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EVALUATION
of
RURAL DEVELOPMENT PROGRAM
AID LOAN 515-T-025

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FOREWORD

This evaluation was commissioned on May 16, 1980. The scope of work is provided in Annex A. It took somewhat longer than initially anticipated to complete the assessment, but it is believed that the items for investigation outlined in the scope of work have been covered as fully as available data permitted. The work on the Agricultural Services Project was done in June-July; that on the Cooperative Development Project in August-September; and that on the Municipal Development in October. The assessment reflects the situation of the institutions involved as of those dates.

The writer wishes to acknowledge the full cooperation received from USAID personnel and from the staff of the implementing agencies: the Ministry of Agriculture (MAG), the Executive Secretariat for Agriculture Sector Planning (SEPSA), the National Institute of Cooperative Development (INPOCOOP), and the Municipal Development and Training Institute (IFAM). Interviews were frank and open; all available material was made accessible. A list of persons interviewed will be found in Annex B.

Where possible the findings of this report were discussed with officials of the implementing agencies and the USAID personnel and their comments taken into account. However, this does not mean that the conclusions are necessarily shared by all those involved in the execution of the program. The responsibility for the judgements made and conclusions arrived at pertains exclusively to the writer of this report.

EXECUTIVE SUMMARY

I. Introduction

This evaluation deals only with the institutional development purposes and targets of the Program and not with its impact on small farmers. In this regard, the relative focus of the report is on the institutions themselves and/or certain of their component organizational units, rather than on the AID loan per se and the use of loan funds, although the planning, programming and execution of the loan are dealt with.

The question of whether or not there was one Program with three interrelated areas of action, or whether the Program was simply a packaging of three separate and independent projects is examined and the conclusion reached that the latter formulation is correct. The consequences of attempting to force the separate projects into a coordinated framework, e.g. delays in start up and unproductive use of valuable time and energy, are documented. For purposes of this evaluation it was decided to deal with each project independently, and then to sum up any general conclusions in a final section. For the individual project treatments, the format is to first examine the overall features, e.g. assumptions, planning, conditions precedent, financial execution; and then discuss each of the specific targets or outputs sought.

II. Agricultural Services Project

The first project examined was the Agricultural Services Project, where the implementing agency was the MAG. The Capital Assistance Paper (CAP) listed 3 assumptions as critical to the success of the project: (a) highest priority by the GOCR on the rural sector and its agricultural development during 1974-78; (b) that MAG would be the key instrument for agricultural development; and (c) that changes in MAG management practices and service operations could be effected in a short period. An examination of these assumptions, with the benefit of hindsight and using a series of proxies, indicates that they were not valid and that in all probability many of the difficulties in execution of the project can be traced back to this fundamental misreading of the Costarican situation.

The evaluation next examines the manner in which the planning of the project activities was undertaken. It finds that the diagnosis of the specific problems to be attacked was accurate, but that the realism of the planned solutions to those problems is questionable, primarily because what was to be done was not fully understood and supported by key personnel of the MAG. The project planning, in effect, was largely an AID and an IICA exercise.

The next topic examined is the nature and handling of the Conditions Precedent to Disbursement (CPs). There were 3 of these: (a) evidence that the 1975 MAG budget included authorization for spending of project funds; (b) submission of acceptable work plans and systems of financial controls for the Projects-by-Campaign (PbC) activities; and (c) evidence of the establishment within MAG of a separate Transportation Section. These three CPs were declared formally satisfied via Implementation Letter (I.L.) No. 5 in November, 1975, one year after the signing of the Loan Agreement. However, this action did not have the desired effect of opening the way for disbursements for agreed upon purposes. It took a further 7 months of negotiation with regard to the PbCs; a further 8 months for CAN support activities; and a further 27 months for MAG training activities, before disbursements against this component of the project was authorized. For the Transportation Section, there is no evidence that the CP was ever satisfied. Given this history, it is something of a mystery on what basis I.L.No. 5 was issued.

The conclusion of this evaluation as concerns the CPs for this project is that they corresponded to a particular conception of what the project was all about, that shortly after the Loan Agreement was signed the Mission began to find out that this was not a completely shared concept, that a fairly long officially unrecognized struggle went on to try to impose the concept, but that, finally, in order to get things moving, the Mission and the MAG went through the motions of agreeing on the points at issue. The result is that the CPs did not serve their primary function of ensuring that a serious attempt would be made to have the project, as planned, carried into execution.

The fourth topic examined was the financial execution of the project. Under this heading, the handling of loan funds from the standpoint of authorizations, disbursements and MAG administrative procedures were scrutinized. Counterpart funds are treated separately.

The record shows that there were substantial reductions in the authorization and/or disbursement levels from those initially planned for the Pbc, staff training and preventive vehicle maintenance components of the project. The technical assistance component (when planned amounts for CAN support and MAG planning and management are consolidated) was little changed. The bulk of the "savings" were transferred to the credit component of the Cooperative Development Project.

Overall, the record of loan disbursements against authorizations, as adjusted, is very good, but this end was achieved to some extent by shifting funds around to where they could be used, thus blurring the relationship between expenditure and project objectives. The situation was complicated by an attempt to use a FAR reimbursement system for the PEC activities -- a type of endeavor for which this mechanism was inappropriate. The result was a much lower level of authorization and expenditure on this component than would have been the case under a more rational financial administration procedure.

The manner in which the GOCR authorized MAG expenditure was different from that conceived in the GAP and resulted in delays which, again, affected the overall level of disbursements. Finally, the MAG administrative procedures left much to be desired. It is clear that a good many mistakes (both of commission and omission) in financial administration were made both by the Mission and the MAG and that these may have had a negative impact on achievement of project objectives.

There is also reason to question the ability of the MAG to avoid the temptation of using outside resources as a type of budget support when these are not more tightly programmed and controlled than was the case here.

As concerns counterpart expenditure, although the Mission made no effort to see that the requirement was fulfilled, an examination of the Contraloria General budget liquidation records for the years 1975-79 indicates that, in all probability, these expenditures were made.

Other aspects of Mission monitoring and evaluation are examined in the next section of the report. It appears that much more attention was given to moving the loan funds than to what the funds were supposed to accomplish in terms of institutional development. However, the Mission was concerned and followed through on seeing that programmed services were reaching the small farmer.

The evaluation next turns to an examination of each of the components and/or targets which comprised the project. The first of these is the PbC component which is defined in the CAP as "an effort to bring together in an integrated manner sufficient technical resources to carry out the identification, planning, resource allocation, execution and evaluation of commodity-specific/area specific crop and livestock production programs." Interdepartmental MAG coordination, and improved management system between central and regional offices, research and testing of new technology packages, and improvement of extension techniques are stressed. Eighteen demonstration projects were to be implemented.

Through interviews, the evaluation attempted to determine the extent to which the PbC concept was understood by MAG officials. It seems clear that, rather than constituting -- in their minds -- a new approach to delivery of services, they regarded the PbC as a process whereby a certain number of CAR activities were selected for AID financing and in this fashion given priority in the use of available resources.

The establishment of criteria for selection of individual activities, allocation of resources, and control over execution were functions which were supposed to be executed by the MAG Planning Office. No such centralized direction and control took place. However, one of innovations to which the CAP attached importance, i.e. the introduction of program budgeting in connection with the PbCs, was put into practice and is being continued today for individual CAR projects.

As concerns improved technological packages and research/extension coordination, there is no evidence of any noticeable change over the life of the project. However, at the regional/operational level (as opposed to the Directorate level) there has been some progress in research/extension coordination. Neither is there any indication that, under the project, any attention was given to developing extension methodology.

The central vs. field office (CAR) relationship was examined in some depth. These relationships were in a constant state of flux during the 1975-79 period. The MAG seems to be seriously committed to a regionalization concept, but is still struggling about how to translate this concept into decentralization in an operational sense, with all that this involves in the way of control over resources, etc.

Since research and extension are the heart of any system of delivery of services, it was of interest, in terms of project objectives, to examine what has been happening to these two elements of the MAG without discriminating between Pbc and non-Pbc activities. In terms of personnel, extension is holding its own in its claims on total trained personnel of MAG; research has lost ground. Both claim a decreasing percentage of total MAG expenditure, and their personnel expenditure as a percentage of total expenditure is following a rising curve.

The use of Loan funds for Pbc activities is examined and it was found that very little of the \$700,000 initially programmed was utilized for Pbc's per se. Of the \$448,227 expended, most of the funds were used for personnel costs of the Extension Directorate, and for strengthening the CARs generally.

From an organizational or systems viewpoint and in relation to its stated purposes, the Pbc experiment doesn't seem to have produced any basic changes in the way services are programmed and delivered; it has not left any detectable traces behind it.

The second major target area of the project concerned improvements in programming and budgeting at the sectoral and MAG levels. A great many detailed outputs were specified,

ranging from MAG wide program budgeting to consolidation of the National Agricultural Council (CAN). Two institutions are involved, the MAG Planning Office and the CAN Secretariat (SEPSA). All loan support in this area went to SEPSA. In part because of this, there has been considerable progress in sectoral level planning and SEPSA and the CAN are stronger and better functioning entities. Insofar as programming, budgeting and evaluation at the MAG level is concerned, the project was unsuccessful. The situation, rather than improving, is probably worse than at the time the CAP was prepared.

The third major target area of the project dealt with improvement in marketing matters and related agricultural statistics. Again, a series of very specific outputs were specified. There has been some progress in the area of marketing policies and structures and an institutional base for dealing with these and agricultural statistical information matters has been established in SEPSA. With regard to two other specific outputs, which remain the responsibility of the MAG Planning Office: a system of market information and improved crop forecasting, there was no progress during the project execution period.

A fourth target area was specified as staff and farmer training and a MAG training unit was to be created. As a direct result of the project, there is now a functioning Training Department in the Extension Directorate which, at least from a quantitative standpoint, appears to be doing a satisfactory job of staff training. It is not nearly so active in providing guidance and support to CAR farmer training systems. The objective of a MAG-wide training unit was neither attempted, nor achieved. From an institutional development standpoint, this project component can be considered as partially successful.

A fifth target area was concerned with farmer information systems of various sorts, including mass media and production of educational materials. While the Guadalupe printing plant has improved its output, from an institutional development standpoint, there was little substantive change in the area of farmer information systems over the life of the project and the purposes of this project component remain unrealized.

The sixth target area was concerned with vehicle maintenance and, inter alia, called for establishment of a new transportation unit within the MAG. The topic was examined from the standpoint of organizational arrangements, budgetary aspects, the handling of spare parts, driver training, the functioning of repair and maintenance work at the central shop and via mobile teams, and the adequacy of the system used to evaluate results. It was concluded that there has been improvement in the handling of spare parts and in providing preventive maintenance services. However, by and large, the purposes and objectives of this component of the project have not been accomplished.

A seventh area where specific targets were established concerned the ratio between fixed and operating costs and, inter alia, called for no increase in MAG personnel over 1974 staff levels. There was in fact a 49% increase over the project period. As concerns the ratio between fixed and operating expenditure, the situation was marginally worse in 1979 than in 1974. No progress was made towards achievement of this objective of the project.

Finally, two general management objectives were established: an interdepartmental MAG reporting system, and improvement in MAG's procurement and administrative activities. There is no evidence that any attempt was made during the project period to deal with either one.

Summing up, the achievements under the Agricultural Services Project are at best a mixed bag. While some of failures can be traced back to errors in the way the execution of certain components was handled, most of the responsibility rests with unrealistic assumptions, and over-ambitious and one sided planning. Instead of a project whose focus was institutional development, in practice it became largely a budget support operation.

The experience with the delivery system of the MAG as a means of reaching small farmers with production and technology transfer programs does not lead to any feeling of optimism that this is the most effective or efficient way of reaching this sub-sector, let alone improving its relative position. It is suggested that the Mission explore

alternative, and more imaginative techniques with the appropriate Costarican authorities. One such approach would be to consider working with and through the various commodity specific producer associations and/or the Cantonal Agricultural Committees (CACs).

As concerns MAG itself, a budget support approach is not recommended. To the extent that it is deemed desirable to provide additional support to the MAG -- and the institution cannot and should not be ignored in developing an agricultural program -- it is recommended that the support take the form of classical and very specific projects, where there is not only precision as to targets and objectives, but also as to inputs.

As concerns CAN, follow on assistance is recommended, including as a minimum the provision of short term, highly specialized technical advisory services. Budgetary type support, while not specifically recommended at this time, should not be ruled out.

III. Cooperative Development Project

The evaluation of this project begins with a consideration of the CPs and how they were handled, mostly from the standpoint of their incidence on the initiation of project implementation. It took about one year for what were essentially simple CPs to be cleared; the stumbling block was an agreement between the Central Bank and INFOCOOP concerning the provision of counterpart funds. It could probably have been concluded three months earlier. More important, after this problem was resolved and I.L. No. 7, acknowledging satisfaction of the CPs was issued, the intended purpose was not achieved. It took another 7 months before an initial disbursement was authorized, because the issue of the relationship between the use of AID and counterpart funds had not been addressed when it should have been. The responsibility for this last 7 month delay is placed with the Mission.

The topic of loan and counterpart disbursement is then examined. One half of the AID funds were utilized only in the final year of the project, whereas counterpart funds

followed a smoother curve. This suggests that it was the limitations placed upon the use of AID funds for credit, rather than the capacity of INFOCOOP to develop its loan portfolio that was responsible for the uneven rate of disbursement of AID funds.

The Loan Agreement lists as one of the expected outputs: "Strengthened institutions at the level of...the participating cooperative organizations." Thus, one measure of the project's success or failure relates to how the cooperative movement, per se, especially rural cooperatives, has evolved. Various indicators were examined in an effort to arrive at a judgement, e.g. changes over time in numbers of entities, numbers of affiliates, situation of second degree entities, social capital, and volume of operations. Measured in numbers of first degree cooperative entities, the movement appears to have remained more or less stationary in net terms over the past 5 years; in terms of membership, there was a vigorous burst of activity in 1975 and 1976, after which the movement towards acquiring new affiliates slowed down appreciably. The data further indicates that there is a desirable consolidation process underway, i.e. that individual coops are getting larger. However, average size is still very small and the consolidation process needs to continue. Social capital and volume of operations also seems to have increased substantially, but the latter is concentrated in the coffee processing coops and a few other large entities.

The second degree entities (federations and regional unions) have fared less well. Only 30.6% of the first degree entities were affiliated in 1979, compared to 54% in 1974. Most of the federations are in financial difficulties.

It is concluded that first degree cooperatives are, on the whole, in a somewhat stronger position than in 1974, but that it adds up to something less than vigorous development; and that secondary degree coops have definitely lost ground over the past five years. In terms of achievement of project objectives, the results are at best mixed.

The Loan Agreement also lists three specific changes desired in the services provided by individual coops to their members: more production loans to small farmers;

increased sales of production inputs through coops; and increased sales of agricultural produce through coops. Hard data was not available, but use of proxies indicates that progress was made with regard to production input sales and marketing/processing services. INFOCOOP records do not permit determining whether or not there was appreciable increase in the number and amount of production loans to small farmers.

The remainder of the evaluation of this project is concerned with the institutional development of INFOCOOP, which was examined from a series of viewpoints, each of which is summarized in the following paragraphs.

The first aspect dealt with are the philosophy and functions of the Institute. It is found that, while its basic legislation conceived of INFOCOOP as an entity to be devoted exclusively to the development of the cooperative movement, in practice the needs and priorities of this movement have not always been the guiding principle in determining its actions. At present, there does not seem to be a clear policy line as to what the priorities are for the cooperative movement, against which proposals and interventions by other entities can be judged and positions taken accordingly.

As concerns functions, in a broad sense there may be divided into three: a promotional, educational, technical assistance function; a supervisory/audit function; and a quasi-banking function. From a conceptual viewpoint, there are no problems with the first two functions. For the banking function, there is an unresolved issue of whether the cooperative movement should have its own banker, or whether coops should turn primarily to the commercial banking system for credit, with INFOCOOP's credit operations being viewed as a development tool, with all that involves in the way of high risk operations, the need for continuous subsidy, etc. INFOCOOP has been trying to steer a middle course, but lack of resolution of the issue is causing problems.

Next, the organization structure of the Institute is examined. There are 20 organizational units, all of which are segregated on functional lines. There is some duplication of effort, but not to any serious degree. More serious, there is little knowledge or interest, in any one department about what the others are doing. The present structure is less than optimum as concerns use of personnel. However, a major reorganization in the right direction is now being prepared.

The personnel situation was next examined from the standpoint of numbers, quality, distribution, personnel vs. operating expenditure, and personnel management. The situation is satisfactory and it is concluded that, from a personnel standpoint, INFOCOOP has been strengthened during the past 5 years.

The next section deals with the financial structure of INFOCOOP. Examining its balance sheets for the 1975-79 period it is found: (a) that its debt/equity ratio has been improving; (b) that the Institute has been running an unjustifiable high level of liquidity; (c) that the value of bad loans has been increasing rapidly and in 1979 represented 4.4% of total assets and 5.8% of the loan portfolio; (d) that the capital stock (patrimony) of the Institute has almost doubled over the 1975-79 period, but could have been increased substantially more had it not been necessary to use capital income to meet operating costs.

An unsuccessful attempt was made to reconstruct the Institute's financial operations on a cash flow basis. The exercise revealed that in the periodic financial statements the income figures for loan amortization and interest received on loans and the expenditure figures on loan disbursements are grossly inflated primarily as a result of the accounting methods used in connection with roll overs. Suggestions on how to improve this situation are made.

Looking at the composition of the loan portfolio and its evolution over the 1975-79 period, it is found that the size of the portfolio increased by 67% and that most (94%)

producer coops. All three restrictions were removed at different times. These actions do not seem to have had any effect as concerns the purpose earmarkings, but did affect the amounts made available to federations.

The loans authorized by INFOCOOP during the 1975-79 period are examined from several viewpoints: urban/rural distribution, degree of concentration by amount and numbers of operations, purpose of the loan, and loan 025 financed vs. otherwise financed operations. No anomalies are found and, in general, it can be concluded that the purposes of the project were achieved and that the purpose direction called for regarding use of Loan 025 monies exerted a strong pull on use of other INFOCOOP credit resources.

The manner in which 025 financed loan projects were formulated and approved is examined. Several findings are made: (a) there is insufficient participation by recipients in the formulation of projects; (b) sometimes projects are developed by INFOCOOP and then a suitable recipient is sought or created. However, without this procedure there would have been little possibility of placing loan funds for the purposes indicated within the time limitations set; (c) technical recommendations are not always respected by the Board of Directors; (d) little of substantive benefit resulted from AID review of individual projects; (e) there is some duplication of effort between the work of the Technical Assistance and Financial Departments; and (f) manuals prepared with PCI assistance are in use. No overall conclusion is reached. The supervision of approved loans is found to have been improved.

The interest rate structure and lending policies as they apply to reflows from Loan 025 funds is examined. It is found that what is reported as AID insistence on maintaining interest rates and other specific provisions specified in the Loan Agreement for use of reflows is unjustified and is damaging INFOCOOP. It is recommended that the AID position be reviewed.

The evaluation next turns to the manner in which planning and budgeting is executed. The statistical base for planning is still weak and the Institute appears to have difficulty in functioning along planned lines. Also, while there has been considerable improvement in planning techniques, including movement towards program budgeting, there is a lack of policy directions to give focus to the entire exercise.

Provision of technical assistance to cooperatives, both as regards the use of AID funds and in general organizational and methodological terms is examined. The AID funds were used essentially as a subsidy element to the credit activity of the project, but this component of the loan has also had positive institutional development consequences. From a personnel and methodological standpoint, the situation is better than it was in 1975.

Education and training activities of the Institute are examined from the standpoint of organizational arrangements, personnel and methodology, orientation, and the use of regional education groups. The activities of each of the two organizational units involved (the Department of Education and Training and the National Center for Cooperative Training) are analyzed. It was found difficult to arrive at any judgement as to whether or not the education and training activities of INFOCOOP had improved over the period of project execution. On balance, it is concluded that the Institute is reaching its target groups in sufficient numbers; that its operations are relatively efficient; and that the quality of its offerings is untested.

The work and organization of INFOCOOP with regard to formation of new cooperatives is examined. Data is lacking for a good evaluation. On the basis of what is available, it is concluded that the function is not being performed any more efficiently now than was the case in 1975. Contrarily, as concerns the function of cooperative supervision -- also examined in some depth -- it is concluded that performance is reasonably good and has improved during the project execution period.

A section of the evaluation is devoted to an examination of the use of \$300,000 of AID funds for the provision of external technical assistance to INFOCOOP and other entities of the cooperative movement. A contract was awarded to Practical Concepts, Inc. (PCI) in February, 1977 and by June, 1977 the T.A. activities were in full swing. The process of selecting a contractor and negotiating a contract was long and complex; much is made by INFOCOOP and the Mission of the consequences of not permitting initiation of this T.A. until all the CPs had been satisfied. It is believed this is overstated. In any event, it is found that the primary reason for the delay was the absence of a fit between the amount and types of services desired and the funds available. The content and results of the PCI work is examined and it is found that, overall the technical assistance was effective and has had lasting results.

In the light of the foregoing, general conclusions are reached regarding the institutional development of INFOCOOP and the impact of the AID loan in this regard. Viewed as an operating entity, it is found that the Loan Agreement objective is satisfied and that INFOCOOP "has been strengthened" and is a more solid and efficient agency than it was five years ago. It is noted that the main problems which INFOCOOP as an institution still face are mostly in the policy area: it is not at all clear that it is meeting the needs of the cooperative movement; also, it and the GOCR need to decide -- and take consequent measures -- whether it is a banker or a developer. As regards the AID loan, two conclusions are reached: (a) the technical assistance was useful and produced results; (b) the credit program may turn out to have been a mixed blessing. If, as seems possible although too soon to assess quantitatively, the type of loan which was made turns out to have a very high failure rate, INFOCOOP will have an impossible debt service responsibility and a disastrous financial structure.

Looking to the future, it is concluded that INFOCOOP needs and merits follow-on support. It is recommended, however, that any new AID inputs should be: (a) conditioned

on INFOCOOP and the GOCR resolving a priori the kinds of policy issues identified in the evaluation; and (b) directed exclusively at strengthening the cooperative movement, rather than attempting to use the cooperative movement for ulterior ends, however worthy (e.g. as a device to promote rural development directly).

IV. Municipal Development Project

The initial subject examined was the handling of the CPs. With one exception, the defining of rural municipalities for credit operations under the project (the definition was too loose and caused some problems later), this aspect of the project was well and expeditiously handled. The Mission was somewhat more exigent than was strictly necessary, but produced positive substantive results at the price of only small delay.

Loan and counterpart authorizations and disbursements are next examined. In terms of authorizations, funds were initially shifted from training to technical assistance, and, finally, from there to the credit component. Major disbursements did not begin until March, 1976. Technical assistance and Training allocations (as revised and reduced) were disbursed promptly and were completed by the end of 1978. Forty per cent of the funds allocated to credit were not disbursed until 1979-80. This appears to be a consequence of the slowness of municipalities in executing projects; by the end of 1977 sufficient sub-projects had been formally approved by IFAM to commit the entire AID credit component. It can be concluded that in the initial planning of the project insufficient time was allowed for sub-project execution. Counterpart disbursement took place fully and in timely fashion.

The crucial assumptions underlying the project are examined. One, that improved rural infrastructure and services will slow down rural-urban migration, cannot be tested at present. A second, that if municipal planning, financing and management improve, relations with central government

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agencies will become better; and a third, that the central government executive branch and legislative were desirous of improving the financial situation of municipal governments, when properly interpreted, seem to have been realistic, although not as much progress as was anticipated has been made.

The evaluation next turns to the question of the institutional development of IFAM from six different aspects, each of which will be summarized. The first is its organization and administration. No major problems were found with the organizational structure, except that the first and recent attempt at regionalization is posing some problems and needs to be better thought through. As regards personnel, its evolution, policies and management, it is noted that reliable data is difficult to obtain. No overall conclusion is reached, but it is noted: (a) that the rapid increase in personnel over the past 4 years (50-55%) may, to some extent, have been taking place at the expense of quality; (b) that the ratio of salary expenditure to operational costs shows a steady and progressive increase and should be considered as a danger signal; and (c) that personnel management is inadequate, but that morale is uniformly high. The transport situation, while improving, still has problems. The same can be said of inter-departmental relations, and of the mechanization of accounting and other data. Internal reporting needs a thorough overhaul. Finally, note is taken of consideration being given at present to including some municipality representation of the Board of Directors of IFAM -- a desirable change.

Next, the financial structure of the Institute is examined. Capital formation has proceeded in accordance with CAF projections and increased by 240% over the 1975-79 period. Liquidity has been unjustifiably high. Loan/equity relationships are healthy. Income and expenditure cash flows show no unexpected irregularities. The handling of the loan portfolio is satisfactory. Overall, from a financial standpoint, IFAM has evolved properly.

The credit function of IFAM is next examined from a policy standpoint, from its evolution over time as regards categories of municipalities, types of projects, frequency distribution, lending terms, project selection procedures, and the organization and functions of the Operations Department. The principal findings are: (a) the number and value of loans approved decreased in 1979 relative to earlier years, probably due to the ability of municipalities collectively to assume additional debt; (b) IFAM urgently needs to prepare demand projections based on varying assumptions as to municipal revenue and application of funds, (c) that as concerns types of municipalities and purposes of loans, AID Loan Agreement objectives were amply satisfied; (d) that IFAM's approach to its clients is quite even handed; (e) that credit policies and lending terms are acceptable; (f) that project selection procedures need improvement, but that there is little point in establishing a more rigorous system for planning of credit until and unless the medium to long range absorptive capacity of the municipalities is analyzed; and (g) that as concerns the organization and functions of the Operations Department, there is probably, at the margin, more paternalism than is justified and that at the financial analysis of municipalities and their proposed projects may leave something to be desired, whereas the technical aspects of the credit operations are generally satisfactory.

The next section of the evaluation deals with the planning and budgeting functions of IFAM. As concerns planning and budgeting of IFAM's program, there has been no improvement over the past five years. The Planning Department spends most of its time and energies on what are termed "external activities", i.e. those related to the municipalities, rather than IFAM, per se. The focus is on conceptual and theoretical aspects of the municipal regime in Costa Rica. Overall, it is doubtful whether these activities have as yet either provided an analytical basis from which to shape IFAM or GOCR policies vis a vis municipalities, or had much of an impact on what the municipalities themselves are doing.

The evaluation next turns to the provision of technical assistance and other direct (non-credit) services to municipalities. These include training activities, advisory

services, miscellaneous services, provision of manuals, integrated administrative-financial studies, and support for municipal leagues and district councils. Each of these topics is treated individually. Overall, it is clear that IFAM is devoting a considerable amount of resources to providing technical assistance and other types of direct assistance to municipalities. The nature and range of services seem to pretty much cover the gamut of assistance needs. Some effort invested in improving planning and coordination, and some resources invested in contracting for outside work, might improve the results now being obtained. With regard to project objectives, it can be concluded that IFAM is doing a better job now than five years ago in fulfilling its technical assistance function.

The next section of the evaluation deals with IFAM's responsibilities with regard to collection and distribution of land and liquor taxes. The handling of the latter lies in the Audit Department of IFAM. It is claimed that collections have improved, but this is not supported by the data.

The land tax is the major source of municipal revenue. Here IFAM has made a seizable effort during the loan execution period and this effort has produced results. However, the surface has only been scratched.

Attempting to sum up the assessment of IFAM as an institution, one finds some very strong and positive aspects, e.g. its handling of tax matters and its financial analysis activities. Its technical assistance and other direct services to municipalities, and its handling of credit operations are, on the whole satisfactory. On the other side of the equation, its planning and budgeting activities are very weak, as are certain of its organizational and administrative functions, e.g. personnel management. IFAM's financial situation is very strong, but it may be facing an excess capacity problem in the near future. Since much of its functions and personnel are geared in one way or another to its credit operations, it needs urgently to get a clearer picture of what the prospects are and to adjust its staffing and organization to mesh with these prospects.

As concerns future AID activities, follow-on support is recommended. Two possible complementary, but not substitutable projects are suggested: (a) technical and financial support for a combined cadaster/land register/land tax improvement activity. This can have important pay out, but should not be undertaken unless there is assurance that the political will exists to undertake the necessary reforms; (b) experimentation by IFAM of the use of grants as well as loans to municipalities. Relationships with "partidas específicas" in the national budget and, again, assurance of political will are important.

The evaluation examines two other aspects of the Municipal Development Project: the central wholesale market activity (CENADA) and the Loan 025 financial activities.

The Loan Agreement provided that, as a component of the Agricultural Services Project, \$450,000 of counterpart funds would be used to finance a feasibility study for a wholesale market and that the construction of same would be financed with other COCR funds. Responsibility for these activities was transferred to IFAM. The market is about to become operational. The terms of the Loan Agreement were completely satisfied.

The examination of AID funds for credit, technical assistance, and training reveals: (a) that the credit activity was satisfactory from all Loan Agreement standpoints; (b) that the training activity in terms of project objectives, was a complete failure; and (c) that the external technical assistance was not particularly helpful or effective in achieving the purposes for which it was designed.

V. General Conclusions and Observations

There are at least four lessons to be learned from this Loan insofar as AID project development practices are concerned: (a) to negotiate and mutually agree with the borrower and the implementing agencies at the time of CAP preparation on the exact methods, definitions, ratios, etc., which will govern disbursement of AID funds; (b) to avoid setting up multiple and grandiose, but quantitatively non-specific objectives and targets. Narrower, more limited, more precisely

defined objectives and targets are infinitely preferable; (c) as a corollary to the above, an attempt should be made to ensure that when an objective or target is fixed, a commensurate amount of resources is programmed for its achievement; and (d) as concerns institutional development projects or aspects of projects, before committing itself to such an activity, AID must make very sure that, both at the policy and operational levels, there is a clear understanding of what is to be accomplished (including changes), and that there is both a political and technocratic will to undertake the necessary measures. The Loan 025 program was faulty in all the above respects.

b

I. Introduction

A. Program Purposes and Focus of Evaluation

The program being evaluated is titled "Rural Development". It was costed at U.S. \$15 million of which U.S. \$7.9 million was to be provided by AID under Loan 515-T-025, signed on November 29, 1974. It was considered by the Development Loan Committee (DLC) in May, 1974 in the form of Capital Assistance Paper (CAP) No. AID-DIC/P-2033.

The purpose of the program as set forth in the CAP was "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."

The description of the program designed to achieve this purpose (Section I D of the CAP), points out that it "represents a continuation and strengthening of the U.S. \$20 million sector program authorized by AID in June, 1970 as Loans 515-L-022 (Agricultural development) and 515-L-023 (Municipal Development)... (and is intended) to capitalize on the momentum gained to date in reform of the agricultural sector to more effectively serve the small farmer... addressing selected aspects of the sector program which contribute most directly to servicing the small farmer". However, the CAP further on (Section III D) makes it clear that in addition, "the AID program seeks institutional reform and reorganization combined with improved management of resources."

Further, an examination of the specific outputs sought indicates that they go beyond the stated purpose of having "the second phase of the sector program... focus on delivery systems." For example, sector analysis and sector planning are included. In any event, even when dealing with delivery systems for providing services to small farmers, the program has built into it a very large amount of institutional development in the form of back-up services, e.g. improvements in annual planning and budgeting, in-service training for Ministry of Agriculture personnel, etc.

The reason for appearing perhaps to belabor this point of an apparent inconsistency between delivery systems per se and institutional development is not to raise questions about the necessity of an interface between the two concepts, or to raise

issues about the development of the project, but rather to make clear that, broadly speaking, there are two separate aspects of the program to be investigated. The first, the effect that it may have had on small farmer income and other aspects of their lives, has been undertaken via a survey of farmers. This evaluation deals only with the second aspect, i.e. the institutional development purposes and targets set forth in the Loan Agreement, and the CAP and its Annexes. The methodology used to examine this aspect of the program was:

1. An exhaustive examination of USAID project files.
2. Interviews with department heads and others currently responsible for the functions detailed in the CAP, irrespective of whether or not loan funds were involved.
3. Analysis of such executing agency records as were easily available, covering the years 1975-79.
4. Interviews with a very small number of beneficiaries (farmers, cooperative directors, municipal officials) designed to get a "feel" for their appreciations rather than an attempt to measure benefits.

The principal focus of these document searches and interviews was to determine -- to the extent possible -- (1) what had actually happened, functionally and organizationally, between 1975 and 1979 in those areas where outputs or targets were described in the CAP; and (2) to arrive at judgements, often by necessity somewhat subjective, as to progress achieved and the present situation of the agency, or department, as appropriate, and the adequacy with which the function(s) were being executed. In general, then, the relative focus of this report is on the institutions themselves and/or certain of their component organizational units rather than on the loan per se and the use of loan funds. However, the formulation, programming and execution of the projects in the Loan Program will also be examined.

B. Program Unity vs. Three Separate Projects

The Rural Development Program is described in the CAP and the Loan Agreement as consisting of three projects: Agricultural Services, where there are to be two implementing Agencies, the Ministry of Agriculture and Natural Resources (MAG) and the National Agricultural Council (CAN); Cooperative Development, where

the implementing agency is the National Institute of Cooperative Development (INFOCOOP); and Rural Municipal Development, where the implementing agency is the Municipal Development and Training Institute (IFAM).

The cost of the Program and its apportionment amongst its components as initially agreed was as follows:

Table I-1

Program Cost by Major Component
and Source of Funding
(thousands of dollars)

	<u>AID Loan</u>	<u>GOGR</u>	<u>Total</u>
<u>Agricultural Services</u>	<u>1,300</u>	<u>2,350</u>	<u>3,650</u>
MAG Support	1,100	1,650	2,750
CAN Support	200	700 ^{1/}	900
<u>Cooperative Development</u>	<u>3,200</u>	<u>2,750</u>	<u>5,950</u>
Credit	2,700	2,600	5,300
T.A. and Training	500	150	650
<u>Rural Municipal Development</u>	<u>3,400</u>	<u>2,000</u>	<u>5,400</u>
Credit	3,000	2,000	5,000
T.A. and Training	400	-	400
Totals	<u>7,900</u>	<u>7,100</u>	<u>15,000</u>

It is implied, though not explicitly stated, in the CAP and Loan Agreement that the above three projects were supposed to form part of an integrated whole. What is clear is that coordination of the component parts was contemplated and, indeed, stressed. The CAP (Vol. II, Section II E) states:

"the CAN Secretariat plans to participate directly with each executing agency involved in Loan 025...in the preparation

^{1/} Includes \$450,000 to support the staff of the national marketing commission and to finance a feasibility study for the establishment of a central wholesale market.

of common annual execution plans. These will contain overall Program goals for the year, and reveal each institution's responsibilities toward the attainment of those goals."

The Loan Agreement is more specific and states (Annex I, Section B 2c) "The CAN will continue to be the key mechanism in coordinating all of the participating agencies involved in the Program."

In connection with the above, it is interesting to note that the Mission submitted three separate IRRs for each of the three projects and that it was an AID/W decision (State 042011 of March 2, 1979) to package the three into one Program and Loan. The term "packaging" is used advisedly and the above mentioned cable makes this clear. The above concepts concerning an overall program focus and inter-agency coordination apparently came into being in the short two month period between the DAEC meeting and the submission of the CAP.

The consequence of this attempt to give substance to what was intended initially as a simple packaging device was that the Conditions Precedent to Disbursement (CPs) included (Section 3 01(C)) a requirement for a "comprehensive evaluation plan for the Program including, inter alia, sufficient baseline data, overall Program and Project targets, interim progress indicators and discussion of the expected end-of-project status."

This requirement to deal with the Program as a whole led to some delay in the satisfaction of the CPs. A letter of April 14, 1975 from the AID Affairs Officer to the Minister of Agriculture states that individual agency evaluation plans have all been received and found satisfactory, but requests that an overview evaluation plan be developed and proposes creating an evaluation committee. On July 9, 1975 Implementation Letter (I.L.) No.2 was issued and indicated that Section 3.01 CPs were satisfied. Nevertheless, the correspondence of the following months indicates that considerable time and energy continued to be devoted to developing -- at least on paper -- detailed schedules and procedures related to the above quote "evaluation plan". For example, on August 25, 1975 the Executive Secretary of the CAN transmitted to the Mission CAN Document S CAN-2992 covering coordination within MAG, inter-institutional coordination and evaluation.

An examination of the decisions taken by the CAN in 1975 and 1976 reveals that little was done in carrying out these elaborate Program (i.e. inter-institutional) Plans. By mid 1977, the Mission was ready to acknowledge the realities of life. The

Mission evaluation of the Loan dated August 19, 1977 states:

"Original assumptions relating to coordination of the three project components and the role of the CAN in project coordination were...unrealistic. The CAN has not prepared "common annual execution plans for the Program," and is probably in no position to exercise this kind of coordinating authority over three implementing agencies, MAG, INFOCOOP, and IFAM...The original objective of project coordination was based on an unrealistic assumption and is therefore not achievable in this Program."

Further on, in this same document under the heading of "Lessons Learned", the Mission goes on to state:

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

The only comment that remains to be added is that there is nothing inherently wrong in packaging several projects into one loan and that this does not necessarily create a need for coordinating mechanisms, etc. What is important is that when engaging in packaging it should be recognized for what it is and left at that.

As regards the current evaluation of loan 025 and its Program, and in view of the above, it was determined that there was no point in attempting to examine the loan or the Program as a whole, but rather to revert to the initial concept of three separate projects and to deal with each independently.

II. Agricultural Services Project

A. Critical Assumptions

The achievements under this project (as will be seen later), are at best a mixed bag. It is also the one of the three projects which presented major difficulties in its execution. It is almost always the case where this situation is found that the problems in execution, in large part, stem from deficiencies in the programming and these, in turn, relate back to the validity of the assumptions underlying the development of the program. Often the assumptions are not clear. However, in this case, the Mission stated them explicitly under the heading "Critical Assumptions" (Volume II, Section I, Chapter II C 6 of the CAP). They are as follows:

"a. The GOCR has placed highest priority on the rural sector and its agricultural development during the 1974-78 period.

"b. The MAG is key to agricultural development and... real small farmer productivity and income generation... is critically dependent on farm technology packages and assistance provided by the MAG.

"c. Although largely resisted to date, overhaul of MAG management practices and service operations can be overcome in the short term, given the application of sufficient resources and technical assistance."

With the benefit of hindsight we will attempt to test the validity of these assumptions.

1. Priority to Agricultural Development - It is difficult to measure the proportion of public sector expenditure going to agriculture because of the large number of institutions involved, many of which have multiple functions. However, the MAG budget and its evolution over time can be used as a reasonable proxy.

The MAG appropriations^{2/} have increased substantially over the period under review (1975-79). Total appropriations

^{2/} Source: Memoria Anual de la Contraloría General for the years 1975-79, Table 6.

less transfer payments show the following evolution:

<u>Percentage of Increase Over Preceding Year</u>	
1976/75	11.2
1977/76	44.4
1978/77	25.9
1979/78	37.7

However, when these same appropriations, net of transfers, are examined as a percentage of total appropriations for the central government quite a different picture emerges. The figures are as follows:

<u>MAG Appropriations as % of Total Central Government Appropriations</u>	
1975	2.11
1976	1.72
1977	2.12
1978	2.08
1979	2.76

To the extent that MAG appropriations can be taken as an indication of the relative priority accorded agricultural development by the GOCR, the conclusion must be that there was no appreciable change over the period being examined.

Another indicator of relative priority is the treatment given to agricultural credit within the total credit system of the country which is a nationalized system controlled by and subject to government policy. In this connection, the Agricultural Sector Planning Office (SEPSA) has this to say: "Between 1972 and 1976 one observes a decrease in the proportion of credit for the (agricultural) sector...in 1972...it was 41%, in 1976 the percentage dropped to 36%." ^{3/} The document goes on to state that "Despite the fact that the banks provide certain types of preferential credit to small farmers, the share of credit given to this group has declined from 20.7% in 1972 to 13.7% in 1976."

^{3/} Oficina de Planificación Sectorial Agropecuaria, "Diagnóstico del Sector Agropecuario de Costa Rica 1962-1976", pp.90-91, San José, 1979.

2. MAG as the Key to Agriculture Development Generally and to Small Farmer Improvement, Specifically - Whether or not the MAG as opposed to other institutional devices, e.g. farmer associations of diverse types; development of processing and marketing facilities, etc., can and should play the key role in development of the sector is a matter of judgement upon which opinions may differ. An analysis of the alternatives and options open to policy makers would entail going far beyond the scope of this evaluation. What is of interest in the present context is how the GOCR views this matter. To the extent that the Agriculture Sector planning document 4/ reflects current views, it might be concluded that the MAG is not considered the leader of the sector. The guts of the agricultural and livestock portion of the document is contained in the section on sub-programs, which can be divided into two types: specific crop or livestock production activities and support activities, e.g. credit, extension, research, agricultural information. In the former category, there is no major sub-program for which the MAG is assigned primary responsibility. Under the support activities, the MAG is assigned primary responsibility for only a few, e.g. disease control. Research and technology transfer functions are proposed to be transferred to an autonomous institution created for this purpose; for agricultural information and agricultural education, the MAG is assigned a role, but not the principal responsibility.

Although based on other considerations, a recent evaluation of the MAG program 5/ comes to the same conclusion and states in its general conclusions that the MAG has lost the leadership of the sector as a result of: (a) a decentralization; (b) other entities that perform some of the same functions; and (c) the low level - 10% - of the farmers reached.

In sum, the CAP assumption that the MAG would prove to be the key to development of the sector does not seem to have stood the test of time.

3. Improvement of MAG Management Practices and Service Operations in a Short Period of Time - The assumption is that this end is feasible of achievement if sufficient resources and technical assistance are applied. As will become apparent later

4/ Oficina de Planificación Sectorial Agropecuaria, "Programa Agropecuario, Recursos Naturales y Agroindustrial - Período 1979-1982, San José, January, 1979.

5/ OFIPLAN, "MAG - Evaluación Presupuestaria, Primer Trimestre de 1979", San José.

in this report, technical assistance was not applied to this problem, nor do "sufficient" resources appear to have been made available. Thus it is perhaps unfair to question the validity of the assumption. Nevertheless, it does seem as though the impediments to improvements in management practices and service operations which stem from the workings of such overall government procedures as those provided for in the national financial administration law, and the civil service system were not taken sufficiently into account. Also, the inertia factor within the MAG was possibly underestimated.

Additionally, a perusal of the annual reports of the MAG to the legislature (Memorias) for the years 1975 through 1979 reveals that there was a constant process of reorganization and shifting of responsibilities amongst MAG Directorates going on during the entire period. This does not provide a climate or setting conducive to the grinding, unglamorous work involved in "overhauling management practices and service operations."

