.I.D. Affairs Officer  
USAID/Costa Rica  
San José

Dear Sir:

For the corresponding purposes I am pleased to transcribe Article 8, of Minutes No. 4: of the session held by CAN on April 24, 1974:

"ARTICLE 8: The Executive Secretariat informed the Council of progress made in the negotiation of a new loan agreement with AID, which would mean a continuation of AID loans 515-L-022 and 515-L-023, which finance the Agricultural Development Program and the Municipal Development Institute. He indicated that the new loan would finance a rural development program which includes strengthening of key activities to achieve an improvement of rural life; it is expected to consolidate sector coordination, to give the MAG greater flexibility and implementation capability, to increase rural development through IFAM, to strengthen cooperative development through INFOCOOP, and promote the establishment in Costa Rica, in the short run, of a national agricultural marketing system within the guidelines set forth by PIMA. He added that it was necessary for the CAN to issue a statement on the importance of the new loan for Costa Rica's rural development.

In accordance with the above:

IT IS AGREED: a) To state that the Agricultural Development Program initiated with financing from AID loan 515-L-022, has meant an extraordinary step forward in the national agricultural development process, especially that of the small farmer, in the strengthening of institutions with responsibilities within the sector, and in the improvement of conditions

of rural life. There has been equal progress in the action, under the Municipal Development Institute, created through financing from AID loan 515-L-023.

- b) To state that the new Loan Agreement will strengthen key activities for rural development, successfully initiated with the Agricultural Development Program and the creation of IFAM, and consequently it is important to issue a favorable statement for the materialization of this new loan agreement, stimulating the principal authorities of the present Administration and those of the new one which takes office on May 8, to give all their support to this negotiation, in order to finalize it as soon as possible.
- c) To state that the CAN will continue to be the coordinating agency of the Agricultural Development Program and logically, with the same interest and enthusiasm will continue to perform the same function with the new activities financed with the new Loan Agreement, since it is a continuation of the former.
- d) To authorize the Executive Secretariat to transcribe this agreement to the interested parties."

In greeting you with all consideration, I am pleased to remain,

Rogelio Coto Monge  
Executive Secretary  
National Agricultural Council

MINISTERIO DE AGRICULTURA  
Y GANADERIA

SAN JOSE, COSTA RICA

ANNEX III  
Page 8 of 9

S-CAN-2138/74  
29 de abril de 1974

Señor  
Peter M. Kreis  
Encargado de Asuntos de la AID  
U.S.A.I.D./Costa Rica  
PRESENTE

Estimado señor:

Para los fines consiguientes me permito transcribirle el Artículo 8, Acta N° 41, de la sesión celebrada por el CAN el 24 de abril pasado:

" ARTICULO 8 : El Secretario Ejecutivo informó al Consejo de los progresos logrados en la negociación de un nuevo acuerdo de préstamo con la AID, que vendría a significar una continuación de los préstamos AID 515-L-022 y AID 515-L-023, que financian el Programa de Desarrollo Agropecuario y el Instituto de Fomento y Asesoría Municipal. Indicó que el nuevo préstamo financiará un programa de desarrollo rural que incluye el fortalecimiento de actividades claves para lograr el mejoramiento de la vida rural; se pretende consolidar la coordinación sectorial, darle mayor flexibilidad y capacidad de ejecución al Ministerio de Agricultura y Ganadería, incrementar el desarrollo rural por medio del IFAM, fortalecer el desarrollo cooperativo por intermedio del INFOCOOP, e impulsar el establecimiento a corto plazo en Costa Rica, de un sistema nacional de mercadeo agropecuario dentro de los lineamientos alcanzados por el PIMA. Agregó que era necesario que el CAN emitiera un pronunciamiento sobre la importancia del nuevo préstamo para el desarrollo rural de Costa Rica.

De conformidad con lo anterior,

SE ACUERDA: a) Declarar que el Programa de Desarrollo Agropecuario iniciado con el financiamiento del Préstamo AID 515-L-022, ha significado un extraordinario paso de avance en el proceso del desarrollo agropecuario nacional, especialmente del pequeño agricultor, en el fortalecimiento de las instituciones con responsabilidades en el sector, y en el mejoramiento de las condiciones de la vida rural. Igual progreso ha constituido la acción a cargo del Instituto de Fomento y Asesoría Municipal, creado mediante el financiamiento del Acuerdo de Préstamo AID 515-L-023.

- b) Expresar que el nuevo Acuerdo de Préstamo viene a reforzar actividades claves para el desarrollo rural, iniciadas con éxito con el Programa de Desarrollo Agropecuario y con la creación del IFAM, y consecuentemente es importante emitir un pronunciamiento favorable a la materialización de este nuevo Acuerdo de Préstamo, estimulando a las principales autoridades del actual Gobierno y a las del nuevo que se inicia el próximo 8 de mayo, para que le brinden todo su apoyo a esta negociación, con el fin de que quede finiquitada lo antes posible.
- c) Manifestar que el CAN continuará siendo la entidad coordinadora del Programa de Desarrollo Agropecuario y lógicamente, con el mismo interés y entusiasmo, seguirá desempeñando igual función con las nuevas actividades financiadas con el nuevo Acuerdo de Préstamo, puesto que se considera como una prolongación del primero.
- d) Facultar a la Secretaría Ejecutiva para que transcriba este acuerdo a los interesados."

Al saludarle con toda consideración, me es grato suscribirme su atento y seguro servidor,

Rogelio Coto Monge  
SECRETARIO EJECUTIVO  
CONSEJO AGROPECUARIO NACIONAL

RCM/jsz