B. Project Planning

Volume II, Section I of the CAP attempts to summarize the progress achieved under Loan 022 and to indicate what are denominated as "hangover problems" which Loan 025 is to address. These problems may be summarized as follows:

1. Extension is still using traditional methodology and does not have carefully planned assistance packages. The problem is quality.
2. Research is not responsive to field service priorities.
3. The MAG Regional Offices (CARs) are undermanned. Almost all new manpower was allocated to MAG central offices; and there is little change in the funds available for operating as opposed to personnel costs.
4. Decentralization is accepted conceptually, but centralized control is still apparent.
5. The MAG planning office doesn't have enough support to make its reorganization functional.
6. Lack of legal jurisdiction for CAN functions.

7. Need for clarification of linkages between budget allocations and CAN program endorsement, including the relationship between CAN, MAG and the National Planning Office (OFIPLAN).

With the exception of item 6, legal jurisdiction for CAN functions, this statement of problems is as valid today as it was in 1974. This would appear to indicate that the diagnosis of the situation was accurate. Whether or not these were the priority problems that needed attention at that time lies outside of the scope of this enquiry. We are more concerned here with attempting to throw some light on the viability or better yet the realism, of the planned solutions to the problems, i.e. the Loan 025 Program.

One way of testing this viability factor is to examine the participation of the MAG in the development of the activities of the project and the degree of its commitment to the various undertakings. It is axiomatic that institutional development will only occur when what is to be done is fully understood and supported by key personnel of the institution in question.

The CAP states that "the USAID and GOCR began the analysis and identification of the second phase of the ADP (i.e. Loan 025) in the summer of 1973...the program which has resulted was basically prepared by those staffs of the institutions which will be primary recipients of the new loan."

In this connection, the draft version of the CAP (this material was omitted from the final version) indicates that during Intensive Review six policy papers were prepared by the MAG and their conclusions used as the basis for developing the project. The papers are listed as dealing with staff training, budget analysis, vehicle maintenance, projects by campaign, project systems and planning.

The manner in which these papers were prepared and their timing is of interest. A memorandum dated March 27, 1974 from an AID financed advisor, who was apparently coordinating the preparation of the project, to the Mission's Rural Development Officer is illuminating. It states that six working parties, one for each of the above studies, were constituted that day, i.e. on March 27th, and that their reports would be delivered on April 9th--two weeks later. AID (mostly in the person of the Advisor) and MOA were represented on each of the working parties.

Only a few of these six reports are still available. Those examined could not possibly have been prepared in two weeks. While in the realm of conjecture, it seems likely that a considerable amount of the information gathering and analysis represented by those reports must have been in existence prior to the constitution of the working parties. Who did this initial drafting and the extent to which it represented MAG thinking at the policy level is a matter of conjecture.

Also illuminating are the comments of MAG officials interviewed in the context of this evaluation, many of whom were members of the above listed working parties. When asked their opinion of the Loan 025 program, its conception and results, the comments were of the following tenor:

"Too sophisticated. Not successful as was Loan 022, which concentrated on physical inputs such as vehicles and buildings."

"Concept never clearly understood in MAG -- at least what it was trying to do never penetrated to the operating levels."

"There were changes of Ministers and Vice Ministers at the beginning of the program and they had new and different priorities from what was set forth in the 025 program."

"The program was, in general, developed by outside advisors and 'imposed' on the MAG."

While the comments need not to be taken at face value, the commonality of the criticisms in a wide ranging series of interviews, when considered in the light of the working party story, does lead to the conclusion that the project planning was largely an AID (and its consultants), and an IICA exercise; and that the Mission then went through the motions of what on the record appears as joint planning, reflecting MAG priorities, but which in reality was more of a selling job.

C. Conditions Precedent

The Mission evaluation of the Loan 025 Program performed in August, 1977 lists amongst the factors responsible for "slow project implementation...stringent conditions precedent prior to disbursement of loan funds."

As regards the Agricultural Services Project, the conditions precedent (CPs) as stated in Section 3.02 of the Loan Agreement do not seem particularly onerous, particularly when viewed in the light of statements made in the CAP. There are three CPs:

1. GOCR Budgets - "Evidence that all funds necessary to carry out the Project during 1975 have been included in the 1975 budget for the Ministry of Agriculture (MAG)."

I.L. No. 2, dated July 9, 1975 states that this CP has not yet been satisfied. However, on March 25, 1975, the budget was published in the Official Gazette under Decree No. 5669. It was only on November 13, 1975 (I.L. No.5) that the Mission took cognizance of the situation and states "... publication of the 1975 budget for the expenditure of Loan funds (provides) satisfactory evidence of compliance with the Conditions Precedent to Disbursement..."

2. Work Plan and Controls for Pbc Component - "An implementation plan for the Project-by-Campaign (Pbc) element of the Agricultural Services Project, which shall include:

"a. the method of formulating memorandum accounts to segregate the Loan-funded component and the MAG counterpart component of each individual project-by-campaign,

"b. a mechanism for the actual control and disbursement of funds for the sub-projects,

"c. a written plan and budget...for each separate project-by-campaign."

The CAP (Volume II, Section I, Chapter II D4) gives the impression that matters were well advanced in May, 1974 with regard to this topic -- 17 months before the CP was declared satisfied by I.L. No. 5. For example, the specific projects by region are identified, including the crops, number of farmers and hectares to be affected by each; responsibilities for control of funds is established; an illustrative corn project was fully developed to show methodology; and a budget analysis of the costs of such projects was completed.

In point of fact, I.L. No. 5 does not really accomplish the intent of the CP, i.e. clearing the way for disbursements to begin. The same I.L. indicates that disbursement procedures for Pbc's are

still to be worked out and that funds allocated for CAN support cannot be disbursed until a specific technical assistance plan has been received and approved, although this is not mentioned in the CPs. It is not until June 3, 1976 (I.L. No. 10) that the first 8 PBCs are approved and an initial advance disbursement authorized. (Six of the eight projects correspond to those listed in the CAP). It is not until July 7, 1977 (I.L. No. 17) that "a preliminary plan for technical assistance (for) CAN support" is approved.

Just what the Mission expected in the way of a CAN technical assistance plan is not clear. In August, 1975, Document S-CAN-2992 was sent to the Mission. It is a quite detailed work plan for executing CAN responsibilities under the project.

Why the delay with regard to the PBCs? It is very difficult to establish from the files what actually happened between the signing of the Loan in November, 1974 and the first disbursement authorization in June, 1976. The Ministry submitted a work plan in May, 1975. This is acknowledged in I.L. No. 2, of July 9, 1975 with the comment "we believe that the series of work plans contained in the MAG's document are well designed and should serve as good tools for project implementation," but then goes on to restate the CPs quoted above, elaborating on same, making them more detailed and requesting further submissions.

It would appear that over one year was required between the submission of a "well designed" work plan and Mission acceptance of detailed plans for individual PBCs.

Finally, as concerns the MAG Staff Training component of the project, one would assume that I.L. No. 5 cleared the way for disbursements to take place. There is a training plan document in the Mission files, apparently submitted in satisfaction of the CP, and which the notation shows as having been reviewed on August 7, 1975. Nevertheless, on November 1, 1977 -- two years later -- the USAID Project Manager writes to the Director of MAG's Agricultural Development Directorate stating "With regard to the \$100,000 investment plan... for training activities... we must receive an official letter from MAG presenting said plan... (This) is a specific requirement of the Loan Agreement." The letter goes on to request additional detail regarding the plan which the Agricultural Development Directorate submitted to the Vice Minister in April 7, 1977. The letter requested was speedily forthcoming and on February 27, 1978 I.L. No. 23 was issued

approving the "budget plan for the Training Component of AID Loan 515-T-025" and opening the way for use of loan funds.

In passing it might be noted that the CAP indicates that the MAG had at that time (May, 1974) already developed "a comprehensive training program" which this component of the Loan was designed to support.

As concerns "memorandum accounts to segregate the Loan-funded component and the MAG counterpart component of each individual project-by-campaign, it is assumed that the intent was to relate individual expenditures to source of funding. No such system was ever instituted. I.L. No. 10 makes it clear that instead of segregated accounts a percentage of total individual project costs will be attributed to AID, stating that "AID has found...the requested ratio (underlying supplied) of its contribution to each specific project acceptable."

While from a technical/legal viewpoint it can be argued that a ratio system is a "method of formulating memorandum accounts to segregate the Loan funded component and the MAG counterpart component", it does seem to be stretching if not deviating from the intent of the CP. There is nothing in the Mission files which backs up or explains this change.

As concerns "a mechanism for the actual control and disbursements of funds for the sub-projects", it is not clear whether this CP was intended to relate to all funds used for the sub-projects, including GOCR resources, or whether the mechanism in question was intended to relate only to loan funds. I.L. No. 5 (11/13/75) in which the CP is declared to be satisfied throws no light on this issue, except that it states: "In specific reference to the disbursement procedures for the PBCs, we hope these can be worked out between MAG officials and members of our staff shortly." Then, in I.L. No. 10 (6/3/76) the Fixed Amount Reimbursement Method for Local-Cost Financing (PAR) System is introduced and it is stated this is "the method the parties have agreed to use." It would seem that whatever the initial intent, the Mission eventually interpreted this CP as being limited to loan funds and did not agree to a mechanism until June, 1976.

Given this history, the basis on which CP 302 (b) was considered satisfied in November, 1975 (I.L. No. 5) remains something of a mystery.

3. Establishment of a Transportation Section - The third and final CP for the Agricultural Services Project is "Evidence of the establishment within MAG of a separate Transportation Section charged with the formulation and implementation of a comprehensive vehicle maintenance policy and an overall operations plan for the maintenance (including preventive maintenance) and repair of MAG vehicles."

In understanding this CP it is necessary to refer back to the CAP and its back up documents to determine what was meant by a "separate Transportation Section." These documents make clear that what was envisaged was "a new Transport Section in the Administrative Division... (whose) chief will report directly to the Executive Vice Minister and will be responsible for administration, cost control, supplies, budget, vehicle replacement, training and complete operation of the maintenance program." In other words, considerable upgrading and centralization of responsibility was contemplated. In actual fact such a "new" Transport Section has never been established. The resources of the Guadalupe repair shop have been increased and its chief given somewhat greater responsibility than he had in 1974, but he still reports to the head of the Administrative Division who continues to exercise effective power with regard to all vehicle matters.

There is nothing in the Mission files which indicates upon what basis this CP was considered to be satisfied in November, 1975.

4. Conclusions - The conclusion to which one comes as concerns the CPs related to the Agricultural Services Project (Section 3.02 of the Loan Agreement) is that they corresponded to a particular conception of what the project was all about, that shortly after the Loan Agreement was signed the Mission began to find out that this was not a completely shared concept, that a fairly long officially unrecognized struggle went on to try to impose the concept, but that, finally, in order to get things moving the Mission and the MAG went through the motions of agreeing on the points at issue. The result is that the CPs did not serve their primary function of ensuring that a serious attempt would be made to have the project, as planned, carried into execution.

D. Financial Execution

This subject will be treated separately for Loan funds and for Counterpart funds.

1. Loan Funds - The allocations and disbursements of loan funds by principal component and the timing of the action is shown in Table II-1.

(a) Authorizations - With regard to the authorization adjustments, the following comments are in order:

(1) The shift of \$22,000 between the components "T.A. for MAG Planning and Management" and "CAN Support" is mechanical. Expenditure under both was limited to payment for personal service contracts executed either directly by MAG or via a contract between MAG and IICA under which the latter provided and was reimbursed for personnel supplied to the sector planning office. As will be discussed further on, personnel funded from both of these accounts were used interchangeably as regards function and were assigned to the same unit.

(2) The reduction in the authorization for MAG Staff Training and shift of the funds to P&C components (they were later reduced) was proposed by the Ministry in January, 1979 and approved by AID in February, 1979 (I.I. No. 36). The underlying and shared reason for the reduction apparently was a belief that the full \$100,000 could not be expended by the TOD. What this belief, in turn, was based upon is not clear in the record. There seem to have been some problems with the handling of commodities which constituted over 75% of the approved budget for this component of the loan. It may be that this was the determining factor. In any event, what is clear is that the shift of funds did not stem from any consideration of relative priorities or of demonstrated financial requirements of the P&C Component, as the following paragraph clear.

(3) The major reduction in the P&C component is the consequence of procedural errors, rather than the needs -- or perhaps even the actual expenditures -- in this component.

I.I. No. 10 dated June 3, 1976 which authorized use of the PAR System for payments of Loan funds indicated that it was mutually agreed upon as a means of allowing

Table 11-1

Authorization and Disbursements of Loan Funds
by Principal Components
 (Thousands of US\$)

	Initial Authorization (Loan Agreement)	Final Authorization (IL#36-2/12/79, IL#42-10/26/79)	AID Disburs. as of 3/31/80	Crucial Dates		
				Authoriz. for Disburs.	First Advance	First Reimburse- ment
Projects by Campaign	700.0	560.7	488.3	6/3/76 (IL#10)	7/76	4/79
TA for NAC Planning and Management	200.0	222.0	221.3	11/13/75 (IL#5)	NA	5/76
NAC Staff Training	100.0	64.2	63.6	2/27/78 (IL#23)	NA	4/79
Executive Vehicle Replacement Program	100.0	100.1	81.8	11/13/75 (IL#5)	NA	5/77
Tax Exempt	200.0	178.0	177.9	7/7/77 (IL#17)	NA	9/78
Totals	1,300.0	1,125.0	1,032.7			

"MAG to avoid cumbersome accounting procedures in obtaining reimbursement for the Pbc element of the Agricultural Services Project. "The FAR System is one which reimburses upon a basis of planned outputs rather than inputs and, with relation to a previously agreed upon cost, makes payments as the work is advanced. This system, which is quite suitable for an activity such as road construction, is inappropriate where the planned output is more intangible.

Comments vary as to why it was introduced. There are some indications of AID/W urging the Mission to try out a new repayment modality which was in vogue at the moment. Other indications are that the Mission was having difficulties in agreeing with the MAG on methods of controlling the use of advances. (It will be recalled that I.L.No.5 indicates that disbursement procedures for Pbc activities are still to be worked out and that in approving the first group of Pbc's (I.L. No. 10), a \$200,000 advance to MAG is authorized to make "payments to the CAR's individual Petty Cash accounts for approved Pbc's"). USAID telegram No.0358 of January 25, 1977 reporting on the status of loan implementation supports this latter motivation for the FAR system introduction. The message states that the activity "has been delayed by internal GOGR administrative problems (the lack of adequate control over advances was resolved by GOGR acceptance of a FAR system) and the 1976 draught." The implication that, at least to some extent, FAR was a gimmick to get around the difficulty of relating use of CAR petty cash funds to specific Pbc activities (which is a real difficulty) is inescapable.

In the event, no reimbursement was ever made under the FAR System and on February 12, 1979 (I.L.No.36) the Mission officially recognized that "The FAR method should not have been used for the Pbc." I.L.No.36 then set up a sampling system for determining what costs incurred by MAG through December 31, 1978 would be reimbursable and authorized a series of expenditures in 1979, including \$234,189 for vehicle purchases, and increased the amount available under the Pbc component by \$35,726 to a new total of \$735,726.

The record of what happened over the next seven or eight months is not too clear. I.L. No.42 of October 26, 1979 indicates that the Mission had calculated that as of that date \$125,000 (the MAG figure was \$100,000) of the funds allotted to Pbc's would not be used for this component and agreed to transfer them to the credit component of the INFOCOOP

Project, leaving the Pbc component authorization at \$560,700.

From an authorization standpoint, it is quite clear that the final sum can be defined as simply that amount which it proved possible for the MAG to justify to AID, even after the doors were opened to general extension and research support, e.g., the vehicle purchases.

(b) Disbursements - Loan Funds for the Agricultural Service Project were disbursed as follows:

	(Thousands of US\$)	
	<u>Amount</u>	<u>Percentage</u>
1975	-	-
1976	73.6	7.1
1977	100.8	9.8
1978	199.7	19.3
1979-80 (thru 3/31/80)	<u>658.6</u>	<u>63.8</u>
Totals	1,032.7	100.0

To a considerable extent, this slowness in disbursement was a function of the way in which CPs were handled, as described above. There were, however, other factors. In the case of MAG Staff Training, there are indications that expenditure suitable for reimbursement was being incurred as early as 1976. It would appear that MAG internal procedures necessary to prepare appropriate reimbursement requests simply wasn't functioning.

In the case of the Preventive Vehicle Maintenance Program, no sizeable disbursements were made until June, 1979. This was mostly a commodity import activity and while 80% of the funds were committed in 1977 and IPBs issued, there were a series of mischances, e.g. bid award protests, improper handling of letters of credit, reimbursement requests improperly prepared.

The case of the PBCs is difficult to disentangle. There are three sources of data which it is impossible to reconcile; reports on expenditures and/or commitments made submitted to the Mission by MAG, usually without any back-up data; the GOCR Controller General Annual Reports on budget liquidation which identify expenditures and commitments against loan funds by "program"; and finally the USAID Controller's reports and records. The following are the figures taken from these three sources for the PBC activity:

Table 11-2
Expenditure and Commitment of Pbc Funds by Year
(Thousands of US\$)

	<u>MAG Reports To USAID</u>	<u>GOCR Controller Reports 6/</u>	<u>AID</u>	
			<u>Advances</u>	<u>Reimbursements</u>
1975	NA	150.4	-	-
1976	NA	110.8	23.4	-
1977	120.2	242.5	-	-
1978	136.7	209.6	23.4	-
1979 7/	<u>243.6</u>	<u>327.8</u>	-	<u>488.3</u>
Totals	500.5	1,041.1	46.8	488.3

What conclusions can one draw from these figures? The MAG Report data doesn't seem very serious -- probably educated guesses by Pbc managers in San Jose as to which CAR expenditures might be eligible for AID reimbursement.

The GOCR Controller General data reflects the detailed information supplied by the MAG financial services to the Contraloria General and would appear to reflect an attitude on the part of those services to consider Pbc availabilities as budget support resources for the Agricultural Extension Directorate, under which the CARs operated. Note that the total shown exceeds the Loan Agreement availabilities.

Finally, the USAID Controller data reflects what, as a matter of judgement, it could reconstruct as being eligible for reimbursement from available MAG vouchers, purchase orders, etc., after the FAR fiasco. By this point in time it is suspected that the records were anything but clear and the AID Controller -- as AID Controllers will -- used a 6/ figures include expenditure for MAG Staff Training, and correspond to Programs 186, 189 and 207 in the Central Government Budget.

7/ Includes figures in MAG and USAID Controller reports shown during January-March, 1980.

very conservative approach.

In retrospect, given the nature of the CAR operation and of the Pbc it is difficult to understand how anyone could have expected to discriminate between a "normal" CAR expenditure and a loan financed and a GOGR financed Pbc expenditure. To which account attribute such items as per diems, gas and oil, vehicle repair?

It is again a matter of judgement -- an educated guess -- but there persists a suspicion that under a more reasonable formula, e.g. total CAR costs divided on some reasonable although arbitrary basis between Pbc and non-Pbc activities and the former, again on the percentage basis originally agreed upon, divided between AID and the GOGR, the amount to be reimbursed to MAG would have been very close to the total allocated to this activity, even without the windfall vehicle financing at the end of the project.

Another point bearing on disbursements of loan funds has to do with the GOGR authorization to MAG to incur the expenditure to be eventually reimbursed. This is performed by either: (1) inclusion in the National Central Government budget law, approved and published in late December each year, of items to be financed from loan funds; or (2) publication in the official Gazette of an Executive Decree which refers back to the loan Agreement and provides the same level of detailed expenditure authorization as is found in the national budget law. This decree is, in effect, considered and treated as a supplementary budget. The limitations, controls, etc., on the use of funds so authorized are the same as for funds authorized in the national budget law. Of particular importance in this regard are the following:

- Funds neither spent nor committed must be reappropriated in the following year.

- Funds committed or obligated, but not spent within the budget year must be spent within the first six months of the following budget exercise.

It is emphasized that the MAG cannot legally incur any expenditure which is to be financed from a loan

prior to the approval and publication of a budget for same in one of the two fashions described above.

The bulk of the central government budget is organized for each Ministry by "programs" which are synonyms for the various Directorates and Departments in that Ministry. Each "program" is then disaggregated in terms of personnel costs, materials and supplies, etc. There is considerable flexibility in shifting funds amongst the functional breaks; very little between "programs". In addition, for certain special activities which either cut across divisional lines, or which are outside the normal functions of a given department, the budget law permits the use of a category called "Global Allocations", which is assigned code 9. In this case, there is 100% flexibility as regards use of the funds for personnel, materials and supplies, machinery and equipment, etc.

The CAP envisaged using this "Global Allocation" mechanism for Loan 025. It also seems to have assumed that the authorization would be contained in the regular budget law published in December each year. The CAP statement in this regard (Volume II, Section I, Chapter IID3) is as follows: "AID loan funds will be included in the MAG budget in conformance with normal budget regulations. However, it will be shown as a discrete program within the "Global Allocation" section..."

This CAP intent was not carried out in practice, neither with regard to use of the regular national budget law nor with regard to the use of the "Global Allocation" technique. Instead, supplemental budget decrees were used and published as follows:

March 25, 1975

February 18, 1976

March 25, 1977

March 15, 1978

April 17, 1979

This meant that a minimum of two to four months each year was lost insofar as incurring new obligations against loan funds was concerned.

In addition, beginning in 1978, and with regard only to external loans, the six months carry over of expenditure authority for obligations was abrogated and a reappropriation is now required. According to GOCR Controller General sources, the rationale for this distinction between authorizations for externally and internally financed items is to provide more time for execution of carry over commitments, since it is assumed that reappropriation or what is called "revalidation" will be undertaken automatically at the beginning of the new budget year.

Instead of using the "Global Allocation" modality a series of discrete "program" codes roughly corresponding to Agricultural Services Project Components were used; (183 for Central Administration; 184 and 196 for Planning; 185 for Coordination of Agricultural Policy; 186, 207, and 209 for Extension). Under each "program" there figured the normal line-item breakdown by functional category, e.g. personal services, equipment and machinery, etc.

Theoretically, an examination of the Controller General's annual reports on the liquidation of these "programs" by sub-item, should provide an exact picture of the use of Loan funds. This is unfortunately not the case (see for example the PBC data listed and discussed above). The Controller General reports can only be as accurate as the data submitted for compilation by the MAG. In this connection, the following finding in the August, 1977 audit performed by the AID Area Auditor General is of interest. It states:

"Project accounting records in the Ministry offices are substantially lacking and not clear to determine actual costs of each project. Budgeted and expended amounts are different between the Financial Department and the Project Coordinator's Office. There is a substantial lack of coordination between these two offices as well as with the Technical Department."

Recommendation No. 16 of this Audit states that the USAID should require the Ministry of Agriculture to establish adequate accounting records for all costs

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incurred for the approved AID financed projects." An April 26, 1978 memorandum from the Mission to AAG/LA on the various audit recommendations states: "The MAG accounting system has been reviewed by our Controller's Office and found acceptable." While it was considered outside the purview of this evaluation to perform a detailed examination of the MAG accounting system as it related to Loan 025, one remains with the impression that either the system or the manner in which it was applied leaves something to be desired.

(c) MAG Administrative Procedures - There is a constant drum beat of complaint in all documents pertaining to the project and in most interviews to the effect that MAG administrative procedures hampered project execution, specifically the expenditure of loan funds. The facts are actually quite simple.

First, there is no question but that the normal GOCR financial/administrative procedures, mostly set forth in government wide regulations stemming from the Financial Administration Law are cumbersome and are designed to exercise control rather than to expedite action.

Second, there is also little question that even within the limits imposed by these standard procedures, MAG financial administration performance is deficient, e.g. field personnel do not prepare requisitions until it is too late for the funds to be used within the time limitation set by the law; central office personnel shift allocations around without due regard for program implications.

Third, there is great confusion in the "complaints" as to whether they relate back to category one or two above. The CAP was clear in stating as its objective that the project would attempt to alleviate the second type of problem. However, when the Mission in its reports and evaluations repeatedly refers to MAG administrative problems it is almost always referring to the first category of obstacles. The same is true of comments made by MAG personnel in interview sessions. It has become somewhat of a litany to recite category one problems when the subject is broached, rather than to deal with what can be done to improve matters within the confines of the law.

Several actions were taken to deal with category two problems, especially with regard to the PbC component. These were: (a) to create administrative assistant positions in each CAR; and (b) to create an administrative unit in the Extension Directorate. The latter was short lived. It had no appreciable effect since it was designed to expedite paper, but had no real decision making power.

The fact of the matter is that the truly serious problems are in category one, but the project was not designed nor intended to deal with these matters. Specifically, there was undoubtedly some advantage in increasing the amounts in the petty cash fund accounts of the CARs, but the money still had to be used within the limitations of the petty cash fund regulations, i.e. no equipment purchases, no advances on per diems, no operations valued at over \$1,000, etc.

2. Counterpart Funds - The Loan Agreement does not specify how any counterpart funds of the \$2,350,000 total are to be used except for two items: \$250,000 for CAN operations and \$450,000 to support the staff of the national marketing commission and to finance a feasibility study for the establishment of a central wholesale market.

The CAP is more explicit and presents the following breakdown:

Table II-3

Programming of Counterpart Funds
(US dollar equivalent)

Projects by Campaign	1,190,000
Planning and Management	100,000
Vehicle Maintenance Program	140,000
Training (National Level)	100,000
Other Operating Costs	210,000
CAN Support (Contract Staff)	250,000
Marketing Commission	250,000
Marketing Feasibility Study	200,000
Total	\$2,350,000

In letters of April 18 and June 8, 1977 the MAG informed the Mission that the CAN had assumed the functions of the Marketing Commission, that the Sector Planning Office (OPSA) would include amongst its functions that of the secretariat of the Marketing Commission, and proposed that the \$450,000 of counterpart established for marketing activities be used by OPSA's marketing unit. This was agreed to in I.L. No. 17 of July 7, 1977 and had the effect of increasing the CAN support counterpart requirement to \$700,000 equivalent.

There is nothing in the Mission records to indicate that any attempt was made to ensure that the counterpart funds were made available for the purposes indicated or in any other way to monitor this aspect of the project. Statements made during interviews with Mission staff are that the Loan Agreement did not impose any reporting requirements on MAG in this regard and, therefore, it was not necessary to check on availability and use of counterpart.

While difficult to segregate project activities from other activities of the MAG departments involved with their execution, especially PBCs, an examination of the Contraloría General budget liquidation records for the years 1975-79 indicates that in all probability these counterpart expenditures were made.

3. Conclusions - The overall record of loan disbursements against loan authorizations, as adjusted, is very good. This is the standard test usually applied and used as a proxy for measuring financial execution. However, it is clear that this end result was achieved to some extent by shifting funds around to where they could be used, and thus blurring the relationship between expenditure and project objectives.

It is also quite clear that a good many mistakes (both of omission and commission) in financial administration were made both by the Mission and by the MAG and that these may have had a negative impact on achievement of project objectives.

Finally, there is reason to question the ability of the MAG to avoid the temptation of using outside resources as a type of budget support when these are not more tightly programmed and controlled than was the case here.

E. Mission Monitoring and Evaluation

Monthly internal Mission reports on the status of project implementation located in the Rural Development Division begin in January, 1976 and continue through January, 1979. Also in August, 1977 the Mission undertook an evaluation, based on a logical framework developed after the loan was signed.

These documents, especially the monthly reports, indicate that a great deal of attention was given to moving the loan funds as opposed to what the funds were supposed to accomplish in terms of institutional development. For example, in the conception of the planning function-- as expressed in the CAP-- a somewhat crucial role is assigned to the CAnCitos (regional replicas of the CAN). As will be discussed more fully later, these entities faded out of the picture in 1975-76. Nothing in the monthly reports and related action assignments indicates either any awareness of what was happening or any attempt to intervene. The August, 1977 evaluation does recognize the situation and reports that "the idea of regional CAnCito plans, as originally conceptualized in Loan 022 of FY 1970 has proved to be impractical" and then goes on to explain why.

With regard to the PBCs there is evidence that considerable time and effort was spent on following through on specific actions each was to undertake, e.g. conducting field days, setting up demonstration plots, creating nurseries. The Mission's concern -- and a valid one -- was focused on seeing that programmed services were getting to small farmers. There is, however, no indication either in the monthly reports or in the evaluation that anyone was concerned with what the CAP describes as the raison de etre for introducing the PBC concept into the MAG, i.e. "its applicability to stimulation of management and operational changes within the MAG."

In sum, Mission monitoring appears to have been concerned primarily with achieving action, but with little continuing consideration of the question: action for what institutional development ends.

F. Projects by Campaign

1. Definitions and Purposes - This component of the project is defined in the CAP (Volume II, Section I, Chapter D4) as "an effort to bring together in an integrated manner sufficient technical resources to carry out the identification, planning, resource allocation, execution and evaluation of commodity-specific/area-specific crop and livestock production programs". Later in the same Chapter the production emphasis is modified and the concepts of "testing of new technology packages under real field service conditions..." and "research which will investigate ways of increasing yields..." are introduced. The model corn project included in the CAP also has a research component.

The project called for executing and providing a financial input for "up to 18 regional demonstration projects (3 for each region) at the rate of one per year which utilize the latest extension methods and technology packages." Other planned outputs listed in the Loan Agreement and related to this project component are:

(i) "Coordinate planning of the above demonstration projects with appropriate management inputs from all participating MAG divisions..." and (ii) "An improved management system between MAG divisions and between central and regional offices, using Pbc techniques and leading to basic attitudinal changes, thus permitting substantial improvement in MAG services performance."

This line of thought is echoed in the document entitled "Proyecto de Servicios Agropecuarios" submitted by the MAG in May, 1975 in compliance with the CPs and indicates that, at that time, the MAG considered the Pbc as the central nucleus of a program designed to produce internal administrative changes in MAG, while at the same time producing an impact on small farmers; also as an instrument to train personnel in modern systems of transmitting new technology.

The CAP indicates that this device originated from the findings of an AID/ILCA/CAN/MAG Task Force that was working with MAG regional and cantonal centers in 1973.

The above would appear to indicate that the Pbc concept resulted from a joint analysis between external assistance agencies and the MAG regarding weakness in the services delivery system and how to tackle some. Nevertheless, in interviews one repeatedly hears it stated that the project was "imposed from outside", that it came "pre-cooked" to the Extension Directorate, that CAR Directors were not involved in planning the project, etc. Some of this may be rationalization of what with hindsight is generally accepted as unsatisfactory performance, but there is probably also some truth in these affirmations.

2. Sub-Projects - Sixteen PBCs were approved (eight in June, 1976 and eight in March, 1978) as follows:

Table II-4

Pbc Approvals by Region and Purpose

<u>Region</u>	<u>Purpose of Pbc</u>	
	<u>First Approval</u>	<u>Second Approval</u>
Dry Pacific	Corn Production	Dual Purpose Cattle Production
Central Pacific	Fruit Production	Milk Production
South Pacific	Corn and Beans Production	Milk Production
Central Plateau East Region	Improved Potatoe Seed	Fruit Production
Central Plateau West Region	Milk Production	Corn and Beans Production
Central Plateau	Reforestation	Milk Production
Northern Region	Yucca Research and Production	Reproduction Center for Poultry and Fish
Atlantic Region	Corn Production	Cane Production

The initial concept of 18 projects in six regions was modified by the creation of two additional CARs between the preparation of the CAP and the approval of the PBCs, which ended up as two per region or CAR.

There is a reasonably good fit between the crops identified in the CAP for PBC treatment and those finally executed (corn, beans, milk, yucca, cacao and fruits). Those listed in the CAP but not executed were sorghum, bananas, and vegetables. However, the executed projects included a series of crops and activities not initially programmed (Dual purpose cattle, reforestation and a reproduction center for poultry and fish).

In terms of a match on a regional basis between the CAP program and actual execution, the record is somewhat spotty as shown in the following table.

Table II-5

PBC Activities Programmed vs. Approvals

	<u>Programmed in CAP</u>	<u>Approved During Loan Execution</u>
South Pacific	Rice Corn Beans Milk	Corn Beans Milk
Central & Dry Pacific	Rice Corn Beans Sorghum Milk	Corn Fruit Production Dual Purpose Cattle Milk
Northern Zone	Milk Bananas Yucca	Poultry and Fish Yucca
Central Plateau & Central Plateau West	Milk	Milk Corn & Beans Reforestation
Central Plateau-East	Corn Beans Milk Yucca Vegetables Fruits	Potatoes Fruits
Atlantic Region	Bananas Cacao	Corn Cacao

There is a great wealth of information concerning each of these sub-projects, in terms of the inputs planned, the immediate outputs (e.g. demonstration plots, and field days) and the results expected (e.g. increases in production by hectare on specified numbers of farms). There is also very detailed information on the budgets set up for each project as far as loan funds are concerned. Finally, there is a large compilation of trip reports and other progress reports, indicating in considerable detail the degree of achievement regarding planned expenditure, outputs and in some instances, results obtained. These reports also show that attention was paid to operational problems and that specific actions to overcome such problems were identified and recommended.

The general impression gained from examination of this documentation, supplemented by interviews with Directors and other personnel at some of the CARs, is expressed in Table II-6 where each sub-project is rated in terms of poor, fair, good with regard to its execution in terms of immediate outputs, i.e. of the execution of the planned activities.

Table II-6
Rating of Individual PBCs

<u>Region</u>	<u>Project</u>	<u>Rating</u>
Dry Pacific	Corn Production	Fair
	Dual Purpose Cattle	Poor
Central Pacific	Fruit Production	Good
	Milk Production	Good
South Pacific	Corn & Bean Production	Fair
	Milk Production	Poor
Central Plateau East Region	Improved Potatoe Seed	Good
	Fruit Production	Fair
Central Plateau West Region	Milk Production	Fair
	Corn and Bean Production	Poor
Central Plateau	Reforestation	Fair
	Milk Production	Poor
Northern Region	Yucca Research & Production	Fair
	Reproduction Center for Poultry and Fish	Poor
Atlantic Region	Corn Production	Poor
	Cacao Production	Fair

3. Approaches to Evaluation - There are at least three ways in which an evaluation of this project component could be approached. One is to test the results in terms of changes in production, etc., on the part of the beneficiaries, using survey techniques. This was attempted under a Mission financed contract with Consultoria Interdisciplinaria en Desarrollo, S.A. (CID).

CID interviewed 237 farmers in April/May, 1980 in two of the CAR regions (Dry Pacific and South Pacific) where corn, bean and milk production PBCs reaching 1,989 farmers had been programmed. The survey instrument used was well designed and an attempt was made to use refined 1973 Agricultural Census data as a proxy for baseline data, with the limitations carefully noted.

Amongst the findings of the survey, four are of interest:

- A majority of farmers interviewed considered that their present incomes were equal to or less than in 1974.

- A large majority of farmers interviewed indicated that they had never been visited by a MAG extension agent.

- Compared to 1973, corn yields per hectare were down; rice yields were up.

- A significant number of farmers interviewed (41% in the Dry Pacific Region and 14% in the South Pacific Region) did not sell any of their farm produce.

These findings, and other data from the survey, may tell us something about small farmers in the areas served by the two CARs. However, due to the way the sample was drawn, they tell us nothing about the results of the PBC activity. Neither the MAG central offices nor the two CAPs were able to provide CID with lists of farmers participating in the PBCs, although there was repeated assurance that such lists existed. Consequently, in the case of the Dry Pacific Region a list was made up by CID and the CAR at the time of the survey. Most of the farmers on the list, when interviewed, indicated that they had never heard of

the Pbc. For the South Pacific Region, CID randomly visited farmers in two areas where the CAR officials indicated they had done Pbc work. Again many of the farmers interviewed indicated they had never heard of the Pbc activity.

Looking at the way the sample was prepared, and the findings concerning visits by extension agents and commercialization of farm products, it becomes quite evident that the sample was not representative of Pbc beneficiaries and that, consequently, its findings are not informative as to the results of the activity.

A second approach would be to examine in detail the planning and evolution of execution of each sub-project. It is not believed that this would yield useful results and would be largely a resumé of material at the disposition of the Mission. Rather, given the statements of purpose and outputs in the CAP and Loan Agreement it is proposed to attempt a third approach, which might be denominated "organizational" and which, drawing on the above material, tries to measure the degree to which the MAG delivery of services to small farmers has changed as a result of the Pbc experiment.

4. General Understanding of the Pbc Concept - In the course of the various interviews undertaken with both MAG and Mission personnel, the question as repeatedly put: "What is your understanding of what was new or different about the Pbc's as compared to the way regional level projects were conceived earlier and/or other CAR projects were being executed simultaneously." In almost all cases, the initial reaction was one of puzzlement. Insofar as MAG personnel are concerned, it seems fair to say that they regarded the Pbc as a process whereby a certain number of CAR activities were selected for AID financing and in this fashion given priority in the use of available resources.

This "budget support" way of thinking was probably influenced by two factors: first, most of the sub-projects were continuations of on-going CAR activities; and very little in the way of new kinds of inputs were envisaged. Secondly, the Pbc's were always considered as support to and responsibility of the extension program of the MAG, rather than as a MAG wide activity.

When department and directorate heads other than extension were queried about their participation, the answers were invariably: "little or none", or "we gave technical

advice to the CARs when they asked for it." This situation still prevails and the PbC experiment does not appear to have had any impact whatsoever on the inter-departmental coordination aspects of an improved service delivery system.

5. Project Selection and Project Context - When the CAP was written it was envisaged that the MAG Planning Office would be "primary in putting each program together with subsequent financial allocation and control responsibilities." The intent was to have a central point where criteria for project selection and content could be elaborated and controlled. This never happened. Instead each CAR, subject only to the approval of the Extension Directorate, pretty well called its own shots.

The Planning Office criteria which was never applied was that for a CAR activity to qualify for PbC financing it should be designed to produce quantifiable production results in a three year period and the inputs should be limited to those necessary to that end.

Implicitly using this definition, in an evaluation of the 16 PbC projects undertaken by the Planning Office in August, 1978, it found and reported to the Minister that eight of the 16 projects were not suitable for PbC financing and recommended that they be discontinued. The recommendation was not acted upon.

This evaluation, which was performed project by project and has no over-all conclusions, nevertheless indicates that in the judgement of the MAG Planning Office almost all the projects (including those recommended for continuance) were badly formulated and confused as to the relationship between targets and activities; that the financial records were unclear; and that it was not possible to establish benefit/cost relationships.

It is believed that there is some justice in the MAG Planning Office findings. Projects such as re-forestation and creation of fruit tree nurseries, while eminently laudable activities, were obviously not appropriate vehicles for achieving the stated PbC purposes. Other projects such as improved potatoe seed production without any doubt were attempts to deal with a critical problem in the region, but again were probably not good vehicles for experiments in improving production related delivery systems.

It may be concluded that one of the reasons that the Pbc component of the project did not have the desired impact was that the definition of what could be included in any given project was too broad and all encompassing and that no specific criteria for project selection and project content were ever formally developed, agreed upon, and applied.

Before leaving this topic of Project selection, one further observation seems pertinent: if looked at from the viewpoint of the overall thrust of the entire program, i.e. assisting small farmers, rather than improving delivery systems per se, the projects make much more sense. For example, a given CAR diagnoses the local situation as one where small farmers need to diversify their production into higher value product lines; fruit production seems to be a good candidate; the first necessary action is creating nurseries. Thus, to the extent that the CARs did a good job in meeting small farmer needs -- and some of them were successful -- the Pbc component of the program should not be judged a failure, even if the CAP purposes were not achieved.

6. Program Budgeting - A great deal of attention was given to this concept in the Pbc component and very detailed budgets were prepared annually for each project. This practice seems to have taken hold and is being continued at present.

The development of the project budgets was and still is performed in a bottoms up fashion, i.e. with the initial program and budget being prepared by the CAR. There were several complaints by CAR directors that changes, sometimes of substantive impact, were made in the line item budget allocations without their being consulted, and of other rigidities in the way budget preparation and approval was conducted. However, on the whole, program budgeting at the level of the CAR projects does appear to be functioning.

What is still cause for concern is budget execution. The CAR project budgets are an internal MAG device. There is no formal relationship between them and the annual budget approved by Congress. They are thus subject to arbitrary change by MAG central officers. It is understood that such changes are not uncommon.

7. Improved Technological Packages and Research/Extension Coordination - The cruciality of suitable technology packages for improving delivery systems is recognized in the CAP, which calls for "continuous research and evaluation on technological crop and livestock packages in use by extensionists" and does not need to be belabored. For the crops and livestock production dealt with in the PBCs there is no evidence of any noticeable change over the life of the project.

It can be argued that suitable packages existed and that the problem was one of getting the information to farmers and getting them to apply the practices, rather than developing new technology. On the other hand, it is common to hear criticisms of the research directorate to the effect that the technology packages they have developed are not suitable for small farmer use and are not region specific. To determine what the true situation is, crop by crop and region by region would require a technical/agronomic level investigation well beyond the scope of the present inquiry. What can be concluded, however, is that the FBC experiment does not appear to have had any major impact on the development of improved technological packages, although there may have been some ad hoc work done within the programs of individual CARs.

As to the relationships between research and extension, while there are still problems, and each Directorate still develops its own program and projects in considerable isolation of the other, there has been progress at the regional/operational level. This has taken the form of stationing a number of Research Directorate personnel permanently in the CARs and assigning other to periodically cover two or more CARs.

The distribution of Research Directorate professionals at present is as follows:

<u>Location</u>	
Experiment Stations	12
Stationary in one CAR	10
Central MAG-Servicing CARs	18
Coffee Area	16
Total	60

8. Extension Techniques - During the PbC period, the methodology in use was essentially one of attempting to work with and through groups of farmers, including the formation of such groups, utilizing demonstration farms and plots. The focus now is on an Israeli technical assistance supported methodology known as the MCV system under which a zonal leader is identified and assisted through precisely fixed visits. He, in turn, is responsible for training a number of his neighbors and they in due course others.

While there was considerable effort made in training CAR personnel in extension techniques (see Section II.I.3), as concerns development of methodology per se, there is no indication that any special attention was paid to this under the PbC activity.

In the opinion of the writer the crucial issue is not so much which technique is used (a mix may be preferable to exclusive reliance on any one methodology), but the follow through over a sufficient period of time. It is not yet clear whether, or to what extent, the group approach is to be maintained. It would be unfortunate if, because of enthusiasm for a "new" methodology, such advances as were achieved during 1975-79 were not followed-up on and supported.

9. Central vs. Field Office (CAR) Relationship - These relationships have been in a constant state of flux during the entire 1975-79 period. In 1975 the supervision of the CARs was transferred from the Extension Directorate to the Vice Minister for Operations and a new General Directorate for Operations. In 1977, the CARs and the Extension Service were brought together again under a Directorate for Agricultural Development. In 1978-80, as part of a general reorganization and regionalization, the supervision of the CARs has again been separated from extension and placed in a new Superior Directorate of Regional Operations.

There appear to be several factors involved in what is, obviously, a sense of an unsatisfactory situation. One of these is the belief that the CARs should represent and be vehicles for the interests and programs of all MAG directorates and programs; and that if merged with or under the control of the Extension Directorate they will not give adequate attention to the concerns of forestry, livestock and other programs.

The second major factor is a recognition, on a conceptual level, that if the CARs are to function properly they need increased autonomy with regard to selection of personnel, control over the activities of personnel assigned from non-extension directorates, control over budgeted funds, etc. This is offset by a reluctance to surrender real power and control on the part of MAG central offices.

Not unrelated to the above is the question of where personnel are assigned, irrespective of who controls their activities. An OFIPLAN evaluation of the execution of the MAG budget in the first quarter of 1979 says that in 1978 of 1,474 "funcionarios" (a figure which does not agree with the authorized total of 1,965), 71% were centralized and 29% regionalized. This would come to 427 regionalized personnel. Nevertheless, figures provided by the new Superior Directorate of Regional Operations shows only a total of 321 on board.

The same OFIPLAN document lists a series of complaints by CAR directors about their relationships with MAG central office, e.g. budgets are altered without consultation; the personnel office appoints people from outside the region, paying little attention to CAR proposals; slowness in getting their requisitions, vouchers, etc., processed in San José. All of this has a familiar ring from PLC reports and evaluations.

What perhaps can be concluded is that the MAG continues to be seriously committed to a regionalization concept, but is struggling about how to translate this concept into decentralization in an operational sense.

10. Extension and Research as Entities - Whatever the organizational and supervisory arrangements, the heart of any system of delivery of services are the extension and research departments of the Ministry. Thus, in terms of the project objectives, it is of interest to examine what has been happening to these two elements of the MAG without attempting to discriminate between PLC and non-PLC activities.

From the standpoint of personnel the figures on authorized positions shown in Tables II-7, II-8, II-9 and II-10 are indicative.^{8/} From a personnel standpoint, the

^{8/} Data is from the annual budget laws and does not take into account any authorizations in supplementary budgets. 1979 figures have been adjusted to take into account positions on which recruitment was frozen. Finally, there is always considerable "leaking" of people and positions from one Directorate to another. Thus the data does not completely reflect the true world.

Table II-7

Number of Positions Authorized by Level and Year

	<u>Total MAG</u>		<u>Research</u>		<u>Extension</u>	
	<u>1975</u>	<u>1979</u>	<u>1975</u>	<u>1979</u>	<u>1975</u>	<u>1979</u>
Superior, Executive & Administrative	217	300	18	15	65	75
Professionals (University Degree)	302	390	53	63	119	126
Technicians	409	612	28	27	124	170
Other (Service and Labor personnel)	<u>440</u>	<u>957</u>	<u>111</u>	<u>129</u>	<u>74</u>	<u>72</u>
Totals	1,368	2,259	230	234	382	443

Table II-8

Increases in Positions Authorized

1975-79

	<u>Total MAG</u>		<u>Research</u>		<u>Extension</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Superior, Executive Administrative	83	38.2	-3	-	10	15.4
Professional	88	29.1	10	18.9	7	5.9
Technicians	203	49.6	-1	-	46	37.1
Other	<u>517</u>	<u>117.5</u>	<u>-2</u>	<u>-</u>	<u>-2</u>	<u>-</u>
Totals	891	65.1	4	1.7	61	15.9

Table II-9

Research and Extension Position Increases
as Percentages of Total MAG Increases
1975-79

	<u>Research</u>	<u>Extension</u>
Superior, Executive & Administrative	-	12.0
Professional	11.4	8.0
Technicians	-	22.7
Other	-	-
Total	0.4	6.8

Table II-10

Research and Extension Positions as Percentages of
MAG Totals by Year, Excluding Other

	<u>Research</u>	<u>Extension</u>
1975	10.7	33.2
1976	10.5	25.4
1977	10.1	34.9
1978	8.3	32.8
1979	8.1	34.0

Extension Directorate would appear to have been strengthened in all categories, except service and labor personnel and to have held its own or perhaps slightly bettered its relative claim on total trained personnel of MAG.

Research presents a much less satisfactory situation. It has lost ground in almost all categories of personnel and has progressively claimed a smaller percentage of total MAG trained personnel.

Looking at the financial side of things the picture is somewhat bleaker. Both Extension and Research appear to be claiming a decreasing percentage of total MAG expenditure as shown in Table II-11.

Table II-11

Extension and Research Expenditure Relationships
to Total MAG Expenditure 2/
(millions of colones)

	<u>Total MAG</u> <u>Expenditure</u>	<u>Total</u> <u>Extension</u> <u>Expend.</u>	<u>Extension</u> <u>as % of</u> <u>MAG</u>	<u>Total</u> <u>Research</u> <u>Expend.</u>	<u>Research as</u> <u>% of MAG</u>
1975	54.9	15.9	29.1	7.8	14.1
1976	65.8	18.1	27.5	9.5	14.4
1977	93.0	21.2	22.8	10.7	11.5
1978	109.4	34.5	31.5	11.4	10.4
1979	142.1	34.6	23.5	13.3	9.0

The 1978 and 1979 Extension figures include very large externally financed items for construction and vehicle procurement (\$9.9 million in 1978 and \$9.5 million in 1979) and if deducted would pull the percentages down to 22% in 1978 and 18% in 1979.

2/ Data is from Memorias Anuales de la Centraloría General for the years 1975-79. All transfers have been setted out and financing from all sources is included.

Perhaps more revealing is an examination of the relationship for each service between personnel costs and the total spent on personnel, non-personnel services and materials and supplies, as shown in Table II-12. (Omitting expenditure on machinery and equipment and construction from the equation it is believed gives a clearer picture of the ability of the respective service to operate).

Table II-12

Personnel and Operational Expenditure Relationships ^{10/}
(millions of colones)

	Extension			Research		
	(1)	(2)	(3)	(1)	(2)	(3)
Total for Personnel, Non-Pers., & Mat. & Supplies	Person. Costs	Col.(2) as % of Col.(1)	Total for Personnel, Non-Pers., & Mat. & Supplies	Person. Costs	Col.(2) as % of Col.(1)	
1975	14.0	10.7	76.1	7.7	5.4	69.9
1976	16.7	13.1	78.3	9.0	6.8	74.8
1977	20.1	15.4	76.7	10.3	7.7	74.5
1978	23.6	18.8	79.5	11.3	9.0	79.4
1979	24.8	19.8	79.8	13.2	10.0	75.4

As can be seen, salaries and related personnel costs represent an increasing percentage of the total over the 1975-79 period, with the consequent decrease in the funds available per technician to make him operational.

One other aspect of the financial situation is worth noting: the relatively high portion of Extension expenditure that is financed from external loans and grants. Since this type of funding is uncertain and very often special purpose oriented it has the effect of weakening both the claim on regular year-by-year appropriations and of potentially producing distortions in the activities. The figures are shown in Table II-13.

^{10/} Source: Memorias Anuales de la Contratoría General.

Table 11-13

Percentage of Extension Expenditure Externally Financed 11/

1975	7.5
1976	5.3
1977	9.8
1978	31.8
1979	29.4

11. Project Concentration - Implicit in the PBC concept is the idea of a sufficient concentration of resources on any given CAR project to enable it to have impact. Given limited resources this obviously means limiting the number of activities or projects programmed.

In 1975 there were a total of 39 projects in the eight CARs. In 1978, six of the eight CARs showed a total of 26 projects. (Information for the CARs for the Atlantic and South Pacific Regions is not available). The published program for 1979 for the same six CARs shows 59 projects. Most of the increase is attributable to only one region (the Northern Zone). However, it does appear that the idea of concentration -- if it had any validity earlier -- is not being taken seriously at present.

12. Use of Loan Funds - As indicated earlier, there is some confusion as to what was eligible for reimbursement from the loan funds. The actual disbursement for this project component was \$488,277. Almost 50% of this total was used for a windfall vehicle procurement action in the last year of the project. The vehicles were to be assigned to the extension service, especially the CARs. Included here was a bus which was intended for transporting farmers to field days and demonstrations. It is under the control of the Research Directorate and is located at the Enrique Jiménez Huémez Experiment Station, where it is used for field days held at the experiment station, but mostly for transporting farm labor to and from their homes

11/ Sources: Calculated from Memorias Anuales de la Central-e-
ría General.

in Cañas to the station on a daily basis. An additional \$30,000 of the funds expended under this project component was also used by the Research Directorate for irrigation equipment, shop tools and fertilizer and other supplies used or installed at the Enrique Jiménez Nuñez Experiment Station. This expenditure again was authorized only in the last year of the project.

The remaining funds, approximately \$225,000, were used to pay for personnel costs of the Extension Directorate and for operational, equipment and construction costs in the CARs. The personnel costs referred to covered 13 professionals, including four for the Training Department. As far as can be ascertained, all 13 carried out regular operational functions of the Extension Directorate. Two were working in the office of the director; two were coordinating activities related to the Cantonal Agricultural Committees (CACs); one was of the 4S Club specialist; one worked on a project for basic grains cooperatives; one was a fruit production specialist; and one was concerned with cooperatives financed from "Asignaciones familiares" funds.

It has not been possible to segregate the expenditure on the above personnel and the expenditure on CAR operations, i.e. the PBCs. However, it seems obvious that very little of the planned \$700,000 was actually used for the purpose intended.

13. Conclusion - As concerns the PBC experiment from an organizational or systems viewpoint and in relation to its stated purposes, the conclusion is essentially negative. It just doesn't seem to have produced any basic changes in the way services are programmed and delivered; it has not left any detectable traces behind it.

The reasons for this failure derive in part from the initial programming; the activity was simply trying to accomplish too many things without the resources (and related leverage). For example, to set improved technological packages as an objective without programming any resources for the Research Directorate just doesn't make sense.

The second, and perhaps major cause, was the failure to ensure that the Planning Office of MAG (see next section) had the opportunity and the resources needed to exercise the central programming and control function contemplated for it.

Thirdly, the attempt to segregate PBCs from other CAR activities and to apply the FAR system to them, while possibly not crucial in terms of the systems objectives of the project, did produce unnecessary confusion and diverted attention and energy away from the main purposes of the activity.

Fourthly, and finally, if viewed from the viewpoint of additional resources being applied to small farmer needs, the picture is not quite so bleak.

G. Programming and Budgeting

1. Purposes - Under the heading of Objectives for this project, the Loan Agreement includes the following: "strengthen MAG sectoral planning capability; assist the CAN to coordinate agriculture sector activities..."

The Loan Agreement goes on to specify under the heading of Major Outputs Expected:

(a) "Qualitative improvement in MAG Planning Office capabilities including...establishment of sectoral analysis and planning capability, use of modern management systems for resource allocation..., introduction of a system for project evaluation and analysis to assist in determining needed adjustments to project selection and execution."

(b) "Strengthening of CAN's role in the sector through: (i) a more active participation in sector policy formulation and coordination at national and regional levels; (ii) a more active role of the Regional Agricultural Committees (CANCITOS), (iii) consolidation of the CAN to clarify its role and functions."

Finally, under the heading of Basic Lines of Action to be undertaken, the Loan Agreement indicates for MAG:

(a) "Consolidate the operations of the Annual Plans and Budget Department by assuming control of budget preparation, revision and control."

(b) "Apply techniques of program budgeting to all projects to be financed under the loan as a first step in introducing it throughout MAG."

(c) "Reorient the priorities of the Programming Department so that it assumes responsibilities as envisaged in the planning law. This unit will concentrate on the formulation of sectoral planning documents for review and approval by the CAN..."

As concerns the CAN, the Loan Agreement goes on to state that it "will strengthen its coordination and planning role in the sector by soliciting regional development plans from each of its CANcitos which will serve to identify the plans and priorities of all public agricultural agencies...."

2. MAG/SEPSA Relationships - At the time the CAP and Loan Agreement were prepared, the CAN and its small Executive Secretariat, which had been strengthened in 1970 under the aegis of AID Loan 022, functioned essentially as a coordinating and advisory entity. At this time, it was assumed by the Mission that sectoral planning would be the responsibility of the MAG Planning Office; although it was also assumed that regional level sectoral planning (i.e. inter-institutional planning at that level) would be a responsibility of the CAN. It is also worth noting that in 1974, under a Regional AID grant (AID/LA 683) IICA was working with the MAG and O&IPLAN on "Organization of a Sectoral Planning Office for the Agricultural Sector". The degree to which this influenced developments indicated below and whether or not there was coordination between IICA and the Mission is not known.

In 1975, under the aegis of a new National Planning Law, an Executive Decree was issued which drastically enlarged the functions and reduced the membership of the CAN, created an Agricultural Sector Planning Office (OPSA), and a Technical Committee for Agricultural Sector Planning (COTEPSA). In November, 1979 via another Executive Decree, the CAN membership was somewhat changed, and OPSA was changed to SEPSA (Executive Secretariat for Agriculture Sector Planning), but with no substantive change in functions.

Basically, the effect that this had was that the MAG Planning Office was circumscribed to functions relating to the operations of the MAG, while sectoral analysis, planning, and programming, and evaluation, came under CAN/SEPSA control.

This, in turn, had far reaching consequences for the achievement of the objectives and purposes of this component of the project. Instead of one strong planning entity as envisaged (the MAG Planning Office) two essentially independent planning units (SEPSA and the MAG Planning Office) came into being and competed for available resources. There is little or no coordination between the activities of each.

For reasons which cannot now be determined, but which certainly include a weak leadership situation in the MAG Planning Office (its titular head during the entire project period was on leave without pay), the successive Ministers of Agriculture clearly placed the emphasis on developing a sectoral planning capacity broadly defined, rather than on the institutional development of the MAG as concerns programming and budgeting.

AID and IICA apparently accepted and supported the Ministerial priorities. As will be recalled, \$200,000 each of Loan 025 funds were allocated to CAN Support and to Technical Assistance for MAG. From a bookkeeping standpoint the separate identities of the two accounts were maintained and periodically adjustments were made between them. However, the entire \$400,000 was used to strengthen SEPSA and its predecessors. The MAG Planning Office received no assistance whatsoever from the loan funds, although the CAP makes clear that the bulk of the funds for Technical Assistance to the MAG were to be used to strengthen the MAG Planning Office.

This becomes very clear, both from an examination of SEPSA's personnel records and from a reading of the reports of the "advisors" financed from the funds allocated to Technical Assistance to MAG. Without exception, except for some limited attention on an ad-hoc basis to the PBC activity and special assignments from the Minister, e.g. representing him at international meetings, they worked on sector wide problems such as credit, soil use maps, and national level crop production (rice, cotton, etc.); and on sector analysis and the national agricultural development plan.

Given the shift of sector planning functions from the MAG Planning Office to SEPSA in 1975, there is probably nothing technically incorrect in the way that loan funds were utilized. However, there is no indication that the Mission was in any way concerned or aware of the implications for

project objectives of AID acquiescence in this tilt towards SEPSA and away from the MAG Planning Office.

The results of this MAG/AID position can be seen in the evolution of the two entities as regards personnel and budget.

Table II-14

Positions Authorized
for

MAG Planning Office and SEPSA

	<u>MAG</u> <u>Planning Office</u>	<u>SEPSA</u>
1975	53	22
1976	56	34
1977	54	54
1978	47	78
1979	35	83

The above figures understate the true picture. Under the common practice, at the discretion of the Minister, of "lending" positions from one department to another, a number of the Planning Office positions and their incumbents were located in SEPSA with the effect of increasing its staff and decreasing the numbers shown above for the Planning Office. To ascertain the exact numbers involved would require a search of individual personnel jackets. This was not believed to be productive.

Table II-15

Expenditure by Year:

MAG Planning Office and SEPSA
(in millions of colones)

	<u>MAG</u> <u>Planning Office</u> ^{12/}	<u>SEPSA</u> ^{13/}
1975	2.98	0.52
1976	3.16	0.95
1977	4.26	1.32
1978	3.52	2.79
1979	3.59	5.35

^{12/} Transfers netted out.

^{13/} AID and other external financing funds are not included since they did not show up in discrete figures in the Controller General Annual Reports.

3. MAG Annual Planning and Budgeting - The CAP had very ambitious and detailed plans for reforming and consolidating this function.

At present, two units of the MAG Planning Office are involved in the planning and budgeting process: the Department of Budget and Yearly Plans, with a staff of two professionals and one auxiliary; and the Programming Department which has six professionals and four auxiliaries.

The former unit has had its organized location shifted constantly between the Planning Office and the Administrative Directorate. It was transferred to the Planning Office in 1971, moved back to Administration in 1976, returned to Planning in 1979 and it is rumored as of this writing that it is due to be returned once again to the Administrative Directorate. Budget revision and control have always remained with the Administrative Directorate.

The annual program is prepared by the Programming Department, and, according to interview data, is usually put together after the budget has been finalized. It represents nothing more than a compilation of what the CARs and the various Directorates have submitted, as adjusted by the budgetary reviews and changes.

As concerns program budgeting, the CAP indicated that: "As a practical and relatively easy first step towards program budgeting, the MAG will be encouraged to convert its division by division budget to a regional and program budget." With the exception of the limited use of project budgeting by the CARs discussed in the preceding section, there has been absolutely no change -- or indication of any attempt to change -- the system of division-by-division budgeting.

In sum, absolutely nothing of what was intended in the area of annual planning and budgeting for the MAG has been accomplished. The MAG still conceived of the annual budget as a financial control, rather than as a programming instrument, and -- at the Ministry wide level -- it does not appear to be interested in undertaking operational programming in any serious fashion.

4. Improved Programming and Budgeting Techniques - Related to the above topic are the efforts that have been made to instruct MAG operational personnel in programming

techniques. During the course of this project and with loan financing, Practical Concepts Inc. (PCI) gave a series of courses to CAR and other personnel in program budgeting, including the use of the Log Frame. At other times, courses have been given to MAG personnel in such techniques as programming by objectives.

There is undoubtedly a certain level of understanding and competence within the MAG concerning programming and budgeting techniques. None of these, however, have ever been put into practice in any formal sense. Funds expended to further instruct personnel in these methodologies without an iron clad commitment for their use within the system are simply wasted.

5. MAG Project Evaluation - The Programming Department of the Planning Office has the responsibility for this function. It carried out the Pbc evaluation referred to earlier. Aside from that, it has from time to time evaluated the results of special projects more or less on an ad-hoc basis. In 1980, for the first time, it is conducting surveys of selected CAR beneficiaries, including control groups, to measure results obtained by selected projects. To date field work has been completed on three or four projects for each of three CARs. There appears to be a resource problem in continuing with this work.

It is also worthy of note that the only more or less agency wide evaluation of MAG in recent years was conducted in 1979 by OMIPLAN rather than by any MAG department.

6. Sector Analysis and Sector Planning - During the 1975-78 period SEPSA produced a considerable number of analytical studies on discrete aspects of the sector, e.g. production, rural and agricultural labor force, technology, agro-industry, marketing, sector policies; and consolidated and summarized these into a document entitled "Analysis of the Agricultural Sector of Costa Rica, 1962-1976" which was published in 1979. This analysis was then used in producing in January, 1979 a sector plan and programming document for the 1979-1982 period.

The individual analyses have not been examined, but the summary document and the program document both provide evidence of a good, workmanlike approach to the subject matter. It is obviously too early to test the realism of the program in terms of accomplishment.

7. Sector Program and Project Formulation and Coordination - SEPSA has been concerned with the formulation of discrete commodity programs on a national level (e.g. cotton, rice, cacao, swine, beef).

For the 1980-81 crop year, for the first time, it is also produced and distributed widely an inter-institutional plan for 16 major crops covering crop insurance availabilities and requirements, credit availability, seed variety requirements, and support prices. Here again there is evidence of a reasonably good technical capacity. There have been some criticisms of the technical quality of some of the individual commodity programs, but by and large they seem to be producing results.

8. Regional Level Sectorial Planning - The device invented for this purpose was a network of inter-institutional, regional level committees with private sector participation, known as CANcitos. Under the aegis of Loan 022 and with much of the intellectual input coming from IICA, these committees were formed in 1972; regulations for their functioning were approved by the CAN and sent to the field in January, 1973; a newsletter for them was published monthly; and during 1974-75 they were quite active. In general, rather than acting as planning bodies, they served as pressure groups which brought to CAN attention local problems with roads, GNP credit guarantees, price and credit policies and practices, etc. Usually, the CAR Director functioned as the Executive Secretary of the CANcitos; they had no permanent staff subject to their control.

Due possibly to lack of time and/or interest on the part of CAR Directors and also to the decision of the CAN in 1976 instructing OPSA to transmit communications from CANcitos direct to potential action agencies rather than having them considered by the CAN, as had been the case heretofore, the CANcitos little by little stopped functioning. Since 1977, there are no reports on CANcitos activity.

9. Focus of CAN Interest - The following chart on CAN decisions gives some indication of the shift over time in the subjects with which the CAN concerned itself. The classifications used are very rough and ready and do not pretend to any accuracy. Also, some decisions overlap between categories used in the chart and their assignment is somewhat arbitrary.

As to the miscellaneous, or "other" category there are topics that come up only once, on a one-shot basis, and others that are treated each year. However, the chart does illustrate the decreasing attention to CANcito and other regional matters and a continuing and generally increasing attention to specific crop and livestock programs.

While the chart does not show it, an examination of the decisions themselves reveals progressive attention to the inter-institutional aspects of the problems and programs dealt with especially in relation to specific crops, e.g. the interrelationships of credit, crop insurance, technical assistance, and input availabilities. The remaining tendency noted, which is born out by the chart, is the very broad array of topics dealt with in 1975 and a progressive shift over the succeeding years to deal more in depth with fewer matters.

10. Conclusions - It can be concluded that insofar as programming, budgeting and evaluation at the MAC level is concerned the project was unsuccessful. The situation, rather than improving, is probably worse than at the time the CAP was prepared. On the sectoral level there is clearly considerable progress. SEPSA, while perhaps not yet completely solidified, is a going concern. It has political support and its work is acted upon. The CAN also is a much stronger and better functioning body.

Table II-16
CAN Decisions by Year and Topic

	1975	Number of Decisions			
		1976	1977	1978	1979
Specific Commodities	58	18	46	44	50
Regional Affairs	42	8	3	-	-
Sector Analysis, Planning and Programming	7	3	10	4	4
Marketing Policy	11	-	-	2	-
External Assistance	8	7	4	-	-
General Credit Matters	7	-	-	4	15
Land Reform	8	-	-	-	-
Miscellaneous	24	22	17	11	10
Totals	215	68	80	65	79

H. Marketing and Agricultural Statistics

1. Purposes - The Loan Agreement, in addition to a series of specific targets relating to the creation of a central wholesale market, which will not be dealt with here since responsibility for this activity was transferred by the GOCR to IFAM, identified three areas for improvement: marketing policies and structures; market information; and gathering and analyzing production data for crop forecasting and other uses. Specifically, under expected outputs, the Loan Agreement calls for: "Qualitative improvement in MAG Planning Office capabilities including the establishment of a regular information service for marketing data, prices, and supply/demand conditions per crop and livestock product..." Later, under "Basic Lines of Action", the Loan Agreement proposes to:

(a) "Strengthen the Statistics and Economics Department (of the MAG Planning Office) through: (i) its participation in the Coordination Commission of Agricultural Statistics headed by the chief of the Statistics Department...; (ii) develop a sample survey to be taken annually by regions on selected priority crops and livestock; (iii) extend and consolidate the present crop forecasting system."

(b) "The CAN will strengthen its coordination and planning role in the sector by...establishing as a part of its secretariat, a national marketing commission which... will endeavor to : (i) prepare a national agricultural marketing strategy; (ii) review and determine the appropriateness of major marketing investments...; and (iii) continue to analyze and prepare information on prices, costs and markets."

2. Organizational Arrangements - As can be seen two entities are referred to in the Loan Agreement: the Statistics and Economics Department of the MAG Planning Office, and a National Marketing Commission, which the CAP indicates "will have its own secretariat to carry out analytical, educational and promotional activities as new marketing policies are determined." This marketing commission was established by CAN decision on February 27, 1974 and the PIMA (Integrated Program of Agricultural Marketing) group named as its secretariat. In April, 1977 the CAN decided to: (a) assume the marketing commission functions; and (b) have the marketing unit of OPSA take over the secretariat functions.

In addition, two other entities have come into the picture: a Marketing Department in the MAG Planning Office was recently created under the auspices of AID Loan 027 with the stated purpose of assisting farmers with their marketing problems; and the Information Unit of SEPSA which has taken the lead on developing a centralized system of agricultural statistics and, inter alia, developed an area sample survey system.

As might be suspected from the above, the relative position of the MAG Planning Office and SEPSA in the marketing/agricultural statistics area has been shifted significantly toward the latter entity. In 1971, the Statistics and Economics Department had a personnel strength of 20, including five Peace Corps volunteers who constituted the bulk of six regional representatives stationed in the CARs. In 1975, the total number of professionals was reduced to 15. At present, the total is nine, including four secretary/auxiliaries. There are only two data gatherers stationed in the CARs, one in San Carlos and one in Liberia.

The new Marketing Department in the MAG Planning Office is staffed with two professionals, two auxiliaries and one Peace Corps volunteer. Thus, the Planning Office presently has a total of 14 personnel in the marketing/agricultural statistics field.

SEPSA, on its side, presently has eight personnel in its Marketing Unit and 13 in its Information Unit for a total of 21, with projections of shortly increasing this number to 31.

3. Marketing Policies and Structures - All work performed under this heading has been performed by SEPSA. In 1977 five studies were completed: one on the market for citrus, one on the marketing of basic grains, one on production costs for rice in the Dry Pacific Region, and two general analyses of marketing and consumption. In 1978 another five studies were completed: one on marketing of beef cattle and meat; one on swine and pork marketing, an analysis of the demand for food products, and two dealing more broadly with marketing questions (a proposal for organizing an institutional marketing system, and a proposed national marketing system for small farmers). Finally, in 1979 two documents were published: an analysis of the market for fruits and vegetables, and an Instruction for the Implementation of an Experimental Phase in a Marketing Information System.

This is an impressive amount of work for a new unit. Opinions by qualified observers is that the quality of the studies is good. Time did not permit a detailed examination of all these studies under this evaluation. Nevertheless, nothing that was examined was found on the surface to be unsatisfactory. The really crucial question of what effect this work has had on the reality of marketing practices in Costa Rica lies out the scope of this inquiry. Only two further observations are indicated:

- marketing systems and practices in Costa Rica have been evolving and changing very rapidly in the past 3 or 4 years, especially at the retail level.

- SEPSA believes that it is only beginning to get a grip on and affect marketing policies.

4. Market Information - This work is being performed by the Statistics and Economics Department of the MAG Planning Office. It takes the form of three series of publications:

(a) A monthly price information Bulletin - This consists of raw retail level data collected by MAG personnel on an ad-hoc number of food and other staple products. Only 250 copies on the bulletin are issued and the raw data is not analyzed due to lack of staff. It is not known to what use the bulletin is put.

(b) A Quarterly Agricultural Statistical Bulletin - This has been produced in essentially unchanged format and coverage since 1971. It includes data on credit, prices, imports of agricultural products, etc. It is a useful and handy compilation of basic data. However, it too has a very limited distribution: 300 copies.

(c) Periodic Production Cost Series - These studies have been produced since 1972. The frequency is as follows:

Table II-17
Production Cost Studies by Year

<u>Year</u>	<u>No. Produced</u>
1972	5
1973	10
1974	6
1975	4
1976	8
1977	10
1978	11
1979	<u>12</u>
	66

The subject matter dealt with is as follows:

Table II-18
Production Cost Studies by Subject Matter

<u>Category</u>	<u>Number of Studies</u>
Basic Grains (corn, rice, beans, sorghum)	25
Fruits and Vegetables (cauliflower, onions, peas, soy beans, cabbage, tomatoes, pineapple, coconut, plantains)	16
Export Crops (coffee, sugar, cacao, beef cattle)	12
Milk and Poultry	3
Root Crops (yuca, potatoes)	6
Other (tobacco, cotton, cattle feed)	<u>4</u>
Total	66

These seem to be well constructed studies. There are indications that the computer programming and data gathering techniques have been improving.

The fact of the matter is that there has been little change over the period of the project as regards the organized production of market information. The objectives of this component of the program remain unrealized. The finding of the August, 1977 Mission Evaluation to the effect that "At present there is no marketing information service within the MAC, nor is there likely to be one by the completion of this project" remains true as of this writing. 14/

5. Gathering and Analyzing Production Data for Crop Forecasting and other uses - Here again, in an operational sense, there has been no change over the life of the project. The only development has been completion of the design of an Area Sample Survey system. This has been done by SEPSA, which indicates that they plan for it to become operational in mid 1981 if funds are forthcoming. SEPSA intends to actually operate the system.

6. Conclusions - There has been some progress in the area of marketing policies and structures and an institutional base for dealing with these and agricultural statistical information matters has been solidly established in SEPSA. During the period of the loan there was no progress on either a system of market information or on improved crop forecasting.

I. Staff and Farmer Training

1. Purposes - The Loan Agreement under "Outputs Expected" calls for "An operating MAG training Unit: (i) carrying out mid-career management programs for MAG personnel... and (ii) providing support and assistance to the CAR client training systems."

2. Organizational Aspects - In 1975 two departments were created in the Extension Directorate: one for training in extension methodology; one for training in agricultural production. In 1977 these were integrated into one Training Department, still under the Extension Directorate. This Department which continues active in this organizational location has seven sections, as follows:

14/ It is reported that in the last months of 1980 (after the research on this evaluation was completed) the new Loan 027 supported Marketing Department has begun to produce Farm Marketing Bulletins, containing news of interest to small farmers.

(e) Servicing CARS in maintenance of audio-visual equipment.

(f) Operating the National Beekeeping Center in Turrialba.

Tables II-19 and II-20 show the accomplishments with regard to these functions.

As concerns the Training Department, the figures show a steady upward progression in total effort from year to year. In staff training, the emphasis has clearly been on technical courses. It is noteworthy that no courses on programming and budgeting were conducted (the PCI course in program budgeting is not included in the above statistics). According to interview information, the Division attempted to organize such a course in 1977, 1978 and 1979, but was unable to execute it due to changing directions from the responsible MAG offices.

Examination of the individual course data indicates that by and large the annual programs submitted to the Mission for approval in 1977 and 1978 were executed as planned.

The principal deficiency in the Department is lack of follow-up and evaluation on the training. Department personnel is quite conscious of this problem, but does not have the resources to undertake this work.

With regard to the INA program, the drop in activity in 1979 is believed to be a consequence of a decision by several CARS to concentrate on other methods of farmer training, and their non-participation in this program. There are also some reports of friction between MAG and INA, but the causes are not known.

4. Mobile Training Units - The CAP envisages use by the CARS of mobile schools for farmer training, in addition to the regular devices of field days and similar techniques. Such a mobile unit functioned in one region (Pacífico Sur) during 1976 and 1977. It reportedly worked well and had good acceptance by farmers. It was discontinued about two years ago because of lack of support, problems with per diems and similar difficulties.

- communications - Training in agricultural Extension and Com-
- Training in Programming and Administration
- Training in Agricultural Production
- MAG/University of Costa Rica Program
- MAG/National Apprenticeship Program
- Audiovisual Aids
- National Center for Beekeeping

The Department is staffed by six agronomists, a cut of one over the 1976 level. As regards staff training, its clientele is primarily the personnel of the Extension Directorate, including the CARs. It does help out and coordinate with other Directorates on request. Several other Directorates, e.g. Forestry, have their own training divisions, which in addition to providing courses for their own staff, provide training to CAR personnel and producers on request. There is no MAG wide training unit or formal coordinating body dealing with training. In this respect, the project purpose was not achieved. However, the creation and successful functioning (see below) of the Training Department of the Extension Directorate is a definite achievement of the project.

3. Operations of the Extension Training Department - The Department's main functions may be divided into:

- (a) Organizing and conducting staff training courses, mostly for CAR personnel.
- (b) Organizing staff and producer training courses at the University of Costa Rica experiment station.
- (c) Organizing and conducting courses for vocational agricultural school students and farmers.
- (d) Coordinating and arranging for farmer training courses to be provided by the National Apprenticeship Institute (INA) through the CARs.

Table II-19
Courses Conducted by the Training Department
(functions a, b, and c)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Totals</u>
<u>A. Staff Training</u>						
<u>-Extensions Techniques & Methodology</u>						
No. Courses	2	4	4	6	3	19
No. Attendees	30	113	33	118	42	336
No. Person/days of trgn.	150	565	132	546	185	1,578
<u>-Relation of Extension to Credit, Coops. & Family Assistance Fund</u>						
No. Courses	-	1	-	3	-	4
No. Attendees	-	28	-	76	-	104
No. Person/days of trgn.	-	420	-	380	-	800
<u>-Administration Matters (public relations, personnel mgmt., technical writing, accounting, etc.)</u>						
No. Courses	-	-	6	3	3	12
No. Attendees	-	-	140	49	47	236
No. Person/days of trgn.	-	-	406	109	129	644
<u>-Technical Courses (production of diverse crops and livestock, drainage, pesticides, etc.)</u>						
No. Courses	-	1	-	10	25	36
No. Attendees	-	31	-	191	501	723
No. Person/days of trgn.	-	465	-	1,025	3,944	5,434
<u>-Other (Convention of MAG Technicians)</u>						
No. Courses	-	-	-	-	1	1
No. Attendees	-	-	-	-	84	84
No. Person/days of trgn.	-	-	-	-	252	252
<u>Sub Total Staff Training</u>						
No. Courses	2	6	10	22	32	72
No. Attendees	30	172	173	434	674	1,483
No. Person/days of trgn.	150	1,450	538	2,060	4,510	8,708

(Table II-19...continues)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Totals</u>
B. <u>Courses for Farmers and Vocational Ag. School Students</u>						
-Credit						
No. Courses	-	-	-	-	1	1
No. Attendees	-	-	-	-	25	25
No. Person/days of trgn.	-	-	-	-	125	125
-Technical Courses (beekeeping; swine, poultry and rabbit production)						
No. Courses	-	-	7	19	5	31
No. Attendees	-	-	105	246	29	380
No. Person/days of trgn.	-	-	1,169	2,347	325	3,841
<u>Sub Totals - Farmer & Voc. Ag. Student Trgn.</u>						
No. Courses	-	-	7	19	6	32
No. Attendees	-	-	105	246	54	405
No. Person/days of trgn.	-	-	1,169	2,347	450	3,966
C. <u>Overall Totals</u>						
No. Courses	2	6	17	41	38	104
No. Attendees	30	172	278	680	728	1,888
No. Person/days of trgn.	150	1,450	1,707	4,407	4,960	12,674

Table II-20

Farmer Training Courses Conducted by INA

	<u>No. of Courses</u>	<u>No. Participants</u>
1974	51	772
1975	252	4,336
1976	448	9,048
1977	369	6,526
1978	442	6,630
1979	137	1,847
	<u>1,699</u>	<u>29,159</u>

5. Repair and Maintenance of Audio-Visual Equipment -

A considerable portion of the Loan funds for this project component was used to purchase equipment for the CARs. (Additional equipment was also purchased under the PbC component). Normally, the person handling the audio-visual section in the Training Department provided assistance (but not control) to the CARs in getting their audio-visual equipment repaired, obtaining supplies, etc. However, this position has been unfilled for seven months as of this writing.

6. Conclusions - From an institutional development standpoint this project component can be considered as partially successful, in that it led to the formation of a functioning Extension Directorate Training Department, which, at least from a quantitative standpoint, appears to be doing a satisfactory job in staff training. It is not nearly so active in providing guidance and support to CAR client training systems. Apparently each CAR pretty much goes its own way.

Finally, the objective of a MAG-wide training unit was neither attempted, nor achieved.

J. Farmer Information

1. Purpose - The Loan Agreement includes amongst the outputs expected: "Quantitative and qualitative improvement in the operation of the Office of Information in Agriculture, as demonstrated by: (i) systematic use of mass media, (ii) educational materials production; (iii) multi-media information production, and (iv) providing support to the 18 regional projects."

The CAP makes clear that what was envisaged was an "integrated system as an integral part of national and regional programs focussing on CAR activities and projects" where investigation trials, demonstration plots, group seminars, and field days related to a commodity specific/area specific production program would be supported by the efforts of a central MAG information unit.

2. Organizational Arrangements - The CAP indicates that an "Information Center" was created in 1971 as a unit of the Planning Office. There is no institutional memory of this occurrence and it is doubtful that there was any meaningful separation of such a unit from the Statistics and Economics Department of the Planning Office which, as indicated

earlier, does have certain information functions. What did exist during the project period was an agricultural information unit with a printing plant as elements of the Extension Directorate. In 1980, this unit and the printing plant have been jurisdictionally upgraded to a MAG wide Agricultural Information Service, reporting to the Minister, but with its budget included under the Administrative Directorate component of the budget law. The reorganization stemmed from a concern that Directorates, other than Extension, were not receiving adequate service -- presumably from the printing facility.

The situation is still unsatisfactory. The Administrative Directorate funds constitute only a part of the financing of the Information Service and are subject to adjustment within the line items of that budget component, e.g. funds programmed for paper and ink can be shifted to pay for gasoline if, in the view of the Director of Administration, such a shift is indicated. Each Directorate (Livestock, Forestry, Extension, etc.) still budgets and, consequently, controls its own funds for publications and other informational activities.

Likewise each CAR, in its sub-allocations from the Extension budget and/or the planned Regional Operations budget, programs and controls what will be spent on information activities and what those information activities will be. Thus, while the new MAG wide unit technically is supposed to provide leadership, establish priorities, etc., for all aspects of agricultural information (defined by it as press, radio and T.V. coverage; farmer information pamphlets; and technical level manuals for professionals) it essentially remains a servicing unit for the various Directorates and CARs.

The main creative effort of the unit, at present, is to put together a national level Extension Manual, modeled on a U.S. County Agent's Handbook.

3. The Printing Plant - This facility, located in Guadalupe, has been in existence for approximately 20 years. Most of its present offset and other equipment was financed by AID under Loan 022. It seems to be well maintained and properly used.

The unit has an authorized personnel level (including editors and typists as well as equipment operators) of 18 technicians, but three of the positions have been "lent" to other departments.

In spite of an increase of three or four authorized positions since 1975, the unit is somewhat short handed in the judgement of its director, given its work load which includes printing a considerable quantity of office forms, helping out other Ministries, etc.

Production data for the past five years is not easily available. However, since certain types of publications carry consecutive numbering for the past 20 years a rough appreciation of activity over the 1975-79 period can be made.

Table II-21

Guadalupe Printing Office Output by Type 15/

	<u>Publication No. in 1975</u>	<u>Present Publication No.</u>	<u>1975-79 Production as % of Total</u>
Farmer Informa- tion Bulletins	43	73	41.1
Technical Bulle- tins	51	67	23.9
Information Sheets	39	60	35.0
Miscellaneous Bulletins	25	39	35.9

Given the 20 year life of each series it would appear that there has been an increased output of titles in the past five years. This is also the impression of the director of the plant. He indicates, however, that the

15/ Source: Interview with Director of Guadalupe Printing Plant.

size of the runs was and continues to be small. Again in the judgement of the plant director, there has been considerable improvement in the quality of the product, e.g. more use of color.

4. Conclusions - There has been little substantive change in the area of farmer information systems over the life of the project and the purposes of this project component remain unrealized.

K. Vehicle Maintenance

1. Purposes - The Loan Agreement, under "Major Outputs Expected", indicates: "Installation of new procedures and controls for preventive maintenance of vehicles and an effective system for identification and planning of resupply-replacement."

Further on, under "Basic Lines of Action to be Undertaken by the MAG", the Loan Agreement calls for: "Establish a new transport section in the Administrative Division and provide adequate budget support for an improved vehicle maintenance operation."

2. Organizational Arrangements - This topic was covered in Section II C3 of this report. Essentially, the project purpose of "establishing a new transport section", as defined in the CAP, was not achieved.

3. Budgetary Aspects - The system of separate Directorate budgets, i.e. each one including in its budget provision for repair parts, and replacement of vehicles, prevailed through the life of the project and continues at present. The Administrative Directorate provides guidelines for the development of these budgets, but reports that they are not taken much into account. In any event, since the funds for repair parts are managed centrally by the Administrative Services Department (except, perhaps, for certain CAR expenditure) the entire procedure serves no real purpose. It does, however, make it extremely difficult to ascertain what the MAG expenditure on vehicle maintenance and repair actually is.

4. Inventory of Spare Parts - The value of year end spare part inventories increased at a somewhat irregular rate over the past five years, but seems to have kept well in advance of the rate of increase in the MAG vehicle fleet as shown in the following table.

Table II-22

Vehicle and Repair Parts Inventory by Year

Year End Repair Parts Inventory Value (Colones)	No. Vehicles MAG Fleet	% Increase Over Previous Year of Parts Inventory	% Increase Over Previous Year of Vehicles in MAG Fleet
1975	200,000	358	-
1976	250,000	362	25.0
1977	300,000	379	20.0
1978	350,000	475	16.6
1979	500,000	658	42.9

Overall for the period 1975-79 the spare parts inventory increased in value by 150%, while the number of vehicles increased by 83%. However, the inventory contains a certain amount of "unmovable" material, e.g. tires for vehicle models that are no longer being used. Nevertheless, the repair parts situation is probably better now than it was in 1975. Also, there is a card index system in use, which permits adequate identification of need for reorder purposes.

5. Repair and Maintenance Arrangements - There is a main repair shop in Guadalupe. While it handles repair work for vehicles assigned to the CARs (at present 39% of the vehicle fleet), it is responsible only for the vehicles assigned to the central offices of MAG. This shop keeps a card file on each central office vehicle, but does not really exercise effective supervision since each Directorate controls the use of the vehicles assigned to it. There is no system for periodic check-up and revision; such work is done on a hit or miss basis when a vehicle enters the repair shop for any motive.

Two mobile repair and maintenance units also operate from the Guadalupe shop. They attempt to schedule monthly visits to each CAR. However, the shop director reports that the arrangement is working well in only two of the eight CARs, e.g. vehicles are waiting at the office when the Unit arrives.

The MAG officials concerned with preventive maintenance are well motivated and aware of what needs to be done, but until more radical steps are taken, (e.g. centralized control, competent mechanics stationed at each CAR, transfer of vehicle ownership to individual technicians) it is doubtful that the preventive maintenance situation will improve greatly. Nevertheless, there has been progress since 1975. It should also be noted that the MAG is beginning to experiment in limited fashion with a mileage system under which technicians can use their own vehicles for official business. This is a step in the right direction.

6. The Guadalupe Shop - A certain amount of equipment for this shop was financed with Loan 025 funds. It appears to be in use and well cared for.

The staff of the shop has increased from six mechanics and five assistants in 1975 to ten mechanics and five assistants in 1979. Training is arranged for the mechanics on an intermittent basis with INA and ICE. Most of the staff has had one or more training opportunities. There is a definite and continuous policy and practice of upgrading personnel and the staff, as a whole, is considered to be technically on a par with most commercial automobile agency service units.

The shop receives about 100 units a month for repair work and handles about 95% of the jobs itself.

7. Technical assistance - An automotive advisor was provided to the MAG for two one-half days per week for a one year period starting in February, 1977. According to MAG officials, he was used mostly in preparing equipments lists and specifications. His performance was judged inadequate by MAG officials. However, his reports to the

Mission indicate that the advisor also provided assistance in such needed matters as shop layout and installation of a card control system. It is probable that personality conflicts and the advisor's work habits, e.g. working at home, are the basis for the conflicting judgements as to his performance.

8. Driver Training - All documents preparatory to the loan (and the planning for this components was thorough and of excellent quality) stressed the need for training of vehicle operators. Nothing has been accomplished along these lines.

9. Evaluation of Results of the Maintenance Program Annually, there is an inspection and inventory of the state of each vehicle. However, the MAG keeps no records on vehicle down time which would permit seeing what the trend over time was on what is really the bottom line in a preventive maintenance program, i.e. whether down time for repairs decreases progressively and consequently, vehicles provide the service for which they are intended. This subject has been discussed with the appropriate officials and consideration is being given to setting up a simple record keeping system to measure end results.

10. Conclusions - There has been improvement in handling of spare parts and in providing preventive maintenance services. However, by and large, the purposes and objectives of this component of the project have not been accomplished.

L. Operating vs. Fixed Costs

1. Purpose - The Loan Agreement under "Major Outputs Expected" calls for "Improved MAG budget ratios between fixed and operating costs toward achievements of a 70:30 ratio from the current 80:20. This will require that all MAG counterpart funds provided for the Project be utilized for operating expenses, resisting further increases in personnel over and above 1974 staff levels."

The CAP places a great deal of emphasis on this target and states that: "...further improvement of MAG field service cannot be contemplated unless funds are made available

to redress the balance between staff and operating costs. And this is one of the key factors to be resolved under the proposed Agricultural Services loan project."

2. Evolution of MAG Staffing - The CAP indicates that the staffing level in 1974 was 187. It is believed that this figure excludes service personnel and labor. Using this definition, the comparable figure in 1979 was 1,302, a 49% increase over the five year period. If service and labor positions are included, the 1975-79 increase is 65.1%. It is obvious that one of the parameters set up in the project objectives was not achieved.

3. Operational vs. Fixed Cost Ratios - The August, 1977 Mission evaluation indicates that there was "confusion concerning what was originally meant by "fixed" and "operating" costs. This definitional problem remains. In any event, it is believed that there is nothing magic about 70:30 or 80:20. What is important is that the analysis, which seems to have been generally agreed, indicated that there was an unsatisfactory relationship between the number of people (measured in terms of personnel costs) and the funds available to make it possible for them to do their job. Leaving aside 80:20, it is possible to measure whether there has been any significant change in the relationship.

There are several formulae for making the measurement, e.g. personnel costs as a percentage of MAG total expenditure net of transfers; personnel costs as a percentage of MAG expenditure on personnel, non-personnel costs, and materials and supplies, which excludes machinery and equipment, construction, global allotments and financial expenditure. They all show approximately the same results as regards change over time in the relationship. It is believed that the most appropriate measure, and the one that is shown in Table II-23, is where personnel costs are compared to the sum of personnel, non-personnel and materials and supplies cost.

If it can be assumed that the situation was unsatisfactory in 1975, the calculations would indicate that it has not only not improved, but is marginally worse.

Table II-23

Comparison of Operating vs. Personnel Costs ^{16/}
(in millions of colones)

	(1) <u>Total of personnel, non-personnel & materials & supplies expenditure</u>	(2) <u>Personnel Costs</u>	(3) <u>Column (2) as % of Column (1)</u>
1975	45.9	34.4	74.8
1976	54.2	41.5	76.5
1977	71.1	50.2	70.6
1978	93.4	71.4	76.5
1979	110.8	84.6	76.3

This finding is certainly borne out by qualitative comments in every interview conducted. Also, it may be of interest to compare the data for MAG as a whole to similar calculations for the Extension and Research Directorates. This is shown in Section II #10 of this Report.

4. Conclusion - No progress was made toward achievement of this objective of the Project.

M. Other Management Improvements - In addition to the purposes dealt with in preceding sections, the Loan Agreement lists two general management objectives as follows:

- "Develop and monitor a reporting system to be used as a management tool in keeping each Division and the Minister informed of program progress."

- "Investigate the possibility of improving the procurement and administrative section of the MAG."

These two purposes can be dealt with quickly and summarily. There is no evidence of any kind that any attempt was made during the project period to deal with either one.

^{16/} Source: Memorias Anuales of the Comptroller General

III. Cooperative Development Project

A. Conditions Precedent

Three documents were required to fulfill the CPs, as follows:

1. Evaluation Plan - Section 3.01 (c) of the Loan Agreement established a broad requirement for this subject. A document dealing with INFOCOOP's plans in this regard was submitted by the GOCR on March 25, 1975 under cover of document S-CAN-2729. The INFOCOOP document is not referred to specifically in any I.L., but was presumably found to be satisfactory.

2. Implementation Plan - Section 3.03 (a) of the Loan Agreement called for an estimated schedule of disbursements by category during the first year of operations; a statement of lending policies; a description of monitoring and coordinating activities; and a plan for utilizing technical assistance funds. On May 22, 1975 INFOCOOP submitted a document in satisfaction of this requirement. In I.L. No. 2 (July 9, 1975) the Mission advised that the requirement was only partially satisfied, and that it had separately requested certain clarifications. It also added to the requirements listed in the Loan Agreement a request for a five year financial projection.

On August 28, 1975 INFOCOOP submitted a new document which apparently satisfied most of the Mission's concerns.

3. Certification of Availability of Counterpart - Section 3.03 (c) of the Loan Agreement required an agreement between the Central Bank and INFOCOOP pursuant to which INFOCOOP would be loaned \$2,600,000 of GOCR funds. This proved difficult to negotiate and then there were delays in executing the agreement which led to intervention by the Mission with the Central Bank. The agreement was finally executed in November, 1975. It could probably have been concluded several months earlier and, since it was the last condition to be complied with, 17/would have permitted the

17/ Other CPs required were essentially mechanical and posed no substantive problems.

issuance of I.L. No. 7 recording the satisfaction of the CPs for INFOCOOP in September rather than on November 21, 1975 as was the case.

4. Conclusions - The issuance of I.L. No. 7 should have cleared the way for committing and disbursing loan funds. This was not the case. Basic issues such as the relationship between the use of AID and counterpart funds had not been addressed. Also, as I.L. No. 8 issued only four days later (November 25, 1975) makes clear, many substantive issues concerning the nature of the project must have been under discussion. In the event, it was not until July 14, 1976 -- seven months later -- via I.L. No. 11, that the AID/counterpart relationship issue was settled (a 51/49% ratio arrangement for individual sub-projects) and disbursement of an initial advance of \$1 million authorized.

It is difficult not to fault Mission management for this last seven months delay. Normally, the AID funds/counterpart relationship question should have been dealt with in the Project Paper and Loan Agreement. If, due to an oversight, this was not the case, it certainly should have been identified and resolved during the 12 month period between Loan Agreement signing and satisfaction of the CPs.

B. Loan and Counterpart Disbursements

The Loan Agreement provided for the following financing:

Table III-1

Project Financing by Source and Purpose

	(in millions of US\$ or equivalent)
AID funds for credit purposes	\$2.70
GOOR Counterpart for credit purposes	2.60
AID funds for external T.A.	0.30
AID funds for assistance to weaker cooperatives	0.20
GOOR Counterpart for training	<u>0.15</u>
	\$5.95

On October 26, 1979, via I.L. No. 42, the AID credit component was increased by \$175,000, raising this item to \$2,875,000 and increasing the total program cost to \$6,125,000.

All funds were received and utilized by the Terminal Disbursement Date of the Program.

The following two tables, derived from INFOCOOP records, ^{18/}show when the AID and counterpart funds were received by the Institute for the various purposes listed above, without distinguishing whether the AID funds took the form of advances or reimbursements. It can be assumed that funds were disbursed to INFOCOOP only when they were needed for expenditure. Thus rate of disbursement serves as a proxy for progress in program implementation.

As can be seen, over half of the AID funds were utilized only in the final year of the project, whereas counterpart funds follow a smoother curve. This is due to: (i) the preponderance of the credit component in the overall project cost; and (ii) the fact that counterpart funds for credit could be used for any operation of INFOCOOP, while AID credit funds could only be used for financing 51% of selected projects. This, in turn, suggests that it was the limitations placed upon the use of AID funds for credit, rather than the capacity of INFOCOOP to develop its loan portfolio that was responsible for the uneven rate of disbursement of AID funds. The subject will be further explored when the evolution of the Institute's loan portfolio is analyzed.

There is undoubtedly also some correlation between the movement of credit funds and the delay in satisfying CPs and in effecting expenditures for technical assistance and training, but it is believed that these have been given an exaggerated importance in earlier audits and evaluations.

^{18/} There are slight discrepancies between the INFOCOOP and AID accounting records, but for purposes of this analysis they are not significant.

Table III-2

Disbursement of AID Funds by Year and Purpose
(thousands of dollars)

	<u>Credit</u>	<u>External T.A.</u>	<u>Assistance to Weaker Coops.</u>	<u>Total</u>	<u>% by Year</u>
1975	-	-	-	-	-
1976	168.3	-	-	168.3	5.0
1977	660.6	132.6	-	793.2	23.5
1978	475.0	112.8	21.7	609.5	18.1
1979	<u>1,571.1</u>	<u>45.7</u>	<u>187.2</u>	<u>1,804.0</u>	<u>53.4</u>
Total	2,875.0	291.1	208.9	3,375.0	100.0

Table III-3

Disbursement of Counterpart Funds by Year and Purpose
(thousands of dollar equivalents)

	<u>Credit</u>	<u>Training</u>	<u>Total</u>	<u>% by Year</u>
1975	-	-	-	-
1976	157.5	-	157.5	9.0
1977	601.9	-	601.9	34.4
1978	526.4	103.4	629.8	36.0
1979	<u>314.2</u>	<u>46.8</u>	<u>361.0</u>	<u>20.6</u>
Totals	2,600.0	150.2	1,750.2	100.0

C. Evolution of the Cooperative Movement 19/

The Loan Agreement, under "Objectives", lists as one of the expected outputs: "Strengthened institutions at the level of...the participating cooperative organizations." There are indications in the statement of objectives of other, more pin-pointed, results that are anticipated (both as concerns the cooperative movement and as regards INFOCOOP as an entity) and these will be dealt with later on. However, it is clear that one measure of the project's success or failure relates to how the cooperative movement, per se, especially rural cooperatives, has evolved.

An attempt will be made to examine available data on various indicators, e.g. numbers of entities, numbers of affiliates, situation of second degree entities, etc. 20/ and then draw the appropriate conclusions. Unfortunately, there has been no census taken of individual coops since 1974. One is now underway, but only 50% completed. Thus, much of the INFOCOOP data which follows is either estimates, or incomplete.

1. Numbers of Individual Cooperatives - In 1973 and 1974 there were 30 and 35 new cooperatives registered, respectively. In the five year project period (1975-79) a total of 76 individual coops, an average of 15.2 new coops per year were registered.

The evolution of the movement, in terms of numbers of first degree coop entities, may be seen in Table III-4.

19/ Unless otherwise indicated all statistical data in this section has its source in tables provided by the INFOCOOP Planning Office.

20/ As used in this report, first degree cooperatives are defined as cooperatives whose membership is made up of individuals. Second degree cooperatives are federations or regional associations of 2 or more individual first degree cooperatives.

Table III-4

Number of First Degree Coops: 1974-79

December, 1974- Number of First Degree Coops Registered	314
1975-79 - Number of New First Degree Coops Registered	<u>76</u>
	390
1975-79 - Number of First Degree Coops Dissolved or in Process of Dissolution	<u>50</u>
December, 1979 - Number of First Degree Coops Registered	340
December, 1979 - Number of First Degree Coops Inactive or under Consideration for Dissolution	<u>29</u>
December, 1979 - Number of Active First Degree Coops	311

According to the CAP, in April, 1974 there were 178 rural coops of a total of 298, i.e. 60%. Comparable figures (using INFOCOOP data) are 176 registered (151 active) rural coops in December, 1979 or 51.8 and 48.6 per cent, respectively.

Measured by numbers of first degree cooperative entities, the movement appears to have remained more or less stationary in net terms over the past five years.

Table III-5 examines the situation from a functional viewpoint.

Table III-5
Numbers of First Degree Cooperative Entities
by Type and Location

	<u>Total No. Registered</u>		<u>No. Active in 1979</u>		
	<u>1976</u>	<u>1979</u>	<u>Total</u>	<u>Urban</u>	<u>Rural</u>
Savings & Loan	154	152	135	98	37
Agricultural	69	76	70	-	70
Industrial	18	17	16	9	7
Multiple Function	49	56	54	32	22
Consumption	11	10	10	3	7
Services	5	6	5	5	-
Electricity	4	5	5	-	5
Recreation	5	5	4	3	1
Transport	3	7	6	5	1
Housing	6	5	5	5	-
Handicraft	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>
Totals	325	340	311	160	151

As can be seen, the only types of cooperatives that have appreciably bettered their positions over the past three years are the multiple function and transport entities.

2. Membership - According to the CAP, in April, 1974 there were 87,713 cooperative members. However, INFOCOOP records only show 66,863 as of December, 1974. There is no explanation of this discrepancy.

Using INFOCOOP data, the evolution of the cooperative movement, as regards membership, is shown in Table III-6.

Table III-6

Cooperative Membership by Year

	<u>No. Members</u>	<u>Increase Over Previous Year</u>	
		<u>No.</u>	<u>%</u>
1974	66,863		
1975	94,337	27,474	41.4
1976	127,006	32,669	34.6
1977	139,737	12,731	10.0
1978	141,027	1,290	0.9
1979	168,644	27,617	19.6

The increase over the five year period (101,781) is 152.2%. However, as Table III-6 shows, after a very vigorous burst of activity in 1975 and 1976 -- possibly due to news regarding the availability of new credit resources -- the movement towards acquiring new affiliates slowed down appreciably.

It is also interesting to see in what types of cooperatives the increase occurred. During the three year period December, 1976-December, 1979 there was a net increase in cooperative membership of 41,638 or 32.8% over the 1976 figure. This breaks down as shown in Table III-7.

Table III-7

Increases in Cooperative Membership by Function

	<u>No.</u>	<u>%</u>
Savings and Loan	25,439	61.1
Electricity	5,164	12.4
Agriculture	5,126	12.3
Multiple Services	2,899	7.0
All Other	<u>3,010</u>	<u>7.2</u>
Total	41,638	100.0

Within each functional grouping the rate of increase is shown in Table III-8.

Table III-8

Relative Membership Increase of Each Function

	<u>No. Members</u>		<u>Increase</u>	
	<u>1976</u>	<u>1979</u>	<u>No.</u>	<u>%</u>
Savings and Loan	52,780	78,219	25,439	48.2
Electricity	16,871	22,035	5,164	30.6
Agriculture	20,365	25,491	5,126	25.2
Multiple Services	22,737	25,636	2,899	12.8
All Other	<u>14,253</u>	<u>17,263</u>	<u>3,010</u>	<u>21.1</u>
Totals	127,006	168,644	41,638	32.8

It seems clear that in both absolute and relative terms, the savings and loan, electricity and agriculture co-operatives have been growing most vigorously as concerns membership.

3. Individual Cooperative Membership - It is generally accepted that -- other things being equal -- an important measure of the strength of any individual cooperative entity is the size of its membership; and that translated into terms of a cooperative movement, one with fewer, but larger entities is stronger than one with an equal number of affiliates divided amongs a larger number of coops.

A very rough indication of how the Costa Rican cooperative movement is evolving in this regard is shown in Table III-9 dealing with average membership by functional grouping.

It would appear that in the functional groupings where the bulk of the cooperative movement is represented, there is a consolidation process underway. However, with the possible exception of the five electricity coops, the average size of individual cooperative entities is very small and the consolidation process needs to be continued.

4. Social Capital - According to INFOCOOP data, the social capital for all cooperatives increased from US\$33.5 million equivalent in December, 1974 to \$78.8 million 21/

21/ Includes \$2.3 million in social capital of Federations.

in December, 1979, a 132% increase over the five year period. Even discounting for inflation this can be considered satisfactory progress. Also, in terms of the Costa Rican economy, an US\$79 million sub-sector of the capital structure of the country is not insignificant. However, Table III-10 which examines the yearly rate of increase raises some unresolved and unexamined in this report questions about the validity of the INFOCOOP data and/or the definitions used in measuring social capital.

Table III-9
Average Number of Members per Registered
Cooperative by Year and Function

<u>Function</u>	<u>1976</u>	<u>1979</u>
A. <u>Increasing Averages</u>		
Savings and Loan	342.7	514.6
Agriculture	295.1	335.4
Industrial	266.9	302.4
Consumption	302.7	495.8
Electricity	4,217.8	4,407.0
Services	587.0	695.2
B. <u>Decreasing Average</u>		
Multiple Functions	464.0	457.8
Recreation	258.6	189.4
Transport	140.3	69.7
Housing	238.7	222.0
Handicraft	37.0	28.0

Table III-10
Social Capital
(in millions of US\$ equivalent)

	<u>Amount</u>	<u>Increase over Previous Year</u>	<u>% of Increase Over Previous Year</u>
1974	33.5	-	-
1975	37.1	3.6	-
1976	42.5	5.4	10.7
1977	47.2	4.7	11.6
1978	67.6	20.4	11.1
1979	68.8	11.2	43.2 16.6

Table III-11
Social Capital by Functional Grouping
(in millions of US\$ equivalent)

	<u>December 1974</u>		<u>December 1979</u>	
	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>
Savings and Loan	7.1	21.2	26.1	34.0
Agriculture	11.0	32.7	12.3	16.0
Multiple Functions	3.1	9.2	11.1	14.5
Industrial	10.7	32.0	20.9	27.2
Electrical	0.6	1.8	5.0	6.5
All Other	<u>1.0</u>	<u>3.1</u>	<u>1.3</u>	<u>1.8</u>
Total	33.5	100.0	76.7	100.0

Examining the evolution of social capital by functional grouping between December 1974 and December 1979 shows that while all functional areas (with the exception of consumption and housing) have been growing in absolute terms, there has been a pronounced shift in relative terms in favor of savings and loan, and multiple function, and electricity entities and against agriculture and (to a lesser extent) industrial coop.

Table III-12 shows how the total increase of US\$43.1 million equivalent between 1974 and 1979 was distributed:

Table III-12
Distribution of Increase in
Social Capital 1974-79
(US\$ equivalent in millions)

	<u>Amount of Increase</u>	<u>%</u>
Savings and Loan	19.0	44.1
Industrial	10.2	23.7
Multiple Functions	8.0	18.6
Electrical	4.4	10.2
Agricultural	1.3	3.0
All Other	<u>0.2</u>	<u>0.4</u>
Totals	43.1	100.0

5. Volume of Operations - The data on volume of operations is both incomplete and suspect. The CAP indicates that in 1972, the value of sales and transactions of all cooperatives was US\$74.8 million, of which 67% (\$50.1 million) represented sales of agricultural coops, including coffee, and 11% (\$8.2 million) represented credit union loans.

INFOCOOP's data is only for 1978/79 -- apparently no year by year records on volume of operations were kept during the life of the project, at least not in any organized fashion. Using 1979 figures where available and 1978 figures to fill in, INFOCOOP has arrived at volume of operation amounts for four functional groupings as follows:

(million of US\$ equivalents)

Agriculture	107.4
Consumption	4.3
Electricity	2.6
Industry	<u>121.5</u>
Total	235.8

Data is also available for 22 of the 31 Savings and Loan Cooperatives which were affiliated with FEDECREDITO in 1979, but this only represents 14% of the number of such cooperatives registered that year. The reported volume of loans for these 14 cooperatives comes to US\$1.8 million equivalent. However, in 15 of the 22 instances the amount shown as loaned is as little as 10% of the social capital registered. This could, of course, be the result of very bad management, but it does make the figures suspect.

Perhaps the most important aspects of the above figures to note are:

- the US\$107.4 million equivalent shown for agriculture is composed 95% (\$102 million) of the reported sales and transactions of 21 coffee processing cooperatives, which would mean -- if the data is taken at face value -- that the volume of operations of the remaining 55 agricultural cooperatives was only \$5.4 million.

- 92% (\$111.9) of the \$121.5 million figure shown for industrial cooperatives correspond to the operations of only three cooperatives (a sugar and coffee processing unit, a milk processing plant, and a meat packing and processing operation).

- the \$121.5 million figure for Industrial Coops seems very understated. Looking at the eight (of a total of 16) active industrial coops for which data was available under the heading of agro-industrial coops, the INFOCOOP figures show a volume of operations of \$124.1 million. Also, there are several cooperatives (e.g. a salt processing operation and a banana packing plant) which are not included in

the agro-industrial list and presumably, not in the figures for the Industrial grouping.

Given the increases in social capital for savings and loan and multiple function cooperatives, it is reasonable to assume that the volume of operations for these groupings has increased relative to 1972, even if this cannot at present be quantified; and, even if the figures for agriculture and industry are understated as suspected, it all adds up to: (a) a 3-400% increase in the volume of operations; and (b) the probability that most of the increase is concentrated in coffee processing and a few other large entities.

6. Quality of First Degree Cooperatives - There is not very much data on which to make a judgement. The Supervision Department of INFOCOOP has data on the profit and loss situation by year of each Coop, but it is not collated in usable form. However, a survey of 16 coops performed in 1978 by INFOCOOP does throw some light on the subject of quality, with the caveat that it is not known how the 16 were selected and whether or not the sample is representative. Total membership of the 16 coops was 8,619, 70% of which was in rural areas.

The 16 coops surveyed by function were classified as follows:

Agricultural	7
Consumer	3
Multiple Function	4
Savings and Loan	2

However, the survey showed that seven provided credit services, 10 provided consumer goods services, and 6 provided product marketing services.

The INFOCOOP document does not indicate how many of the 8,619 members were interviewed, or whether only coop officials were questioned, but makes the following points as concerns auto-evaluation:

- Majority of those interviewed indicate that the education, social welfare, credit and supervision committees perform "poorly" or "badly".

- 57% were not clear as to what services they wanted the cooperative to provide.

The document also states that, as measured by attendance at cooperative assemblies, there did not seem to be much interest on the part of the membership.

7. Second Degree Entities - The CAP gives considerable importance to the role of the cooperative federations and other second degree cooperative entities, e.g. regional unions, in achieving both the general objective of strengthening the cooperative movement and the more specific goal of extending new types of services to small farmers through cooperatives. The Loan Agreement reflected this concept and set up special provisions for the use of credit funds for federations. However, these were changed before implementation began. (See Section III-E 5 (a), for a full treatment of this subject) The main point is that there was considerable optimism about the growth potential of these second degree entities and a consequent reliance on them in achieving project objectives. The optimism was misplaced, as the following analysis shows:

- Number of Affiliates - Table III-13 shows the change between 1975 and 1979 in the numbers of first degree cooperatives affiliated to the second degree entities.

Nineteen of the 1979 total of 129 are affiliates of two or more second degree entities. Thus, the total number of first degree cooperatives affiliated to second degree entities in 1979 is 104. This represents 30.6% of the registered coops in 1979 and compares to 54% of the registered coops that were so affiliated in 1975.

In 1979, the 104 affiliated coops represented 42% of the membership of all coops. Data on social capital is available for 82 of the 104 affiliated coops and, when

added to the social capital of three of the Federations, represents 33.1% of the 1979 social capital of the entire cooperative movement, according to INFOCOOP figures, which are probably understated. There are no 1974 or 1975 figures available for purposes of comparison.

INFOCOOP is presently engaged in an in-depth analysis of FEDECREDITO, UNACOOOP and URCOPAPA including a survey of affiliates and non-affiliates, but no formal findings are yet available. Similar studies and surveys are planned for the remaining second degree entities in 1981. However, the general concensus amongst INFOCOOP department heads that have been dealing with the second degree entities is that the regional level unions are not making much progress and may not be serving much of a useful purpose. There is also general agreement that, with the exception of FEDECOOP which has remained more or less static during the past five years (it went up to 29 affiliates in 1977), the national level federations have lost ground. FEDECREDITO has lost most of its strong affiliates as a result of inefficient management and inadequate services to its membership, and is in bad financial shape, UNACOOOP made some bad investments and is mostly utilized by its affiliates at present only for its insurance services. It is, however, liquidating some of its properties, improving its management, and moving towards development and servicing of consumption goods cooperatives. FEDEAGRO remains an instrument of the land reform agency (ITCO) with the same weaknesses signaled in the CAP.

Prior to 1975, partly as a result of the terms of AID Loan 022, a considerable portion of INFOCOOP's credit activity was channeled through the Federations. There was a dramatic shift in the 1975-1979 period. Of a total of US\$15.6 million equivalent in INFOCOOP loans authorized during this five year period only \$3.0 million (19%) went to Federations and \$1.6 million of that (53%) was for the coffee federation (FEDECOOP). FEDECREDITO received \$410,000 (2.6% of the total); the regional unions (URCOZON, FEDECOOPSUR, and URCOPAPA) received \$766,627 (4.9%); and UNACOOOP received \$175,600 (1.1%). Whether this INFOCOOP lending policy was a causative factor in the decline of the Federations, or whether it was a reaction to a worsening economic situation of these entities is not completely clear. A desire to keep interest rates down for the ultimate borrower was also a factor.

Table III-13
Cooperatives Affiliated to Second Degree Entities

	<u>1975</u>	<u>1979</u>
(1) <u>National Level</u>		
FEDECREDITO (Savings and Loan coops.)	73	31
FEDEAGRO (Agrarian reform production coops.)	27	28
FEDECOOP (Coffee processing coops)	26	26
UNACOOB (Provides marketing, input supply, insurance and other services to first and second degree coops.)	37	30
(2) <u>Regional Level</u>		
FEDECOOPSUR <u>22/</u> (Farm operated by group of credit unions)	4	3
FEDECOOP (Created in 1976 by 10 agrarian reform farms, all members of FEDEAGRO)	-	4
URCOZON (Regional grouping of yucca producers in San Carlos area; liquidated in 1979)	8	-
URCOPAPA (Created in 1976 by potatoe producers in Cartago area for production of seed and marketing)	-	3
URCOPA (Created in 1977 by four coops in Turrialba area to provide regiona- lized accounting services)	-	4
Totals <u>23/</u>	175	129

22/ Being considered for dissolution.

23/ The list does not show a federation of four transport coops, FEDETAXI, created in 1976 and liquidated in 1979.

8. Conclusions - As regards first degree cooperatives, the preceding analysis would indicate that, on the whole, they are in a somewhat stronger position than in 1974: membership, social assets and volume of operations are up; according to INFOCOOP's Supervision Department, there is improved compliance with legal requirements, including administrative and financial practices; and a desirable consolidation process seems to be underway, despite a reported INFOCOOP "policy" of encouraging the formation of new coops without too much attention to quality. However, it all adds up to something less than vigorous development. There have been too many false starts, too many of the recipients of INFOCOOP loans (as will be seen later on in this report) are in bad financial shape, to characterize the period as one of vigorous development.

At the secondary degree level, the picture is bleak. This aspect of the cooperative movement has definitely lost ground over the past five years.

In terms of achievement of the project objectives, the results are at best mixed.

D. Specific Cooperative Outputs

The Loan Agreement lists three specific changes expected in the services provided by cooperatives to their members:

- Increased number and amount of production loans granted to small farmers.
- Increased sales of production inputs through cooperative organizations.
- Improved marketing systems provided by cooperatives, resulting in increased sales of agricultural produce through cooperative organizations.

The CAP expands on this topic and makes clear that the strategy for achieving these outputs was to be the transformation of existing, or development of new coops along vertically integrated "full service" lines, with the

federation and regional unions providing much of the impetus. It also indicates that, as part of the marketing development, coops would be encouraged to set up agro-industries and engage in processing agricultural produce.

There are no organized INFOCOOP data on the operations of coops that discriminate between production loans to farmers, sales of production inputs, sales of produce, and other types of operation. It is thus not possible to directly and quantitatively measure whether the desired outputs were achieved. There are, however, some indirect measurements that indicate progress has been made as regards a full service approach, and as regards marketing and agro-industry.

As indicated earlier, during the 1975-79 period, 76 new first degree cooperatives and three new regional unions were registered. Approximately 43 of the new, first degree coops were rural. Twenty eight of these (65%) were constituted as multiple purpose entities and/or as agro-industries as were all three of the regional unions -- a definite indication of interest in a full service approach. This is born out by examination of the purpose of loans which INFOCOOP made to 11 of these new entities, as shown in Table III-14.

Table III-14

INFOCOOP Loans to Newly Created Coops by Purpose 1975-79

(thousands of US\$ equivalent)

<u>Purpose</u>	<u>No. Credit Operations</u>	<u>Amount</u>
Agric. Production	1	9.37
Product Marketing	14	802.92
Production Inputs	7	34.65
Product Processing	17	1,538.75
Totals	39	2,385.69

Also, if one examines the list of existing agro-industrial coops, excluding coffee processing, it is found that of a total of 19, ten were created during the 1975-79 period. This includes three of the four existing milk processing and marketing plants.

Another proxy is the INFOCOOP portfolio, examined from the viewpoint of principal purpose of the loan. During the 1975-79 period the Institute made 161 loans to 64 rural coops for a total of US\$13.2 million equivalent, as shown in Table III-15.

For purposes of this analysis it is interesting to rework the data in Table III-15, setting aside loans to coffee processing cooperatives for whatever purpose. The results are shown in Table III-16.

As can be seen, a very sizeable percentage of INFOCOOP loan authorizations were made for the purposes specified as specific project outputs, i.e. 63.1% of the cooperatives receiving loans; 70.9% of the credit operations; and 64.1% of the value of the loans. It cannot, of course, be assumed that the composition of the INFOCOOP portfolio is in any way representative of the operations of the individual cooperatives. However, it is reasonable to assume that the INFOCOOP lending had an impact on what activities were carried out by its affiliates.

- Conclusions - The available evidence all indicates that progress was made toward achievement of two of the three specific cooperative outputs indicated in the Loan Agreement: production input sales and marketing/processing services. Whether or not there was any appreciable increase in the number and amount of production loans to small farmers cannot be ascertained from INFOCOOP records.

Table III-15

INFOCOOP Loans to Rural Coops by Purpose 1975-79
(thousands of US\$ equivalent)

<u>Purpose</u>	<u>No. Coops</u>	<u>No. Credit Operations</u>	<u>Amount</u>
Ag. Produce Processing	18	43	5,117.5
Production Input Sales	14	33	2,722.7
Ag. Production	16	21	1,771.8
Produce Marketing	13	36	1,648.3
Consumption Goods	12	24	1,445.9
Electricity	2	2	433.3
Recreation	<u>1</u>	<u>2</u>	<u>37.0</u>
Totals	76 <u>24/</u>	161	13,176.5

Table III-16

INFOCOOP Loans to Rural Coops
Excluding Coffee Coops, 1975-79
(thousands of US\$ equivalent)

<u>Purpose</u>	<u>Cooperatives</u>		<u>Credit Oper.</u>		<u>Value</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>
Coffee Processing						
Coops (All Purposes)	15	19.7	22	13.7	3,017.2	22.9
Ag. Produce Processing	9	11.8	32	19.9	4,176.4	31.7
Ag. Production	14	18.4	19	11.8	1,740.4	13.2
Produce Marketing	12	15.8	32	19.9	1,324.5	10.1
Product Input Sales	13	17.1	31	19.3	1,200.5	9.1
Other	<u>13</u>	<u>17.1</u>	<u>25</u>	<u>15.5</u>	<u>1,717.1</u>	<u>13.0</u>
Totals	76	100.0	161	100.0	13,176.5	100.0

24/ Twelve of the cooperatives received two loans for discrete purposes and thus are counted twice in this table.

E. Institutional Development of INFOCOOP

On this topic, the Loan Agreement is very broad and, under "Outputs Expected" indicates "strengthened institutions at the level of INFOCOOP..." It is proposed to examine the Institute from the standpoint of its personnel, its functions and philosophy, its organization, its credit policies and operations, its financial structure, its planning and budgeting, its various services to the cooperative movement (education, supervision, technical assistance, promotion). An attempt will then be made to sum up and arrive at a conclusion with regard to the expected output.

1. Functions and Philosophy

(a) Philosophy - Law No. 5185 of February 20, 1973 which created INFOCOOP and established the rules and regulations governing individual cooperatives, makes it very clear that the legislature considered the development of a cooperative movement to be in the public interest and conceived of INFOCOOP as an instrument to be used exclusively for that end. This is underlined in a further provision of that law, creating a National Cooperative Council which, inter alia, names four of the seven members of the Board of Directors of INFOCOOP.

In practice, the needs and priorities of the cooperative movement have not always been the guiding principle in determining INFOCOOP's actions. An obvious example is AID Loan 025, which was concerned primarily with "improving the living standards of small farmers by helping them to utilize modern farm production techniques and management and marketing practices," and conceived of INFOCOOP as a useful instrument for that purpose. This, in turn, led to formulating criteria for a sizeable portion of INFOCOOP's loan portfolio and for the way in which the time and energy of its project development staff were used to achieve the small farmer development purposes of the loan program. It is not that these purposes were inconsistent with INFOCOOP's mandate. It is, however, open to question whether from the viewpoint of development of a cooperative movement, as opposed to small farmers development, the actions taken were the most appropriate for the time and place.

Other examples can be found in the 1978 Annual Report of INFOCOOP ("Memoria") where it is indicated that considerable effort was made to participate in two regional development programs (for the Northern and Atlantic Regions); and where it is further stated that the Institute worked closely with the National Planning Office in the context of the National Plan for Administrative Reform with a view to defining the place and role of INFOCOOP within this plan. Again, the point being made is not that INFOCOOP should exist in a vacuum, but whether and to what extent the Institute is viewed by OFIPLAN (and by itself) as an instrumentality for general development purposes, with its priorities determined at a given moment by national priorities, e.g. export promotion, regionalization, etc., vs. the needs and potentialities of the cooperative movement.

Finally, there are indications that -- from time to time -- efforts have been made to use INFOCOOP and the cooperative movement to solve political problems.

INFOCOOP's management is quite conscious of the problem and believes that the National Cooperative Council and the Institute's Board of Directors are becoming more sophisticated and better able to evaluate and defend the interests of the cooperative movement. However, one does not sense that there is at present a clear policy line as to what the priorities are for the cooperative movement against which proposals and interventions by other entities can be judged and positions taken accordingly.

(b) Functions - In a broad sense, INFOCOOP has three functions: it has promotional, educational, technical assistance functions; it has a supervisory/audit function; and it has a quasi-banking function. During the project period there was at least one serious attempt made to split off the banking function and create a cooperative bank. Presumably, the reason for this was that it would open the way for collecting funds from new sources for lending purposes, and leave the tax revenue which the Institute enjoys to be used for expanding its other two functions. There were undoubtedly other considerations, e.g. facilitating the use of more commercial criteria than at present in authorizing loans.

→ What is really at issue here, in our judgement, is the unresolved question of whether the cooperative movement should have its own banker (INFOCOOP or a cooperative bank); or whether the cooperative movement should turn primarily to the commercial banking system, with INFOCOOP's credit operations being viewed as a development tool, with all that involves in the way of high risk operations, the need for continuous subsidy, etc.

The CAP makes it clear that at that point in time, at least in the AID view, INFOCOOP was being looked at as the banker of the cooperative movement, stating: "The Central Bank, in effect, regards INFOCOOP as the fifth bank of the nationalized banking system -- with an exclusively cooperatives clientele." 25/

The actual events of the past five years indicate that either AID was misled or the GOCR changed its policy. According to INFOCOOP management, the Central Bank has repeatedly denied the Institute use of its rediscounting facility, arguing that this would have the effect of reducing the amount available to the commercial banks. In addition, when the Institute proposed to receive time deposits from cooperatives, the GOCR monetary authorities indicated opposition and blocked the proposal. Also, in 1975, INFOCOOP requested Central Bank authorization for issuing bonds; it was denied. It seems quite clear that the GOCR -- at least up to the present -- has no intention of creating a banker for the cooperative movement, either INFOCOOP or another entity.

At the same time, INFOCOOP has never -- and still does not -- feel easy about the implications of the above described situation, i.e. to regard its credit operations as a high risk, development tool. Instead, it apparently seeks a balance between "solid" loans to old, well established financially secure coops and higher risk operations of the type contemplated in Loan 025. This is

25/ AID, as the purposes of the Loan make clear, also expected INFOCOOP to engage in high risk credit operations for development purposes.

understandable, given the Institute's responsibility to pay back loans to AID and to the Central Bank; and its legal mandate to cover at least 90% of its operating expenses from interest income.

As concerns the remaining two functions (supervision/audit; and promotional/educational/technical assistance) one finds a tendency to blur the distinction, at least in terms of organizational responsibility. This may or may not be unwise depending upon how onerous the supervision is perceived by the cooperatives and how they react. This evaluation does not have sufficient data on which to arrive at a judgement. The implementation of each of these functions will be examined in some detail in later chapters.

(c) Conclusions - Both the GOCR and INFOCOOP have some basic policy problems to resolve. While not easy to grapple with, their resolution might have a decided and favorable effect on the evolution of the cooperative movement and on INFOCOOP's role therein. However, it can just as easily be argued that the most appropriate strategy is to allow matters to evolve slowly and pragmatically within the present undefined policy framework.

2. Organizational Structure - In addition to its Executive Management, INFOCOOP, at present, has 12 departments -- six of which are further divided into 13 sections. There are thus 20 organizational units, all of which are segregated on functional lines. As might be expected, this has led to a certain degree of duplication of effort and to some shifting and juggling of functions between departments and/or sections, but not to any serious degree. More serious are the compartmentalization effects. There seems to be very little knowledge, or interest, in any one department about what the others are doing. Also, taking into account that the total personnel strength of the Institute is only 106, it is suspected that the organizational structure results in a less than optimum efficiency in the use of personnel.

The Institute is presently contemplating a major organizational reform under which all present departments will be grouped into two directorates: one concerned with

field operations, i.e. functions which involve direct contact with cooperatives; and another with internal functions such as accounting. Roughly half of the present staff would fall into each of the two groupings. This restructuring, which stems in part from a Practical Concepts, Inc. (PCI) recommendation, appears to be a move in the right direction. Unless, however, it is accompanied by vigorous leadership at the Directorate level and by clear policy directions it could result in layering, rather than integration.

3. Personnel - The CAP indicates that in 1974 INFOCOOP had 47 professional staff, including 19 with university degrees. A comparable figure for 1979 is 76 professional staff, 30 of whom held university degrees. In addition, in 1979 there were 18 secretaries and 12 service personnel, bringing the total employment to 106. When viewed in relation to the total number of cooperatives to be dealt with in one fashion or another (i.e. 340 first degree and eight second degree entities, registered in 1979) the overall personnel strength seems more than adequate -- if efficiently deployed and if the concept of servicing cooperative management, rather than substituting for cooperative management can be kept in mind and implemented.

Most of the increase must have occurred in 1975 and, to a lesser extent in 1976 since, as Table III-17 dealing with distribution of personnel shows, there has been remarkably little change in the personnel strength for the various organizational units of which INFOCOOP is composed. Nevertheless, as the table also shows, two-thirds of the 24 person increase in staff between 1975 and 1979 took place in the technical divisions of the Institute.

As far as can be ascertained from interviews, at the present level of activity and functional responsibilities, none of the departments is hurting seriously from lack of staffing.

The salary structure is considered by the personnel department chief to be a little on the low side, especially as regards personnel with university degrees.

Table III-17

Personnel Strength by Year and Department

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
A. <u>Policy and Management</u>					
CONACCOOP	2	2	1	2	2
Executive Direction (Includes typing pool)	<u>6</u>	<u>7</u>	<u>11</u>	<u>13</u>	<u>11</u>
Sub-Totals	8	9	12	15	13
B. <u>Technical Departments</u>					
Planning	4	3	4	4	7
Loan	7	10	10	10	10
Education & Training	7	7	7	8	8
GENECCOOP	2	3	3	2	1
Coop. Promotion	7	8	8	9	8
Technical Assistance & Projects	7	9	12	12	12
Publications	2	2	2	3	3
Coop. Supervision	<u>8</u>	<u>11</u>	<u>10</u>	<u>11</u>	<u>11</u>
Sub-Totals	44	53	56	59	60
C. <u>Support Departments</u>					
Legal	3	4	4	4	4
Audit	4	4	5	5	5
Personnel	2	2	2	2	2
Administration	<u>21</u>	<u>22</u>	<u>21</u>	<u>22</u>	<u>22</u>
Sub-Totals	30	32	32	33	33
D. Totals	82	94	100	107	106

However, the replacement rate overall is only about 10%, which would seem to indicate that salaries are competitive.

Almost all department heads have been with the Institute for at least several years, and some for the entire 7 years of INFOCOOP's existence. They give the impression of being well prepared and knowledgeable in their respective areas of responsibility.

Personnel management practices appear to be well organized and functioning properly. Procedural and job classification manuals exist and are used; negotiations are conducted with an employee's union.

The relationship between expenditure for personnel costs and expenditure on those items needed to make personnel effective (materials and supplies, machinery and equipment and non-personnel services) was examined. The evolution of this relationship (personnel costs as a percentage of personnel and operational costs) is shown in Table III-18. The numbers would appear to indicate that there are no serious problems in this regard. This conclusion was born out by interview data.

In sum, from the standpoint of numbers, quality, distribution, and management, the personnel situation at INFOCOOP is found to be satisfactory and strengthened during the past five years.

Table III-18

Personnel and Operational Cost Relationships

<u>Year</u>	<u>Per Cent</u>
1975	56.4
1976	74.2
1977	66.9
1978	62.2
1979	68.8

4. Financial Structure

(a) Balance Sheet - Table III-19 presents a summary balance sheet for the 1975-79 period.

Table III-19

Comparative Balance Sheet 1975-79

(millions of colones)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Assets</u>					
Liquid Assets	19.8	19.0	19.8	22.0	25.3
Bad Loans	1.2	1.5	1.9	3.5	6.8
Loan Portfolio	68.6	74.4	91.2	98.4	117.0
Physical Assets	1.6	1.8	2.2	2.1	2.3
Fixed Investment ^{26/}	<u>2.0</u>	<u>1.9</u>	<u>1.9</u>	<u>1.9</u>	<u>1.9</u>
Total	93.2	98.5	115.8	127.7	153.2
<u>Liabilities</u>					
Long Term Debt	58.5	58.2	66.6	71.1	88.8
Loan Disbursements Pending	3.0	2.7	5.8	5.9	4.2
Accounts Payable	1.1	1.1	1.0	2.0	0.9
Patrimony	<u>30.7</u>	<u>36.5</u>	<u>42.4</u>	<u>48.7</u>	<u>59.3</u>
Total	93.2	98.5	115.8	127.7	153.2

^{26/} Shares held in various cooperatives.

An examination of the balance sheet reveals several facts, as follows:

(1) Debt-equity ratio - The patrimony may be considered as equivalent to the capital stock, or equity, of the Institute. Comparing it to long term debt, one finds that the relationship has been improving over time (1.9 in 1975 and 1.5 in 1979).

(2) Liquidity - During 1975-79 liquid assets were composed mostly of placements of undisbursed cash in negotiable bonds, at 8% interest and consequently produced income for the Institute while maintaining liquidity. In 1980 liquid assets were placed in time deposits and mortgage certificates, with a yield of 14-16%.

As the balance sheet shows, liquid assets have been increasing in absolute terms from 19.8 million colones in 1975 to 25.3 million in 1979. As percentages of total assets, one finds the following evolution:

Table III-20

Liquid Assets as Percentages
of Total Assets by Year

1975	21.2%
1976	19.3%
1977	17.1%
1978	17.2%
1979	16.5%

In a situation where, as will be seen further on, there is an unsatisfied demand for credit on the part of INFOCOOP's affiliates, there is no justification for this high level of liquidity.

(3) Bad Loans - The amounts shown under this heading in the balance sheet correspond mostly to the estimated value of properties and machinery acquired as a

result of non-payment of debt and to unpaid loans which have been placed in collection via the judicial process. As can be seen, this account has been increasing rapidly in both absolute and relative terms, from 1.2 million colones in 1975 (1.3% of total assets and 1.7% of the loan portfolio) to 6.8 million colones in 1979 (4.4% of total assets and 5.8% of the loan portfolio).

These figures in and of themselves are alarming. The CAP financial analysis projects bad debts at 2% of the loan portfolio and goes on to state: "If the loss rate is not held to 2% but increases to say 4%, the result could be disastrous for the viability of INFOCOOP". The true situation is probably worse, being masked by INFOCOOP practices regarding "readecuation" or rescheduling, of overdue debt.

(1) Patrimony - This capital stock of the Institute is composed of an initial 10 million colon capital contribution of the GOCR, other donations received, the proceeds of certain taxes, and participations in the profits of the banking system and of the cooperatives. Since this capital account can be drawn upon to meet operational costs not covered by operational income, the yearly change in the patrimony corresponds, in a general way, to the profit or loss of the Institute. As can be seen, the patrimony has increased by $\$28.6$ million (93.2%) over the 1975-79 period. However, if one compares this increase to the total of new assets received over the same period from donations, tax receipts, and participations in banking and cooperative profits, which come to $\$44.3$ million, it is apparent that $\$15.7$ million of potential capitalization (35% of the receipts) have been used for other purposes.

(b) Cash Flow - INFOCOOP does not keep any accounts on a cash flow basis. For management purposes, it would be useful if the Institute were to set up and maintain such accounts. An attempt was made to reconstruct the Institute's financial operations on a cash flow basis. While it proved impossible from the available data to satisfactorily conclude this set of accounts, the exercise proved instructive. It revealed that in the periodic financial statements the income figures for loan amortization

and interest received on loans and the expenditure figures on loan disbursements are grossly inflated. This is due primarily to two factors: When the Board of Directors decide to roll over a loan in default for principal and/or interest, the accounting system shows the entire outstanding balance as received (thus increasing the loan amortization and interest received figures) and also shows the total amount as a new disbursement.

The amounts involved are not insignificant. When the figures for amortization payments in arrears shown on INFOCOOP's books were examined they showed a drop from \$9.1 million in December 1978 to \$6.1 million in December, 1979. A further, case-by-case, examination of the accounts making up the 1978 total revealed that \$7.0 million of the \$9.1 million was rolled over during the course of 1979. This \$7.0 million then showed up in the accounts as amortization payments received and as loan disbursements, although there was no movement of cash in either direction. For management purposes, it would seem desirable to set up a sub-account showing which components of the portfolio corresponded to roll overs. No change in the accounting system, per se, would be required and it would provide management with a clearer picture of the true situation.

The second factor that showed up was that the loan disbursement account includes sums which were authorized for disbursement, but which for one reason or another do not actually get disbursed, thus further inflating this account.

The purpose for which it was intended to construct a set of cash flow accounts was to determine year by year the difference between actual income and expenditure, other than loan disbursements, and to see how this difference was allocated between loan disbursements and investments in bonds. For the reasons given above, this is not possible. For purely descriptive purpose, however, it may be of interest to show what the cash flow looked like during the 1975-79 period, leaving out of the equation the operations relating to the Institute's portfolio. This data is shown in Table III-21.

Table III-21
Partial Reconstitution of INECCOOP Accounts
on a Cash Flow Basis
 (thousands of colones)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
A. Carry-over from Prior Year of Funds in Banks and Bonds	9,369.0	9,780.0	15,975.0	14,026.6	26,756.7
B. Income					
1. Special Taxes					
Particip.	5,514.8	8,255.3	8,115.8	9,095.2	10,907.8
2. Donations	1,808.4	866.3	1,221.6	1,955.1	2,426.1
3. Bond Interest	704.1	1,061.8	1,080.2	1,455.0	1,513.9
4. Proceeds from Long Term Loans	494.5	2,782.8	10,781.8	8,551.7	24,640.2
5. Other	46.8	158.3	66.7	30.9	176.7
Totals	8,568.6	13,124.5	21,266.1	21,087.9	39,664.7
C. Expenditures					
1. Capital Account					
a. Debt Amortiz.	308.5	3,308.9	2,641.0	411.5	6,843.5
b. Machinery & Equipment	1,089.1	299.2	280.3	807.6	720.8
c. Land Purchase, Construction & Miscellaneous	6.5	325.0	65.1	-	37.5
2. Operational Account					
a. Pers. Serv	3,661.5	4,644.8	5,519.2	6,401.8	7,169.1
b. Non-Personal Services	1,403.1	970.9	2,064.0	2,610.1	1,950.7
c. Materials & Supplies	333.0	347.9	384.0	472.0	586.1
d. Transfers to Nat. Coop. Council	130.3	3.4	146.2	-	-
e. Transfers to CENECCOOP	-	157.2	50.9	-	-
f. Transfers to Coops	-	-	37.3	321.2	1,395.7
g. Interest Payment on Long Term Debt	131.4	77.6	89.0	186.7	233.1
Totals	7,988.1	11,236.4	12,625.0	12,787.7	20,886.2
D. Excess of Income over Expenditure	580.5	1,888.1	8,641.1	8,300.2	18,778.5

(c) Loan Portfolio - The composition of the loan portfolio and its evolution over the 1975-79 period is shown in Table III-22 in absolute terms and in Table III-23 in percentage terms. As can be seen medium term loans (one to five years) and loans in judicial recovery have steadily increased in relative terms. The size of the portfolio itself increased by \$49.3 million over the four year period, a 67% increase. Ninety four percent of the increase can be accounted for by the infusion of AID and counterpart funds earmarked for credit under Loan 025.

The number of loans in the portfolio each year, by type of loan is shown in Table III-24. As can be seen, the number of operations has increased much more slowly than the size of the portfolio, indicating a larger average amount disbursed per loan in the last years.

Examining the number of loans in the portfolio from the standpoint of new operations each year, and excluding those in judicial recovery from the totals (see Table III-25), one finds that the evolution of the loan portfolio from this standpoint is quite even and probably indicates that the ability of INFOCOOP to process loans of the type authorized during 1975-79 is somewhat limited.

Looked at from the viewpoint of source of financing, the evolution of the portfolio, expressed as percentages of total portfolio (see Table III-26), indicates that the relative shares of the portfolio originating in AID and GOCR resources has remained more or less even over the 1975-79 period.

(d) Loan Disbursement - The INFOCOOP accounts show the evolution of loan disbursements by year as presented in Table III-27. As indicated earlier, the 1979 figure is inflated by at least \$7 million. The figures for earlier years are probably also inflated, although the magnitude is not known. The increases in 1977, 78 and 79 reflect, of course, the receipt of new lending funds from AID and the GOCR pursuant to the conditions of Loan 025.

Table III-22

Loan Portfolio by Year and Category
(in millions of colones)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Short Term	8.3	8.0	13.0	14.9	9.1
Medium Term	8.5	10.4	18.1	20.6	33.7
Long Term	55.8	56.0	60.1	63.0	74.3
In Judicial Recovery	<u>0.7</u>	<u>0.6</u>	<u>0.2</u>	<u>2.3</u>	<u>5.9</u>
Totals	73.3	75.0	92.1	100.8	123.0

Table III-23

Loan Portfolio by Year and Type, Expressed as Percentages

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Short Term	11.4	10.7	14.1	14.7	7.4
Medium Term	11.6	13.8	19.7	20.4	27.4
Long Term	76.1	74.7	65.3	62.6	60.4
In Judicial Recovery	<u>0.9</u>	<u>0.8</u>	<u>0.9</u>	<u>2.3</u>	<u>4.8</u>
Totals	100.0	100.0	100.0	100.0	100.0

Table III-24

Number of Loan Operations by Type and Year

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Short Term	26	25	22	23	22
Medium Term	58	61	64	55	68
Long Term	56	59	63	63	63
In Judicial Recovery	<u>5</u>	<u>4</u>	<u>7</u>	<u>13</u>	<u>14</u>
Totals	145	149	156	154	167

Table III-25

Number of New Loan Operations by Year

	<u>Total No. of Loans</u>	<u>No. of New Loans</u>	<u>% of New Loans</u>
1975	140	36	25.7
1976	145	31	21.4
1977	149	42	28.2
1978	141	34	24.1
1979	153	48	31.4

Table III-26

Loan Portfolio by Source of Funds by Year
(Expressed as percentages of total portfolio)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
GOCR Resources	31.9	33.6	34.3	36.7	35.7
AID Loan 022 Proceeds	35.7	32.2	23.9	20.5	17.2
AID Loan 015 Proceeds	30.9	29.3	23.0	20.2	16.1
AID Loan 025 Proceeds	-	3.7	18.1	22.4	30.9
IDB Loan 31 Proceeds	1.6	1.1	0.6	0.3	0.1
Totals	100.0	100.0	100.0	100.0	100.0

Table III-27

Loan Disbursements by Year
(in millions of colones)

1975	11.9
1976	10.9
1977	32.8
1978	29.6
1979	59.5

What is of interest is the estimate for loan disbursements for 1980 according to the Institute's budget document, approved in October, 1979. This projects a sharp decrease to only \$17.6 million, compared to an average of \$40.6 million over the past three years. The matter is of great concern, and properly so, to INFOCOOP management.

There are several possible reasons for this decrease: the composition of the portfolio; the cessation of new inputs for credit in 1980; an increase in

the amounts necessary for debt service; an unusually high anticipated delinquency rate; a decrease in the requests for credit. In order to analyze these phenomena, it may be useful to net out the new credit input and debt service factors. Table III-28 does this.

Table III-28

Loan Disbursements by Year
Net of Debt Service and New Capital Receipts
(millions of colones)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u> <u>projected</u>
1) Reported and Projected Loan Disbursements	11.9	10.9	32.8	29.6	52.5	<u>27/</u> 17.6
2) Receipts from Long Term Loans	0.5	2.8	10.8	8.6	24.6	-
3) Service of Long Term Debt (amortization and Interest)	0.4	4.4	2.7	0.6	7.0	7.5
4) Line 2 plus line 3	0.9	7.2	13.5	9.2	31.6	7.5
5) Line 1 minus line 4	11.0	3.7	19.3	20.4	20.9	10.1

The amounts in line 5 above may, in an approximate fashion, be taken to represent the portion of the loan disbursements which was financed each year from repayment of loans. This would indicate that the sharp decrease in disbursements projected for 1980, reflects a projected decrease in loan recuperations, compared to previous years.

The data reported earlier on the composition of the portfolio as between short, medium and long term loans does not, on the surface, account for the 1980

27/ Adjusted for 27 million double counting.

decrease in recuperations projected (even though the preponderance of long term loans is contributory) and there are no reports of unusual grace periods granted in 1978 and 1979). Thus, if one also rules out the composition of the portfolio as a major causative factor, one is left only with an anticipated high delinquency rate or a decrease in credit requests as the culprit. INFOCOOP reports that requests for credit are increasing, which leaves only the delinquency rate as the causative factor. The evolution of loan repayment delinquencies will be examined in the next section.

There is an additional phenomenon worthy of note. The 1980 budget document segregates loan disbursements by source of funds and shows the picture described in Table III-29.

Table III-29

Loan Disbursements by Source of Funds
(millions of colones)

	<u>1977</u>	<u>1978</u>	<u>1979</u> ^{28/}	<u>1980</u>
INFOCOOP Assets	21.2	14.4	14.8	12.1
AID Loan 022	-	2.5	11.2	1.8
AID Loan 025	4.9	6.5	12.1	3.7
Counterpart from ECCR to Loan 025	0.1	-	-	-
IBB Loan 31 SF/CR	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	32.8	29.6	50.4	17.6

It should be born in mind that all 1980 figures, with the possible exception of those attributed to INFOCOOP assets, correspond to recuperations of existing loans. The lack of any disbursement figure for the Loan 025 counterpart account is one of bookkeeping only, i.e.

^{28/} Disbursements and commitments as of 31/8/79

a decision to earmark projected recuperation on this account (Ø3.5 million) for servicing the debt with the Central Bank. Approximately 50% of the apparent bulge in 1979 disbursements from loan 022 recuperations is a reflection of the roll overs approved that year, rather than actual disbursements.

Taking the above comments into consideration and examining the evolution of loan disbursements by source of financing, it would appear: (i) to confirm the previous conclusion that the delinquency rate is the principal causative factor in the projected decline in loan disbursement levels in 1980; and (ii) to indicate that the delinquencies are most serious for the type of loan programmed under the several AID loans and associated counterpart.

(e) Loan Repayment Delinquencies - Table III-30 summarizes the data from INFOCOOP accounting records regarding loan payments in arrears as of December 31st. of each year for the period 1976-79. While the figures for all years are suspect because of the roll over accounting practice, it is possible to make an adjustment in the 1979 total, increasing it by Ø7 million to Ø16.8 million. If one assumes that the proportions between amortization and interest for the Ø 7 million is the same as for the Ø12.8 million 1978 total, this would give adjusted 1979 figures of:

Amortization	11.1 million
Interest	<u>5.7 million</u>
Total	16.8 million

Using the adjusted figures and comparing arrears in amortization payments to the total portfolio, Table III-31 shows the evolution of arrears as a percentage of the portfolio.

Table III-30

Loan Repayments in Arrears by Year
(millions of colones)

	<u>Amortization</u>	<u>Interest</u>	<u>Total</u>
1976	2.3	1.4	3.7
1977	6.7	2.4	9.1
1978	9.1	3.7	12.8
1979	6.1	3.7	9.8

Table III-31

Payments in Arrears as % of Total Portfolio
(millions of colones)

	<u>Total Portfolio</u>	<u>Amortization Arrears</u>	<u>%</u>
1976	75.0	2.3	3.1
1977	92.0	6.7	7.2
1978	100.7	9.1	9.0
1979	122.9	11.1	9.0

If one excludes arrear under 30 days, the percentages change only very little, as follows:

	<u>%</u>
1976	2.8
1977	6.8
1978	8.7

Thus, it can be seen that most of the delinquent payment problem is of a structural, rather than a cash flow problem nature on the part of the borrowers.

It might be expected that the percentages of loan operations in arrears for amortization would follow the portion of the portfolio affected. They are, in fact, considerably higher, as Table III-33 shows, and indicate that the malaise is very wide spread.

Table III-33

Number of Loans in Arrears

	<u>Total No. of Loans in Portfolio</u>	<u>No. Loans in Arrears</u>	<u>%</u>
1976	149	64	43.0
1977	157	72	45.9
1978	154	80	52.0

Of the 80 loans shown in arrears in 1978, thirteen were in process of judicial recovery. In 1979, this number increased to 14. By June, 1980 -- according to INFOCOOP's legal department -- the number had decreased to 12.

The overall credit picture is certainly gloomy: close to 40% of the value of the portfolio and over 50% of the loans were in some sort of trouble in 1978. Also, it is reported that the nature of the guarantees given makes them quite often untranslatable into cash. Finally, the process required to collect on a bad loan from a cooperative is long and complex -- much more so than with a commercial banking transaction -- and requires up to three years to execute. All this probably adds up to the projected 1980 decrease in the amount of loan recuperations referred to earlier.

5. Credit Operations and Policies

(a) Loan Agreement Terms and Modifications -
The Loan Agreement earmarked the use of the US\$5.3 million of loan and counterpart credit funds as follows:

	(millions of US \$)
Production Credit	1.5
Marketing and processing credit	3.2
Other (e.g. working capital)	<u>0.6</u>
Total	5.3

It further earmarked the production credit item, indicating that \$1.3 million of the \$1.5 was to be lent to FEDECREDITO and FEDEAGRO at a lower interest rate than other INFOCOOP loans, either to federations or to individual coops. Finally, it provided that all of the "other" credit should come from counterpart funds and that none of it should be to "cooperatives primarily composed of coffee producers."

In I.L. No. 8 (November 25, 1975) issued almost simultaneously with approval of the CPs, the earmarking of production credit funds for the Federations, both as regards amounts and preferential interest rates, was eliminated.

In I.L. No. 19 (February 27, 1977), the earmarking of funds amongst the three purpose categories was eliminated and comingling of all credit funds under the program authorized.

In I.L. No. 33 (November 28, 1978) the restriction on lending to coffee producer coops was also eliminated.

Finally, in I.L. No. 42 (October 26, 1979) the Mission approved a US\$175,000 transfer of Loan funds from the Agricultural Services Project to INFOCOOP's credit program, bringing the amount of Loan funds available for credit to US\$2,875,000 and the total for the credit program to US\$5,475,000.

The net effect of the I.L.s was twofold: (i) to remove all formal earmarking of funds; and (ii) to place the Federations in exactly the same position as individual coops as regards the cost of money borrowed from

INFOCOOP. Since the original agreement (unchanged in this regard) also set the interest rate at which Federations could lend (from loan proceeds) to their affiliates and this rate was higher than that at which INFOCOOP could lend to the same individual coop, the position of the Federations in the overall scheme of cooperative credit was certainly not advanced by the loan.

The initiative to remove the purpose earmarkings apparently came from the Mission. The reason, as stated in the August, 1977 internal evaluation report, was "to simplify accounting and disbursement procedures". As will be seen later on, the loan authorizations made by INFOCOOP during 1975-79 correspond in general to the initial allocation of resources by purpose. It is, therefore, likely that this is the correct rationale.

The rationale for downplaying the role of the Federations in the credit activity is less clear. Neither the files (which are incomplete) nor interviews throws much light on this subject. The initiative came from INFOCOOP and apparently reflected both a concern with the credit worthiness of FEDECREDITO and FEDEAGRO and a desire to keep interest rates low for individual coops.

The removal of the restriction on lending to coffee coops has no explanation.

(b) Overall Loan Authorizations - An examination was made of the loan operations authorized by INFOCOOP, irrespective of source of funding, during the 1975-79 period from several standpoints.

(1) Urban/Rural Distribution - INFOCOOP's total credit authorizations were divided between loans to urban and rural coops as shown in Table III-34. Rural in this context is used to denote where the cooperative membership lives (i.e. the ultimate beneficiaries of the loan) rather than the location of the offices of the cooperative. As can be seen, the purpose of the project to focus INFOCOOP's attention and efforts on the rural sector was achieved. It was not, however, possible to measure whether, within the rural sector, the majority of the beneficiaries were small farmers.

Table III-34

Urban/Rural Distribution (Total Authorizations)

	<u>Total</u>		<u>Urban</u>		<u>Rural</u>
		<u>No.</u>	<u>of</u>	<u>No.</u>	<u>% of</u>
			<u>Total</u>		<u>Total</u>
No. Coops receiving loans	92	28	30.4	64	69.6
No. of Loan operations	209	48	23.0	161	77.0
Value of Loans (million of ¢)	133.5	21.0	15.7	112.5	84.3

(2) Loan Concentration (Rural Authorizations Only) - Table III-35 shows the distribution of loan authorizations over the 1975-79 period ranked by the amount of the loans authorized to individual coops, federations and regional unions. There is a high degree of concentration in the use of INFOCOOP credit resources: six cooperatives receiving loans totalling over ¢5 million and representing 9.4% of those receiving loans, accounted for 42.3% of the total lending. The 38 coops at the other end of the scale receiving loans totalling under ¢1 million (59.4% of those receiving loans) accounted for only 12.6% of the total lending. The one entity which was granted loans exceeding ¢10 million was the coffee growers/processors federation.

It is also worth remarking that the 64 coops or other coop entities receiving loans of any amount represented only 20% of the 311 first degree coops and eight second degree cooperative entities active in 1979.

The degree of concentration noted is due in large part to the emphasis given to promoting agro-industrial enterprises which, by their nature, require large investment.

Table III-35

Concentration of Loan Authorizations by Amount

<u>Loan Range</u>	<u>No. Coops.</u>	<u>%</u>	<u>Amount Loaned (millions ¢)</u>	<u>%</u>
Under ¢500,000	28	43.8	7.4	6.6
¢500,000 to ¢1 million	10	15.6	6.8	6.0
¢1 million to ¢2 million	9	14.0	12.3	10.9
¢2 million to ¢3 million	5	7.8	13.0	11.6
¢3 million to ¢5 million	6	9.4	25.4	22.6
¢5 million to ¢10 million	5	7.8	33.8	30.0
Over ¢10 million	<u>1</u>	<u>1.6</u>	<u>13.8</u>	<u>12.3</u>
Totals	64	100.0	112.5	100.0

There is another way to look at the question of credit concentration and that is to examine the frequency distribution of the loans during 1975-79. This information, presented in Table III-36, reflects a more even treatment of the cooperative clientele than is shown in the distribution analysis by amount of loans. The data, here also, is limited to rural cooperatives.

(3) Loan Purpose (Rural Coops only) - The authorizations of all loans made to rural coops were analyzed from the viewpoint of the principal purpose for which the loans was granted. This classification had to be somewhat arbitrary since quite often a given loan was related to two or more purposes in the classifications used. Also, it will be noted that a total of 76 coop entities are shown as benefiting, when in reality there were only 64. The reason is that 12 coops received two or more loans for different purposes.

Table III-36

Frequency Distribution of Loan Authorizations

<u>No. Years Loans Received</u>	<u>Coops Benefited</u>		<u>Amount</u>		<u>Credit Operations</u>	
	<u>No.</u>	<u>%</u>	<u>Value</u>	<u>%</u>	<u>No.</u>	<u>%</u>
4 of 5 years	3	4.7	16.1	14.3	21	13.0
3 of 5 years	7	10.9	28.5	25.3	31	19.3
2 of 5 years	19	29.7	44.8	39.7	61	37.9
1 of 5 years	<u>35</u>	<u>54.7</u>	<u>23.1</u>	<u>20.6</u>	<u>48</u>	<u>29.8</u>
Totals	64	100.0	112.5	100.0	161	100.0

Table III-37

Loan Authorizations by Purpose ^{29/}
(millions of ₱)

<u>Purpose</u>	<u>Coops Benefiting</u>		<u>Loans Made</u>		<u>Value</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Processing of Agr. Prod.	18	23.7	43	26.7	43.7	38.8
Produce Marketing	<u>13</u>	<u>17.1</u>	<u>36</u>	<u>22.4</u>	<u>14.1</u>	<u>12.5</u>
Sub-Total	31	40.8	79	49.1	57.8	51.3
Product Input Sales	14	18.4	33	20.5	23.3	20.7
Agric. Production	<u>16</u>	<u>21.0</u>	<u>21</u>	<u>13.0</u>	<u>15.1</u>	<u>13.4</u>
Sub-Total	30	39.4	54	33.5	38.4	34.1
Electricity	2	2.6	2	1.2	3.7	3.3
Recreation	1	1.3	2	1.2	0.3	0.2
Consumption	<u>12</u>	<u>15.8</u>	<u>24</u>	<u>14.9</u>	<u>12.3</u>	<u>10.9</u>
Sub-Total	15	19.7	28	17.3	16.3	14.4
Grand-Total	76	100.0	161	100.0	112.5	100.0

^{29/} Purpose classifications based on verbal information provided by the Financing Department of INFOCOOP.

If one equates the first two groupings in Table III-37 with the purpose categories set forth in the loan agreement, it is obvious that: (i) the loan program requirements were more than fulfilled; and (ii) the attempt to carry them out exerted a strong pull on all available INFOCOOP credit resources.

(c) Loan 025 Financed Credits - Of the 64 rural coops receiving INFOCOOP loans during the 1975-79 period, 25 (39%) were financed in whole or in part from the AID and counterpart funds programmed under the project. These 25 coops received 65 loans, i.e. 40.4% of the total of 161 loans authorized. In 18 of the 25 sub-loans, there was active intervention by the PCI technicians in the formulation and/or analysis of the sub-project.

The head of the Financial Department was requested to rate the success of these 25 operations. By his value judgements 10 are doing well, eight have failed or are in serious trouble, and for the remaining seven it is too soon to judge. Considering the data presented earlier on loan recuperations by source of financing, these value judgements would seem a little on the optimistic side. It will be noted that the value of these 66 operations is approximately US\$1 million higher than the amounts available under Loan 025, due to comingling of other INFOCOOP resources with AID and counterpart proceeds from Loan 025. It is also worth noting that these 25 sub-loan projects accounted for 49.3% of the total amount of loans authorized in the five year period, and for 40.4% of the number of credit operations approved. Again, it is obvious that AID Loan 025 and its purposes had a very strong effect on INFOCOOP lending policies and practices. In the initial Loan Agreement, the relationship between funds earmarked for marketing/processing and production/working capital was 60:40. Taking into account the additional US\$1 million included in the above figures, it can be concluded that the amounts actually authorized (69:31) complied with the original intent of the agreement as regards earmarking of credit funds.

Table III-38
Loan Authorization with AID Loan 025 Funds
By Year and Amount
(millions of ¢)

	<u>Amount</u>	<u>No. of Operations</u>
1976	5.5	13
1977	15.5	20
1978	16.3	21
1979	<u>18.2</u>	<u>12</u>
Totals	55.5	66

Table III-39
Credit Authorizations from Loan 025 Funds by Purpose
(millions of ¢)

<u>Purpose</u>	<u>Coops Benefiting</u>		<u>Loans Made</u>		<u>Value</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>
Processing of Ag. Production	8	30.8	29	43.9	29.9	53.9
Produce Marketing	<u>7</u>	<u>26.9</u>	<u>18</u>	<u>27.3</u>	<u>8.4</u>	<u>15.1</u>
Sub-Total	15	57.7	47	71.2	38.3	69.0
Product Input Sales	7	26.9	12	18.2	13.3	24.0
Agric. Production	<u>4</u>	<u>15.4</u>	<u>7</u>	<u>10.6</u>	<u>3.9</u>	<u>7.0</u>
Sub-Total	11	42.3	19	28.8	17.2	31.0
Totals	26	<u>30/100.00</u>	66	100.0	55.5	100.0

Table III-40
Loan 025 Financed Authorizations by Purpose
as % of Total Loan Authorizations
(in millions of Colones)

	(1) <u>Total Portfolio</u>	(2) <u>Loan 025 Authorizations</u>	Col. 1 as % of <u>Col. 2</u>
Processing of Ag. Prod.	43.7	29.9	68.5
Produce Marketing	14.1	8.4	59.4
Product Input Sales	23.3	13.3	57.5
Agricultural Production	<u>15.1</u>	<u>3.9</u>	<u>25.6</u>
Totals	96.2	55.5	57.6

30/ One cooperative received two loans for two different purposes.

Note should also be taken of the heavy preponderance of agro-industry within the first category. This is undoubtedly the most complex and sophisticated of all four types of operation and this factor probably has some relationship to the problems with the low present level of loan recoveries.

As indicated earlier, when the total credit operation of INFOCOOP was examined, there seemed to be reason to believe that the direction called for regarding use of Loan 025 monies had exerted a strong pull on use of other INFOCOOP credit resources. This is born out by comparing total and 025 associated credits for each purpose (see Table III-40).

(d) Impact of Project Loans - An attempt was made in 1980, using survey techniques, to measure the impact on the farmer of the Loan 025 financed credits. The results are embodied in the report of "Consultoría Interdisciplinaria en Desarrollo, S.A." (C.I.D.), entitled "Evaluación de un Programa de Desarrollo Rural-Préstamo 025 de la Agency for International Development del Gobierno de los Estados Unidos al Gobierno de la República de Costa Rica."

A total of 461 cooperative members of seven first degree coops were interviewed. Interesting data on such topics as sources of income, living conditions, relations with the coops, production, use of inputs, etc., was developed. In general, what emerges is a picture of full service coops and a membership that is better off than five years ago. Unfortunately, of the seven coops, five are coffee producers and four of these were associated with the project only through a fertilizer loan to FEDECOOP. Thus the beneficiaries of only four credit operations were surveyed. The sample is unrepresentative and its findings are not of much use in measuring the impact on the farmer of the credit activities of the project.

(e) Formulation and Approval of Loan Projects - The ICI intervention in project formulation as regards 025 financed credits has already been noted. One of the conclusions

in the PCI report is that there was insufficient participation by cooperative boards of directors and management in the formulation of projects ^{31/}. Interview data indicates that this situation still prevails. A major thrust of Loan 025 as it impacted on the way INFOCOOP conducts its business was for the Institute and its advisors to develop projects and then find or help create suitable coop entities to execute the projects with loan financing. This concept of the Institute developing a "shelf of projects" is regarded as still valid by INFOCOOP staff. While too much should not be made of this point, this procedure probably influences cooperatives to regard INFOCOOP credit as something of a government handout, rather than as resources for which the cooperative and its membership are responsible.

The record shows clearly that, without this procedure, there would have been little possibility of placing the loan funds for the purposes indicated within the time limitations set. However, from the standpoint of development of the cooperative movement, there is much to say in favor of considerably more of the initiative being left to the cooperatives. It is, again, the issue of an economic development vs. a cooperative development role for INFOCOOP.

Interview data and the PCI report also suggest that when the vital question of a given cooperative's ability to manage and execute a project was examined, the findings of the analysts of the Financial Department and of the INFOCOOP Credit Committee were not always respected by the Institute's Board of Directors, where the final decision rests. It is, of course, true that the latter takes into account social and political factors, which may not be given due weight by the former.

^{31/} Mission Project Managers point out that in many cases, at the project formulation stage, the coop did not have legal status and, consequently had no Board of Directors.

The Loan Agreement did not call for prior AID approval of individual credit operations. Nevertheless, such a procedure was instituted. From the INFOCOOP viewpoint, the only benefit achieved was assurance that the credit operations would be acceptable for reimbursement. Little in the way of substantive benefit is believed to have resulted. A review of AID files tends to support this conclusion and indicates, in addition, that the AID review tended to delay approvals unnecessarily.

In the formulation of loan projects the initial work is performed by the Projects Section of the Technical Assistance Department. At a later stage, the projects are reviewed by the analysts of the Financial Department. There appears to be a jurisdictional problem here leading to some degree of duplication of effort.

There are several manuals dealing with preparation and approval of loans, some of which were prepared with PCI assistance. These are General Regulations for Credit, and the Manuals on procedures for analyzing and formalizing loan applications. The head of the Financial Department says that they are being used and are helpful.

(f) Credit Supervision - One of the major PCI conclusions was that loan supervision was weak due to a lack of manpower. It recommended an increase in personnel assigned full time to this function from one to four. This recommendation was put into practice. At present there are four professionals in the Financial Department assigned to credit supervision. Also, a manual on procedures for credit supervision was developed with PCI assistance and is in use.

An indication of at least one aspect of credit supervision was the audit of Loans 022 and 025 performed by Herrero, Villalta and Associates in March, 1979. This was delivered to INFOCOOP in September, 1979 and forwarded to AID with comments in November, 1979. In only

three cases (UNACOOOP, FEDECREDITO, and COOPETRAIN) was there any indication of improper use of loan proceeds by the borrower. In all three cases INFOCOOP had taken corrective action.

As this was being written, we were informed of a decision by INFOCOOP's Board of Directors to move the credit supervision function from the Financial Department to the Supervision Department. (The work of this latter department, which is responsible for the legal audit of cooperatives function and carries out other tasks, will be discussed later). The reasons for this move are reported as: (i) desirability of having different departments handling loan authorization and loan supervision; (ii) belief that the Supervision Department has a better picture of the overall functioning of a given coop and can thus place loan execution in a better perspective; and (iii) possible economies of staff time. What effects the change will have remain hidden in the future.

(g) Interest Rate Structure - The CAP states that the interest rate structure set up in the Loan Agreement is designed to keep the cost of money to the cooperative borrower higher than the cost of money to the borrower from a bank. The idea is to motivate farmers to "graduate" from reliance on cooperative credit. The CAP states: "It is believed that the farmer will in fact borrow cheaper money at the point he has the capacity to do so." Translating this concept to numbers, the CAP goes on to state: "The banks market credit at an effective rate to the borrower of 8%. The corresponding rate for the coop borrower is 12% and is being raised to the vicinity of 15%."

It was on the basis of this philosophy and understanding of the national credit situation in 1974 that the Loan Agreement, as amended, provided for:

- INFOCOOP loans to coops or Federations at 6 to 9 %.
- Federation loans to coops at 9 to 12%

- Coop loans to farmers at 12 to 15%

According to INFOCOOP's Financial Department, as of June, 1980 the average interest for all active loans in the Institute's portfolio was 7.38%, and broke down as follows:

Loans financed from INFOCOOP resources	-	10%
Loans financed from Loan 022 proceeds	-	8%
Loans financed from Loan 025 proceeds	-	9%
Loans financed from Loan 015 proceeds	-	2.5%

Farmers were believed to be obtaining money deriving from INFOCOOP loans to cooperatives at 10 to 14%. At this same period (mid 1980), except for a very limited amount of subsidized small farmer credit, banks were charging 18-20%. Also, there was -- and continues to be -- a squeeze on credit availability.

It is obvious that the CAP strategy is not working. Part of the reason, according to INFOCOOP, is that AID is insisting that the interest rate structure specified in the various Loan Agreements be maintained, even for use of reflows.

There is no discussion in the CAP of possible adjustments in interest rates; neither is there any specific prohibition stated either in the CAP or the 025 Loan Agreement. There is, perhaps, an implication in the Loan Agreement that interest rates on AID funds are not to be varied, since there is specific provision for changing interest rates relating to counterpart funds, subject to AID approval. Nevertheless, given the rationale developed in the CAP of maintaining a certain relationship between cooperative and bank lending rates, it seems inconsistent on the part of AID to hold to fixed INFOCOOP rates in a situation where bank rates have gone from 8 to 18%. Further, there seems to be no justification whatsoever for AID's insistence on INFOCOOP applying the Loan Agreement rate

to loans authorized against reflows. The only reference to reflows in the Loan Agreement is in Section 5.02, which states: "All repayments and interest from the credit activities of the Program will be utilized throughout the Loan repayment period for activities associated with rural development for the benefit of the small farmer." This can in no way be construed as governing the interest rates to be applied to reflows.

There is no question but that the AID position on interest rates for reflows is seriously damaging INFOCOOP and, in effect, helping to decapitalize the Institute. This position should be reviewed immediately.

(h) Use of Loan Repayments - In addition to the interest rate issue related to reflows discussed above, INFOCOOP states that AID insists that loans financed with 025 recuperations be used for the specific purposes set forth in the Loan Agreement, i.e. marketing/processing and agricultural production purposes. This seems a very narrow interpretation of Section 5.02 of the Loan Agreement, and excludes the use of reflows for such appropriate destinies as rural consumer coop operations. Further, this AID position leads to the maintenance of an unnecessarily complicated bookkeeping system where the proceeds of any given loan have to be traced into perpetuity. It would seem desirable to:

(i) allow reflows from AID loans to become comingled with other INFOCOOP resources and lose their separate identity.

(ii) require INFOCOOP to discriminate in its records between rural development and urban development credit operations; and if possible for the former, between small farmer and other rural development; to make periodic reports on its total portfolio in this connection; and to monitor Section 5.02 compliance on this basis.

6. Planning and Budgeting - The Planning Department is composed of two sections: Statistics; and Programming and Studies. The Statistics Section is responsible for data collection and for research on the cooperative movement. The Planning and Studies section is also responsible for evaluation of INFOCOOP activities. At present, each section is staffed by three professionals.

(a) Statistics Section - The statistics unit is now engaged in conducting a census of first degree cooperatives, which was programmed for 1978. It estimates that the job will be completed in 1981.

The PCI final report of September, 1978 indicates that there was a lack of information on what was happening in the cooperatives in real life with the consequent difficulty in performing analysis and designing programs to deal with the problems. An attempt was made to set up an information system, using the federations to gather data. It was reported as unsuccessful. The need remains.

One has the impression that the Statistics Section is not making full use of the data which is available within INFOCOOP in the records, trip reports, etc., of the various departments. A central file, by cooperative, would help.

(b) Program Budgeting - The Institute has been producing an annual program document or operational plan since 1977. In 1979 an attempt was made to produce a program budget with the assistance of a PCI technician and a Peace Corps volunteer. There is to be another attempt in 1981. The documents themselves show a good grasp of program budgeting concepts.

The present accounting system does not lend itself to implementation of a program budget. The Institute hopes that when its accounting becomes computerized, this will become feasible. It will not, however, as the PCI report points out, be that simple and mechanical.

At present, people in INFOCOOP tend to conceive of programming and budgeting as two separate exercises, each of which has its own purposes to fulfill. It will take time and patience to change this mentality. In any event, the use of program budgeting will not necessarily resolve what the Planning Department reports as its major constraint, i.e. getting the rest of the Institute to function along planned lines, whether expressed in a program budget or an operational plan. What is apparently lacking in this regard is strong enough leadership from management.

In shifting to a computerized system some thought might also be given to examining duplications in functions between the Audit and Administrative Divisions. The Audit Division has two principal functions: it acts as a Comptroller and advises the Board of Directors on financial policy and other matters; it also conducts a pre-audit of all expenditures. It is in the latter function that there is probably duplication of work performed by the Administrative Division. To some extent, this may be a consequence of the general financial administration laws of the GOCR to which INFOCOOP is subject. Nevertheless, there may be potential for manpower savings if the two operations are looked at as a process.

(c) Planning Concepts and Techniques - Planning is basically an exercise in establishing priorities. In this connection, it is informative to examine how the Planning Department goes about setting the priorities for the Institute's technical assistance and project study activities, on which it devotes considerable time and energy. As a first step, a consensus is sought amongst all department heads on which cooperatives to earmark for assistance, keeping in mind the general thrust of the current national development plan. A list of 50 or 60 coops emerges from this first step.

As a second step, a rather elaborate point system is applied to each cooperative on the consensus list, and a certain number with the highest score (currently about 30) are then selected and programmed for technical assistance in the program year. Finally, using log frame techniques, a specific set of time phased action steps are planned.

The entire exercise seems to be well thought out and carefully managed. What appears to be missing are policy directives at the beginning of the exercise, i.e. according to what criteria is the initial concensus to be arrived at? Should priority at a given point in time be given to coops with INFCCOOP loans? Should special attention be focused on assisting coops to enlarge their membership?, to improve their management?, etc.

It is not entirely up to management to provide these policy directives. One of the functions of the Planning Department should be to present policy alternatives to management. This is perhaps the weakest aspect of the work of the Planning Department. This, of course, is to some extent a reflection of the lack of an adequate data base. However, this is too simple an explanation. One has the impression of an abdication of responsibility in this regard. The Planning Department is pushing for authorization to create an O and M Section. It would do better to use its energies to begin to fill the policy gap indicated above.

7. Technical Assistance to Cooperatives and Federations

(a) Loan Agreement Provisions and Assistance to Weaker Coops - The Loan Agreement, under Project Activities and Operations specifies that: "...technical assistance... and administrative support will be provided through INFCCOOP in order to strengthen the managerial, technical and operational capacity of cooperative organizations to provide agricultural services." The sum of \$500,000 of AID loan funds was earmarked for this purpose. Up to \$200,000 of the \$500,000 was to be provided on a grant basis by INFCCOOP to FEDEAGRO (the Agrarian Reform Cooperative Federation) for "technical assistance and administrative support".

I.L. No. 8 (November 25, 1975) issued almost immediately after satisfaction of conditions precedent, i.e. before the project became operational, deleted the references to FEDEAGRO and broadened the use of the \$200,000 to "technical assistance and administrative support to strengthen the capabilities of the organisms which promote integration of the cooperative movement and which require such assistance on a priority basis..."

The initiative for the change came from INFOCOOP and apparently was the result of reluctance on the part of the land reform agency (ITCO) to relax its control of FEDEAGRO and of the FEDEAGRO affiliates. INFOCOOP's position was that the funds should be spent on FEDEAGRO, only if it were possible by so doing to convert the land reform beneficiaries into true members of the cooperative movement.

Without there being any I.L. to support it, the definition of how the \$200,000 was to be used was further broadened to include first degree cooperatives as well as "organisms which promote integration". This activity eventually came to be known as the "Assistance to Weak Coops" sub-project.

Starting in 1977, there were many plans prepared for the use of the \$200,000. Initially it was proposed that most of the funds be used for studies of investment projects and for training of cooperative personnel. Later, it was proposed to finance a mobile technical assistance and training unit. Finally, 29 cooperative entities, including six second degree entities, received assistance in 1978 and 1979. Approximately \$40,000 was utilized to buy office equipment for the beneficiaries. The remainder was about equally divided between the salaries of a mix of personnel to improve administration, e.g. accountants, and technical experts in the various projects being executed; and the costs of studies related to proposed new projects. Almost all of the cooperatives benefited were those receiving Loan 025 financed credit. In this sense, the Assistance to Weaker Coops sub-project can be considered as a subsidy element of the credit activity of the Project.

INFOCOOP management believes that the activity was, on the whole, successful. They regret that it was not possible to utilize some of the funds to train cooperative managers, due to the short period (essentially 1979) when the funds were available. The record also shows that AID objected to this use of the funds, presumably on the basis that the Loan Agreement called for the use of \$150,000 of counterpart for training purposes.

The experience with the \$200,000 has created consciousness within INFOCOOP of the need for ; (a) a revolving fund of some sort to pay for feasibility studies on potential lending projects; and (b) a fund to assist in launching new cooperatives. Nothing has as yet been done to bring these ideas to reality. The Mission believes that this lack of action is due in part to lack of resources.

(b) Staffing and Functions of the Technical Assistance Department - The T.A. Department has two Sections: one dealing with projects and the other with assistance generally. One has the impression, however, that personnel are shifted from one section to the other according to the needs of the Institute at any given point in time. Thus, during much of the loan period, most of the personnel was engaged in credit project formulation, analysis, and assistance to coops receiving loans in implementation of same. At present, the emphasis may have shifted the other way. In any event, the personnel strength of the Department has risen from seven in 1975 to 12 in 1979. Ten of these are professionals, with the following areas of specialization:

Agricultural Economists	2
Specialist in Accounting Systems	3
Statistician	1
Agronomist	1
Ag. Enterprise Administration	1
Marketing Specialist	1
Milk Production Specialist	<u>1</u>
Total	10

The types of assistance provided to coops by the Department may be divided into three groupings: General assistance, covering such topics as coop management,

accounting, and marketing activities; specific investment studies which may or may not lead to INFOCOOP loans; and assistance in project execution of loans received from INFOCOOP. The Supervision Department also provides some technical assistance to cooperatives, especially in the area of accounting system improvement and there is some duplication here. Cooperatives also receive technical assistance from the Legal Department, especially where matters of cooperative doctrine are involved.

In an attempt to quantify the efforts made for the three types of assistance during the 1975-79 period, three sources were consulted: The Annual "Memorias"; the Operational Plans for 1977, 78 and 79; and the PCI final report. The data is a bit difficult to disentangle. For example, the 1977 operational plan proposes assistance of different sorts to 38 coops; the Memoria covering that year indicates that T.A. (undefined) was provided to 75 coops. A reasonable guess is that "once over lightly" assistance was provided to approximately 50 coops in 1975; that this dropped to about 35-40 beneficiaries per year of more intensive assistance in 1977-78; and rose again to 45-50 beneficiaries in 1979. In relation to these numbers it is interesting to note that the 1978 Memoria reports that 116 requests for technical assistance were received that year from cooperative entities.

According to the Operational Plans and the Memorias, about 75% of the cooperatives assisted in 1977 and 1978 received T.A. of the General Assistance type; and approximately 10% received assistance in project execution. While the remaining coops receiving assistance in the form of specific investment studies only corresponded to approximately 15% of the coops, this form of assistance probably accounted for most of the Department's time and energy in this period. According to interview data, approximately 90% of the technical assistance is to first degree cooperatives and only 10% to second degree entities.

(c) Methodology - During 1977-78, at PCI initiative, experiments were undertaken with 6 coops in what was known as the "multidisciplinary technique". In effect,

teams drawn from all INFOCOOP Departments were set up and each team assigned a given coop entity with which to work. Log frame and critical path analysis techniques were utilized to determine who was to do what, when. Results were mixed. This technique was replaced or perhaps refined, in 1979 by what is called "integrated assistance". Here the Planning Department plays the major role and, after cooperatives are selected by the process discussed in the chapter on Planning, assigns personnel from different departments to perform specific tasks covering all the above 3 functions and others, e.g. training, as well. The bulk of the manpower of the Technical Assistance Department is now being used pursuant to this programmed "integrated" assistance. The Department continues to respond to requests and provides some help on an ad hoc basis, but this is the smallest part of its work. There is not much in the way of follow-up activity programmed, except in special cases.

(d) Conclusions - It seems clear that from a personnel and methodological standpoint the technical assistance is stronger now than it was in 1975. Whether or not the uses to which it puts its improved capacity correspond to the needs of the recipients of the assistance is not known.

8. Education and Training Activities

(a) Organizational Arrangements - The education and training function is performed by two separate organizational units: the Education and Training Department of INFOCOOP, and the National Center for Cooperative Education (CENECOOP). The former is an integral element of INFOCOOP; the latter is, in theory, a dependency of the National Cooperative Council, parallel to INFOCOOP. In practice, they function as two INFOCOOP departments. The Council recently appointed an 8 man Board of Directors for CENECOOP, but as of this writing it had not yet met. If the cooperative movement, as distinct from INFOCOOP as an institution, does not soon assume real responsibility for CENECOOP, the Center and its activities may be integrated into the operations of the Education and Training Department.

In theory, there is supposed to be a division of labor between the two units, with CENECOOP providing training to coop officers and managers, and the Department training rank and file membership. In practice, as the charts on the respective activities of each indicate, the Department reaches both groups. However, it is reported that cooperation between the two entities is good and that the detailed subject matter covered by each is complementary, rather than duplicatory.

(b) Personnel and Methodology - CENECOOP, which was staffed by two people in 1975, rose to three in 1976 and 1977, and was down to one in 1979. At present it has two technicians. Courses run one to two weeks and are taught by INFOCOOP personnel for general subjects. Three to four hundred people per year participate. For specialized topics, e.g. marketing, accounting, enterprise administration, teachers are contracted. About 50% of the 11 to 15 courses organized each year are held in San José in the INFOCOOP building; the remainder take place in different regions of the country.

The Education and Training Department had a staff of seven in 1975 and was increased to eight -- its present strength -- in 1978. In addition, there are three people in a Publications Section which is under the supervision of the Educational Department Chief. The Department organizes and conducts courses, seminars, and workshops, which run a maximum of 15 instructional hours per activity. The annual number of such activities has risen from 40 in 1975 to between 94 and 134 per year during the past three years. In addition, one session meetings and/or talks (55 to 75 per year) are organized. When other, unidentified, activities are added, the total number of activities by year runs over 200 as shown in Table III-41.

The meetings, courses, etc. are mostly conducted by the INFOCOOP staff, which as far as the Department is concerned, is mostly composed of people with a general background in teaching and pedagogy. Some teaching services are provided by personnel from other INFOCOOP departments on an ad-hoc basis. However, the Department believes that its training efforts are hampered by lack of its own specialized personnel, e.g. accounting teachers.

Table III-41
Education and Training Division Activities
by Year

	<u>No. Activities</u>	<u>No. Participants</u>
1975	114	3,663
1976	194	2,999
1977	159	4,876
1978	242	3,718
1979	<u>210</u>	<u>3,890</u>
Totals	919	19,106

(c) Orientation - The Education and Training Department sees itself as primarily an instrument to develop cooperative consciousness, both in members of cooperatives and in the general public over the long run. Thus it attaches considerable importance to its work with school teachers and students and would like to branch out into mass media programs. CENECOOP sees itself exclusively as a technical training entity for cooperative officers and management.

(d) Regional Education Groups - In 1974 or 1975, twelve regional education groups were formed, under INFOCOOP sponsorship. All members of the groups were volunteers (school teachers, officers of local coops, etc.). The function of the groups was to work with and support the efforts of the cooperative education committees of the various local coops in their respective regions. The cooperatives in each region were supposed to provide logistical support. Aside from training and orientation (231 sessions were conducted by the Education and Training Department over the 1975-79 period for these volunteers and for local primary school teachers) INFOCOOP provided no support to the 12 groups.

None of the groups is active at present. The last two stopped functioning early in 1980. The reported reason for the apparent failure of the experiment was that

the local coops and their cooperative education committees were not all that interested and, in any case, failed to provide the necessary logistical support. Nevertheless, the Regional Group experiment has had some impact. INFOCOOP reports that the local coops in five regions (Turrialba, San Carlos, Tarrazú, Naranjo, and San Isidro del General) are presently considering the formation of regional education groups.

One of the PCI recommendations (not put into effect) was that INFOCOOP should also provide materials and financial support to these groups. However, one can readily see that from an administrative standpoint it would be difficult for INFOCOOP to control and account for such expenditure.

(e) Analysis of Department of Education and Training Activities - In terms of who it is trying to reach, the activities of the Department may be divided as follows:

	<u>Activity Table Reference</u>
General Membership of Coops	- items 1a & 2a
Coop. officials & coop management	- item 1b
General Public	- item 2c
Teachers, students & Gov't officials	- items 1c & 2b
INFOCOOP staff	- item 1e

The number of activities and numbers of participants in each, by year, for each category is shown in the Activity Table (III-42) and will not be belabored here since no significant quantitative trends can be discerned, except perhaps an increasing emphasis on school teachers and students in recent years. It also appears that the major efforts of the department, quantitatively, are directed at the general cooperative membership and at teachers and students.

The PCI report indicates that the structure and objectives of the work with general cooperative membership needs to be rethought. However, the PCI recommendations are not taken very seriously in this area. PCI finds that the work with Cooperative officials and management (e.g. the management workshops) is well planned, but lacks follow-up. In this connection, it would seem to make sense for CENECOOP and the Department's efforts to be consolidated, whether or not there is an organizational merger and with a little more in the way of permanent personnel dedicated to working with coop management and officials.

(f) Analysis of CENECOOP Activities - The chart on CENECOOP activities indicates clearly that the major emphasis, both in terms of number of activities and number of participants, is focused on accounting and cooperative management. The program seems to be well managed, but again has no follow-up due to lack of personnel. Also, the Director of the Center is frank to admit that he doesn't really know what the training needs are.

(g) Publications - The unit has produced and sold at cost approximately 5,000 copies of the Cooperative Law. According to the Annual Report (Memoria) for 1975, in that year 85 new pamphlets were printed and 37 were reprinted for a total printing run of 21,379 units. Of these, 12,519 were distributed in 1975. Comparable data for successive years was not available. However, it was indicated that the level of activity has been fairly constant from year to year.

(h) Conclusions - It is difficult to arrive at any judgement as whether or not the education and training activities of INFOCOOP improved over the period of project execution. From a quantitative standpoint, the effort is impressive, but it already was so in 1975. From a qualitative standpoint, the problems concerning relevance of material taught, lack of follow-up, and organizational uncertainty which were present in 1975 still remain unresolved. The experiment with regional volunteer educational groups has been unsuccessful to date, but with future possibilities.

On balance, one might conclude that in the area of education and training the Institute is reaching its target groups in sufficient numbers; that its operations are relatively efficient; but that the quality of its offerings is untested.

9. Development of New Coops - As indicated in Section III C (1) of this report, there were 76 new first degree coops registered during the 1975-79 period. There were also five second degree entities created during this period. The progression by years was fairly steady as the figures in Table III-43 show. 32/

The organizational unit presently responsible for working with groups desirous of forming a cooperative is the Promotion Department. Before 1976, this department was a section of the Education and Training Department. In 1976 the unit was moved to the Technical Assistance Department. In mid 1977 it was constituted as an independent department.

Possibly as a result of this organizational history, there is some confusion -- and possibly duplication -- between the Promotion Department and the Technical Assistance Department as regards assistance to existing cooperatives which desire to undertake new functions. As between the Promotion Department and the Education and Training Department, there appears to be duplication in assisting existing cooperatives in their promotional efforts to expand membership.

32/ There is a great deal of confusion between official INFOCOOP figures for new coops registered, the Annual Reports which give other numbers for coops created, and the Promotion Department records, which agree with neither of the other two sets of numbers. The data used here is registered (inscritas) coops, which is what the Planning and Supervision Departments use.

Table III-42

A. Activities of Department of Education and Training by Year and Subject Matter

	1975		1976		1977		1978		1979		Totals	
	No. Act.	No. Part.										
1. <u>Courses, Seminars, Workshops</u> 1/												
a. Basic Course for coop members	12	450	7	175	25	759	24	548	19	488	87	2,420
b. Trgn. for coop mgmt. and coop committees	5	145	6	139	3	73	54	841	13	173	81	1,371
c. Trgn. for Regional Education Groups 3/	17	338	2/51	172	73	438	45	225	45	247	231	1,420
d. Trgn. of Teachers & Gov't Officials	-	-	2	50	10	354	5	189	-	-	17	593
e. Trgn. of INFOCOOP personnel	2	25	3	41	4	44	6	36	4	20	19	166
f. Miscellaneous Courses	4	180	4	92	-	-	-	-	13	243	21	515
Sub-Totals	40	1,138	73	669	115	1,668	134	1,839	94	1,171	456	6,485
2. <u>Talks and Meetings</u>												
a. For Coop members	11	550	5	133	-	-	26	360	21	496	63	1,539
b. For school teach. & students	-	-	-	-	-	-	52	1,334	35	1,564	87	2,898
c. For communities	44	1,545	38	1,245	6	1,835	-	-	-	-	88	4,625
d. Miscellaneous	-	-	32	800	25	1,120	-	-	-	-	57	1,920
Sub-Totals	55	2,095	75	2,178	31	2,955	78	1,694	56	2,060	295	10,982
3. <u>Various Activities (unidentified)</u>	19	400	46	152	13	253	30	185	60	659	168	1,649
4. TOTALS	144	3,663	194	2,999	159	4,876	242	3,718	210	3,890	919	19,106

B. CENECCOOP Activities by Year and Subject Matter

<u>Subject Matter</u>	<u>1975</u>		<u>1976</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>Totals</u>	
	<u>No. Courses</u>	<u>No. Part.</u>										
Cooperative Promoter	1	39	1	24	-	-	-	-	2	50	4	113
Coop Committee Work	3	89	2	43	1	29	1	26	1	30	8	217
Marketing	1	19	-	-	-	-	1	23	-	-	2	42
Coop Management	5	137	4	117	5	121	4	94	3	78	21	547
Accounting	1	35	4	121	7	150	4	107	1	35	17	448
Financial Management	1	18	-	-	-	-	2	49	2	54	5	121
Coop Education	1	15	-	-	-	-	3	79	1	35	5	129
Specialized Subjects (consumer coops, coconut production, regional groups, teaching cooperativism in social science classes)	<u>2</u>	<u>57</u>	<u>3</u>	<u>90</u>	<u>1</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>30</u>	<u>7</u>	<u>197</u>
Totals	15	409	14	395	14	320	15	378	11	312	69	1,814

Table III-42

Footnotes

- 1/ Courses for cooperatives in formation are not included and are shown in the Chapter on Cooperative Promotion.
- 2/ Includes one CENECOOP course for 38 Primary School Teachers.
- 3/ Distinction between sessions only for members of Regional Education Groups and for indoctrination of primary school teachers is not clear. Figures presumably include large proportion of the latter.

Table III-43

<u>Year</u>	<u>No. of New Coops Registered</u>
1975	17
1976	15
1977	17
1978	13
1979	<u>19</u>
Total	81

The Promotion Department states that it attends to about 100 "cases" per year. How many of these are new cooperative endeavors is not completely clear. For example, the 1975 Annual Report indicates that the promotional unit worked with 26 groups with the objective of integrating them into existing coops; the 1979 report states that the Promotion Department responded to 127 requests for assistance and that 15 coops were helped to initiate new types of service. The 1978 Operational Plan assigns the Promotion Department responsibility for helping ten existing cooperatives in their promotional endeavors.

As regards the formation of new cooperative entities (and possibly some of the assistance provided to existing coops), there is a four step process used: After a preliminary exploration, as a result of which most candidates are rejected, a socio-economic feasibility study is made; a basic course in cooperativism is conducted for the potential members; the group is assisted in electing officers pro-tem; and finally, the group is assisted in becoming operational, e.g. collecting funds, setting up the accounts, etc, until such time as the cooperative is registered and granted legal status. In effect, although there is no legal basis, the Department has been helping to create de facto pre-coops in the last year or so.

There is little in the way of usable quantitative data to indicate what the Department has actually been doing. However, one indicator is of some interest, i.e. the

relationship between new cooperatives registered and basic cooperative comprehension courses provided. The data, which is incomplete, is shown in Table III-44.

Table III-44

Number of Basic Courses Provided to New Cooperatives
by Year

<u>Year</u>	<u>No. New Coops Registered</u>	<u>Basic Courses for Coops in Formation</u>	
		<u>No. Courses</u>	<u>No. Participants</u>
1975	17	8	350
1976	15	11	275
1977	17	9	436
1978	13	4	N.A.
1979	19	N.A.	N.A.

The record appears to be less than satisfactory. However, it should be taken into account that some new coops bypass INFOCOOP in getting organized and registered, by dealing directly with the Ministry of Labor. There is no legal or other requirement obliging a group of individuals desirous of forming a coop to secure INFOCOOP approval before requesting registration and thus legal status from the Ministry of Labor.

The Promotional Department had seven people assigned to it in 1975. It now has eight, of whom seven are professionals. The professionals (promotores) have a mix of technical backgrounds; some were trained as primary school teachers; others are graduates of the School of Social Service of the University of Costa Rica; still others are ex-employees of the Government Community Development Institute (DINADECO). Only two of the Promoters have been with the Institute for a year or less. The remainder all have three or four years of experience with INFOCOOP.

There is apparently a good deal of interaction between the staff of the Promotion Department and other GOCR entities, e.g. MAG, DINADECO, ITCO, OFIPLAN. The Department also conceives of its responsibilities as including assistance to pre-coops in obtaining financial help from Foundations, e.g. FUECOROS.

In this connection, the Department head indicates that the principal problem found in creating new cooperatives is the lack of seed capital. He indicates that there is often good payment capacity, but not suitable guarantees for obtaining credit.

Interview data also indicates that there may be a tendency on the part of management to press for the creation of new cooperatives without due consideration either to the quality issue or to the alternatives of steering new groups towards entry into existing coops.

In conclusion, as regards the Project Objectives, there is no evidence to indicate that the function of promotion of new cooperatives is being performed any more efficiently now than was the case in 1975. The advantages of setting up a new Department with a mix of promotional, educational, and technical assistance functions are not self-evident.

10. Cooperative Supervision - The Supervision Department of INFOCOOP carries out INFOCOOP statutory responsibilities, i.e. to review the accounts and Board of Directors decisions for all coops, to investigate and intervene in violations of the cooperative law and to investigate and recommend actions leading to dissolution of cooperatives. Also, according to the law, INFOCOOP is supposed to perform an audit of each coop entity at least once every two years. Such audits as are made is the responsibility of the Supervision Department.

In addition to the above statutory control functions the Supervision Department has been making general inspections and attending meetings of Cooperative

Assemblies, meetings of Administrative Committees, Cooperative Supervision Committees and the like. The purpose here is twofold: (i) to determine whether or not there is need for a more detailed intervention; and (ii) to provide and/or identify for future action technical assistance.

In connection with these various functions noted above, it appears that the personnel of the Department has been in direct contact with all registered cooperatives each year (see Line 7 of chart on Supervision Department activities). It would also appear that on any given visit or inspection, two to three of the activities listed on the chart are carried out.

It will be noted that there is a progressive decrease in the number of accounting reviews carried out each year. These are sometimes classified as partial audits. The Department says that this is due to a change in methodology and that they have progressively (starting in 1976) been making such reviews more in depth than was previously the practice.

Line 2c of the Activity Chart shows the reviews made of compliance with bonding requirements of the Law. As a result of this monitoring the Department reports that there is about 70% compliance now, up from 60% in 1979. If only active coops were counted, the percentage would be higher.

In addition to the control functions relating to the operations of individual cooperatives, the Department controls the receipt by INFOCOOP of copies of Board decisions and of financial statements that, by law, each cooperative is supposed to send both to INFOCOOP and to the Ministry of Labor. The financial statements are reviewed by the Department to ascertain what sums are due from profits as contributions to INFOCOOP. (The law provides that 20% for liquid profits shall be contributed to INFOCOOP in the case of first degree entities unaffiliated with

Federations; and 1% in the case of affiliated entities, with the remaining 1% going to the Federation). As Table III-45 shows the Department appears to have been doing a good job of monitoring these accounts.

Table III-45

Cooperative Payments to INFOCOOP
(thousands of colones)

	<u>Status as of 12/31 each year</u>					<u>Totals</u>
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	
No. Financial Statements Received	226	187	236	228	203	1,024
Amounts Due INFOCOOP	352.9	450.6	860.4	764.0	1,119.0	3,546.9
Amounts Paid to Date	<u>352.1</u>	<u>443.6</u>	<u>816.4</u>	<u>540.7</u>	<u>919.9</u>	<u>3,272.7</u>
Amount Outstanding	0.8	7.0	44.0	23.3	199.1	274.2

As indicated earlier in this Report, the INFOCOOP Board has recently decided to shift responsibility for loan supervision from the Financial Department to the Supervision Department. The actual transfer, its implications in personnel, etc., were not known as of this writing.

The present level of personnel in the Department is 11 - an increase of three over 1975. Seven of the 11 positions are for full time work in the field. However, the Department reports that all personnel are not usually available for Supervision Department activities and that during 1978 and 1979, there were only five technicians active full time on field work.

The general impression, with respect to Project objectives, is that the Department is performing reasonably well and that it has improved during the period of project execution. The decision to combine loan supervision responsibilities with control functions goes against all the

advice which the Institute has received. The use of the Department's time and energies in attempting to provide technical assistance is debatable.

11. External Technical Assistance - The project provided for US\$300,000 of AID funds to be used in procuring external technical assistance for INFOCOOP and for other entities of the cooperative movement.

(a) Negotiations and Initiation - This component of the project got off to a late start. Bids were not received until August, 1976 -- approximately one year after INFOCOOP's plans for the use of the technical assistance funds had been approved; and a technical assistance contract with Practical Concepts, Inc. (PCI) was not signed until February, 1977. There were apparently some mechanical factors, outside of the control of either INFOCOOP or the Mission (i.e. errors in the publication in the U.S. of the I.F.B leading to a postponement of bid submission dates) which contributed to this situation. However, the major factors were undoubtedly:

(i) The requirement that all CPs had to be satisfied before any actions to procure technical assistance were initiated. This requirement was later made the whipping boy for a multitude of problems, including the need to extend the TDD. In a memorandum of record dated October 14, 1977 dealing with this matter (TDD extension) the Mission Director states: "In retrospect it is clear that the Loan Agreement was defective in not permitting disbursements for technical assistance until all conditions precedent had been met." Underlying this CP/T.A./TDD relationship is the question of what the technical assistance was supposed to accomplish. The CAP gives the impression that the emphasis was to be on institution building. No major problems with the placement of credit funds was envisaged and consequently no specific role for the external T.A. was contemplated in this regard. However, the internal Mission Evaluation of August, 1977 tells a somewhat different story. In dealing with disbursements of US\$3.2 million of credit funds for marketing

Table III-46

Supervision Department Activities

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Totals</u>
<u>1. Financial Supervision Activities</u>						
a) Audits	-	1	6	8	6	21
b) Review of Accounts	152	82	26	15	30	305
c) Review of Financial Balances	<u>226</u>	<u>187</u>	<u>236</u>	<u>228</u>	<u>196</u>	<u>1,037</u>
Sub-Totals	378	270	268	251	232	1,363
<u>2. Legal Control Activities</u>						
a) Revisions of Coop Statutes	5	-	8	8	9	30
b) Special Permissions	8	4	16	3	12	43
c) Review of Bonding Compliance	124	142	161	215	235	877
d) Review of Board Decisions	<u>238</u>	<u>125</u>	<u>250</u>	<u>208</u>	<u>203</u>	<u>1,024</u>
Sub-Total	375	271	435	434	459	1,974
<u>3. Special Investigations (irregularities, dissolution, etc.)</u>	52	47	64	25	47	235
<u>4. Attendance at Coop Assemblies & Meetings</u>	178	79	99	86	58	510
<u>5. General Inspections</u>	<u>54</u>	<u>51</u>	<u>67</u>	<u>40</u>	<u>17</u>	<u>229</u>
<u>6. Totals</u>	1,037	718	933	836	813	4,311
<u>7. No. Coops Controlled or Visited</u>	326	335	343	348	350	1,072

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

While a case can be made in almost any Loan Agreement for moving ahead with technical assistance without waiting for compliance with all CPs it is quite clear that in this particular instance, the furor was caused by a shift in the major purpose of the T.A. from institution building to involvement in the operational aspects of moving credit funds.

(ii) The other factor affecting initiation of technical assistance activity, was the long and involved process of selecting a contractor, formalizing a contract, and getting personnel on board. It took four months (from August to November, 1976) to select a contractor and negotiate a contract. In this process, negotiations were started and broken off with no less than four bidders, including the eventual successful bidder (PCI). It took an additional three months to formalize the contract in February, 1977. Members of the PCI team arrived in staggered fashion: one each in February, March, April, and May and two in June, 1977. Thus it was not until June, 1977 -- four months after contract signing and 11 months after receiving bids -- that the technical assistance was fully operative.

An examination of the extensive documentation dealing with contractor selection indicates that the principal cause of the long and complex process was the absence of a fit between the amount and types of services desired and the funds available.

(b) Technical Assistance Content - The PCI contract provided for 91 man months of services. In practice, 79 man months plus several months of time of a team leader who was replaced at the initiation of work, was provided. The full five man team operated from June 1977 to August 1978. A final report was submitted in September 1978.

According to PCI final report, the initial work plan developed with INFOCOOP placed the major emphasis for use of the team members on placement of credit funds. The report goes on to state that in December, 1977 the objectives of the technical assistance were redefined to shift the emphasis to training and institution building and, pursuant to the changed objectives, a new work plan was developed and agreed upon in March, 1978.

From an examination of the reports of individual team members it is not possible to discern this shift in type of activity for the June 1977-February 1978, and March 1978-August 1978 periods. Rather, it would appear that two of the technicians (technical assistance and marketing specialists) devoted almost all of their time over the entire period to credit operations and that the other three specialists (planning, financial management, and education) devoted the major part of their time to institution building. A rough estimate of how the 79 man months of technician time was divided between credit operations and institutional development (including more or less formal training) would be 50:50.

(c) Results - The accomplishments of the technical assistance activities can usefully be assessed under three headings as follows:

- Placement of 025 credit funds - PCI technicians participated in the formulation of 22 investment projects with a possible INFOCOOP credit component of well over US\$3 million. The major part were authorized credit. Not all of the projects have worked out well, but this is not necessarily due to the quality of the studies leading to the loans. It can be concluded that PCI complied with its obligations on this account.

- Improved methodologies and procedures - The PCI team worked mostly with four departments in this regard (Finance, Planning, Technical Assistance, and Education and Training). Interview data reveals that all except the Education and Training Department believe that the assistance was useful. There is also ample evidence in the form of manuals in use, prepared with PCI help, etc., to support

these judgements. Some of the methodological innovations (e.g. multidisciplinary technical assistance teams) have been discarded; others (e.g. program budgeting) have not yet been fully applied, but on the whole the technical assistance has had an impact on improving methodologies. PCI advice has apparently also had an impact on the organizational restructuring of the Institute now underway.

As concerns the Education and Training Department and its methodologies and procedures, the complaint is that the PCI technician was more of a planner or administrator than an educator, and that he did not have the stature or experience necessary to provide useful advice. It is suspected that underlying this judgement was a difference of opinion between the Department and the PCI advisor as to what its objectives should be.

- Training of INFOCOOP and Cooperatives
Entity Personnel - Seven seminars were conducted and a considerable amount of one on one training was undertaken. The only measure of effectiveness available is interview data and this is generally positive.

(d) Conclusions - The PCI report, in its auto critique, points out that perhaps too much was expected given the short period of the technical assistance effort. (The IFB envisaged a two to three year operation, rather than the 15 month operation which actually took place). This seems a correct judgement. Nevertheless, this evaluation also supports the PCI conclusion that overall the technical assistance was effective and has had lasting results.

There have been criticisms on the part of individuals in the INFOCOOP management structure to the effect that PCI, while an able firm, did not have a good grasp of cooperative movements and could not, or did not, tailor its interventions accordingly. There is perhaps some validity to the comment. However, if there is fault to be found in this regard, this report would tend to place the blame at INFOCOOP's door rather than on PCI.

It was INFOCOOP's responsibility to provide the overall orientation. PCI's task was technical and did not include advising the Institute on its overall policies and philosophy.

12. Conclusions re Institutional Development of INFOCOOP - Viewed as an operating entity, the general conclusion is that the Loan Agreement objective is satisfied and that INFOCOOP "has been strengthened". Some functional areas have shown marked progress; others remain much as they were in 1975; but overall there is little doubt that INFOCOOP is a more solid and efficient agency than it was five years ago.

The main problems which INFOCOOP as an institution still face are mostly in the policy area. It is not at all clear that it is meeting the needs of the cooperative movement; it and the GOCR need to decide -- and take consequent measures -- whether it is a banker or a developer.

As to the AID loan and its impact on the development of INFOCOOP, two conclusions can be reached:

- the technical assistance was useful and produced results.

- the credit program may turn out to have been a mixed blessing. If, as seems possible although too soon to assess quantitatively as yet, the type of loan which was made turns out to have a very high failure rate, INFOCOOP will have an impossible debt service responsibility and a disastrous financial structure.

IV. Municipal Development Project

A. Conditions Precedent

Section 3.04 of the Loan Agreement establishes:

- (i) general requirements (submission of an overall implementation plan, a description of coordinating activities with other institutions, evidence that the GOCR will provide loan funds to IFAM on a grant basis, and evidence that all AID Loan 515-L-023 funds have been committed);
- (ii) special requirements relating to credit funds (essentially formulation of a credit policy for "rural window" operations, and evidence of a GOCR grant of \$775,000 for credit on a pari-passu basis with regard to disbursements of the final \$1.2 million of AID credit funds); and
- (iii) special requirements for the use of training and technical assistance funds (submission of agreements and/or contracts with the providers of the services).

In April, 1975 IFAM submitted a document covering the above CPs. It contains a thorough and well thought out overall implementation plan; evidence of comprehensive coordinating arrangements with other government entities; and evidence that the two financial elements of the general requirement were satisfied.

As concerns the special requirements relating to credit funds, the document deals adequately with the GOCR pari-passu grant. It also attempts to formulate a set of policies by type of project, interest rate structure and loan terms, etc. With one exception, the credit policy as a whole seems to be well thought through and was later reflected in the issuance of an IFAM document under this title. The exception relates to the definition of what is to be considered "rural" and what "urban" for purposes of the credit operations. The document defines rural very broadly: any locality in the country that does not have adequate public services, e.g. water, roads, markets, electrification. (During the operation of the project "any locality in the country" was narrowed slightly as concerns use of AID funds to exclude the metropolitan area of the San José municipality).

In effect, the definition makes all 80 municipalities eligible and sets the stage for somewhat personal and subjective judgement, on a sub-project by sub-project basis, of whether adequate public services are present. As might be expected, this occasionally led to differences of opinion between IFAM and the AID Mission, with the consequent delays and frictions. In order to avoid this situation, and given the objectives of the Loan 025 program, it might have been desirable to classify the 412 Districts into which the Municipalities are divided into urban and rural as regards eligibility for certain types of loans, e.g. water supplies and electrification while leaving other types of loans, e.g. road maintenance machinery, open on a municipal wide level.

As concerns the training and technical assistance components, the IFAM document indicates the status of negotiations with various entities and/or planning and promises the submission of addenda in due course.

During the next two months (June-July, 1975) there was a considerable exchange of correspondence between the Mission and IFAM, in which the Mission went somewhat beyond the CPs and requested data on such items as use of reflows, plans for complying with special covenants, etc., before authorizing disbursements via I.L. No. 3 on July 22, 1975. As part of this exchange, the information and documentation regarding training and technical assistance was supplied to the Mission.

As regards the handling of the CPs, it may be concluded that the Mission was somewhat more exigent than was strictly necessary. Nevertheless, the use of the leverage inherent in withholding disbursement authorization did have positive substantive results at the price of only small delay.

B. Loan and Counterpart Authorizations and Disbursements

1. Authorizations - The Loan Agreement was modified several times, as concerns the use of AID funds (I.L. No. 12 of August 10, 1976; and I.L. No. 37 of February 27, 1978). The changes are shown in Table IV-1 on programming of project funds.

Table IV-1
Uses of Project Funds
(thousands of US\$)

	<u>Original Agreement</u>		<u>Final Allocation</u>	
	<u>AID Funds</u>	<u>Counterpart Funds</u>	<u>AID Funds</u>	<u>Counterpart Funds</u>
Credit	3,000.0	2,000.0	3,146.7	2,000.0
Training	225.0	unspecified	122.5	-
Technical Assistance	175.0		130.8	-
(IFAM Planning Unit)	(75.0)	-	(90.5)	-
(Financial Mgmt.)	(100.0)	-	(20.6)	-
(Regionalization)	-	-	(19.7)	-
Totals	3,400.0	2,000.0	3,400.0	2,000.0

The decision to cut back on the training component was made early in 1976 and corresponded mostly to an anticipated need at that time for additional funds for technical assistance. It took the form of deleting support for the operations of IFAM's education and training section while maintaining what were essentially in-service training activities for IFAM staff. It was only in 1978 that the decision was made to shift funds allocated to technical assistance to credit, largely as a consequence of difficulties which had arisen in connection with the form that mechanization of the financial services of IFAM should take. Both of the shifts will be dealt with in further detail in other sections of the report.

2. AID Disbursements - The first disbursement of AID funds (after the July 1975 satisfaction of the CPs) was in October, 1975 and related to out-of-country training at Texas A&M. Funds for the credit component did not begin to move until March, 1976, when an advance in the form of an imprest or revolving fund for \$3.5 million (US\$409,000) was

set up. The first reimbursement operation for credit did not take place until November, 1976. The first disbursement for technical assistance (reimbursement against an AITEC contract) was made in April, 1976.

Table IV-2 shows the evolution of AID disbursements by component and calendar year:

Table IV-2

Disbursement of AID Funds

(cumulative figures in thousands of US\$)

	<u>Totals</u>	<u>Credit 33/</u>	<u>T.A.</u>	<u>Trng.</u>
12/31/76	716.6	572.6	110.2	33.7
12/31/77	930.6	722.9	117.9	89.8
12/31/78	1,961.0	1,711.1	130.8	119.1
12/31/79	3,396.6	3,146.7	130.8	119.1
5/31/80	3,399.7	3,146.7	130.8	122.2

As can be seen, the entire loan amount was disbursed, with the technical assistance and training components (as revised and reduced) completed by the end of 1978. Forty per cent of the funds allocated to credit were not disbursed until 1979-80. This appears to be a consequence of the slowness of municipalities in actually executing projects. IFAM reports show that by the end of 1977 sufficient sub-projects had been formally approved to commit the entire AID credit component.

Even allowing for start up delays, which in the case of this project were not unduly protracted, the obvious conclusion is that in the initial planning insufficient time was allowed for sub-project execution.

33/ Includes advances

3. Counterpart Disbursement - The accounting for disbursement of counterpart, all of which related to credit operations, was handled in a rather complex fashion. Initially, a ratio of 60:40 for AID and IFAM contributions, respectively, to each sub-project was established. However, since certain of the sub-projects, e.g. road machinery, consisted in their entirety of imported equipment, AID financed 100% of the cost. Thus, it became necessary to apply the 60:40 ratio on an aggregate basis. By April, 1979 the record showed that, on an aggregate basis, IFAM had exceeded its commitments. All indications are that the counterpart (both from IFAM's resources and from the GOCR grant) were available in timely fashion as the credit operations took place.

G. Critical Assumptions - There are two types of underlying assumptions found in the CAP: explicit and implicit. The CAP states as an explicit assumption, that improved rural infrastructure and services will slow down rural-urban migration. The validity of this assumption cannot be tested at present.

A second explicit assumption is that: "by providing rural municipalities with better planning and managerial resources and making financing available for rural projects, municipalities and central government agencies will develop a more permanent, collaborative and disciplined relationship based on identified real priorities at the cantonal level."

Implicit in the Special Covenants of the Loan Agreement (Section 5.05) dealing with the land tax, is the assumption that the Central Government executive branch and the legislature were desirous of improving the financial situation of municipal governments.

The Log Frame prepared by IFAM, as part of its evaluation plan, under critical assumptions states the matter more succinctly: "Active and opportune collaboration from the Legislature and the Controller General..."

With regard to the assumption concerning a "collaborative and disciplined relationship" between municipalities and central government agencies, there does not seem to have been much progress. IFAM's Quarterly Report as of June, 1977 indicates that the program has been slowed down because of tariff problems with the National Water and Sewerage Agency (AYA), and because of disagreements with the Controller General on user charges for valorization projects. Other reports indicate coordination problems at the municipal level with the national electricity agency (ICE).

Through a series of devices (its Municipal District activities, participation in the OFIPLAN regionalization planning activities) IFAM continues to try to bring about a closer and more meaningful relationship between municipalities and central government agencies. However, it is the writer's judgement that the heart of the matter is being avoided, i.e. the issue of control over (not necessarily administration) of resources. As the Syracuse University Report of December, 1979 states, there is no question but that "road maintenance, street lighting and water...functions are in the process of being assumed by national agencies." As far as the OFIPLAN regionalization/decentralization effort is concerned, it seems more of a planning technique (which might conceivably bring about more grass roots participation), but which has no intention of resulting in an increased control of resources at the local (municipal or other) level.

From a purely fiscal or revenue viewpoint, a study by IFAM's Planning Department, "The Municipal Regime in Costa Rica", makes the point that government expenditure overall, as a percentage of GDP, has increased from 9.5% in 1950 to 33.8% in 1978, while municipal government expenditure for the same period has remained constant at 1.1% of GDP. Municipal expenditure as a percentage of overall government expenditure has consequently declined from 11.9% in 1950 to 3.3% in 1978.

The same document (which is a study paper and not an official statement of IFAM views) attempts to make a case for revitalizing the role of municipalities in the Costa Rican democratic process on purely political (i.e. countervailing forces) grounds; it also attempts to distinguish between the functions of municipal government as a provider of services vs. an entity for government (e.g. development); and indicates that only by strengthening the latter function can the municipal regime become a force in the country again. Two quotations from the document provide the essence of its thought:

"The fundamental problem of the municipalities is their anachronism with regard to the overall development of the country; they have remained out-of-date with regard to the transformations which the Costarican society has undergone and this has necessarily led to their atrophy."

"Efforts directed only at strengthening individually or collectively the finances, human resources, and/or administrative organization of municipalities will in no way change the disarticulation between the municipalities and the development process of the Costarican society."

The analysis of the problem is probably better than the prognosis for change. In all probability -- for the foreseeable future -- the municipalities will have an important, though reduced vis a vis national level agencies, role to play in the provision of services. Expectations about increased control over resources, or a larger developmental, independent governing role for municipalities are ill founded. It is within this context that the activities of IFAM and of the municipalities should be evaluated. It is also the context for evaluating the interactions between municipalities and the legislature and central government agencies. Looked at from this standpoint, the underlying assumptions of the project are probably not too unrealistic, although not as much progress as was anticipated has been made, as will become clearer in some of the following chapters.

D. Development of IFAM

The overall objective of the project as stated in the Loan Agreement is to "Strengthen and expand IFAM's capacity to...assist Costarican local governments in providing services and facilities to the rural population". A number of individual expected outputs are also given. However, rather than organize this section of the report around each of these anticipated outputs, it seems more useful to examine IFAM from the viewpoint of its components and as an institution, and to deal with individual outputs within this context.

1. Organization and Administration

(a) Organizational Structure - IFAM's internal organization can usefully be disaggregated into three functional components; policy and overall management units; municipality service units; and support units. The groupings below are somewhat different from the way in which IFAM organizes the budget and attempt to define units in terms of their principal functions.

- Policy and Overall Management - The units dealing with this function are the Board of Directors and its President; the Executive Director's Office; the Executive Secretariat; the Planning Department; and the Public Relations Office.

- Municipality Service Units - From a functional standpoint, one would include here the Operations Department, the Technical Assistance Department, the Guanacaste Regional Office, and the Legal Department, while taking note that the Administrative Department also provides a considerable amount of direct services to municipalities connected with procurement. Included under the Technical Assistance Department is the Land Tax Section which should really be a separate Department.

- Support Units - In this category fall the Administrative Department, the Financial Department, and the Audit Office.

(b) Evolution of Personnel Numbers by Function and Level - Reliable data on personnel numbers is extraordinarily difficult to obtain. For example, the Annual Reports show a total of 140 employees in 1975, while Personnel Department records (based on approved positions in the Annual Budget) shows a total of only 97. Lesser differences are found for other years. Data obtained on direct interviews with Department and Section heads as to end of 1979 actual position numbers, agrees with neither of the foregoing.

When it comes to segregating personnel by level, some IFAM reports use a grade structure concept while others use a mix of responsibility level plus educational attainment. Using interview data and information provided by the Personnel Department on this basis, an attempt was made to arrive at classifications based on an arbitrary, but simple set of definitions; professional level personnel are defined as individuals having university degrees; technical level personnel are defined as those having post secondary academic training; administrative level personnel cover all other categories (secretaries, chauffers, janitors, etc.)

Using the above concepts and the organizational structure as defined above, Tables IV-3 and IV-4 compare the personnel situation in 1976 and at present. While the numbers used may not be 100% accurate, it is believed that in relative terms they show what has been happening over the past three to four years.

As can be seen the bulk of the 54.3% overall increase has been in the units providing services to municipalities. Within this category, most of the increase has been in the engineering section of the Operations Department and in the Land Tax and Special Studies Sections of the Technical Assistance Department. Almost all of the increase in the Support Units was in the Administrative Services Department.

Table IV-3

Personnel Evolution by Functional Grouping

	<u>1976</u>		<u>Present</u>		<u>Increase</u> <u>1976-Present</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Policy & Overall Mgmt.	25	19.4	26	13.2	1	4
Municipality Serv. Units	60	46.5	107	54.3	47	78.3
Support Units	<u>44</u>	<u>34.1</u>	<u>64</u>	<u>32.5</u>	<u>22</u>	<u>50.0</u>
Totals	129	100.0	197	100.0	70	54.3

Table IV-4

Personnel Evolution by Level

	<u>1976</u>		<u>Present</u>		<u>Increase</u> <u>1976-Present</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Executive and Professional	43	33.3	66	33.5	23	53.5
Technical	32	24.8	73	37.1	41	128.0
Administrative	<u>54</u>	<u>41.9</u>	<u>58</u>	<u>29.4</u>	<u>4</u>	<u>7.4</u>
Totals	129	100.0	197	100.0	68	52.7

Using the admittedly arbitrary definitions given above, it would appear that approximately two-thirds of the increase in staff has been of people with post secondary training. Some of these are university students on their way to becoming "professionals". Nevertheless, it is suspected that the rapid increase in personnel numbers may, to some extent, have been taking place at the expense of quality. This concern is somewhat mitigated by the fact that about half of the increase in this category are personnel assigned to the Land Tax Section of the Technical Assistance Department. At the Professional/Executive level, approximately 50% of the increase is located in the Operations Department (mostly in the Engineering Section).

(c) Financial Implications - The operational expenditure of IFAM was disaggregated by the three functional groupings used for personnel calculations, with the costs of special programs netted out (the PIMA/CENADA wholesale market project; scholarships and special costs financed from Loan 025 and kept as a separate account in the IFAM budget liquidations; and an IBRD financed project in Perez Zeledón). Table IV-5 shows the results of these calculations.

Table IV-5

Operational Expenditure by Functional Grouping
(millions of colones)

	<u>1976</u>		<u>1979</u>		<u>Increase</u> <u>1976-79</u>	
	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>
Total Operational Expenditure	13.4	-	20.1	-	6.6	49.4
Expenditure on Special Programs	2.4	-	3.6	-	NA	NA
Total Net of Special Programs	<u>11.0</u>	<u>100.0</u>	<u>16.5</u>	<u>100.0</u>	<u>5.5</u>	<u>49.8</u>
Policy & Overall Management	3.3	30.0	4.0	24.4	0.7	21.2
Municipality Service Units	4.3	38.8	7.5	45.4	3.2	74.4
Support Units	3.5	31.4	5.0	30.3	1.5	42.9

In the Policy and Overall Management area most of the increase is the result of the creation of a Public Relations Office in 1977. In the Municipality Service Units, the \$3.2 million increase corresponds to the creation in 1979 of a unit for promotion of District Councils; a 75% increase in Legal Department expenditure; and 65% and 73% increases, respectively, in the expenditures

of the Operations and Technical Assistance Departments. In the Support Units, the Financial and Audit Departments increased their expenditure by approximately two thirds, while the Administrative Department increased its expenditure by only 40%.

(d) Comparison of Personnel and Operational Costs and Increases - If one compares relative increases in numbers of personnel and operational costs by functional grouping (Table IV-6), it would appear that the Policy and Overall Management function is absorbing a disproportionate percentage of the budget at the expense of the other two functional areas. However, before arriving at a definitive conclusion in this regard, it would be necessary to disaggregate the former expenditure category to a greater extent than has been possible, since it is conceivable that many miscellaneous type expenditures are buried in the budget of the units which make up the policy and general management functional area.

Table IV-6

Comparison of Percentage Increase
1976-79 in Personnel Numbers
and Operational Expenditure by
Functional Area

	<u>Personnel</u> <u>Numbers</u>	<u>Expenditure</u>
Policy and Overall Management	4.0	21.2
Municipal Service Units	78.3	74.4
Support Units	50.0	42.9
Total Increase	54.3	49.8

It is also of interest to examine how personnel expenditure overall relates to operational expenditure. Table IV-7 shows these relationships over the past years.

Table IV-7

Personnel Costs as Percentage of Operational Costs
(millions of colones)

	(1) <u>Total Operational Expenditure</u>	(2) <u>Personnel Expenditure</u>	Col.(2) as % of <u>Col.(1)</u>
1976	13.0	9.2	70.8
1977	13.9	9.9	71.2
1978	16.0	11.8	73.8
1979	18.7	14.2	75.9

There appears to be a steady and progressive increase in personnel cost as a percentage of total operating cost. This is a danger signal and may indicate that personnel are not being sufficiently provided with the means to efficiently carry out their functions. The numerical evidence is born out by interview data where complaints were made with regard to availability of transport; to delays in printing and publication of reports, manuals, etc., and, to a lesser extent, in procurement actions.

(e) Personnel Management and Policies - There is no personnel manual which codifies hiring, firing, promotion and other procedures. Little has been done until 1980 in the way of conducting salary surveys and salary levels are not negotiated with the employees association; there is no union. As indicated above, personnel statistics organized in a form useful for management are practically non-existent. Nevertheless, employee morale seems uniformly high. The staff is young and enthusiastic; they

are well motivated and think highly of themselves and of IFAM. At the Department and Section head level, incumbents seem to be well prepared and knowledgeable about their subject matter. It is claimed that turnover is low, but there is no data to substantiate this.

This apparent contradiction between inadequate personnel management practices and a good to acceptable personnel situation is probably due to three factors:

- the general expansion of staff and of consequent openings for promotions.

- a deliberate policy of promoting from within the Institute. (Whether this is always desirable is open to question).

- a very liberal policy on providing or assisting with scholarships of varying types for IFAM personnel.

(f) Transport - The motor pool is being increased from 12 to 16, with 13 new vehicles now on order. This will better but not solve the transport problem.

Of more interest is the experiment with allowing employees to use their own vehicles for work under a mileage arrangement. Three technicians now have such "contracts" with IFAM. However, the Comptroller General regulations governing these contracts are unduly stringent and will undoubtedly limit the use of this technique.

In 1977 the Institute considered and rejected the idea of going beyond mileage arrangements and also selling/financing acquisition of work vehicles by qualified personnel. The possibility of resolving the transportation problem in this fashion should be reconsidered.

(g) Inter-Departmental Relationships - It is generally recognized by Department Heads that there are inter-departmental coordination problems, but everyone also states that the situation is improving.

Where an absolute lack of any coordination or even interchange of information is noted is between the Planning Department and all other departments. The situation as regards the Technical Assistance and Operations Departments certainly needs improvement, not so much in the area of project supervision as in the area of planning new projects and the interface between administrative/financial improvements at the municipal level and the consideration/approval of new credits.

There is some unnecessary movement of paper and duplication of activity between the audit/administrative/and financial offices. However, given the emphasis in all public sector Costarrican institutions on control, the problem of duplication and overlap in IFAM does not seem too serious, in the sense of causing delays in procurements and payment actions.

(h) Mechanization of Accounting and Other Data - National Cash Register electronic equipment is being installed and programmed in December, 1980. It will handle all Financial Division operations (e.g. payrolls, credit balances, functional accounts, etc.). It is not clear to what extent the equipment will be used for any except Financial Department (and perhaps such Administrative Department functions as inventory control) purposes. The Financial Department is also a bit vague as to the effect of mechanization on its personnel level; e.g. whether it can or should result in any savings.

(i) Regionalization - A regional office in Guanacaste was created in 1980. It is staffed by two professionals, a secretary and a chauffer. Essentially its functions are to provide direct technical assistance to municipalities in the region. The experiment is viewed with considerable scepticism by several Division and Section heads. It is causing the

usual problems with regard to delegation of authority, the limits of which have not been defined. Also, since the regional office does not have the full array of talents available in all IFAM Departments, a price in inter-departmental coordination and back up to the technical assistance is being paid for more on the spot T.A.

While it is undoubtedly too soon to judge the results of this first attempt at decentralization, one wonders whether all the implications (e.g. inevitable staffing increases) of a full scale decentralization effort have been carefully thought through.

(j) Composition of the Board of Directors - All seven members of the Board of Directors of IFAM are appointed by the Council of Ministers of the Central Government. At present, there is no representation of municipalities on the governing body of IFAM. It is generally believed in IFAM at the technical level that this is a deficiency of the law. There have also been some sporadic indications of interest on the part of Municipal Councils to bring about a change. At present, some consideration is being given at the IFAM policy level to seeking authority to include two Municipal Council or Municipal League representatives on the Board of Directors. This is a step in the right direction, even if a very timid one.

(k) Internal Reporting - The Institute uses a system of six month reports by the individual Divisions on work accomplished during the semester. An examination of a few of these reports indicates that not very much thought has been given to determining what information, in what form, is needed by management on a continuing and comparable basis. Instead, the reports examined contain a great deal of gratuitous information, e.g. numbers of letters received and answered.

2. Financial Structure - A summary balance sheet for the years 1975-1979 is presented as Table IV-16. Also a summary set of cash flow accounts was constructed from

budget liquidation documents for the years 1976 through 1979. (The only copy of the 1975 budget liquidation document in IFAM was on loan to University of Costa Rica students). This cash flow data is presented in Table IV-17.

(a) Capital Formation - The CAP made projections through 1977 in this regard. Comparing the CAP figures to Table IV-16 data for capital and reserves one finds the following:

Table IV-8

Capital Formation: Comparison of
CAP and Actual Figures
(millions of colones)

	<u>CAP</u>	<u>Actual</u>
1975	67.0	53.9
1976	83.2	66.0
1977	100.6	84.6
1978	NA	183.9

It would appear that the CAP projections were realized with about a six months delay factor which was overcome in 1978 when receipts from donations increased sharply.

Capital and reserves increased overall, during the 1975-79 period by $\text{Q}129.6$ million, or 240.4%. The rate of increase was quite constant, except for a bulge in 1978 when $\text{Q}25.0$ million in Loan 025 and its counterpart funds were received, as shown in Table IV-9.

(b) Liquidity - Except for 1977, IFAM has shown a picture of excess liquidity, as the Tables IV-10 and IV-11 show. A better job is now being done of making

cash flow projections for the capital account in order to get a better handle on this situation. Looked at as a percentage of total assets (Table IV-11) the liquidity problem seems less serious, but given the nature of IFAM's operations is still not justifiable.

Table IV-9

Rate of Capital Formation

	<u>Increase Over Previous Year</u>	
	<u>Amt.</u> <u>(₱ millions)</u>	<u>%</u>
1976/75	12.1	22.4
1977/6	18.6	28.2
1978/7	60.6	71.6
1979/8	38.3	26.4

Table IV-10

Liquid Assets: Amounts and Rates of Increase

	<u>Amount</u>	<u>Increase over Previous Year</u>	
	<u>as of 12/31</u>	<u>Amount</u>	<u>%</u>
1975	11.7		
1976/5	17.8	6.1	52.1
1977/6	8.3	(9.5)	(53.4)
1978/7	18.7	10.4	125.3
1979/8	31.0	12.3	65.8

Table IV-11

Liquid Assets as % of Total Assets

1975	20.0%
1976	20.9%
1977	7.8%
1978	10.2%
1979	12.8%

(c) Loan/Equity Ratios - The relationship between Long Term Debt and Capital and Reserves (Table IV-16) is shown in Table IV-12. Almost all of the debt has been incurred to finance land acquisition and construction for the wholesale market (CENADA). It is planned that the service of this debt will be shifted to CENADA when the wholesale market begins to operate. Even without this step, the loan/equity relationship is quite healthy.

Table IV-12

Evolution of Loan/Equity Relationships

1975	1:22
1976	1:4
1977	1:4
1978	1:4
1979	1:3

(d) Sources and Application of Funds - An examination of the income and expenditure cash flows (Table IV-17) shows no unexpected or unexplained irregularities. Movements away from normal curves are a result of the financing of the CENADA operation.

(e) Evolution of the Loan Portfolio - As Table IV-13 and IV-14 show, the value of the portfolio has been increasing year by year, but decreasing as a percentage of total assets. This again is largely the result of the CENADA operation.

Table IV-13

Amount and Change in Portfolio by Year

	Value (millions ¢)	<u>Increase over Previous Year</u>	
		<u>Amount</u>	<u>%</u>
1975	41.5	-	-
1976/5	58.8	17.3	41.7
1977/6	85.5	26.7	45.4
1978/7	107.5	22.0	25.7
1979/8	134.5	27.0	25.1

Table IV-14

Value of Portfolio as % of Total Assets

1975	70.9
1976	69.0
1977	80.5
1978	58.5
1979	55.3

It is also of interest to examine the evolution of the numbers of loans included in the portfolio. The data in Table IV-15 shows that while the total number of credit operations has been increasing from year to year, the number which had not started to disburse have been decreasing steadily; definite progress. The table also shows that by 1979 approximately 50% of all IPAM loans had their source of financing in AID.

Table IV-15
Number of Credit Operations
by Year, Source of Financing and Status

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>1. Loans Disbursing</u>					
a. AID Financed	33	40	54	69	91
b. IFAM Financed	<u>56</u>	<u>78</u>	<u>95</u>	<u>90</u>	<u>94</u>
Sub-Totals	88	118	149	159	185
<u>2. Loans Approved,</u> <u>but not Disbursing</u>					
a. AID Financed	20	20	17	12	-
b. IFAM Financed	<u>20</u>	<u>20</u>	<u>17</u>	<u>17</u>	<u>22</u>
Sub-Totals	40	40	34	29	22
<u>3. Overall Totals</u>	128	158	183	188	207

The amounts of loans in arrears is negligible. Amortization payments in arrears as percentage of total portfolio have declined steadily from 3.1% to 0.7% in 1979. Interest payments in arrears, which were 593,100 colones in 1975 have been running at \$400,000 to \$450,000 per year in the past four years. While this reflects good performance in terms of money values, the performance is not quite so good in terms of numbers of credit operations and numbers of municipalities in arrears. The number of loans in arrears has risen from 37 in 1975 to 45 in 1979; the number of municipalities with loans in arrears has risen from 27 in 1975 to 34 in 1979.

This very low rate of arrearage is, of course, due to provisions of the law under which a simple note from IFAM to the Controller General freezes municipal budget approvals until the IFAM debt is cleared.

Table IV-16

Summary Balance Sheets 1975-79

(millions of colones)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Assets</u>					
1. <u>Liquid Assets</u>					
a. Cash	1.2	3.7	3.3	9.4	1.7
b. Temporary investment	<u>10.5</u>	<u>14.1</u>	<u>5.0</u>	<u>9.3</u>	<u>29.3</u>
Sub-Total	11.7	17.8	8.3	18.7	31.0
2. <u>Loan Portfolio</u>	41.5	58.8	85.5	107.5	134.5
3. <u>Accounts Receivable</u>					
a. Uncollected interests & commissions	2.0	2.1	2.1	4.6	6.7
b. Other	<u>0.3</u>	<u>1.7</u>	<u>2.6</u>	<u>16.1</u>	<u>1.0</u>
Sub-Total	2.3	3.8	4.7	20.7	7.7
4. <u>Physical Assets</u>					
a. Machinery and Equipment	1.3	1.2	1.8	1.6	1.8
b. Land and Buildings	<u>1.5</u>	<u>3.4</u>	<u>5.7</u>	<u>35.2</u>	<u>68.0</u>
Sub-Total	2.8	4.6	7.5	36.8	69.8
5. <u>Other (Inventories & Pre-Paid Costs)</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>
Totals	58.5	85.2	106.2	183.9	243.1

(continues)

(Table IV-16...continues)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Liabilities</u>					
1. Accounts Payable					
a. Taxes to be Distributed	0.3	0.4	1.6	0.9	1.7
b. Other	<u>1.1</u>	<u>1.4</u>	<u>0.2</u>	<u>1.7</u>	<u>3.3</u>
Sub-Totals	1.4	1.8	1.8	2.6	5.0
2. Funds Withheld for bonuses, social security, etc.	0.6	0.6	0.5	0.3	0.5
3. Long Term Debt	2.5	16.8	19.3	35.9	54.1
4. Capital & Reserves					
a. Legal Reserves	5.4	4.4	4.7	5.0	5.0
b. Training Fund	0.6	0.5	0.5	1.4	1.9
c. Capital	<u>47.9</u>	<u>61.1</u>	<u>79.4</u>	<u>138.8</u>	<u>176.6</u>
Sub-Totals	53.9	65.0	84.6	145.2	183.5
TOTALS	58.5	85.2	106.2	183.9	243.1

Table IV-17

Cash Flow Accounts 1976-79

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
1. Amount in Bonds, Caja & Temp. Invest. from Previous Year	11.7	17.8	8.3	18.7
2. <u>New Income</u>				
a. Taxes net of transfers				
Land Tax	7.3	8.8	10.5	10.7
Sales Tax	4.5	5.4	7.4	8.3
Imported Liquor Tax	(1.0)	3.4	3.6	5.1
Domestic Liquor Tax	4.4	3.2	4.1	3.8
Sub-Totals	15.2	20.8	25.6	27.9
b. Loan Recuperation	5.5	5.7	10.9	9.4
c. <u>Interest Receipts</u>				
From Loans	3.9	4.7	7.0	9.0
From Time Deposits, Bonds, etc.	1.1	0.8	0.9	1.7
Sub-Totals	5.0	5.5	7.9	10.7
d. <u>Donations & Subsidies</u>				
025 Funds	6.1	1.8	8.8	12.3
025 Counterpart	-	-	5.0	1.7
IFAM/CENADA Bonds	-	-	20.0	-
Other CENADA Subsidies	2.2	3.6	1.1	-
Sub-Totals	8.3	5.4	34.8	14.0
e. <u>Loan Receipts</u>				
CEIFLAN/BID (DRENACA)	2.4	2.9	-	1.7
BCIE	0.6	-	12.6	20.8
Banco Nal. de Costa Rica	-	-	1.4	-
PE-2-8-77E (DRENACA)	-	-	2.0	-
Sub-Totals	3.0	2.9	16.0	22.5
f. <u>Other</u>				
Commission and Inspection Charges	0.4	0.5	-	0.4
Sale of Land	-	-	-	10.2
Advance on Sales Tax <u>1/</u>	10.0	-	-	-
Miscellaneous	0.5	0.6	0.4	0.3
Sub-Totals	10.9	1.1	0.4	10.9
Totals New Income	47.9	41.4	95.6	96.7

(continues)

(Table IV-17...continues)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
3. (Totals of Items 1 and 2 Available Resources)	59.6	59.2	103.9	115.4
4. <u>Operational Expenditure</u>				
a. Personnel Costs	9.0	9.6	10.9	13.6
Banco Popular y Asignación Familiar quotas	<u>0.2</u>	<u>0.3</u>	<u>0.9</u>	<u>0.6</u>
Sub-Totals	9.2	9.9	11.8	14.2
b. Non-Personal Services	2.7	1.9	2.8	3.2
c. Materials & Supplies	0.7	0.5	0.5	0.7
d. Machinery & Equipment	0.2	1.1	0.2	0.2
e. Scholarships, Contributions to Int. Org., etc.	<u>0.2</u>	<u>0.5</u>	<u>0.7</u>	<u>0.4</u>
Sub-Totals	13.0	13.9	16.0	18.7
5. Debt Service	0.5	1.3	4.3	8.0
6. Expenditure for Land Purchase & Construction	1.5	2.9	31.7	20.8
7. Loans to Municipalities (Disbursements)	<u>22.3</u>	<u>32.4</u>	<u>32.5</u>	<u>36.1</u>
8. Total Expenditure	37.3	50.5	84.5	83.6
9. Balance (Item 3 minus Item 8) <u>2/</u>	22.3	8.7	19.4	31.8

1/ This is how this item is shown in the IFAM accounts. It corresponds to a loan from the "Asignaciones Familiares" program. However, IFAM and Asig. Fam. are negotiating an arrangement under which the loan will be converted to a grant and IFAM, for its part, will convert loans to weaker Municipalities into grants.

2/ Differences between item 1 & item 9 for 1978 and 1979 correspond to small amounts (e.g. advance payments by Municipalities) which are not reflected in the budget and its liquidation. The large difference (\$4.5 million) for 1976-77 corresponds to an unexplained increase in liquid assets (superavit) which was never tracked down, but for which a general adjustment was made with Controller General approval in 1976.

3. Credit Operations - As indicated earlier, there has been no meaningful definition which permits distinguishing between urban and rural municipalities. However, in March 1980, the Planning Department of IFAM in its study document "El Regimen Municipal de Costa Rica" classified municipalities into five categories, on the basis of weighted rankings for population, area, agricultural labor force, urban/rural population ratios, and municipal income and expenditure. There are questions which could be posed concerning the methodology used, but for present purposes, i.e. disaggregating credit operations, the categorization is adequate.

The calculations and comments which follow have only been performed for loan approvals, disapprovals and annulments. It would be interesting to develop comparable data for the portfolio, i.e. disbursements and balances to be disbursed, but time did not permit. Since this type of disaggregation has not been undertaken by IFAM, either for approvals or portfolio, IFAM may wish to continue with this type of analysis for management and policy use.

The above cited Planning Department document defines the five categories of municipalities in rather broad terms as follows:

Category 1: 1 Municipality (San José)

Category 2: 14 Municipalities - Where most of the country's industry is located, as well as commercial and service jobs. Mostly cantons in the metropolitan area, but including the Limón and Puntarenas ports. In general, urban areas, although taken as a whole, 44.8% of the population is considered rural.

Category 3: 19 Municipalities - areas where export oriented agriculture (except for bananas) predominates; basically rural; in aggregate contains 25.1% of all municipalities, 25.2% of national population; 25.4% of national land

area; and originates 22.5% of total municipal expenditure, and thus may be considered as the median group of the five categories.

Category 4: 24 Municipalities - Rural population relatively larger than in Category 3; less infrastructure; bananas and other export oriented agricultural production, but with less intensity; contains 30.2% of country's land area.

Category 5: 22 Municipalities - (For purposes of the tables and calculations used in this report, 3 Concejos Municipales de Distrito, which are sub-municipal administrative units located in remote areas, and which the Municipal Law permits treating as though they were independent municipalities, have been added to this category bringing the total to 25, since IFAM made a few loans to these entities). This group is described as having 92.7% of its population as rural; lack of infrastructure; extensive type agriculture; covers 64.3% of national land area.

Municipal Leagues: It will be noted that in the analytical tables used in this section there figures what, in effect, is a 6th. Category for loan operations, i.e. the municipal leagues which have been discussed in another section of this report.

(a) Evolution of Credit Operations Over Time - As Table IV-19 shows, both in terms of numbers of operations and value of loans, IFAM activity peaked in 1976 and 1977. In 1979, the number of approved operations was down to 40% of the number approved in 1977; and the value of 1979 loans was only 16% of the 1976 value.

There seem to be signs of a resumption of activity in 1980. While this period is outside the time frame being examined and consequently was not analyzed in depth, a quick scan shows that during the first 10 months of 1980, 36 operations were prepared and approved by the Board of Directors for a loan value of approximately \$22 million, almost double the 1979 level, but still far under the 1976-77 figures.

The table makes very clear that the high level of operations in 1976 and 1977 was due in part to the infusion of AID Loan 025 funds. But a closer look shows that, even netting out 025 resources, there was a sizeable drop in IFAM credit operations in 1978 and 1979. There are obviously three possible causes for this phenomenon: IFAM didn't have the requisite resources; the municipalities either didn't have the projects ready; or the municipalities didn't have the capacity to absorb additional debt.

If one looks at the very sizeable increases and absolute amounts of IFAM resources in liquid assets in 1978 and 1979, and uses this as a proxy (granted not a very good one) for resources for new lending, one is tempted to rule out availability of resources as a major cause.

As concerns to second proposition, i.e., lack of projects, it is instructive to examine the data for projects disapproved or annuled in 1978. Projects in this category fall into three groups: disapprovals by the Board of Directors; a change of mind on the part of the municipality; or a disapproval by the Controller General on the basis that municipal revenues are not adequate to service the proposed debt. Without engaging in a file by file review of each operation, it is not possible to quantify the rejects by cause. However, the general impression is that there were very few disapprovals by the Board of Directors and that perhaps the bulk of the annuled operations were due to Controller General findings. (Presumably, IFAM was more cautious -- and took preliminary sounding, starting in 1979 -- since the record shows no rejections in 1979 or 1980). In any event, it seems that there may be a serious problem, which if not already present, is looming on the horizon, of the ability of the municipalities collectively to assume additional debt at a rate commensurate with the increase in IFAM lending resources. One remedy -- at least partial, but with serious reservations -- is to increase lending for revenue producing activities. This proposition will be examined later on.

IFAM urgently needs to prepare projections on the "market" for its credit operations. The Financial Division is doing a good job of projecting availability of resources for lending through 1984, but the opposite side of the equation, demand, is missing. This need is recognized in the January, 1980 Planning Department internal discussion document entitled "El IFAM y las Municipalidades", but no action seems to be taking place. The demand projections should have built in varying assumptions as to municipal revenue and as to application of funds.

An examination of the relationships amongst IFAM loan approvals, disbursements, and amortizations made by municipalities on a cumulative basis supports the thesis that municipalities may be having absorptive capacity problems under current revenue arrangements. The data is shown in Table IV-18. Note that amortizations as percentages of both approvals and disbursements is decreasing as the absolute value of the approvals and disbursements increases.

(b) Credit Operations by Category of Municipality - Table IV-20 provides data on how credit operations, by numbers and amounts and 025 participation, were divided amongst the five categories of municipalities defined earlier. The table shows that during the 1975-79 period 63% of all operations accounting for 71.8% of the value of all loans was related to category 3 and category 4 municipalities. An examination of the relationship between approvals and disapprovals by category of municipality does not reveal any substantial imbalances. For category 5 municipalities, as might be expected, the percentage of operations (15%) is considerably higher than the percentage of resources which these represented (4.2%).

As concerns 025 resources, it is interesting to note that while they followed the general tendency of resources overall (with a somewhat greater concentration on category 4 than category 3), they were the source of over 80% of the category 5 operations. It can certainly be concluded that Loan Agreement objectives were amply satisfied.

Table IV-18

Loan Approvals, Disbursements and Amortizations
1976-79 (millions of colones)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Cumulative value of Loans Approved	159.4	199.2	208.8	218.4
Cumulative amount disbursed	67.1	105.0	134.4	174.4
Cumulative amount amortized	8.5	19.5	26.9	40.5
<u>Differences Between Approvals and Amortizations</u>				
(a) Amount	150.9	179.7	181.9	179.9
(b) Percentage	94.7	90.2	87.1	82.4
<u>Differences Between Disbursements and Amortizations</u>				
(a) Amount	58.6	85.5	107.5	134.2
(b) Percentage	87.3	81.4	80.0	76.8

In 1980, there seems to be a shift towards the more prosperous municipalities; 28% of the operations thus far this year are to category 2 municipalities, and when added to category 3 municipalities, represents 63.8% of the number of operations. This compares with 48% over the 1975-79 period. Again, it is suspected that this may be a consequence of the debt absorption capacity of the weaker entities.

(c) Credit Operations by Type of Project - Tables IV-21 and IV-22 examine the 200 projects worked on by IFAM during the 1975-79 period in terms of their purpose and considers numbers and values of projects approved and disapproved, both overall and for O25 financing.

Electrification projects were responsible for only a small amount of either operations or resources, but there was heavy O25 participation in what was done. Ten of the 13 active projects were located in category 4 and 5 Municipalities (five in each).

Water and sewerage projects were the most important type of projects, accounting for 21% of the operations and 51.2% of the value of projects. Again, there was heavy O25 participation (40.6% of the number of approved projects and 33.5% of the value of the projects). Most of the operations (80% of those approved) were located in category 3 and category 4 municipalities.

Projects dealing with roads (the major component was road building/maintenance machinery) had equal importance with water and sewerage as concerns numbers of operations, but only accounted for 17.5% of total resources. Again O25 participation was high (62% of the operations and 71.1% of the value). 41% of the approved projects were located in category 4 municipalities; and 48% were equally divided between category 3 and category 5 municipalities. The incidence of disapproved projects is noteworthy.

Street improvement and garbage collection and treatment projects were relatively unimportant during the 1975-79 period. This appears to have changed in 1980. Ten of the 36 operations approved so far this year have to do with garbage collection and treatment. There was no O25 participation in these activities. They were mostly concentrated in category 2 or category 3 municipalities.

Revenue producing projects were not very important during the 1975-79 period, but what was done involved heavy O25 participation and a concentration in category 3 and category 4 municipalities. There is some indication that they are assuming more importance at present (8 of 36 operations thus far in 1980 -- a few slaughter houses and the rest bus terminals), probably for the reason

Table IV-19

Summary Description of Credit Program by Year (1975-79)

(Values in millions of colones)

	<u>Totals</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
1. <u>No. of Loans Submitted to Board of Directors</u>	200	31	56	64	27	22
a. No. Approved and Active	160	27	45	51	15	22
b. No. Disapproved or Annuled	40	4	11	13	12	-
2. <u>No. of Loans Submitted for Q25 Financing</u>	56	2	23	19	8	1
a. No. Approved and Active	48	5	18	16	8	1
b. No. Disapproved or Annuled	8	-	5	3	-	-
3. <u>Q25 Financed Operations as % of Total No. of Operat.</u>						
a. No. Submitted	28.0	16.1	41.1	29.7	29.6	4.5
b. No. Approved & Active	30.0	18.5	40.0	31.4	53.3	4.5
c. No. Disapproved or Annuled	20.0	-	45.5	23.1	-	-
4. <u>Total Value of Loans Submitted to Board of Direct.</u>	218.3	18.0	89.1	68.6	30.7	17.9
a. Value of Approved & Active Loans	154.1	17.5	73.0	43.9	7.8	11.9
b. Value of Loans Disapproved or Annuled	64.2	0.5	16.1	24.7	22.9	-
5. <u>Value of Loans Submitted for Q25 Financing</u>	70.7	6.7	34.3	23.9	5.4	0.1
a. Value of Approved & Active Loans	57.6	6.7	25.5	19.6	5.4	0.1
b. Value of Disapproved or Annuled Loans	13.1	-	8.8	4.3	-	-
6. <u>Value of Q25 Financed Operations as Percentage of Total Value</u>						
a. Value of Loans Submitted	32.4	37.2	38.5	34.8	17.6	0.8
b. Value of Loans Approved & Active	37.4	38.3	34.9	44.6	69.2	0.8
c. Value of Loans Disapproved or Annuled	20.5	-	54.7	17.4	-	-

Table IV-20
Summary Description of Credit Program by Category of Municipality 1975-79

Numbers in () are Percentages

Values are in millions of colones

1. No. of Municipalities	Totals	Categories					Municipal Leagues
		1	2	3	4	5	
2. Total No. of Loans Submitted to Board of Directors	83 1/2	1	14	19	24	25 1/2	
a. No. Approved and Active	200	2 (1.0)	40 (20.0)	56 (28.0)	70 (35.0)	30 (15.0)	7 (1.0)
b. No. Disapproved or Annuled	160	1 (0.6)	8 (20.0)	8 (20.0)	15 (37.5)	22 (13.9)	2 (1.3)
3. No. of Loans Submitted for O25 Financing	40	1 (1.0)	4 (7.1)	11 (19.6)	27 (48.2)	14 (25.0)	- (-)
a. No. Approved and Active	56	-	4 (8.3)	10 (20.8)	23 (47.9)	11 (22.9)	-
b. No. Disapproved or Annuled	48	-	-	1 (12.5)	4 (50.0)	3 (37.5)	-
4. O25 Financed Operations as % of Total No. of Operations	8	-	-	-	-	-	-
a. No. Submitted	28.0	-	10.0	19.6	38.6	46.7	-
b. No. Approved and Active	30.0	-	12.5	20.8	41.8	50.0	-
c. No. Disapproved or Annuled	20.0	-	-	12.5	26.7	37.5	-
5. Total Value of Loans Submitted to Board of Directors	218.3	5.2 (2.4)	47.2 (21.6)	90.5 (41.5)	66.2 (30.3)	9.1 (4.2)	0.1 (0.1)
a. Value of Approved and Active Loans	154.1	2.4 (1.5)	28.7 (18.6)	76.0 (49.3)	42.3 (27.4)	4.7 (3.0)	0.1 (0.1)
b. Value of Loans Disapproved or Annuled	64.2	2.6 (4.3)	18.5 (28.9)	14.5 (22.6)	23.9 (37.3)	4.4 (6.9)	-
6. Value of Loans Submitted for O25 Financing	70.7	-	7.9 (11.1)	27.8 (39.3)	27.3 (38.6)	7.7 (10.9)	-
a. Value of Approved & Active Loans	57.6	-	7.9 (13.7)	26.1 (45.4)	19.9 (34.6)	3.7 (6.4)	-
b. Value of Loans Disapproved or Annuled	13.1	-	-	1.7 (12.9)	7.4 (56.5)	4.0 (30.6)	-
7. Value of O25 Financed Operations as Percentage of Total Value							
a. Value of Loans Submitted	32.4	-	16.7	30.8	41.3	84.3	-
b. Value of Loans Approved & Active	37.4	-	27.5	34.1	47.1	78.1	-
c. Value of Loans Disapproved or Annuled	20.5	-	-	11.7	31.1	90.9	-

1/ Includes 3 Consejos Municipales de Distrito

Table IV-21

Summary Description of Credit Program by Number of Type of Project 1975-79

(Nos. in () are percentages)

	No. of Projects Submitted to Board of Directors								
	All Sources of Financing			O25 Financing			O25 as % of Totals		
	Total No.	No. Approved & Active	No. Dissapproved or Annuled	Total No.	No. Approved & Active	No. Dissapproved or Annuled	Total No.	No. Approved or Active	No. Dissapproved or Annuled
1. Electrification	15 (7.5)	13 (8.1)	2 (5.0)	6 (10.7)	6 (12.5)	-	40.0	46.2	-
2. Water and Sewerage	42 (21.0)	32 (20.0)	10 (25.0)	15 (26.8)	13 (27.1)	2 (25.0)	35.7	40.6	20.0
3. Road Construction, Maintenance, Bridges, Machinery, etc.	42 (21.0)	29 (18.1)	13 (32.5)	22 (39.3)	18 (37.5)	4 (50.0)	42.9	62.0	30.8
4. Street Paving, Curbs & Gutters	14 (7.0)	10 (6.3)	4 (10.0)	-	-	-	-	-	-
5. Garbage collection equipment and sanitary fills	20 (10.0)	19 (11.9)	1 (2.5)	-	-	-	-	-	-
6. Revenue Producing Projects (markets, slaughter houses, commercial centers)	18 (9.0)	16 (10.0)	2 (5.0)	10 (17.9)	9 (18.8)	1 (12.5)	55.5	56.3	50.0
7. Non Revenue Producing Construction (schools, civic centers)	10 (5.0)	8 (5.0)	2 (5.0)	1 (1.8)	1 (2.1)	-	10.0	12.5	-
8. Studies of all Types	25 (12.5)	22 (13.8)	3 (7.5)	-	-	-	-	-	-
9. All Other (municipal tax stamps, parking meters, civic festivals)	14 (7.0)	11 (6.9)	3 (7.5)	2 (3.6)	1 (2.1)	1 (12.5)	7.1	9.1	33.3
Totals	200 (100.0)	160 (100.0)	40 (100.0)	56 (100.0)	48 (100.0)	8 (100.0)	-	-	-

Table IV-22

Summary Description of Credit Program by Value of Type of Project

Nos. in () are percentages. Value is in millions of colones.

Value of Projects Submitted to Board of Directors

	All Sources of Financing			O25 Financing			O25 as % of Totals		
	Totals	Loans Approved & Active	Loans Disapproved or Annuled	Totals	Loans Approved & Active	Loans Disapproved or Annuled	Total Am't	Amt. for Approved Loans	Amt. for Disapproved/Annuled Loans
1. Electrification	7.9 (3.6)	3.0 (1.9)	4.9 (7.6)	1.6 (2.3)	1.6 (2.8)	-	20.3	53.3	-
2. Water and Sewerage	111.7 (51.2)	81.7 (53.0)	30.0 (46.7)	34.2 (48.4)	27.4 (47.5)	6.8 (51.8)	30.6	33.5	22.7
3. Road Construction, Maintenance, Bridges, Machinery, etc.	38.1 (17.5)	24.9 (16.1)	13.2 (20.6)	21.7 (30.7)	17.7 (30.8)	4.0 (30.5)	57.0	71.1	30.3
4. Street Pavings, Curbs & Gutters	14.7 (6.7)	10.8 (7.0)	3.9 (6.0)	-	-	-	-	-	-
5. Garbage Collection Equipment & Sanitary Fills	10.2 (4.7)	10.1 (6.6)	0.1 (0.1)	-	-	-	-	-	-
6. Revenue Producing Projects (markets, slaughter houses, commercial centers)	17.0 (7.8)	15.4 (10.0)	1.6 (2.5)	9.7 (13.7)	8.7 (15.1)	1.0 (8.0)	57.1	56.5	62.5
7. Non Revenue Producing Construction (schools, civic centers)	8.8 (4.0)	3.5 (2.3)	5.3 (8.2)	1.0 (1.4)	1.0 (1.8)	-	11.4	28.6	-
8. Studies of all Types	2.4 (1.1)	2.3 (1.5)	0.1 (0.2)	-	-	-	-	-	-
9. All Other (municipal tax stamps, parking meters, civic festivals)	7.6 (3.5)	2.4 (1.5)	5.2 (8.1)	2.4 (3.4)	1.1 (1.9)	1.3 (9.7)	31.6	45.8	25.0
Totals	218.3 (100.0)	154.1 (100.0)	64.2 (100.0)	70.7 (100.0)	57.6 (100.0)	13.1 (100.0)	32.4	37.4	20.4

mentioned earlier. The problem here is that financial considerations distort the priorities for services on a basic needs basis.

Non-revenue producing construction projects are lowest on the totem pole; 5% of the operations and 4% of the value of loans.

Studies and miscellaneous type projects were also of little consequence, with small 025 participation in the latter.

Summing up, as concerns the Loan Agreement, almost 80% of 025 funds were used for road improvement and water and sewerage projects -- amply complying with project objectives.

(d) Frequency Distribution - An analysis of the loans made from 1971 through October, 1980, by level of lending (the data is presented in Table IV-23 below) indicates that 16.6% of the municipalities and municipal leagues receiving loans amounting to over $\text{Ø}5$ million during this period, received 63.7% of the value of all loans. At the other extreme, the 36.9% of loan recipients whose borrowing totaled less than $\text{Ø}500,000$ received 4% of the value of all loans. The remaining 46.5% of the municipalities whose borrowing was in the $\text{Ø}500,000$ to $\text{Ø}5$ million range received 32.2% of the value of all loans. Since the numbers of loans made are relatively even for all categories, it would seem that the discrimination by level is meaningful.

The above relationships are merely descriptive. In order to equate them with such factors as equity, it would be necessary to introduce some other considerations, e.g. population or population density. In the absence of such calculations, one proxy for equity, better said, for the even handedness of IFAM's dealings with the municipalities is to measure the numbers of municipalities receiving progressive numbers of loans over

the period. This data is presented in Table IV-24 below. As can be seen, only 6.1% of the municipalities received no credits. Fifty five per cent of the municipalities received two to four loans. Another 6.1% received 10 or more loans. On the surface it would appear that except for what is probably the result of political imperatives (the 10 or more loan group), IFAM's approach to its clients is quite even handed.

(e) Credit Policies - As a consequence of the 025 Program requirements a credit regulation was prepared in 1975 by the Operations Department. It is still in use, but is now being revised. In January, 1978 the Board of Directors issued another set of regulations which deals more with policy than operational matters. The two documents are mutually consistent. Taken together, they provide a reasonable basis for managing the loans of the Institute. It is interesting to note, however, that there was not a copy of the Board of Directors regulation available in the Operations Department. It is also worth mentioning that one provision of the Board of Directors regulation (Article 25) smacks of paternalism, at least as regards larger municipalities, in that it requires prior approval by IFAM of all IFBs and all awards financed under the loans. Supervised credit is fine, but it can be carried to extremes.

(f) Lending Terms - The regulations provide that normally not more than 85% of the total cost of a project be financed by IFAM, but permit going to 90% in special cases (undefined). Projects are classified into four types (in order of priority) for rural and urban areas, respectively. Thus there are eight categories of project. According to the regulation each has a specific interest rate assigned, ranging from 5 to 20 years. Grace periods are to be determined on a project by project basis.

In actual practice, most operations are in the 6 to 15 year range and the bulk of the loans carry an 8% interest charge. (This is also the maximum

Table IV-23

Distribution of Loans by Level of Lending, 1971-80

(millions ₡)

<u>Level of Lending</u>	<u>No. Municip.</u>	<u>%</u>	<u>No. Loans</u>	<u>%</u>	<u>Value</u>	<u>%</u>
Over 10 million	7	8.3	55	19.4	98.4	42.0
5 to 10 million	7	8.3	44	15.5	50.8	21.7
3 to 5 million	14	16.6	45	15.9	40.5	17.3
1 to 3 million	14	16.6	50	17.7	27.4	11.7
500,000 to 1 million	11	13.1	30	10.6	8.2	3.5
100,000 to 500,000	23	27.4	49	17.3	8.8	3.8
Under 100,000 ^{34/}	<u>8</u>	<u>9.5</u>	<u>10</u>	<u>3.5</u>	<u>0.4</u>	<u>0.2</u>
Totals	84	100.0	283	100.0	234.5	100.0

Table IV-24

Numbers of Loans by Municipality, 1971-80

<u>No. of Loans</u>	<u>No. Municipalities</u>	<u>%</u>
10 or more	5	6.1
9	-	-
8	1	1.2
7	1	1.2
6	7	8.5
5	6	7.3
4	13	15.9
3	8	9.8
2	24	29.3
1	12	14.6
None	<u>5</u>	<u>6.1</u>
Totals	82	100.0

^{34/} Includes 3 Ligas Municipales and 1 Concejo Municipal de Distrito.

permitted by law for certain types of receipts). At present, grace periods are running from 1 to 2 years. In effect, through the interest rate practice, the Central Government is providing a subsidy to the municipalities, when it is considered that the return on bonds and time deposits is currently running at 16 to 17%. There is nothing wrong with this practice.

There are other charges associated with the provision of credit: a one time commission at the initiation of the loan which can range from 1 to 3% of the total value of the loan, depending upon whether there was preliminary technical work done by IFAM, e.g. preparation of engineering plans. Also, where a municipality delays in formalizing or rejecting an approved loan, there can be a 0.5% monthly charge applied.

At the base of the current system of charges is the priority ordering by urban and rural and by type of project. One major reason for undertaking a revision of the credit regulations at present is a desire to change the ordering of priorities so that they reflect national programs and priorities, e.g. the regional programs and priorities specified in the national development plans of OFIPLAN. It might be better to reexamine periodically and establish annually priorities and charges.

(g) Project Selection Procedure - Annually, in the Fall a tentative list of projects is prepared by the Operations Department for financing in the coming year. This is based on a survey of municipal needs and desires. The list is submitted to the Executive Director for approval, following which municipalities are informed. It is then up to the municipality to decide whether or not to make a formal credit request.

In developing the initial list, there is a tendency at present to favor rural vs. urban projects, but there are no preset policy targets as regards numbers of operations, amounts assigned to different types of projects, etc. Neither is there any point system or its

equivalent used. In general, the Operations Department believes that this is not necessary since there are sufficient resources available to meet effective demand.

There is probably little point in suggesting a more rigorous system for planning of credit unless and until the medium to long range absorptive capacity of the municipalities is analyzed, as suggested earlier. (Inter alia, it should be mentioned that all the necessary data for this type of analysis is available in IFAM files).

(h) Organization and Functions of the Operations Department - The Department is organized into 3 sections:

- Economics Studies Section - This unit, which is staffed by six professionals and two assistants, is responsible for analyzing project requests from a financial standpoint. About 75% of its time is devoted to this function, with the remaining 25% dedicated to general studies (see Technical Assistance Chapter of this report) and ad hoc labors. About half of the staff is new (13 positions were created in 1980 and 2 incumbents came on board in 1979 as replacements).

In 1980, this section states that it expects to study 55 to 60 projects. This may be a little on the high side, when it is considered that only 36 projects had been approved as of the end of October. The work method used is to assign one man to a project from beginning to end of the study. Four to 6 man weeks is the estimated time per project. On this basis, 60 projects a year would be about the maximum possible.

It is reported that coordination with the Technical Assistance Department advisors, who are familiar with the financial situation of their municipalities, is informal but good. Whether there is similar contact with the Technical Assistance Department Studies Section, where integrated administrative/financial analysis are now being performed at the individual municipality level in more depth, is not known.

Although it would take much more investigation in depth than the scope of this evaluation permits to come to hard conclusions, there is an uneasy feeling that in the area of financial analysis of municipalities and their proposed projects, one is confronted with the blindfolded committee examination of the elephant syndrome.

- Project Elaboration and Engineering Section - This unit, which is currently composed of 10 professionals (mostly civil engineers) and 8 assistants, has been increasing its staff rapidly, in the last few years. It is reported that there is little turn over of personnel.

The unit intervenes in project preparation, e.g. preparation of plans, in approximately 20% of the loans. Most of the time of the personnel is spent in activities related to project execution and supervision, e.g. certifications of progress of work, preparation of IFBs; evaluations of bids, etc. Where projects are being executed under agreements with national agencies such as ICE or MOPT, only general inspections are carried out. Where work is either being performed on force account by the municipality or under contract between the municipality and a private firm, supervision is more detailed. Approximately 30% of the supervision relates to force account projects and the remainder to contract activities. As might be expected, the engineering section would prefer to see more of the projects carried out by contract and less by force account, even though they feel that they have to shoulder the municipality's responsibilities in preparing IFBs and in evaluating bids. There is undoubtedly a high degree of paternalism evident here, but it may very well be justified.

The staff is divided up on a zonal basis and there is one person assigned to each active project.

Other services provided by the unit are described in the following chapters of this report.

- Loan Administration Section - This unit is staffed by two professionals and five assistants. There is a felt need to improve the level of the personnel; the problem appears to be classification of the positions. There is reported to be considerable turnover of personnel, with the better people leaving for more highly paid employment.

The functions of the unit are concerned exclusively with project execution and supervision. At present the Section is handling 80 projects which are disbursing or preparing to disburse. Specifically, the personnel of this unit are responsible for authorizing disbursements. For example, on the 20% of projects carried out under force account arrangements, the person assigned to the projects, is supposed to verify payroll accounts, etc. Exactly how this unit interacts with national entities executing projects (AyA, MOPT, ICE and INVU) is not too clear, but there appear to be problems in this area.

Responsibilities are divided on a zonal basis and attempts are made to schedule joint visits to projects with Engineering Section personnel. Coordination is reportedly good.

As part of its auto-critique the unit recognizes that it probably takes more of a paternalistic approach than is always justified.

4. Planning and Budgeting - The Planning Department divides its responsibilities into two broad areas: external activities, i.e. those related to the municipalities; and internal activities, i.e. those related to the operations of IFAM.

(a) Internal Activities - This topic can be disposed of rather summarily. An annual work plan is prepared and published, but it consists essentially of a compilation of the activities which each Department proposes to undertake. There is no attempt to provide an overall policy focus.

There is no interest or thinking about program budgeting. The general attitude, both in the Planning and Financial Departments, is that programming and budgeting are separate activities and never the twain shall meet. The Planning Department does not participate in development of the budget.

There are some indications that the Planning Department is attempting to examine the overall functioning of IFAM and raise policy alternatives for consideration by the Board of Directors as to IFAM's role vis a vis the municipalities. However, the preliminary documentation produced is much too broad brush and does not really get down to the issues.

The Planning Department is also responsible for evaluation activities. No evidence of any action in this regard was found.

In sum, as concerns planning and budgeting of IFAM's program, it can be concluded that there has been no improvement over the past five years.

(b) External Activities - It is in this area that most of the time and energy of the Planning Department seems to be directed. This takes the form of a certain amount of conceptual and theoretical work about the municipal regime in Costa Rica. There is also some attempt made, from time to time, to collect and analyze data on some aspects of municipal finance. However, there are no continuing, organized series on such important items as changes in numbers of municipal tax payers, use of municipal revenues by function, etc. The cantonal studies on

municipal needs, status of services provided and farm to market roads, etc., prepared with AITEC assistance in 1974-75 have not been updated and have not been used for programming purposes. At present, they simply form part of the large amount of descriptive, background literature on conditions in the country.

The Planning Division has also been active in regional planning (working together with OFIPLAN) and has produced some results in at least one area of the country, the El General Valley.

Overall, it is doubtful if the external activities of the Planning Department have as yet either provided any analytical basis from which to shape IFAM or GOCR policies vis a vis municipalities, or had much of an impact on what the municipalities themselves are doing.

5. Technical Assistance and Other Direct Services to Municipalities -

(a) Introduction - The services covered in this chapter are, in general, additional to those provided in connection with execution of IFAM loans and which were described in Chapter 3. As will be seen, in addition to the Technical Assistance Division, the Administrative, Legal and Operational Divisions all participate in provision of technical assistance and services.

There exists an IFAM regulation on the provision of technical assistance services which was approved in May, 1978. It distinguishes between non-reimbursable and reimbursable technical assistance and sets out procedures for the latter. Non reimbursable T.A. is defined as "general assistance"; reimbursable is defined as "execution of projects and of specific studies". In practice, it is believed that specific studies of small magnitude are considered "general assistance".

The regulation provides (Articles 12 and 13) for the issuance of two complementary documents: (i) a guide to available services, approved by the Technical Commission; and (ii) general lines of action to be undertaken by different IFAM departments, separately or in collaboration. These supplementary regulations have not been issued to date. Their publication, preceded by a careful analysis, would be very helpful -- especially if the documents are revised periodically and used as a basis for annual programming, setting of priorities, etc., rather than as simply informative listings.

(b) Training Activities - This work is carried out by a six man unit in the Technical Assistance Department. There are three professionals who organize and coordinate the various courses and seminars (teaching staff is sought from other IFAM departments and from outside entities); two assistants who handle the administrative, and promotional work; and one secretary.

The courses given may be broadly divided into two groups: those dealing with policy, planning, laws and financing; and those on a more technical level. The former group includes seminars for municipal councilmen; basic training for municipal executives; seminars on municipal problems, financing, planning; river basin studies; courses on sea shore and administrative law, etc. The technical level courses include courses for secretaries; for employees responsible for administering municipal cadasters, road user taxes, heavy machinery maintenance, municipal market rentals, inspecting construction, etc. There are also courses on such topics as reorganization of archives, handicraft centers and planning of work.

For 1975, 1978 and 1979 (complete data was not available for 1976 and 1977) the levels of activity for the two types of training was as shown in Table IV-25.

Prior to 1975 there was a heavy emphasis on policy and other types of courses for municipal councilmen and executives. This was again the case in 1978. In

1975, 1976 (according to first semester data) and in 1979 the emphasis shifted the other way. For 1980, it is noted that 44 courses or seminars were programmed -- almost all at the technical level. Coverage of municipalities with one or another type of course seems to be good.

The people running the program believe that they have been able to move from a theoretical to a more practical level. However, it is noted that the length of courses runs from one to five days, which is a very short time indeed to get down to practical matters in any depth.

The decisions on what courses to offer occasionally result from recommendations or requests by other Departments (three of 11 course offerings in 1980). Course content for some of the basic courses was developed on the basis of a survey of municipal officials. Where possible, special training materials are prepared.

Seventy to 85% of the participants in a given year are municipal officials and employees; the balance is made up of interested people from local associations, e.g. parent/teacher groups and community development groups; employees of national level agencies; and IFAM personnel.

The principal problem detected with regard to the training activity is the lack of long term planning and the consequent time to prepare teaching materials; ensure that over, say, a five year span all critical areas are programmed, etc. The Section is quite aware of this deficiency, but does not have the resources to resolve the problem. Much of this planning/preparation work could be contracted out and executed without increasing staff numbers in the Section.

(c) Advisory Services - The bulk of the direct technical assistance is provided by an 11 man section of the Technical Assistance Department. However, the Legal Department also devotes approximately 50% of its time to assisting municipalities with their legal problems, contracts, etc.

Table IV-25

Training Activities by Type

	<u>1975</u>		<u>1978</u>		<u>1979</u>	
	<u>No. Courses</u>	<u>No. Part.</u>	<u>No. Courses</u>	<u>No. Part.</u>	<u>No. Courses</u>	<u>No. Part</u>
Policy-planning level	2	72	11	418	8	219
Technical level	<u>12</u>	<u>312</u>	<u>1</u>	<u>36</u>	<u>11</u>	<u>312</u>
Totals	14	384	12	454	19	541

Table IV-26

Advisory Services by Direct T.A. Section

	<u>No. Actions Programmed</u> <u>1980</u>
1. <u>Compliance with conditions of IFAM Loans, (studies of garbage collection tariffs, urban cadasters, slaughterhouse tariffs, etc.)</u>	50
2. <u>Advice and Studies on Financial and Administrative Matters (Tariff studies for garbage collection, street cleaning, electricity; rental charges for markets; census of licence holders, valorization studies, etc.)</u>	117
3. <u>Advice to Municipal Councils (Assistance at council sessions)</u>	288
4. <u>Urban and Rural Cadasters (Assistance in preparing maps, questionnaires & budgets, training personnel)</u>	33
5. <u>Budget Preparation (Assistance to municipal controllers)</u>	<u>50</u>
Total	538

The Technical Assistance Department team is composed of four economists and seven middle level professionals. Only one of the 11 is newly employed; five have been with IFAM for more than two years; four for over five years. Each man is assigned a zone or region and, on the average, visits each municipality in his zone once each month. Weekly work plans are prepared and reviewed by the Section Chief, and weekly reports submitted by the field personnel.

The advisory services can be divided into five groupings of activity. The 1980 programmed activity provides a general idea of the nature and volume of work for each grouping (See Table IV-26).

Within the above five categories of activity, top priority is given to category No. 2, "Advice and Studies on Financial and Administrative Matters". Emphasis is also placed on keeping Councilmen informed on a systematic basis.

As to priorities between municipalities, it is claimed that an attempt is made in an informal manner to allocate more time and attention to those municipalities more in need of help, but that scheduling is often influenced by national priorities based on political factors.

As was seen above, the initiative for some of the activity stems from the granting of a loan. How much of the remainder stems from initiatives by the advisors and how much from the municipal councils could not be determined.

The Section Chief, when asked to auto-critique the work of his unit, indicated that:

- Coordination with the Operational Department was good and conflicts between institutional development objectives and loan execution objectives were rare.

- The stability of the personnel has given more depth to the assistance and permitted improvement in techniques.

- Paternalism has been reduced, year by year.

(d) Miscellaneous Services - In addition to the advisory services provided by the Technical Assistance and Legal Departments, the Engineering Section of the Operations Department spends perhaps 10% of its time on performing odd jobs for Municipalities at their request, e.g. doing topographic surveys. It is claimed that most, but not all requests are satisfied.

The Administrative Department advises that at any given time approximately 50% of the procurement/bidding actions in process are on behalf of municipalities. How many of these are related to loan operations is not known. This help, it is claimed, is always provided on request from the municipality.

(e) Manuals and Similar Materials - Three separate organizational units are involved in the preparation of materials for use by municipal officers and employees:

The Special Studies Section of the Technical Assistance Department produces manuals on such topics as the "Administration of Tax Stamps", "How to Calculate Costs and Charges for Public Lighting Services", "How to Organize a Municipal Library", "How to Determine Cemetery Charges", "How to Determine Bus Terminal Charges". Seven or eight such manuals have been produced to date on an ad hoc basis. An examination of five of these documents indicates that, on the whole they are well prepared; are kept at a simple, practical level; and propose adequate remedies where such action is indicated. In one or two cases, the treatment is perhaps a little too superficial. In addition to their use as reference works by municipal employees, these manuals are used as teaching material by the Training Section.

The Economic Studies Section of the Operational Department has prepared a study on "Regionalization of Slaughter Houses". It has underway other documents dealing with Garbage Collection and Road Repair Machinery. It plans to do studies on Municipal Buildings and on Markets. The purpose of these studies is to orient the lending policies of IFAM and to provide basic information to municipalities. There is no basis yet to evaluate quality.

The Legal Department also prepares publications for use at the municipal level in the form of texts of pertinent legislation and regulations with appropriate commentary; manuals on personnel practices and contracting procedures, etc.

In addition, some of the material in the "Integrated Studies" (see next section of this report) contain material suitable for issuance as manuals, e.g. how to set up and organize a procurement/supply room operation.

As far as can be ascertained, each Department decides separately what topics merit preparation of a manual or similar document and what staff time it feels proper to devote to this task. It may make sense to distribute the workload amongst several departments, but there is a need for some degree of centralized planning, setting of priorities, etc., on an institution-wide basis. Consideration could also be given to contracting out some of this work.

(f) Integrated Administrative-Financial Studies - This is a relatively new undertaking by IFAM. It is an attempt to examine the totality of a given municipality's administrative and personnel structure and its financial situation, with a view to providing specific action recommendations. The studies are financed with IFAM loans. A seven step procedure has been developed for this work; preliminary survey, data collection, analysis, description and feedback, diagnosis and recommendations, implementation,

follow-up. The unit responsible for this work has been experimenting with several techniques, e.g. functional vs. organization analysis.

Three studies have been completed to date; eight are in process; and it is hoped to have those eight and four more finished by the end of 1980 for a total of 15.

There is no question but that the concept of integrated studies of the type proposed is a good one and, if properly executed, can become the basis for programming much of IFAM's technical assistance, training and credit activities.

A small sample of the documents produced to date was reviewed. They were difficult to evaluate in isolation. The financial analysis work seemed of a better quality than the organizational analysis work. One obvious failing was the fact that the financial and organizational volumes for a given municipality seemed to have been prepared in independence of each other, i.e. little consideration was given to the potential interaction of administration and revenues, or to the limits on (possibilities of) administrative improvement dictated by budgetary factors. In addition, one found a combination of a good deal of boiler plate material (more suitable for a general manual) plus a quite theoretical approach on some topics.

This is an area of work which IFAM should pursue vigorously, but -- because of its importance -- quality needs to be greatly improved.

(g) Municipal Leagues - One of the functions of the Technical Assistance Department is to promote the formation of, and provide advisory services to regional associations of municipalities, called Municipal Leagues. About half of the 80 municipalities are members of six such associations. Many regions of the country do not have associations.

It was not possible to obtain much information either on how these Leagues are performing, nor on what services IFAM should provide to them. The general impression gathered was that not much attention has been given within IFAM to what the role of these municipal leagues should be.

(h) District Councils - Each municipality is sub-divided into districts, of which there are 412 in the country. Their functions and attributes are spelled out in the Municipal Code. Of the 412, IFAM estimates that at present 368 have formally had a council named. Of these, possibly 140 are active and doing some work.

IFAM paid only perfunctory attention to these District Councils until May, 1979, when a Department was created to work with them. The basic idea is that, although in general they control no resources, these councils are the true grass roots entities and can and should be the basis of participatory democracy -- making their voices and desires felt at various levels of government. Their development is one of the five sub-program of a government wide effort known as SIPP (Integrated System for Popular Participation) led by the Vice President of the Republic.

The main effort of the new IFAM department to date has been promotional, i.e. getting the District Councils to organize, hold meetings, etc. A manual for the use of Councils is also being prepared.

(i) Conclusions - It is very clear that IFAM is devoting a considerable amount of resources to providing technical assistance and other types of direct assistance to municipalities. The nature and range of services seem to pretty much cover the gamut of assistance needs. From a surface and admittedly superficial examination, it would appear that some effort invested in improving planning and coordination, and some resources invested in contracting for outside work, might improve the results now being

obtained. In connection with planning, it also seems desirable to attempt to consciously categorize municipalities by those which need (and will accept) a considerable degree of paternalism; and those where the thrust of the assistance can be on institutional development.

Finally, from interview data, it can be concluded that IFAM is doing a better job now than five years ago in fulfilling its technical assistance function.

6. Land and Liquor Taxes - IFAM intervenes in the collection of three taxes, a portion of which is distributed to municipalities: imported liquors, national liquors and the land tax.

(a) Liquor Taxes - Fifty percent of the taxes on liquor and beer is retained by IFAM; the remaining 50% is distributed to municipalities. The value of the municipality share, according to transfer accounts on IFAM's books, is as follows:

	(millions of colones)
1976	3.3
1977	4.5
1978	5.0
1979	5.5

The Audit Department of IFAM has taken on the control function for assuring efficient collection of these taxes. For national production, the accounts of the national liquor factory are controlled at the factory. For imported liquors and beer, customs agencies are required to come to IFAM where the calculations on the amount to be paid are made and necessary stamps are affixed to the documents.

It is reported that collections have improved as a result of IFAM direct control. However, the above figures do not bear out this claim.

(b) Land Tax - This is the major source of municipal income. It represents approximately 40% of all municipal revenues country wide, and for some municipalities is the source of up to 80% of their income

The distribution of the proceeds of the tax is as follows:

	<u>%</u>
IFAM	10.0
Ministry of Finance	7.7
San Jose Municipality	26.5
All other Municipalities	<u>55.8</u>
	100.0

The evolution of gross collections on this tax are shown in Table IV-27.

Table IV-27
Land Tax Receipts
(millions of colones)

	<u>Amount</u>	<u>Increase Over Previous Year</u>	
		<u>Amount</u>	<u>%</u>
1974	50.6	-	-
1975/4	64.6	14.0	27.7
1976/5	73.4	8.8	13.6
1977/6	88.4	15.0	20.4
1978/7	105.6	17.2	19.5
1979/8	112.6	7.0	6.6

There is a long and involved history of the relationships between IFAM, the Ministry of Finance, the National Property Registry Office, and the Cadaster Office, in relation to the Land Tax. It would be beyond the scope of this report to analyze these relationships in any depth. Suffice it to point out that in 1971 a joint IFAM/Ministry of Finance project was agreed. It was financed by the municipalities and designed to reduce the incidence of delinquencies. In 1974, as a covenant of Loan 025, the GOCR agreed:

"...to appoint a commission to study the land tax and its tax rate structure, the policy of assessing personal property, the administrative aspects of the tax, and to analyze the convenience of transferring the administration of said tax to IFAM..."

The Commission was created in July, 1975. Simultaneously, IFAM created the present organizational unit dealing with the Land Tax. It is a Section in the Technical Assistance Department and should be upgraded to Department status.

The Commission has never rendered a formal report, but its recommendations may be summarized as:

(i) As a first phase, improving the administration of the tax by computerizing and creating a unified tax register in the Ministry of Finance.

(ii) As a second and later phase, incorporating property register and cadaster register data into the tax register.

(iii) Postponing consideration of transfer of administrative responsibility to IFAM until phases one and two above were achieved.

All action efforts to date have been concentrated on phase one. An agreement with the Ministry of Finance to this end was signed in 1978. Under it, IFAM is providing and paying for the services of 12 technicians concerned with collection matters and for an additional number of temporary personnel (the number fluctuates: 22 in 1979; 11 in 1980) concerned with computerization. Considerable progress has been made, especially in collecting over due tax and increasing the tax rolls. However, according to IFAM, the program is about a year behind schedule due to lack of logistical support from the Ministry of Finance (e.g. not providing necessary computer time).

In 1979, as one element in a "tax package", the central government proposed to the legislature a series of changes in the rate structure and distribution of proceeds from the land tax. These were judged by IFAM and the municipalities to be unfavorable to the latter. The proposed package appears to be dead. One consequence of the proposal, however, was a decision in January, 1980 by IFAM's Board of Directors, to have the pros and cons, implications, etc., of a transfer of land tax administration to IFAM studied in depth. A preliminary report (an excellent piece of work) was prepared and sent to the Board in July, 1980. It included a work schedule for further analysis. For reasons not known, the Board did not authorize continuation of the analysis. It would seem highly desirable that this decision be reconsidered.

There is no question but that IFAM has made a sizeable effort during the loan execution period to improve land tax administration and that this effort has produced result. However, the surface has only been scratched. There are estimates that the proceeds of the land tax, without any change in rates, could be doubled by providing it with the type of administration contemplated under a transfer of responsibility to IFAM. It is further conjectured that if the previous step were complemented by a national cadaster and integration of cadaster data with tax rolls on a

continuous and automatic adjustment basis, the proceeds of the land tax could be quintupled. All of this would require a multi-year effort and considerable investment. However, if the political will exists, there is probably no more important task for IFAM than to attempt making the potential of the land tax a reality.

7. Conclusions - It is difficult to arrive at any overall assessment of IFAM as an institution without oversimplifying. There are some very strong and positive aspects of the agency, e.g. its handling of tax matters and its financial analysis activities. Its technical assistance and other direct services to municipalities, and its handling of credit operations are, on the whole, satisfactory. On the other side of the equation, its planning and budgeting activities are very weak, as are certain of its organizational and administrative functions, e.g. personnel management.

IFAM's financial situation is very strong, but it may be facing an excess capacity problem in the near future. Since much of its functions and personnel are geared in one way or another to its credit operations, it needs urgently to get a clearer picture of what the prospects are and to adjust its staffing and organization to mesh with those prospects.

E. Central Wholesale Market (CENADA) -

The Loan Agreement provided, as a component of the Agricultural Services Project, that counterpart funds in the amount of \$450,000 equivalent would be used "to support the staff of the national marketing commission and to finance a feasibility study for the establishment of a central wholesale market." The Loan Agreement also stated: "The Borrower agrees to finance the construction of the central market, based on the results of the above-mentioned feasibility study, with other than Project funds."

I.L. No. 17, dated July 7, 1977 takes note of the fact that the feasibility study has been completed, and that "the construction of the market will be financed by CABEI (the Central American Development Bank) acting through IFAM."

According to the 1979 Annual Report of IFAM the wholesale market was to open its doors in the second half of 1980. This hasn't happened as yet. The Report also indicates that the project will consist of four large warehouses, an auditorium and an administrative building; that the roofed area will be close to 40,000 m²; and that there will be 90,000 m² of paving, including parking areas. The total cost is estimated at \$104 million. Costs other than land acquisition, but including consultants fees, are estimated at \$75.6 million, of which \$36.1 million (48%) had been expended as of December 31, 1979.

According to IFAM financial accounts, during the 1976-79 period, a total of \$62.2 million had been spent on the wholesale market project (\$6.3 million on operational costs, including consultants fees, equipment, salaries, etc.; and \$55.9 million on land acquisition and construction costs).

On the revenue side, only \$44.2 million directly related to this project can be identified (\$20 million in a GOCR bond issue which will be serviced by the government; \$6.8 million in donations by RECOPE, CNP and others; and \$35.4 million in loan receipts, of which \$34 million was from CABEI. If these accounts are correct, it would imply that IFAM had put \$18 million of its own funds into the project as of the end of 1979.

It is intended that when CENADA becomes operational it will take over responsibility for servicing the debt IFAM has incurred on its account and will also reimburse IFAM for expenditures of IFAM funds made for the same purpose.

In conclusion, there is no question but what the terms of the Loan Agreement have been satisfied.

F. Loan 025 Financed Activities

As indicated earlier, AID funds in the amount of \$3.4 million were used for three purposes: credit (\$3,146,667); technical assistance (\$130,784); and training (\$122,218).

1. Credit Funds - The use of the AID funds and their relation to the IFAM portfolio has been described in some detail in Section D3 of this report. As was indicated there, the use of the funds was consistent with project objectives and the terms of the Loan Agreement.

An examination of the relationships between sub-project approvals and loan disbursements, also reported on earlier, indicates that the slowness of AID disbursements -- a cause for concern in audits and Mission reports -- was due principally to delays in project execution on the part of the municipalities.

The Loan Agreement provided for a total of \$5 million to be used for credit (\$3 million of AID funds and \$2 million of counterpart funds). In colones this comes to 43 million. In 1976, IFAM decided to increase the size of the program by 10 million of its own resources, to a new total of 53 million. Later, in 1975, IFAM decided to further overprogram in order to ensure that it could claim full reimbursement by the TDD and arrived at a 61.9 million total of eligible projects approved.

There are no details available on how the initial 43 million level was programmed by type of project, but starting in September, 1976 a set of targets by type of project was set against the 53 million level. These were continually adjusted and were apparently the subject of discussion/negotiation between AID and IFAM. A comparison of the September 1976 targets and the final, December, 1979 authorizations is shown below:

Table IV-28

Credit Targets by Type of Project

(millions of colones)

	<u>September, 1976</u>	<u>December, 1979</u>
	<u>Targets</u>	<u>Authorizations</u>
Electrification	2.0	1.7
Water and Sewerage	15.8	20.9
Roads, Bridges and Road Machinery	35.2	18.6
Revenue Producing Projects (slaughter houses and markets)	-	14.5
Others (rural cadasters)	<u>-</u>	<u>5.0</u>
	55.0	61.9

All the projects in the December, 1979 list were of a type contemplated in the CAP.

Prior approval of sub-projects by the Mission was required by the terms of the Loan Agreement only for projects costing over \$200,000. In practice all projects went through a prior approval process.

What probably led to what might be termed excessive Mission involvement in the operation of the credit program (the target setting and the prior approvals) was a lack of specificity as to what projects would qualify for reimbursement. However, this intervention does not seem to have seriously slowed down the rate of implementation and probably avoided any serious disputes.

Overall, the credit activity under the loan may be termed satisfactory.

2. Training - The Loan Agreement provided for the use of \$225,000 (Ø1.9 million) for "a training program for employees of IFAM, municipalities, and of other institutions who by law have responsibilities for local public work and services, in any of the country's institutions of higher education". The intention, spelled out in more detail in the CAP, was to create a continuing institutional relationship between IFAM, the National University, and the municipalities.

As was noted earlier, the funds for the training component were reduced from \$225,000 to \$122,218 (Ø1 million). The reason for this reduction appears to derive from the way this component of the program was administered. Instead of making the funds available to its Training Section in the Technical Assistance Department, the responsibility for the activity, with one minor exception, was assumed by the Planning Department. The interests of this latter Department apparently were related to influencing policy makers, to metropolitan area planning, and to regionalization concepts, rather than to training of municipal employees and officers -- especially those representing rural municipalities.

The funds were used as follows:

- Two "Regionalization Laboratories" conducted on the Texas A&M campus, at a cost of approximately \$42,000. These sessions were attended by high level IFAM executives and Board members, members of the legislature, central government officials at the Minister level and a number of municipal executives or council members, mostly from the San José metropolitan area. The "Laboratories" were no doubt a mind broadening experience for the participants, but had little relationship to the purposes of the Loan, i.e. improving services in rural municipalities.

- A contract with the University of Costa Rica for two courses on metropolitan area problems, two courses on regional, sub-regional and local planning, and two courses

on local government: its improvement, transformation and role in national development. In addition, three research projects were financed under the contract; a Study of the Municipal Tax Regime in Costa Rica; Administrative/Territorial Divisions in Costa Rica and their Influence on Local and National Public Administration; and the Actuality of the Municipal Regime in Costa Rica; Sociologically, Politically and Judicially. The total cost of the contract was \$69,000. The courses ran for 12 weeks each and took place between 1976 and 1978. There were 20 to 27 participants in each course; approximately one-third were officials of San José Metropolitan area municipalities; there were a few IFAM officials in attendance; the bulk of the participants came from central government ministries and agencies. Again, there does not appear to be much of a relationship between the work done and project objectives. No continuing institutional relationships were established.

- Two seminars conducted by Research and Training Center for Political/Administrative Matters (CIAPA) on Modern Political Analysis and on Political/Administrative Structure and Social Change in Costa Rica. Each seminar ran six days, spread over two weeks. Participants were mostly IFAM personnel. Cost was \$5,600. No material on seminar content is available.

- A course run by the Costa Rican Technological Institute for municipal work inspectors, engineering assistants and municipal employees with related functions. This is the only one of the training activities handled by IFAM's Training Section. Thirty three participants from 15 municipalities attended the 10 day program, with each municipality paying a small entrance fee (\$58). The cost of the project was \$2,340.00. Reports are that the course was well run and appreciated. However, no continuing institutional arrangements have been made.

In sum, whatever the intrinsic merits of each training activity -- and this report does not pretend to make any judgements in this regard -- the record is quite

clear that, in terms of project objectives, the activity must be termed a complete failure. The one positive thing that can be said is that, whether for good or for bad, the Texas A&M Laboratories and the research work at the University of Costa Rica, seems to have deeply influenced the present orientation and work priorities of IFAM's Planning Department.

3. Technical Assistance - This activity was budgeted in the Loan Agreement at \$175,000 and was later reduced to \$130,000. According to the Loan Agreement "approximately \$75,000 will be used to assist in the expansion and institutionalization of IFAM's Planning Unit...Emphasis in the work of this unit will continue to be on comprehensive data collection and analysis of the 65 rural cantons designated as potential Project target areas under the credit program." The remaining \$100,000, according to the Loan Agreement, was "to finance technical assistance in the area of financial management, with the purpose of helping IFAM establish an effective accounting system and provide financial management assistance in the development of new capital sources".

(a) Assistance to the Planning Department - Instead of \$75,000, the sum of \$110,225 was expended on this aspect of the technical assistance activity. \$90,500 was used for the intended purpose, i.e. data collection and analysis of rural cantons. This was accomplished under a contract with AITEC, A Division of Acción Internacional, which was essentially a prolongation of a contract initiated in 1974 under Loan 023 funding.

The 025 financed contract provided for one year's work, starting in June, 1975. In addition to continuing with the cantonal level studies, the scope of work of the contract provided for "technical assistance to the planning, technical assistance and operations divisions, when this assistance is asked for". Apparently, it was never asked for -- at least there is no record or memory of any such assistance. The cantonal level studies

were completed as planned and they seem to represent an excellent job of work in describing the levels and types of services extant and the impressions of rural inhabitants as to the prioritization of their needs. Unfortunately, these studies did not serve their intended purpose of orienting the activities of the credit program. There are many and valid reasons for this. Municipality decisions on priorities for new investment place much weight on a series of financial and political factors not considered in the AITEC studies. Also, AITEC's proposals on a methodology for linking survey data to generation of loan requests were weak and superficial. The data in itself will be extremely useful as baseline data if anyone ever wishes to measure change over time in the situation of rural municipalities.

The remaining \$19-20,000 utilized by the Planning Department was to finance a study of the El General region. This was justified by mention in the CAP of efforts to regionalize IFAM's operations, but there is obviously a considerable difference between a regional development planning study and decentralization of IFAM. In the event, seven people were hired from one to six months to carry out the study. From a standpoint somewhat broader than the project objectives, the expenditure seems well justified since it led to an IBRD financed integrated rural development project for Perez Zeledon (the El General Valley municipality). As one component of the project the municipalities are to build 107 kilometers of farm to market roads, with IFAM serving as technical advisor.

(b) Assistance in Financial Management -- Only \$20,600 of the planned \$100,000 was used for this purpose. It was decided early in the program (in 1976) that the main focus of this activity would be on mechanizing the work of the Financial Department, and to use a system which would also permit keeping track of other IFAM activities, as well as maintaining information series on selected aspects of municipal finances, etc. At this time, IFAM's accounting work was being handled on the San José municipality computer.

The first steps taken were to commission two studies: the first, issued in June, 1977, was entitled "Evaluation of IFAM's Computer Needs". It recommended setting up a computer operation which could handle the Land Tax as well as IFAM's needs. The second, entitled "Diagnosis of a Computer Center for the San José Municipality" was issued in June, 1978 and attempted to define what would be needed to convert the San José municipality computer work into a set up which could handle the needs of IFAM and of other municipalities in the metropolitan area. In connection with this latter report, agreement was reached with AID to use \$40,000 of loan funds to defray some of the costs. An IFB was issued in April, 1978 but was cancelled several months later. The record on what actually happened is not too clear. Apparently, disagreement arose between the San José municipality and IFAM. In any event, after several more false starts (e.g. a tentative proposal in 1978 to use the AID money to mechanize the Land Registry), a decision was made by IFAM in February, 1979 to use its own funds for mechanization and to request AID to shift the unused balance to the credit activity. This was agreed via I.L. No. 37.

The Mission continued to press IFAM to comply with the loan commitment "to establish a more efficient accounting system", i.e. to mechanize, while also stating that the USAID controller review shows that financial management and accounting procedures have been greatly improved. IFAM finally came to a decision to keep matters simple and to settle for an electronic, National Cash Register system, which would meet Financial Department requirements, but would not serve any of the wider purposes considered in 1977 and 1978. The equipment is to be installed in December, 1980.

In summing up, it can be concluded that the technical assistance financed by the loan was not particularly helpful or effective in achieving the purposes for which it was designed.

V. General Conclusions and Observations

The scope of work described in the Purchase Order for this evaluation lists a series of items to be studied in relation to each of the projects which comprised the Loan 025 program. It is believed that these points are amply covered in the foregoing sections of the report, in substance if not always under the headings listed in the Purchase Order. In addition, the Purchase Order calls for findings on several broad, general matters of interest. We will attempt to address these remaining topics in this Chapter of the report.

A. "Determine Whether the Project Purpose Continues to be Relevant to the Country's Development Needs"

If taken in its literal sense, i.e. whether improving the situation of the small farmer continues to be relevant, the answer obviously has to be affirmative. If, however, "project purpose" is understood as comprehending the instrumentalities used, or the approach used to improve the situation of small farmers, the answer is not so clear.

The results of the three projects comprising the Loan 025 program do not produce any feeling of optimism that this is the most effective or efficient way to reach the small farmer, let alone improve his situation. It is suggested that the Mission explore alternative, and more imaginative techniques with the appropriate Costarican authorities. One such approach (there are others) which would deal with production/marketing/technology transfer aspects of the problem, would be to consider working with and through the various commodity specific producer associations and/or other farmer associations, e.g. the Cantonal Agricultural Committees (CACs). These commodity specific producer associations have traditionally (and actually) played a very important role in Costa Rica, not only in defending the interests of their affiliates, but

also in providing them with services. Coffee is the prime example. The problem has been that these associations have traditionally not put much of their energies and resources to work on small farmer vs. large farmer problems. However, with an infusion of AID resources, it is not inconceivable that some of the existing down to earth expertise available in the producer associations could be oriented towards meeting small farmer needs.

B. Lessons to be Learned from this Loan Project

Insofar as AID project development practices are concerned, there are at least three lessons to be learned. The first is to negotiate and mutually agree with the borrower and with implementing agencies at the time of the CAP preparation on the exact methods, definitions, ratios, etc., which will govern disbursement of AID funds. The records for Loan 025 shows clearly that much time was lost and many uncertainties introduced into project execution by leaving these matters to be resolved after the signing of the Loan Agreement.

The second lesson is to avoid setting up multiple and grandiose, but quantitatively non-specific objectives and targets for a project. If for no other reason, this practice certainly makes useful evaluation difficult. Narrower, more limited, more precisely defined objectives and targets are infinitely preferable.

As a corollary to this principle, an attempt should be made to ensure that when an objective or target is fixed, a commensurate amount of resources is programmed for its achievement. It makes no sense, as in the extreme case of one of the targets of the Agricultural Services Project, to set as a goal "the production of improved technological packages" and to make no provision for resources of any kind for the Research Directorate of the MAG.

The third lesson is the most difficult. It concerns institutional development projects or aspects of projects. The lesson is that before committing itself to such an activity,

AID must make very sure that, both at the policy and operational levels, there is a clear understanding of what is to be accomplished (including changes), and that there is both a political and technocratic will to take the necessary measures.

C. Recommendations Regarding Project Development

Strategy and Follow-on Activities

It seems best to approach this topic separately for each of the implementing agencies involved in the execution of Loan 025.

1. MAG - A budget support approach is not recommended. To the extent that it is deemed desirable to provide additional support to MAG -- and the institution cannot and should not be ignored in developing an agricultural program -- it is recommended that the support take the form of classical and very specific projects, where there is not only precision as to targets and objectives, but also as to inputs, e.g. numbers of technicians to be hired and what they are to do, materials and supplies to be provided and for what purpose, etc.

2. CAN - As indicated earlier, this entity is increasingly becoming a major factor in development of the sector. Some follow-up assistance is recommended. This should include as a minimum the provision of short term, highly specialized technical advisory services. Budgetary type support, while not specifically recommended at this time, should not be ruled out.

3. INFOCOOP - The institution certainly needs and merits follow-on support. However, any new AID inputs should be: (a) conditioned on INFOCOOP and the GOGR resolving a priori the kinds of policy issues identified in this report, and (b) directed exclusively at strengthening the cooperative movement, rather than attempting to use the cooperative movement for ulterior ends, however worthy.

4. IFAM - Here again consideration of follow-on support is recommended. Two possibilities for projects, which are complementary but not substitutable, suggest themselves:

(a) Technical and financial support for a combined cadaster/land register/land tax improvement activity. This can have important pay out. However, it should not be undertaken unless there is assurance that the political will exists to undertake the necessary reforms. Whether or not this should necessarily involve a transfer of land tax administration to IFAM is open to examination. Other alternatives, e.g. a reorganization within the Ministry of Finance's Department of Direct Taxes, could be considered. What is crucial is assurance that the land tax administration will be substantially improved. Support for cadaster and land registry operations without the land tax component should not be considered.

(b) Experimentation by IFAM of the use of grants as well as loans to municipalities. This subject is related to the practice of including pork barrel items (partidas específicas) in the national budget, and any project development would have to look at the interrelations. Again, assurances of political will are important. However, if the sketchy analysis earlier in this report concerning the possible evolution of IFAM capture of resources and municipality debt servicing capacity proves, on closer examination, to be accurate, IFAM -- with AID support -- should consider moving in the direction indicated.

ANNEX A

SCOPE OF WORK

FOR THE EVALUATION *

Report in the English language which presents an in-depth analysis of the major components of Loan 025-Agricultural Services (Ministry of Agriculture), Cooperative Development (INFOCOOP) and Rural Municipal Development (IFAM).

1. The report will: (1) measure progress toward planned targets, (2) determine why the project did or did not achieve planned targets, and (3) determine whether the project purpose continues to be relevant to the country's development needs.

2. The report will analyze the effectiveness of each of the institutions (MAG, INFOCOOP, and IFAM) for carrying out individual project activities (elements) for which they were responsible as well as ascertaining the cooperative institutions absorptive capacity for managing project resources. In this connection, the report will evaluate indicators of project performance. Performance indicators will include: the degree to which technical assistance provided each institution with loan funds had an impact on achieving project objectives, effectiveness in developing project work plans, program budgeting, institutional capabilities relative to project monitoring and the degree of impact institutional staff training had on the loan project as well as on long term institutional capabilities for developing and implementing programs directed at small farmers and the rural poor.

* Excerpted from USAID Purchase Order No. 080-80.

In the case of MAG, the report will also measure the effectiveness of the marketing unit established under the loan in obtaining qualified personnel, in conducting relevant studies and in producing and distributing market and price news as well as the impact the Consejo Agropecuario Nacional (CAN) has had in sector (Agriculture) policy formulation and coordination. With regard to IFAM, the report will also analyze the institution's effectiveness in assisting the municipalities to determine priorities, to develop and implement projects, and to purchase necessary equipment in order to meet project objectives to serve the rural and urban poor.

The report, in addition to presenting LA MARSAS, S.A.'s findings and conclusions should also provide a summary of: (a) any major problems regarding the project's impact on the rural and urban sectors; (b) any unexpected project results or impact such as changes in institutional structure and technical or economic situation; (c) recommendations regarding project development strategy, follow-on activities, evaluation methodology, etc., and (d) lessons to be learned from this loan project.

ANNEX B

OFFICIALS INTERVIEWED BY AGENCY

Ministry of Agriculture (MAG)

Gregorio Alfaro, Chief, Department of Economics and Statistics,
Planning Office.

Hugo Alfaro, Chief, Financial Services Department,
Administrative Directorate

Ernesto Arias Venegas, Agricultural Information Unit

Gilberto Campos, Director, Extension Department

Gerardo Carpio, Director, CAR San Carlos

Oscar Echandi, Dirección Superior Agropecuaria

Ana Isabel Jiménez, Asst. Chief, Personnel Department

Mauro Molina, Sub-Jefe, Research Department

Alvaro Muñoz Q. Director, Livestock Department

Rodolfo Muñoz, Chief, Department of Annual Planning and
Budgeting, Planning Office

Fernando Ocampo, Dirección Superior, Regional Operations

Alfonso Porras, Budget Section, Planning Office

Carlos Ramírez, Potatoe Specialist, CAR Cartago

Francisco Rojas, Training Department, Extension Directorate

Genaro Rojas, Fruit Specialist, CAR Cartago

Ernesto Sanarrusia V., Chief, Programming Department,
Planning Office

Rodrigo Sandoval, Chief, Guadalupe Printing Plant

Francisco Seravalli, Dirección Superior Regional Operations

Mario Solano, Acting Director, CAR Cartago

Nils Solórzano, Director CAR Esparza

Carlos Torres, Director, CAR Liberia

José Luis Valerín, Dirección Superior, Administration

Alberto Vargas, Dirección Superior for Research and
Technical Cooperation

Jorge Luis Vargas, Chief, Guadalupe Automobile Repair Shop

Armando Vega, Director General Services, Administrative
Directorate

Luis Antonio Villalobos, Director, Oficina de Planificación
y Coordinación

Secretaría Ejecutiva de Planificación Sectorial
Agropecuaria (SEPSA)

José Manuel Alvarado, Sub-Director

Oscar Chacón, Director

Vilma Gómez, Administrative Department

Instituto Nacional de
Fomento Cooperativo (INFOCOOP)

Jaime Carro, Director Planning Department

Bolívar Cruz, Director

Alvaro Chavez, Director CENECOOP

Omar Chavez, Director Supervision Dept.

Ana González, Technical Assistance Dept.

Hireya Guerra, Planning Dept.

Miguel Hernández, Director Technical Assistance Dept.

Mario Hernández U., Legal Advisor

Guillermo López, Director Personnel Dept.

Francisco Obando, Accounting Section

Pedro Peraza, Technical Assistance Dept.

Franklin Ríos, Director, Dept. of Administration
and Finance

Alvaro Rivera, Director Finance Department

José María Salas, Director, Cooperative Promotion
Unit

Jaime Schmidt, Auditor

Eduardo Villalon, Director, Education & Training Dept.

Leonardo Zúñiga, Sub-Director

Instituto de Fomento y
Asesoría Municipal (IFAM)

Francisco Arroyo, Executive Director
Alfredo Aymerich, Auditor
Mario Bermúdez, Director Planning Unit
Mario Cisneros, Director Operations Dept.
Eduardo Chinchilla, Land Tax Unit
Jesús Jiménez, Chief Loan Administration Section
Roy Jiménez, Legal Dept.
Oscar Marín, Training Section
Fabio Masís, District Councils Unit
Carlos Molina, Public Relations Office
Rogelio Mora, Financial Analyst
Alberto Muñoz, Director Administrative Dept.
Carlos Paniagua, Technical Assistance Dept.
Elías Rodríguez, Director Technical Assistance Dept.
Mireya Romero, Chief, Engineering Section
Orlando Salazar, Director, Finance Department
Salvador Vega, Finance Department
Cristy Williams, Chief, Economic Studies Section

A. I. D.

Henner Alvarado, Controller's Office

Cecilia Cedeño, Controller's Office

John Fasullo, Rural Development Office

David Ollinger, Urban Development Office

Virginia de Ramírez, Capital Development Office

Heriberto Rodríguez, Engineer

Flora Ruiz, Urban Development Office

Municipal Officials

Eitel Acevedo, Controller, Municipality of Liberia

Simon Corrales, Auditor, Municipality of Esparza

Victor Julio Esquivel, Executive Director, Municipality
of San Carlos

Luis Guillermo Mejias, Chief Tax Dept. Municipality
of Cartago

Luis Peraza M. Executive Director, Municipality
of Puriscal

Cooperative Officials

Carlos Bonilla, General Manager, CONAPROSAL

José Ramón Granados, General Manager, COOPETIERRABLANCA

Rodrigo Rivera, General Manager, URCOPAPA

Arturo Rodriguez, General Manager, COOPECOT

Alvaro Valverde, Accountant, COOPESANCARLOS

Vinicio Vargas, Controller, COOPESANCARLOS